INTERNATIONAL MARKET ENTRY STRATEGIES USED BY STANTECH MOTORS LIMITED IN KENYA

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DECLARATION

Student Declaration

This research project is my original work and has not been presented for a degree in any other university

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Supervisor Declaration

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

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DEDICATION

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ABSTRACT

Domestic companies grapple with tough competition in their home markets leading them to adjust and look for international business opportunities. Normally, foreign direct investment (FDI) is preferred entry strategy for MNCs because it allows business owners assurance to run the business to its own expectations at all levels. This is a challenge to the local company because of its resource capacity and market coordination expected in FDI situation. Therefore the process of entering a foreign market is progressive and a long-term venture. This explains why domestic companies prefer collaborative relationships with multinational corporations.

International business enables domestic companies to expand their human resource skill set and increase their profitability. This offers business continuity in ways not available to purely domestic business. Diversifying business into international trade further enables a domestic company to provide a wider range of products to its customers. A company's goals and resources determine its ability to conduct international business.

This case study was carried out to identify the international entry strategy adopted by Stantech Motors Ltd in Kenya. It was expanded to include the challenges that the company faces in implementing the international strategy. Primary data was collected by means of administering interview guide whilst secondary data was obtained from SML internal documents, automobile magazines, newspaper articles and academic journals.

The study established that Stantech Motors Ltd entered international business as a franchise with licenses to import completely knockdown kits (CKDs) and assemble on behalf of four Chinese manufacturing companies. SML also currently sells brands under the franchise arrangement locally and exports to Uganda and Tanzania.

The study further revealed the company encountered various challenges in implementing the international strategy. Their greatest challenges at inception were raising the capital required to establish the international collaboration, perception on quality of the Chinese vehicles by Kenyans and cultural differences. Intense competition, inadequate incentives from the Kenyan Government compared to their rivals in other East African countries and taxes charged on vehicles in Kenya continue to be a challenge to their trade both within Kenya and East Africa region.

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ABBREVIATIONS AND ACRONYMS

CET	Common External Tariff
CKDs	Completely Knock Down Kits
CMC	Cooper Motors Corporation
COMESA	Common Market for Eastern and Southern Africa
FDI	Foreign Direct Investment
EAC	East African Community
GM	General Motors
KEBS	Kenya Bureau of Standards
KMI	Kenya Motor Industry Association
OECD	Organization for Economic Cooperation and Development
R&D	Research and development
SGS	Société Générale de Surveillance
SME	Small and Medium-sized Enterprises
SML	Stantech Motors Ltd
ICT	Information and Communication Technology
H-O theorem	Hecksher-Ohlin Factor Proportions Theory
NCA	National Competitive Advantage Theory
UAE	United Arab Emirates
WWW	World Wide Web

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

International outlook has become increasingly important to the competitiveness of enterprises (Michael et al., 2012). Entering international trade allows domestic companies to offer wider range of products and reach larger customer base thus growing their profit. A domestic business is resource-restricted and has lower survival probability compared to the MNC. MNCs are likely to have complex management and better knowledge of opportunities in markets. Because of their high resource capacity MNCs are able to invest in research and development. The small firms embrace possibility approaches based upon restricted inward assets accessible at the time the global opportunity. (Marian et al., 2009). As indicated by the OECD Small and Medium Enterprise Outlook (2000), globally dynamic SMEs are for the most part becoming speedier than their residential reciprocals. Organizing permits SMEs to consolidate the benefits of littler scale and more prominent adaptability with economies of scale and degree in bigger markets-territorial, national and worldwide. The report demonstrates that SMEs are taking an interest in worldwide vital partnerships and joint endeavours, exclusively and in gatherings. MNCs are collaborating with small firms with innovative focal points to streamline on innovative work. This minimizes lead time for new items and serves creating economies. SMEs are intersection outskirts to frame worldwide collusions and endeavours with worldwide organizations.

Quick transport network, regional agreements and advances in technology that have eased money transfer and communication making it possible for domestic companies to enter international business.

Traditionally, Kenyan domestic companies recognise international business primarily as exporting and importing, these are the most frequently initial strategies adapted to venture into the international business. In the past decade many Kenyan companies have established foreign direct investments in the East African region this includes media companies, retail outlets, financial institutions, vehicle manufacturers, and beverage manufacturers. Some companies have set up e-commerce portal on the web allowing them to sell products online while others pursue collaborative relationships with multinational companies through arrangements such as joint venture, licensing and franchising.

1.1.1 The Concept of Strategy

Business planning is focal to management. This is intended to accomplish a specific objective or set of objectives. It is the management's course of action for fortifying the execution of the business. It demonstrates how the business ought to be led to accomplish the wanted objectives.

The strategy is characterized as the plan of action that managers make to achieve the objectives of the firm. Strategies of a company give an approach to gauge how the business and money related execution of an association can be evaluated to decide the general business position (Hill, 2007).

1.1.2 The Concept of International Market Entry Strategies

Entry into international business by domestic companies can be classified as a proactive or reactive decision. A proactive decision is often based on the company's strategic plan while a reactive decision is a response to the changing business environment. A market entry strategy is the arranged technique for conveying goods and services to another niche market and allocate them there (Franklin, 1998).

A company planning to enter foreign market can choose the following entry strategies: exporting, licensing, franchising, joint ventures, wholly owned subsidiaries, foreign direct investments, development of alliances, creating presence on the Internet and turnkey projects.

Before entering international business a company should build a strong domestic competitive advantage and enough resources. Griffin & Putsay, (2005) define international strategy as strategies designed to enable a firm to compete effectively internationally. Management of a company considering entering international business must evaluate the market seeking a balance between benefits, costs and risk, timing and the scale.

The concept of strategy in international business is a decision making process covering market positioning, developmental strategies and market entry strategies of a business. There are four main strategic orientations that companies can adopt when competing internationally. They are global standardisation strategy, localisation strategy, transnational strategy and international strategy. The appropriateness of each strategy varies given the extent of pressures for cost reduction and local responsiveness (Hill, 2007).

1.1.3 Advances by Kenyan Government to encourage international trade

The Kenyan government appreciates the role of international trade in the economy and has formulated policies that support industrialisation in the country. Kenya has implemented policies to stimulate foreign investment in the automobile sector. For instance, imports of motor vehicles parts utilized as a part of local assembly are exempted from the 25 for each penny import obligation required on assembled vehicles. Thus, a few organizations have set up plants in Kenya to exploit the impetus. According to the Economic Survey 2016, number of assembled motor vehicles increased by seven per cent from 9,514 vehicles in 2014 to 10,181 vehicles in 2015.

Furthermore, the Excise Duty Act, 2015 sets the tax levy at Sh200, 000 for imported vehicles over three years of age and Sh150, 000 for new ones, making second hand imported autos costly. Beforehand, an obligation of 20 for each penny on a vehicle's esteem was charged.

Government and government-supported ventures are key drivers to the motor vehicles industry. In 2010, the ministry began leasing motor vehicles as opposed to purchasing. This is to write substantial forthright obtaining expenses and beware of upkeep expenses. Local assembly firms are ensured no less than 40 for every penny of the government ministries yearly vehicle rent contracts. Government ventures are a help to the business since commercial vehicles like lorries and pick-ups are utilized as a part of road and housing construction ventures.

Bilateral agreements and economic blocs enable local companies to participate in international trade. Kenya is a member of the East Africa Community and COMESA. This means that businesses can take advantage of preferential treatments as per trade agreements. The country has improved its competitive advantage by a well-established transport system and communication network specifically in technology such as M-Pesa mobile money. This has significantly increased Kenya's potential to take advantage on regional markets. The discovery of oil, gas and coal is an extraordinary opportunity for Kenya's, being the regional leader historically, in motor vehicle assembly.

Kenyan motor vehicle assemblers trading in East Africa Community are subjected to the Common External Tariff (CET) of up to 25 per cent. Kenya government recognise that motor vehicle assemblers are disadvantaged by the region's regulatory framework. The government has petitioned the East Africa Community to give preferential treatment to local motor vehicle manufacturers in procurement and address taxation. The EAC member states have agreed to relook at the common external tariffs.

1.1.4 Kenyan Motor Vehicle Sector

The motor vehicle industry in Kenya is principally retail, distribution and assembling of motor vehicles. The business is comprehensively interlinked making it a rich sector for the study. Motor vehicle assembling is one of the world's biggest businesses. Global motor vehicle manufacturing organizations have been compelled to search for new market in developing nations. This is because of increased competition in their traditional markets and slowing economic growth in the USA, Europe and Asia. Major vehicle manufacturers have also either sold out their companies entirely or merged to remain competitive.

The industry is adopting modern technologies in product development with manufacturers building cost effective and environment friendly vehicles such as the electric cars, automatic transmission and auto-driven cars among others. Therefore manufacturers have adopted new forms of production organisation enabling them to relocate their production plants and change to a flexible supply chain network. This has enabled companies in developing economies with small markets and weak technologies to become motor vehicle assemblers.

Used motor vehicles are the biggest competitors to new vehicles. The used vehicles mainly come from Japan, United Kingdom and UAE. Consumers are price sensitive, hence the consumers' preference for second hand vehicles.

The Kenya Motor Industry Association (KMI) represents motor industry players. The body works with the government and provides a forum for the motor industry. KMI has been campaigning for execution of strict criteria on importation of second hand vehicles, motivators to advance local assembling of commercial vehicles and fare impetuses to urge car manufactures to grow operations in East Africa.

New vehicle sales are largely financed by bank credit this means that high inflation and interest rates have a direct effect on the total cost of the car. The association continually petitions the government to implement policies and macroeconomic environment that allows growth and profitability of the industry.

The sale of new motor vehicles in Kenya started at pre-independence. It was controlled by MNCs whose organisation arrangement was to appoint sales representatives or distributors. This was the case with Toyota Tsusho Corporation (TTC) which opened a representative's office in 1964 and appointed Westlands Motors (WM) as its distributor. With time due to competition, complexity in mobilising resources and responding to the ever changing regulatory framework companies have reorganised their structures over time to form franchise, subsidiaries with the parent company to establish vehicle assembly plants and distribution and sales offices set-up in Kenya.

CMC Motors is among the oldest players in the industry incorporated as a private limited company in July 1948 to sell Land Rovers. CMC started vehicle assembly in 1974 following negotiations with Leyland Kenya, now KVM. KVM is a vehicle assembly plant dealing also in bus body building. Its ownership is split between the Kenya Government (35%), CMC Holdings Ltd (32.5%) and D.T Dobie & Co (K) Ltd (32.5%).

Marshalls E.A Ltd was founded in 1947 and holds the franchise for KIA Motors. DT Dobie Kenya, now a subsidiary of CFAO Group was set up in 1949 and is a Kenyan distributor for seven globally renowned brands.

At present setting up a manufacturing plant requires huge capital investments that might not be available to domestic companies. The industry has attracted multinational companies from China and India. Some have established collaborative partnerships while others have established assembly plants in the country. The new players in the industry are Foton East Africa Ltd, Truckmart East Africa Ltd (Ashok Leyland), Tata Motors Ltd, Daimler AG and Hyundai Motors.

1.1.5 Stantech Motors Ltd

Stantech Motors Ltd is a private limited company fully owned and run by Kenyans. The company was established in 1997 to carry out motor vehicle repairs. Initially the positioning was in garage, offering new parts, accessories, modifying appearance of a vehicle, oils and service repairs through their auxiliary 4M Auto Spares.

Stantech Motors Ltd engagement in international trade can be viewed gradually in the growth of the organisation and management decisions towards creating a competitive advantage. At a small scale the company through its growth stages engaged in international trade in importing spare parts, machines and technology used in servicing and vehicle repairs. Stantech expanded into international business on a large scale through Chery Motor East Africa Ltd.

Chery Motor East Africa Ltd is a franchise of Chery Automobile Co. Ltd and Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto. Chery Automobile Co. Ltd a Chinese company started selling car overseas in 2002. The company has 14 KD manufacturing bases and three Research and development institutes, with a sales network covering over 80 countries and regions. In 2010, the company ventured into Kenya through the franchise with Stantech Motors Ltd. Franchising is a specialized form of licensing in which the franchise not only sells intangible property (normally a trademark) to the franchisee but also insists that the franchisee agree to abide by strict rules as to how it does business. The franchiser often assists the franchisee to run the business on an ongoing basis (Hill, 2007). The assembly plant strategic to East Africa regional with Kenya as its regional base.

1.2 Research Problem

Ballantine and Koeller (1992) observe that research on multinational corporations cannot be directly transferred to first entrants firms into foreign markets. Companies with cross border businesses compete in complex environments than purely domestic companies. The complexity is the result of a variety of social, economic and cultural factors.

Domestic companies have different degrees of international engagement attributed to business size, level of skills and experience of management and industries the business operates in. They have limited access to information available to MNCs. Domestic companies tend to react to the environment rather than predicting or controlling it.

Most Kenyan local companies have limited resources at their disposal and recognise international business primarily as exporting and importing. Studies relating to international business carried out on Kenyan businesses have either focused on evaluating strategies adopted by Kenyan companies to export regionally and market entry strategies adoption by multinational corporations. Exporting and franchising are preferred international modes of entries for domestic businesses since they require little resources and are low-risk forms of international trade.

John, (2008), in his research pointed out that the choice of a market entry strategy to the foreign market is very significant and bad choices may result in eventual failure. The study concentrated on the market entry strategies available to Kenyan firms venturing the Southern

Sudan. The study recommends further research on how chosen entry strategies impact the short term and long term success of the foreign business venture.

Research done by Busolo, (2010) indicated that the quest for firms to exploit new markets and seek opportunities to expand their businesses, the local external environment prompts them to create tactics to enter and extend the market outside of their nations of origin. She included that rivalry in home markets and the craving to develop spurs organizations to look outside their home market In hers study she recommends further studies to establish the suitability and effectiveness of the strategies as adopted by a company as it seeks opportunities internationally.

This study evaluated Stantech Motors Ltd international operations and reviewed the entry strategy adopted by the company. This study also evaluated the challenges that the company faced in implementing the international strategy. What international entry strategy has Stantech Motors adopted?

1.3 Research Objective

The purpose of this research project was to identify the international market entry strategy chosen by Stantech Motors Ltd in Kenya and expanded to evaluate the market entry challenges that the company faced in implementing the international strategy.

1.4 Value of Study

The research provides in-depth information on the choice of international market entry mode adopted by Stantech Motors Ltd and evaluates the challenges that the company faces in implementing the international strategy. To establish this, the researcher analysed the internal organisational factors and the external factors that have influenced the choice of international strategy by Stantech Motors Ltd.

Knowledge from this research can be used by local companies in Kenya pursuing international expansion. The research provides valuable information for both international and Kenyan companies establishing trade partnerships. Additionally the information is useful to companies before entering Kenyan market.

The study findings can be generalised into the motor industry helping them to evaluate appropriate strategies that can be adopted to overcome international market dealings as is the case with Stantech motors. The findings will also help them identify the challenges that the industry is currently facing and find ways to engage various stakeholders to foster positive growth in the motor industry.

The study adds to the international business research material and is beneficial to researchers and students seeking information on international strategies available to Kenyan companies to engage in international business. The study explored means by which local companies establish an international presence.

The research results can be used in policy and government decision-making; formulation of policies that govern trade and growth of local industries. The study provides information beneficial to the government to create policies that favour local industrialisation making Kenya competitive in the region. The research gives information to policy makers to develop and create an enabling environment for investment operations locally

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The section highlights the work carried out by other scholars and researchers on strategies adopted by enterprises engaging in international business. It begins by identifying theories and concepts that are applicable to the study.

2.2 Theoretical Foundation

Evaluating strategies adopted by Stantech Motors Ltd is better achieved by gaining knowledge of two trade theories; the Heckscher–Ohlin theorem or factor proportions theory and Michael Porter's theory of national competitive advantage. According to Kerr & Perdikis (2014) trade theories should provide insights for the future, assisting businesses identify where to locate production activities, the strategic decision making process and gauging the appropriateness of strategies adopted.

2.3 Hecksher-Ohlin Factor Proportions Theory

The Heckscher–Ohlin theorem or factor proportions theory explains international trade as a result of a country's resources and its comparative advantage. The H-O model is an expansion of the Ricardian model. The Ricardian model identifies labour as the only factor of production. Labour is needed to produce goods and services and is known to change with countries, implying a difference in technology between countries.

The theory will support the current trade relations between Kenya and China this is because the H-O theory predicts the pattern of trade between countries based on the characteristics of the countries. The H-O theory states that a capital-abundant country will export the capital-intensive good while the labour-abundant country will export the labour-intensive good. The resource advantage in a particular country gives it the competitive advantage.

The theory shows that when countries enter trade liberalisation, they become efficient. A country with surplus labour will produce and export labour-intensive goods, while a country with abundant capital will produce and export capital-intensive products, (Sharan, 2010). This way the prices of factors of production tend to equalise among the trading countries. The theory explains current trade patterns between developed and developing countries, (Sumarti, 2012). As a labour intensive country Kenya imports vehicle components for assembly from China which is the capital abundant country endowed with manufacturing plants, technology, research and development.

2.4 National Competitive Advantage Theory: Porter's Diamond

National competitive advantage theory looks at how a nation competes in international markets. The theory explains that countries strive to improve their national competitiveness by developing successful industries.

The theory supports the current frame work that has been put in place by the Kenyan government to support investment and growth of local industries. The vibrant environment has reinforced growth of local industries and collaborations as seen in the case of Stantech Motors Ltd. Porter's diamond traces four key variables for organizational competitiveness. These are; factor conditions, demand conditions, related and supporting industries and firm strategy, structure, and rivalry. As indicated by Porter, a nation's prosperity is controlled by accessibility of assets, the data utilized as a part of choosing which chances to seek after for the organization, the objectives of people in organizations, and the advancement and speculation weight on organizations. The government's role is designing favourable policies on subsidies, education and capital markets, which affect domestic demand and on supporting and related industries.

2.5 International Business

International business is any business process that includes the exchange of assets, merchandise, services, knowledge, skills or information across nations. The fundamental players in international business are; people, organizations, institutions and governments. Among these, organizations form the highest players, (Sumarti, 2012). Internationalization is the process of an organization finding openings outside its household market to improve their competitive advantage, (Zahra &Mudambi 2000). It is the way towards expanding international operations (Naidu et al., 1997). International trade and international investment are the most widely recognized types of global business exchanges (Cavusgil et al., 2008).

2.5.1 International Trade and International Investment

International trade represents a significant share of total national Income (GDP). International trade avails a variety of goods and services to a nation, and takes the form of exporting or importing. Exporting as a market entry strategy includes the offer of goods and services to clients found abroad from an organization situated in the nation of origin or third nation. Importing or global sourcing is the purchase of products or services from providers found abroad for utilization in the nation of origin, (Cavusgil et al., 2008).

International investment is the exchange of benefits or procurement of advantages which incorporate capital, innovation, administrative ability and assembling framework. These are of two kinds cross border investment portfolio investment and foreign direct investment. International portfolio venture is passive ownership of securities, for example, stocks and bonds with the end goal of creating money related returns. FDI is an internationalization methodology where an organization sets up physically abroad through procurement of resources, for example, capital, innovation, work, land, plant and hardware. FDI is normal among MNCs, with vast operations, (Cavusgil et al., 2008).

The Kenyan government has over the years formulated policies that promote economic efficiency and industrialisation thereby encouraging investment by foreign companies. According to the 2016 Economic Survey, 2015 Africa has remained the leading destination of the Kenya's exports accounting for 41.7 per cent of the total exports at Ksh 242 billion, with exports to EAC partner states accounting for 52.3 per cent of the total exports to Africa. Europe was the second leading destination of exports, accounting for 25.1 per cent of the total exports at Ksh 146 billion. Asia was the main source of imports in 2015, accounting for 62.2 per cent of the total value of imports, with China being the main source of imports.

2.6 International Strategy

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that encourage accomplishing firm goals, (David, 2013).

A company's resources and experiences are the base for its long-term strategy. Most definitions of strategy stress that it consist of the overall direction in which a company grows. International strategic management (ISM) has been developed by the coming together of two fields, international business and strategic management, (Denise et al., 2013).

According to Collis, (2014) international strategy identifies how the multinational creates value across countries, and what principles and constraints guide decisions in every part of the organisation to create an international competitive advantage.

2.7 Generic International Strategies

Generic strategies have been formulated theoretically to overcome organisational and environmental constraints experienced by the multinational company. They are aligned to a company's internal resources, organisational structure, research and development capability, technology, product and the international market being targeted. As a multinational confronts the international environment it looks for solutions that support the international advantage.

The best strategy a firm pursues often depends on a consideration of the pressure for cost reductions and local responsiveness (Hill, 2007). Pressures for cost reduction are highest in price sensitive industries. Pressures for local responsiveness are as a result of differences in buyer tastes and preferences, national infrastructure, culture tradition and practices, supply channels, and demands by local government.

2.7.1 International Strategy

This describes a company selling a product that serves a general need in an environment of low cost pressures and low pressures for local responsiveness. The company takes advantage of its domestic capabilities allowing them to sell same products or services in both domestic and foreign markets, (Hill, 2007). International subsidiaries act autonomously and operate as if they were local companies despite their location, with minimum coordination from parent company though fully reliant on the parent company resources.

2.7.2 Localization Strategy

This strategy is used in circumstances when a multinational organization faces solid weights for cost reduction and demands for local responsiveness are negligible. The organization hopes to comprehend local consumer inclinations and other local specific necessities and afterward changing the marketing mix and different business strategies to satisfy customers. This results to customized product offering, marketing strategy and business strategies to local conditions. The multinational organization makes an product bundling and product sizes that can be sold at less expensive cost, restrict their distribution , coordination's, retailing framework, and notwithstanding marketing in light of local consumer inclinations. The objective is to empower populaces to effectively asses their items independent of area or month to month salary. For instance, Unilever offers cheaper products in sachets form for the Royco brand. Coca Cola in Kenya has localized the production of bottles to Coca Cola bottlers. Coca Cola has subdivided the country into regions where the bottlers are located, while the distribution network is allocated to local wholesalers.

This strategy is also ideal for a domestic company starting to expand beyond their home market. This is on the grounds that the vital objective at this level is accomplishing an ease technique across global markets.

2.7.3 Global Standardisation (cost leadership) Strategy

Product standardisation means that the firm sells and advertises an identical product across all international markets. This strategy concentrates in growing profitability through cost efficiencies that come from economies of scale, learning effect, and location economies. In this situation the products or service serves universal needs and there are strong pressures for cost reductions and minimal demands for local responsiveness.

A good example of a company that uses global standardization in selling its product is Coca-Cola; the Company uses "relatively standard brands, formulations, packaging, positioning and distribution in its global markets. Electronic and telecommunication firms like Sony manufacture standardised products embedded with certain features suited to local styles and tastes (e.g. language, voltage).

2.7.4 Trans-national (Optimisation) Strategy

In the international context the environment within which a company operates is highly volatile. Competitors emerge rapidly while buyer tastes and preferences, national infrastructure, culture tradition and practices, supply channels, and demands by local government vary and change all the time. This necessitates managers to take proactive steps to reduce cost structures to develop an efficient global company. With time the international strategy and localisation strategy are not suitable. In the long-term, companies shift to either standardisation strategy or transnational strategy to survive. A trans-national strategy aims to remain competitive by responding to pressures for cost reduction and local responsiveness.

2.8 International Market Entry Strategies

International market entry mode is defined as methods of business organisation employed by companies to enter foreign markets (Marian et al., 2009). The decision on how and which foreign market to enter starts with assessing the extent of investment risk.

The modes of entry can be differentiated as equity and non-equity modes. The defining features are the degree of ownership and control a firm has, varying levels of costs and benefits, resource commitments and risk.

Equity mode is when a company acquires ownership of assets in the host country it enters and includes joint venture, acquisition and mergers, Greenfield, wholly-owned subsidiaries.

Equity modes involve heavier budgetary and more prominent administrative investments, which can be exorbitant to a firm in case of a fizzled section.

A non-equity entry mode incorporate-licensing, franchising, and exporting describes circumstances where the venture organization does not claim resources in the host nation that is entered. Exporting and licensing have the most minimal expenses regarding money related and administrative speculation required, (Delios, 2012).

2.8.1 Exporting

Exporting is considered as the initial step for organizations entering global business, and serves as a stage for future universal extensions (Kogut and Chang, 1996). Organizations utilize this technique because of deficient assets (Dalli, 1995) and constrained market learning and experience (Root, 1994). Trading is considered cost efficient since it enables a company to test the reception of its product in new markets without incurring establishment costs in the host country.

2.8.2 Licensing Agreement

In this arrangement the licensor allows the right over intangible property to a company for a particular period of time in return, the licensor collects a loyalty fee from the licensee (Hill, 2007). Licensing is favourable to companies with limited capital to produce abroad, where government regulations inhibit a company from entering a particular market and with companies that possess intangible property but lack the capacity to advance.

Licensing is common in industries e.g. the pharmaceutical companies where patents, inventions and formulas are common. A company entering a host country is shielded from host country risks and does not incur entry cost.

2.8.3 Franchising

Franchising is a specific type of a permit, where the franchisee consents to take after strict guidelines about how to convey the business activities: the kind of product or service, setting up of the physical space, and so forth. The organization offering the franchise will get an royalty payment, which is identified with the franchisee's incomes. The firm that offers the franchise gains advantage by maintaining expenses and risks associated in opening in a host nation by its self at a relative minimal effort and cost.

Franchising is like licensing yet includes longer-term responsibilities. In franchising an organization acquires a permit from another organization permitting them to complete a specific business, for example, offering a product or a service, under the name of a particular firm

Disadvantage of franchising is quality control: clients of global hotels like Intercontinental and Hilton tend to seek resemblance between the chain hotels when they go to these hotels in various parts of the world.

2.8.4 Internet

Companies like Amazon and Ali Baba have effectively launched themselves using the internet to be market leaders. Further by integrating online payment into the business website businesses allow their clients to pay online via Credit Card, opening up a new opportunity to tap the new market.

The internet has been used by businesses to establish effective organisational structures, to ease communication between the parent company and its subsidiaries as well as improve their competitiveness in global markets.

2.8.5 Foreign Direct Investment

FDI is an entry mode employed by large multinational companies (MNCs). The company acquires ownership of assets in the host country it enters. It is longer term in nature and requires higher financial and managerial resource commitment. Mostly in FDI, companies establish manufacturing plants in locations offering low costs of production and accessibility to vast markets.

2.8.6 Wholly Owned Subsidiary

In wholly owned subsidiary the acquiring company owns 100 percent of the stock. This is achieved in two ways. Greenfield venture a company sets up a new operation in the host country. The second option a company acquires an established firm in the host nation and uses that firm to promote its products.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research methodology that was used for this study. It describes the research design, population, and data collection methods and data analysis techniques.

3.2 Research Design

Case study design was used for this particular study. According to Krishnaswamy & Mathirajan, (2006) the case study design is a complete analysis and report of an individual subject with respect to specific phases of its totality. The study identified the international entry strategy used by Stantech Motors Ltd and evaluated the challenges encountered by the company in implementing the international strategy. The study established that SML in expanding internationally favored an entry strategy that is considered feasible and easy to implement given the limitation in resources capabilities and stringent fiscal policies in the Kenyan local environment.

3.3 Data Collection

Primary data was collected by means of administering interview guide on the respondents. The interviewee recorded and penned down information for later analysis.

Secondary data was obtained from company records together with published data from the Kenya Motor Industry Association and various government bodies and published research that relates to this study.

3.4 Data Analysis

Data analysis was done using the qualitative approach since the study focused on examination and validating the findings. The qualitative data was analysed using content analysis.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The chapter provides an analysis of data provided by respondents and data obtained from secondary sources. The study sought to identify the international entry strategy adopted by Stantech Motors Ltd in Kenya and to understand the challenges so far faced by the company in implementing the international strategy.

4.2 Respondents

The group manager in charge of administration and logistics and one of the company shareholders were interviewed in the study.

Secondary data obtained from SML internal documents, automobile magazines, newspaper articles and academic journals were also reviewed.

4.3 Structure of the Motor Vehicle Assembly Industry in Kenya

The study found that the motor vehicle assembly consists of three participants, defined by their activities within the automobile supply chain. They are made up of contract assemblers, franchise holders who are also assemblers and franchise holders importing completely knockdown kits (CKDs) holding licenses to import and assemble on behalf of principle car manufacturers in Japan, China, France, and Italy among others.

4.4 Factors that Influenced SML into International Trade

The study found that the decision by SML to expand internationally was aligned to implementing their long term strategic plan; the company had planned to sell new vehicles.

The decision was further fueled by stringent policies introduced in 2003 by insurance companies on accident vehicle repairs, leading to a reduction of profit margins. At the time the company was heavily reliant on revenues from repair of accident vehicles from insurance companies. This meant that the vehicle repairs business was not adequate to sustain business operations and hence the need to diversify the business.

According to the management favorable government policies encouraging Industrialisation, Chinese Government policy to invest in Africa, demand for new vehicles by Kenyans and the capacity of the investing company were key drivers and acted as enablers for SML entry into international trade. The management of SML learnt of Chery Auto Mobile Co. Ltd plan to launch East African business through the company's network of business consultants and interaction with government and private agencies.

4.5 Franchise

The study found that SML's entered international business as a franchise dealership. SML is holds contracts to import CKDs and assemble vehicles with several Chinese vehicle manufacturing companies.

Initially the management of SML incorporated Chery Motors East Africa Ltd as a subsidiary of SML to deal with importation and retailing of new motor vehicles from China. Chery Motors East Africa Ltd entered into a franchise arrangement with Chery Auto Mobile Co. Ltd and Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto allowing them to sell their brands Chery Tiggo and Chery QQ, Admiral Pick-up truck and Grand Tiger single and double cabin Pick-ups.

The franchise business is currently run by SML and not its subsidiary Chery Motors East Africa Ltd. In transferring the business to SML the franchise expanded to include commercial vehicles; Chery Motors East Africa Ltd as the name suggests was targeting the Chery brand. SML franchise arrangements are now with four Chinese manufacturing companies namely; Chery Auto Mobile Co. Ltd, Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto, Xiamen Golden Dragon Bus Co. Ltd (brand name Golden Dragon) and Jiangling Motors Ltd (Brand name JMC). The decision to transfer the business to SML was also informed by the fact that SML was already a household name within Kenya, using the name eased tendering and marketing of the franchise and allowed continuity of the existing repairs business.

4.5.1 Franchise Relationship

Franchise is with the four Chinese manufacturing companies; Chery Auto Mobile Co. Ltd, Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto, Xiamen Golden Dragon Bus Co. Ltd (Brand name Golden Dragon) and Jiangling Motors Ltd (Brand name JMC) the franchisee is SML.

SML is required to brand vehicles in line with the four Chinese manufacturing companies franchise stipulated guidelines and stock vehicle units as per the agreed sales targets. Brands sold under the franchise are; Chery Tiggo, Grand Tiger single and double cabin Pick-ups, Golden Dragon buses and mini buses, Golden Dragon ambulance and vans, JMC Light trucks, Sino Tipper and Sino Prime movers. SML had to acquire a showroom, a bonded warehouse to keep vehicles before they are sold and a parts center to support after-sale services. SML was also required to introduce an after-sale workshop specifically for the franchise models and partner with dealers countrywide to support after-sale services.

The franchise manufacturing companies supports SML by allowing them to use their trademarks. The car models are sold in the Kenyan and East African market without customising them for the local market. Further the franchise supports SML with marketing and training. Marketing is supported through branding and offering promotional items. The Chinese Manufacturing firms send the technical team to train Stantech team in Kenya, and as necessitates the Stantech technical team is sent to overseas manufacturing plants for training. All CKDs parts and spare parts are purchased from specific franchise to guarantee and ensure compliance to quality standards. The manufacturing companies maintain centralised control over product development, marketing and R&D functions and sets targets for the franchisee.

The handling of customs between Kenya and China is done through stipulated standard procedures and documentation enabling smooth flow of logistics. Kenya has certification bodies in China like Kenya Bureau of Standards and SGS which facilitate inspection and certification liaisons with their Kenya offices making it easy to communicate and collect certificates in either country.

4.6 Export

SML has established dealerships in all major Kenyan towns and is currently exporting the franchise brands to Uganda and Tanzania.

Competition is growing in the region with Uganda and Tanzania currently building their automobile capacities. In Tanzania Golden Dragon have established a franchise with a Tanzanian firm hence SML trades the remaining three franchise brands. The Ugandan and Tanzanian governments offer tax waivers to their local assembling vehicle manufacturers making the Kenyan Exports expensive. Nonetheless the company has taken advantage of the East African common tariff to penetrate the region and is working with other industry players to get the Kenyan government to implement policies and give incentives that will make Kenya have a competitive advantage in the region.

4.7 Challenges encountered by Stantech Motors Ltd in International Trade

The tax regime within the Kenyan motor industry is quite heavy especially on startups. The tax also pushes the price of vehicles up making them unaffordable to especially individual vehicle buyers. Foreign exchange fluctuations are quite erratic in Kenya; the company is forced to adjust their prices upwards or downwards to reflect the variations.

Perception on quality of the Chinese vehicles by Kenyans was a great impediment to marketing at inception. There is a general view by Kenyans that Chinese products are counterfeit or of lower quality, posing a major threat in penetrating an already established automobile market. To counter this SML relied on word of mouth testimonials from their very first clients; endorsing the brands on quality and performance. The Kenyan Government has also been a bulk purchaser of the brands this has been contributory in publicising the brands and improved public confidence.

Cultural differences are certain owing to the difference of the Kenyan and Chinese, language, customs and cultures. SML embraces and respect this diversity. To ease communication the Chinese manufactures have a team for the African market that can communicate with the SML staff. Public holidays, religious and cultural festivals are observed at different times of the year. This can be costly to the company since this can hinder communication due to out of office delays, lengthen lead time, documentation and logistics. Each business is expected to inform the other well in advance to ease planning and ensure continuous flow of business commitments. Where technical information is required, the correspondence includes both wording and pictorial explanations to ensure understanding of requirements.

Competition from second hand vehicles forced SML to stop selling Chery saloon and Chery QQ cars which were considered to be expensive. Private motor vehicle purchase is dependent on disposable income and affordable credit. Kenya's working population is dominated by the middle-class, reliant on credit to purchase luxury items. At the time of the study the president assented to the Banking (Amendment) Bill 2015 into law that is hoped to make credit affordable to Kenyans. The government has progressively been introducing policies to curb the number of imported second hand vehicles citing environmental concerns on emissions these factors should make consumers switch to newer vehicles. Additionally SML faces intense competition from established players like General Motors East Africa, Toyota East Africa Ltd among others who are able to enjoy economies of scale and other dealers of locally assembled vehicles in Kenya since they all enjoy tax waivers which enables them lower prices. Entrants from China have introduced their models in Africa though this has created awareness and demand for Chinese models it has introduced competition. The Chinese government has been supportive by giving grants to Kenyan Government inform of vehicles, some of the vehicles are purchased from SML. Kenyan Government guarantees minimum of forty percent of states annual vehicle leasing contracts are awarded to Kenyan motor vehicle assembly firms. SML participates in tenders to supply vehicles to Kenya government institutions.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of summary of findings, conclusion and recommendations based on the research findings which were drawn after analysing the data.

5.2 Summary of Findings

The study established that Stantech Motors Ltd entered international business as a franchise with licenses to import completely knockdown kits (CKDs) and assemble on behalf of four Chinese manufacturing companies; Chery Auto Mobile Co. Ltd, Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto, Xiamen Golden Dragon Bus Co. Ltd (Brand name Golden Dragon) and Jiangling Motors Ltd (Brand name JMC) where the franchisee is SML. SML currently sells brands under the franchise arrangement to Uganda and Tanzania by exporting.

The company encountered various challenges in implementing the international strategy. There greatest challenge at inception was raising the capital required to establish the international collaboration, perception on quality of the Chinese vehicles by Kenyans and cultural differences; the difference of the Kenyan and Chinese, language, customs and cultures. SML was forced to stop selling Chery saloon and Chery QQ cars which were considered to be expensive compared to second hand vehicles. Intense competition, inadequate incentives from the Kenyan Government compared to the East African countries counterparts and taxes charged on vehicles in Kenya continue to be a challenge to their trade both within Kenya and East Africa region.

5.3 Conclusion

The study concludes that SML is a franchise dealership with licenses to import completely knockdown kits (CKDs) and assemble on behalf of the four Chinese manufacturing companies; Chery Auto Mobile Co. Ltd, Hebei Zhongxing Automobile Co. Ltd brand name ZX Auto, Xiamen Golden Dragon Bus Co. Ltd (brand name Golden Dragon) and Jiangling Motors Ltd (brand name JMC) where the franchisee is SML. SML currently sells brands under the franchise arrangement to Uganda and Tanzania by exporting.

Favourable government policies encouraging Industrialisation, Chinese Government policy to invest in Africa, demand for new SUV's and commercial vehicles by Kenyans and the capacity of the investing company facilitated SML entry into international trade. The franchise model has evolved from the initial arrangement with Chery Auto Mobile Co. Ltd and Z X Auto expanding to include Golden Dragon and JMC allowing them a wider range of brands private and commercial vehicles.

SML was forced to stop selling Chery saloon and Chery QQ cars which were considered to be expensive compared to second hand vehicles. Private motor vehicle purchase is dependent on disposable income and affordable credit. At the time of the study the president assented to the Banking (Amendment) Bill 2015 into law this is hoped to make credit affordable to Kenyans and perhaps will increase demand for new saloon cars.

Government incentives are instrumental in encouraging international trade. The incentives currently offered to local assemblers are zero import duty on CKD kits; a minimum of forty per cent of the government's annual vehicle leasing contracts is awarded to Kenyan motor vehicle assembly firms. It's important to note that the incentive of zero import duty on CKD kits is eroded by excise tax charged at twenty per cent of the value of vehicle pushing prices up. The Kenyan government needs to implement policies and give incentives that will make new vehicles from Kenya have a competitive advantage within the country and in Africa.

5.4 Recommendation for further study

Given that, SML was forced to stop selling Chery saloon and Chery QQ cars which were considered to be expensive compared to second hand vehicles and that private saloon cars sold in Kenya are not locally assembled they are imported fully built as new or second hand vehicles. Further studies would be recommended to establish in what ways assembly of private vehicles can be supported and made affordable to individuals.

SML main objective is to establish a presence in selling Chinese vehicles in Africa; taxes reduce the competiveness of the vehicles originating from Kenya. Further studies are recommended on means that the government can employ to provide further incentives that will make Kenyan vehicles have a competitive advantage in Africa and also steer growth in the sector. Notably tax incentives are advocated yet on the flipside taxes provide revenue to the government.

5.5 Limitations of the study

The case study sought to identify the international entry strategy and challenges encountered in implementing the entry strategy by Stantech Motors Ltd hence the findings are limited to the company studied.

Further the study is limited to the motor vehicle industry; dealing directly with motor vehicle franchise arrangements in the assembly sector and particularly those that are franchise holders with licenses to import completely knockdown kits (CKDs) and assemble on behalf of principal companies.

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APPENDICES

Appendix I: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
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P.O. Box 30197
Nairobi, Kenya

DATE 19/07/2016

TO WHOM IT MAY CONCERN

The bearer of this letter ESTHER GATWIRI NYAGA

Registration No. D61/70074/2007

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management 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
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
19 JUL 2016
P.O. Box 30197-00100, NAIROBI

Appendix II:Interview Guide

SECTION I: INTERNATIONAL BUSINESS

1. What were the driving factors for Stantech Motors Ltd to explore international expansion?
2. How did the management of Stantech Motors Limited obtain information on international opportunities available for investment?
3. How did the management know the priority areas of the public policy to get prepared in formulating appropriate strategy to take advantage of the offered opportunities?
4. Was the collaboration between Stantech Motors Ltd and Chery Automobile Co. Ltd unplanned or a deliberate strategic plan by Stantech Motors Ltd?
5. What informed the choice Chery Automobile Co. Ltd to locate the assembly plant in Kenya?

SECTION 2: INTERNATIONAL BUSINESS ENVIRONMENT

1. In your opinion what are the main factors that influence international investment decision?
2. What incentives are offered by Kenyan and Chinese governments offer to facilitate the collaboration between Stantech Motors Ltd and Chery Automobile Co. Ltd?
3. How does Chery Motor East Africa Ltd deal with the international environment/ regional trade blocs?
4. What does the future look like for Chery Motor East Africa Ltd?
5. What does the future look like for vehicle industry in Kenya?