# ANALYSIS OF THE STRUCTURAL ATTRACTIVENESS OF THE HOTEL INDUSTRY IN KENYA USING PORTER'S MODIFIED MODEL

**BY:**

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## DECLARATION

I hereby declare that this research project is my original work and has not been submitted for a degree in the University of Nairobi or any other University.

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## DEDICATION

I dedicate this research project to my loving husband Chris and children Samuel, Eric and Evelyn for sacrificing our precious family time to allow me study for the MBA.

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **IT** | Information Technology |
| **JKIA:** | Jomo Kenyatta International Airport |
| **KAHC:** | Kenya Association of Hotelkeepers and Caterers |
| **KTB:** | Kenya Tourist Board |
| **MIAM:** | Mombasa International Airport |
| **SCP:** | Structure-Conduct-Performance |
| **TRA:** | Tourism Regulatory Authority |
| **TSSR:** | Tourism Sector Status Report |
| **UK:** | United Kingdom |
| **UNWTO:** | United Nations World Trade Organization |
| **WTTC:** | World Travel and Tourism Council |

## ABSTRACT

Industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five forces of competition (Porter, 1980). Industry attractiveness depends on the combined strength of industry forces. Porter (1979) argues that, industry competition is determined by five industry forces which determine its attractiveness and form the basic industry characteristics. The forces are supplier bargaining power, customer bargaining power, threat of new entry, threat of substitute products and competitors rivalry. Wheeler and Hunger (1990) included a sixth force; that is other stakeholders. Palvia et al (1990) added government and logistics while Aosa (1997) added power play. McFarlan (1984) added information technology (IT) while Grant (2008) added complements. All the above industry forces form Porters modified model. The aim of the study was to determine how attractive the hotel industry in Kenya is using Porters modified model. To achieve this objective, the study adopted a descriptive research design. Questionnaires were e-mailed to hotel General Managers or Managers in charge of corporate strategy of the sampled hotels. Where such positions were nonexistent, Managers in charge of marketing were targeted. Descriptive statistics were used to analyze collected data. The research findings show that Porters modified forces are at play in the hotel industry but at different levels. The forces with the strongest effect on profitability were found to be customer bargaining power, threat of substitute products and competitors rivalry. Forces with average effect are threat of entry, stakeholders, IT, complements, government and logistics though infrastructure was found to be having a strong effect on hotel profitability. Bargaining power of suppliers and power play were found to be weak. The findings agree with the existing theory that, industry attractiveness depends on the combined strength of the industry forces at play. The study findings have made it possible to understand the attractiveness of the hotel industry in Kenya and the strength of the different forces that are at play in the industry. The management of Kenyan hotels and the government will benefit from these findings in policy formulation. It's recommended that the government gives special attention to improvement of tourist arrivals in the country as well as the infrastructure so as to boost the hotel industry growth. However, the study was on hotels registered with Kenya Association of Hotelkeepers and Caterers (KAHC) only. Not all hotels are members of KAHC hence further research is needed that covers all the hotels in Kenya. The overall conclusion is that the hotel industry in Kenya is not attractive either for new entry or further investment by existing hotels.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five competitive forces (Porter, 1980). Industry profitability determines its attractiveness. High rates of return in an industry makes it attractive to new investors and can also lead to additional investment by existing firms. Industry attractiveness depends on the combined strength of industry forces. According to Porter (1980), the rate of return in an industry is continually reduced by competition. Thus high competition makes an industry unattractive for entry or further investment. Porter (1980) argues that business people will not tolerate low returns from an industry since they can invest in other industries. Industry forces knowledge can be useful when starting new businesses, new products or services. Industry analysis can help a firm think through what it can change to raise its strength in respect to each industry force. Firm's ability to make sustained profits in an industry depends on knowledge concerning the effect of each force as well as its strength and direction (Porter, 1979).

The type of competition in an industry determines firm's performance and behavior. Competition among various buyers and sellers within an industry determines its characteristics. The theory of industrial organization economics is concerned with what happens within industries and markets, specifically the way organizations compete with each other. Firm performance and conduct is strongly influenced by the industry structure (Roper, 1992). The behavior and performance of firms is influenced by different factors which are used to classify industries. They include sellers concentration, level of product differentiation, entry, exit, shrinkage and mobility barriers, vertical integration, level of globalization, and structure of cost (Porter, 1980; Pearce and Robinson, 1997). An industry can be a pure monopoly, imperfect competition, oligopoly or perfect competition. Industry extremes are perfect competition and pure monopoly. Since 1930s and 1940s, structure-conduct-performance (SCP) model has been used to analyze industries (Brown, 1995). Meaning the conduct and performance of firms is influenced by the structure of the industry. There is perfect competition within the hotel industry.

The industry or industries in which a firm operates forms its environment (Roper, 1992). Just like any other business entity, hotels must continuously scan their environment and adjust where necessary to be able to satisfy customers whose preferences keep changing. Hotels need to be aware of the industry forces that shape the hotel business to be able to have a competitive advantage over competitor hotels. Over recent years, Kenyan hotels have faced a number of challenges due to terrorism and political instability among other factors. Kenya's cruise tourist arrivals rose from 2,837 in 2007 to reach an all time high of 12,096 in 2009 but this trend was reversed and the figures stood at 362 in 2014 (TSSR, 2015). TSSR further notes a similar trend of decline of number of visitors to the game parks and reserves, museums, and hotels.

### 1.1.1 Industry Attractiveness

Industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five forces of competition (Porter, 1980). High rates of return in an industry makes it attractive to new investors and can also lead to additional investment by existing firms. Entry of new firms leads to increased competition as each firm tries to maintain or increase its market share. This can lead to different survival tactics including price wars which will in turn reflect negatively on profitability making the industry unattractive. Porter (1979) argues that competition in an industry is determined by five forces which also form the industry characteristics and determine its attractiveness. The forces are supplier bargaining power, customer bargaining power, threat of new entry, threat of substitute products and competitors rivalry. Wheeler and Hunger (1990) included a sixth force; that is other stakeholders. Palvia et al (1990) added government and logistics while Aosa (1997) added power play.  McFarlan (1984) added information technology (IT) while Grant (2008) added complements.

The world is becoming a global village. This has lead to increased and fast dynamism of the business environment with technological changes, entry of competitors both local and international, and increased changes in customer tastes and preferences. To succeed, firms must have proper knowledge of the industry in which they are operating in and craft competitive strategies that will enable the firm beat competition and realize above average returns. Industry profitability and attractiveness is determined by the intensity of competition which depends on industry forces (Chapman, 2001). Individual business transaction may experience different competitive forces over different times (Grundy, 2006). Thus structural analysis of an industry is important as it helps the industry players in decision making. To identify where a firm can reap greatest results through adoption of a strategy, industry analysis is key so as to identify the key forces driving competition in an industry (Porter, 1980). High profits in an industry make it attractive and encourage more players to enter the industry.  Increase in industry players makes it unattractive due to increase in competition as each firm works to maintain or increase its market share.

### 1.1.2 The Hotel Industry in Kenya

Hospitality is the art and science of welcoming and entertaining of guests. The development of the hospitality industry in many parts of the world has shown that the industry presents opportunities for economic growth (Daracha, 2013). Hotels are within the hospitality industry. The history of lodging encompasses thousands of years back. By 1800 BC, reference is made of "Tavern Keeping" which is another name for inn-keeping, an equivalent of today's hotels. The Hotel industry in Kenya traces its origins to the advent of colonialism in the last half of the nineteenth century. The construction of the railway line from Mombasa to Uganda contributed to the opening of hotels like the Stanley hotel in Nairobi which was opened in 1902 and the Holiday Inn which was opened in 1942.There is an overlap and interrelationship between tourism and the hotel industry. Without hotels there is no tourism just as without tourism hotels will have no business.

The hotel industry provides accommodation, food, drinks, recreational and other business facilities for travelers (Barbara, 2005). Hotels are categorized into town hotels, vocational hotels, lodges and tented camps. Town hotels are located in towns and mostly cater for business travelers while vocational hotels, lodges and tented camps are located along coastal beaches, in National parks and game reserves respectively and mainly cater for leisure travelers or tourists. Kenyan hotels have lately been negatively affected by terrorist attacks such as bombing of the Paradise beach hotel in Mombasa, the Westgate attack in Nairobi, and the frequent grenade attacks as well as tribal clashes within tourist circuit areas which lead to travel advisories by western countries. The 2007/8 post election violence and political instability scared away many tourists. These caused cancellation of hotel bookings which lead to closure of some hotels especially at the coast. Decline in Tourists meant slow growth and steep competition by hotels which in turn makes the industry unattractive.

Bed occupancy rate has declined from 59.1% in 1991 to 31.6% in 2014 (TSSR, 2015). According to WTTC, Africa is the only world region to have recorded negative growth in arrivals for the YTD (-6.4%). This comparatively weak performance has been driven by significant declines in some of the region's major Travel and Tourism economies, including Tunisia (-22.4%), Kenya (-18.9%) and South Africa (-7.3%) (WTTC, 2015). Tourist arrivals by air (MIAM & JKIA) reduced by 12.2% compared to 2014, i.e. 690,893 tourists recorded in 2015 against 786,761 recorded in 2014. Mombasa International Airport (MIAM) recorded a decline of -38.2% from 108,226 tourists in 2014 to 66,912 tourists as of October 2015 (KTB, 2016). In 2015, fifty million more tourists travelled to international destinations around the world (UNWTO, 2015). Regionally, growth is expected to be stronger in Asia, the pacific and America (+4% - 5%). Europe will follow by between +3.5% - 4.5%. Africa has positive growth projections of +2% to 5% though with a lot of uncertainty and volatility (UNWTO, 2016).

## 1.2 The Research Problem

Profitability, attractiveness and intensity of rivalry within an industry are determined by the industry forces. Industry competition depends on the five industry forces and the ultimate profit potential is determined by their collective strength (Porter, 1979). Thus whether industry's future prospects will be excellent, average or poor is determined by its economic traits, competitive conditions and their expected changes. Due to differences in industry and competitive conditions, it's harder for leading companies in unattractive industries to earn respectable profits than companies in attractive industries (Porter, 1980; Pearce and Robinson, 2005). Industry attractiveness depends on the combined strength of industry forces. Hence different levels of profitability can be sustained by different industries due to differences in industry structure. This explains why firms in attractive industries find it easier to post high profits than firms in unattractive industries. Different industries have different structures depending on the strength of the industry forces at play.

Over recent years, Kenyan hotel industry has faced major challenges. The challenges include; insecurity posed by tribal clashes within the tourist circuit areas and recently the ever increasing threat of terror to both foreign and local tourists (de Sausmarez, 2013). de Sausmarez further argues that the tourism industry suffered a great blow due to the acts of terrorism and grenade attacks in churches and market places. The terrorist attacks on Kenyan installations, the 2007/8 post election violence, the political instability, and the continued upholding of travel advisories by western countries have all worked to scare potential hotel customers. All this occurrences can be given different and unsubstantiated interpretations as to how attractive the Kenyan hotel industry is.

Studies on industry attractiveness have been documented but on different contexts. Cheng (2013) analyzed the hotel industry globally in porter's five industry forces and concluded that globally the hotel industry contains high exit barriers and that quality of service and good location for relative target market are the two most important factors that enable hotels to differentiate themselves. Palmer et al (2000) carried out a study on structural analysis of UK hotel sector loyalty programmes. The findings were that no specific formula is used to develop a successful loyalty program within the UK hotel sector.

Oluoch (2003), investigated on attractiveness of the freight and forwarding industry in Kenya using porters modified model and found out that, the freight and forwarding industry operates within the five forces advanced by porter plus government as a sixth force and that, each force plays a major role. Wachira (2008), focused on structural analysis of the insurance industry in Kenya. The findings illustrated that the insurance industry in Kenya is not very attractive for new entrants. Ogangah (2009) carried a study on the attractiveness of the commercial radio industry in Kenya and concluded that the commercial radio industry is still attractive to new investors and that industry rivalry coupled with bargaining power of customers were the factors with the highest unfavorable impact.

Different studies have been done on hotels in Kenya but on different contexts. Wadawi (2008), investigated the hotel product quality in Kenya in respect to its competitiveness as a destination. The findings of the study were that the unique wildlife safari, natural scenery, and beach tourism are the major tourist attractions in Kenya. Wadawi further found out that tourist repeat visits or choice of destination is determined by hotel product/service quality. Espino-Rodriquez (2014), investigated hotel relationship with infrastructural and structural decisions and competition between hotels on the basis of priorities. The study found out that each structural and infrastructural decision analyzed had a positive relationship with competitive priorities

While different studies have been done on industry attractiveness and application of Porters model, no known study has focused on the analysis of the structural attractiveness of the hotel industry in Kenya using Porters modified model. It is the purpose of this study to apply porters modified model to assess the structural attractiveness of the hotel industry in Kenya in order to bridge the knowledge gap. The aim of the study will therefore be to answer the question how attractive is the hotel industry in Kenya?

### 1.3 Objective of the Study

The objective of the study will be to assess the structural attractiveness of the hotel industry in Kenya using porters modified model.

### 1.4 Value of the Study

The study findings will provide empirical evidence of the structural attractiveness of Kenya's hotel industry. For scholars, the study will contribute to knowledge and avail literature on structural attractiveness of the hotel industry in Kenya. The findings will form a basis for further research in the area of hotel industry attractiveness.

The findings of the study will help the statutory authorities such as Hotels and Restaurants Authority (HRA), Kenya Association of Hotelkeepers and Caterers (KAHC), as well as the Kenya Tourism Regulatory Authority (KTRA) and the Kenya government in policy formulation and decision making.

The study will also be of value to investors aspiring to invest in the hotel industry as well as hotel managers and practitioners in assessing the profitability of the industry thus support decision making.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This section will review literature relevant to the study on theoretical anchorage, industry structure attractiveness, determinants of industry attractiveness, and summary of knowledge gaps.

## 2.2 Theoretical Anchorage

The industrial organization economics theory points out that there is a relationship between industry structure, conduct and performance of firms (SCP). Meaning industry structure influences industry and firm behavior hence conduct and performance are dictated by the industry structure. Thus the level of competition and attractiveness of an industry is determined by industry structure. Pearce and Robinson (1997) argue that, the behavior and therefore performance of firms is influenced by the level of product differentiation, concentration of sellers, entry, exit, mobility and shrinkage barriers, level of vertical integration, and globalization.

The industry or industries in which a firm operates in depends on the environment in which it operates (Roper, 1992). To be able to effectively carry out operations which will yield high returns, firms must understand the industry in which they are operating and adopt strategies that will be aligned to the industry structure or those that will influence the forces in the industry to the firm’s advantage. Before carrying out strategic analysis one must first understand the industry structure (Porter, 1980). Due to differences in industry structure, firms in attractive industries find it easier to post high profits than firms in unattractive industries hence knowledge about the strength of the different forces is important as it can help an organization take advantage of its strengths and improve on its weaknesses. An industry can be a pure monopoly, imperfect competition, oligopoly or perfect competition. Industry extremes are perfect competition and pure monopoly. There is perfect competition within the hotel industry hence competition is intense.

**2.3 Industry Structure Attractiveness**

An industry is composed of firms which share a common technology or serve similar markets (Roper, 1992). Attractiveness of any industry is strongly influenced by its environment. The environment has many dimensions which include technological, legal, political, economic, and social-cultural factors. The remote environment consists of population demographics, the economy at large, government legislation and regulation, social values and lifestyles, technological factors, and company's immediate industry and competitive environment under which all organizations operate in (Thompson and Strickland, 2003). To succeed, firms must craft strategies that effectively relate well with the firms environment. It's important to know the different industry forces and their strength before choice of strategy as it can help an organization take advantage of its strengths and improve on its weaknesses hence its useful in decision making. The firm's immediate and remote external environments pose different challenges which management must respond to (Pearce and Robinson, 2011).

Industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five forces of competition (Porter, 1980). Firms within the same industry produce goods and services that can be used in place of each other (Porter, 1980). Firms within an industry produce products that resemble each other (Pimtong, 2009). Porter (1979) argues that the five industry forces determine the state of competition in an industry and that the resultant profit potential is determined by their collective strength. The individual strength of the different competitive forces can be ascertained through industry analysis. Industry profitability and competition determines its attractiveness and the strategic options that firms can adopt.

An attractive industry continually pulls more players into the industry to a point where the industry starts to become unattractive. Increase in industry player's increases competition in an industry leading to low returns. High competition makes an industry unattractive for entry or further investment (Porter, 1980). A key determinant of an industry's attractiveness is its structure. The combined strength of the industry forces reflects the structure of an industry. Different industries have different structures depending on the strength of the industry forces at play. That is why firms in attractive industries find it easier to post high profits than firms in unattractive industries. Industry forces determine the competition in an industry. Porter (1979) points out that, five industry forces determine competition in an industry and form its basic characteristics and attractiveness. Wheeler and Hunger (1990) included a sixth force; that is other stakeholders. Palvia et al (1990) added government and logistics while Aosa (1997) added power play.  McFarlan (1984) added information technology (IT). All of them i.e. Wheeler and Hunger, Aosa, McFalan and Palvia et al agreed with Porter before adding their forces. Grant (2008) added compliments.

### 2.4 Determinants of Industry Attractiveness

This section will discuss Porters five original determinants of industry attractiveness plus five others which have been proposed by other authors making a total of ten industry forces. The determinants are customer bargaining power, supplier bargaining power, threat of imitation products, threat of new entry, competitor rivalry, other stakeholders, government & logistics, power play, information technology, and compliments (Figure 1 of porter's modified model).

### 2.4.1 Customer Bargaining Power

Customer bargaining power is concerned with customer's ability to impose pressure on margins and volumes of an organization. The customer pressure can lead to serious constraints in setting of prices for goods and services. The appropriation of the value created by an industry is increased by customer power (Pimtong, 2009). According to Porter (1980), each industry has important buyer groups whose power depends on a number of characteristics of its market situation. Porter continues to argue that each buyer group purchases have a relative importance as compared to the overall business. Buyers can compete with the industry by demanding lower prices for products, requiring increased quality of goods and services, and increasing competition among industry players leading to reduced industry profitability (Porter, 1980).

Porter further argues that, factors that make a buyer group powerful include purchases that are high as compared to sellers sales, concentrated buyers, the buyer being informed about the industry, the quality of the buyers products highly depending on the industries products, having buyers who can integrate backwards, few buyer switching costs, and industry selling undifferentiated or standard products. Thus a firm's choice of buyer groups should be given special attention. A firm should select buyers who will have less influence.

### 2.4.2 Supplier Bargaining Power

Supplier bargaining power also affects industry profitability and competition. The term "suppliers" refers to all those who provide raw materials for production of products for sale (Dagner, 2001). The higher the supplier bargaining power, the lower the profit margin for the industry. Powerful suppliers are not desirable as they can reduce the profitability of an industry making it unattractive. Suppliers can exercise their bargaining power over industry players by threatening to raise prices or reduce the quality of products thereby reducing industry profitability (Porter, 1980).

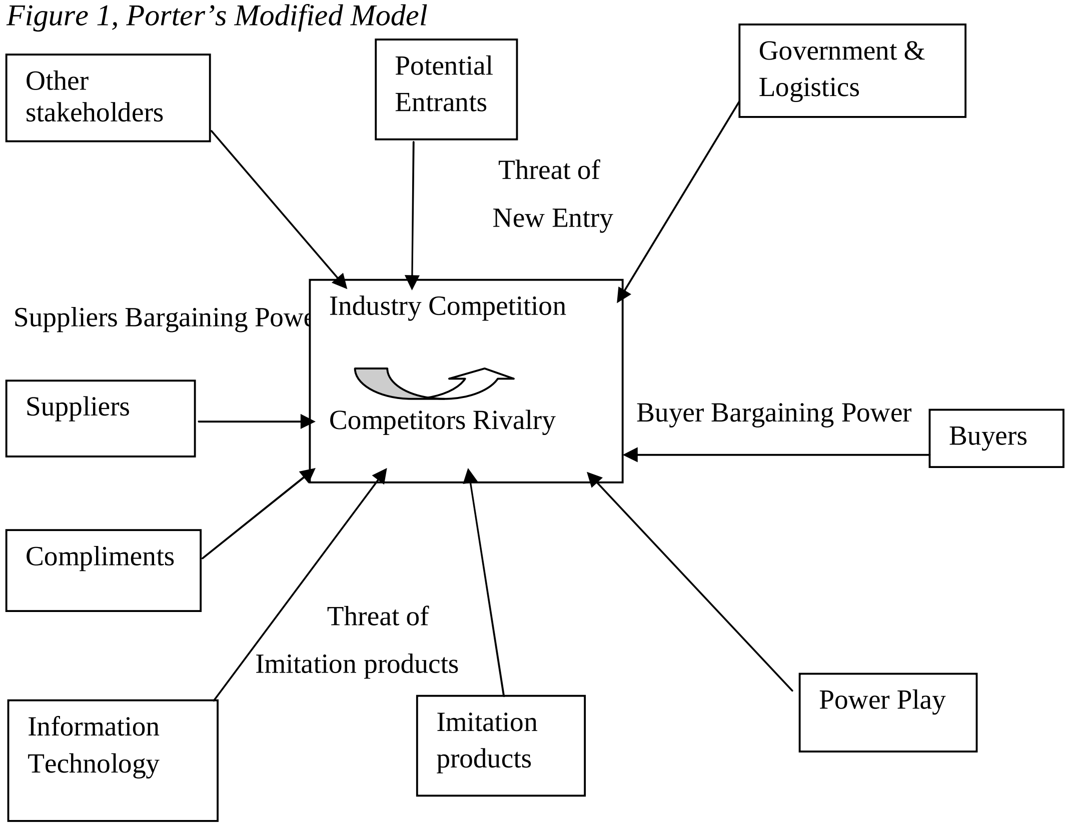
Porter continues to argue that supplier power can be present if they are few than the companies in the industry, the supplier poses threat of forward integration, if it sales undifferentiated products, has build up switching costs, the buyer highly values the suppliers product as an important input, supplier group doesn't view the industry as an important customer, and if the supplier is not obliged to contend with other substitute products sold to the industry. Human resource as a supplier needs to be recognized as well (Porter, 1980). An industry may have no control over supplier's power but it can improve its situation through proper selection of suppliers.

### 2.4.3 Threat of Substitute Products

Substitute products are imitation products that can satisfy the needs and wants of the industry customers. There exists a threat if imitation products from a competing industry can perform better and the price is lower. Alternative products can appeal better to customers thus reducing the potential sales volume of industry players (Dagnar, 2001). Imitation goods and services tend to dictate the maximum prices of an industries products leading to increased competition and reduced profits thus making the industry unattractive.

Relative attractiveness of substitute products is influenced by customer propensity to substitutes, switching costs, and relative price performance of substitutes. Other special imitation that is present in every industry but often not noticed include failing to purchase anything, reducing usage rate of products, recycling, reusing or reconditioning products as well as practicing backward integration (Porter, 1980).

*Figure 1, Porter's Modified Model*




*Source: Author 2016*

Porter (1979) argues that, from the industry participant's point of view, imitation products that need special attention are those that can be cheaper than the industry products or those produced by competitors earning high profits thus such trends should be carefully analyzed before making a decision on whether to come up with a strategy to fight it off or to consider it as an inevitable force.

### 2.4.4 Threat of New Entrants

Threat of entry refers to the possibility of new competitors entering the industry (Pimtong, 2009). New comers in an industry desire to gain market share and come with new capacity and in most cases a lot of resources (Porter, 1980). Porter continues to argue that, due to the new entrants, profitability can be reduced due to price wars or the incumbent's costs being escalated. High competition in an industry makes it easy for new entrants. Price of products, market share as well as customer loyalty can change due to new entry. The presence and extent of barriers to entry determines the strength of the threat of entry (Dagner, 2001).

Entry barriers are deterrents meant to block potential entrants from entering a market profitably.  Low barriers to entry leads to increased threat of new competitors. Threat of new entry is low if the newcomer can expect strong resistance from existing industry players or/and if entry barriers are high (Porter, 1980). Porter further argues that, barriers to entry may be due to policy of the government, distribution channels access, disadvantages in cost irrespective of scale, switching costs, need for capital, differentiation of products and economies of scale.

### 2.4.5 Rivalry of Competitors

Rivalry of competitors describes competition that exists between existing companies in an industry. Rivalry can occur due to competitors either feeling the pressure or seeing the opportunity to improve position of products or services (Pimtong, 2009). Since all players in an industry share customers from the same pool, increased competitive pressure leads to pressure on prices and margins which affects the profitability of all the companies in the industry. Porter (1980) argues that, competitor rivalry can be in form of jockeying for position, introduction of price competition, increased advertising, introduction of new products, and increased customer warranties and service. Price competition is the most unstable of all forms of competition and can lead to a negative effect on industry profitability (Porter, 1980).

Due to the mutual interdependence of firms within an industry, such moves lead to retaliation from other firms and often result in reduced profitability to all the players. High competition between existing players can be due to different factors like high costs of storage which may also be fixed, an industry which is growing slowly, numerous or/and equally balanced competitors, large increments in capacity augmentation, lack of differentiation, different competitors, high exit barriers as well as high strategic stakes (Porter, 1980).

### 2.4.6 Other Industry Forces

Wheeler and Hunger (1990) included a sixth force to Porters five forces that is other stakeholders. Stakeholders can exert different levels of pressure on a firm. Some stakeholders are more powerful than others. Firms must understand and treat each stakeholder well for them to accord the much needed support to the firm's products. Powerful stakeholders should be given special attention. Stakeholders include union's power, the government and others not mentioned in porters industry model (Wheeler and Hunger, 1990).

Palvia et al (1990) suggested addition of government and logistics to suit developing country contexts as the government played a significant and dominant role in the economy. The government can also act as a buyer or supplier hence it can come up with limits on firms behavior through regulations (Porter, 1980). Aosa (1997) agreed to the addition of government and logistics and pointed out that many infrastructural inadequacies exist in Kenya. The state of infrastructure has an effect to the profitability of firms.

Aosa (1997) agreed with Palvia et al but suggested addition of power play as an eighth force. He observed that individuals holding powerful positions in society can ignore government provisions and controls and influence business activities. Such influence would affect the profitability of the industry either positively or negatively.

Power play is fueled by vested interests hence any government should be alert to be able to counteract such moves as they negatively affect the level ground of competition for firms.

McFarlan (1984) added information technology (IT). He argued that IT can be used to counter or exploit any of the other forces by creating value and reducing cost. If well implemented, IT can reduce cost of production and improve product features raising firm's profitability. Management can use IT to measure performance, allocate, manage, and control resources (Yusuf, 2013). But the advantages of IT could be short lived as other firms would copy its use within months (Thurby, 1998). However it should be noted that adoption of IT can lead to conflicts with stakeholders like staff who may be negatively affected as adoption of IT can lead to staff layoffs.

Grant (2008) proposed addition of complements as a force arguing that complements increase value while substitutes decrease value of products because customers value the whole system. Customers make both monetary and non monetary sacrifices as a trade of between value and quality of products (Rajiv and David, 2000). They continue to argue that, firm understanding of the measurement and definition of perceived quality is important. Such knowledge will enable organizations produce products of high quality and which are perceived to be of high value by customers.

**2.5 Summary of Knowledge Gaps**

Porters modified industry forces model determine profitability in an industry. High profits make an industry attractive and vise versa. Structural analysis of an industry leads to an understanding of the strength of each force at play. Porters five forces model was advanced in developed country context and as Aosa (1997) points out, the context in which management is practiced has an effect. Porters modified model is meant to suit developing countries context. The hotel industry in Kenya has been experiencing many challenges. There is need for potential investors as well as the industry players to have a good understanding of the structure of the industry. Structural analysis of the industry using Porters modified industry forces model will lead to an understanding of how attractive the hotel industry in Kenya is.

Different studies have been done on industry attractiveness. Cheng (2013) used Porters five forces model to analyze the global hotel industry and concluded that there are high exit barriers in the hotel industry. Palmer et al (2000) carried out a study on structural analysis of UK hotel sector loyalty programmes. The findings were that the hotel sector in UK does not have a single formula for successful loyalty program development. Oluoch (2003), investigated on attractiveness of the freight and forwarding industry in Kenya using porters modified model and found out that, the freight and forwarding industry operates within the five forces advanced by porter plus government as a sixth force and that, each force plays a major role. Wachira (2008), focused on structural analysis of the insurance industry in Kenya. The findings illustrated that the insurance industry in Kenya is not very attractive for new entrants.

Ogangah (2009) carried a study on the attractiveness of the commercial radio industry in Kenya and concluded that the commercial radio industry is still attractive to new investors and that industry rivalry coupled with bargaining power of customers were the factors with the highest unfavorable impact. Espino-Rodriquez (2014) investigated hotel competition on competitive priorities and their relationship with structural and infrastructural decisions. The study found out that each structural and infrastructural decision analyzed had a positive relationship with competitive priorities. All these studied found that different forces are at play at different industries and with different impacts leading to differences in attractiveness of the different industries.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter will discuss the research design, population of the study, sample of the study, the data collection and analysis method and how presentation of findings was done.

## 3.2 Research Design

The study adopted a descriptive research design. A descriptive research design is concerned with finding out the who, what, where, when and how much (Cooper and Schindler, 2000). This is the study adopted by Wachira (2008) to assess the attractiveness of Kenya’s insurance industry.

Descriptive design method provides quantitative data from a cross section of the chosen population. The research design was appropriate because the main interest was to explore the relationship between industry forces and the attractiveness of the hotel industry in Kenya.

## 3.3 Population of the study

A population is a complete set of individuals, cases or objects with some common observable characteristics (Mugenda and Mugenda, 2003). The study population consisted of all the 185 hotels who are members of the Kenya association of hotelkeepers and caterers (KAHC, 2016) (Appendix ii).

The population of this study was in three groups namely; 53 town hotels, 55 vocational hotels and 77 lodges and tented camps making a total of one hundred and eighty five hotels spread within Kenya.

### 3.4 Sample of the study

A sample is a subset of the population. The sample of the study was determined through stratified random sampling technique. Stratified random sampling purpose is to group population in to homogenous subsets that share similar characteristics and thus ensures equitable representation of the population (Oso & Onen, 2011). 40% of each subset was targeted making a total sample of 74 hotels.

The three subsets are 21 town hotels, 22 vocational hotels and 31 lodges and tented camps. Forty percent of respondents from each stratum were targeted then the research findings were generalized to the whole population.

### 3.5 Data Collection

Questionnaires were used to collect Primary data. A questionnaire is the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time and in an economical manner, guarantees confidentiality of source of information through anonymity while ensuring standardization (Kothari, 2004). A structured questionnaire was used with both closed and open ended questions.

Questionnaires were e-mailed to hotel General Managers or Managers in charge of corporate strategy of the sampled hotels. Where such positions did not exist, managers in charge of Marketing were targeted. The questionnaire was divided into two sections. Part one sought to get general information about the hotel e.g. number of guest rooms, years in operation etc. Part two sought to find information on industry attractiveness.

### 3.6 Data Analysis

After data was collected, the questionnaires were edited for completeness, consistency and accuracy. Then the responses were coded into numerical form to make it easy for statistical analysis. Descriptive statistics were used to analyze collected data (measures of central tendency and measures of variation). These tools were considered appropriate in determining the forces that shape the industry structure and their perceived strength. It was also possible to establish the perceived attractiveness of the industry.

To achieve these objectives, percentages and frequencies were used to indicate the status proportion of respondents indicating the extent to which they perceived the strength of forces in the industry. Mean scores and standard deviations were calculated to indicate the degree of attractiveness of the industry as perceived by the respondents. To summarize the findings for ease of interpretation and reporting tables were used for presentation of analyzed data.

# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

## 4.1 Introduction

This chapter looks at the presentation, analysis and discussion of data collected from the field. The study had one objective: to assess the attractiveness of the hotel industry in Kenya using Porters modified model. To achieve this objective, the researcher targeted the Hotel General Managers, Corporate Strategic managers and where such posts did not exist, Marketing Managers were targeted to provide data. The study population consisted of all the 185 hotels who are members of the Kenya association of hotelkeepers and caterers (KAHC) which were in three groups, namely: town hotels 53, vocational hotels 55, lodges and tented camps 77. The sample of the study was determined through stratified random sampling technique with 40% of each strata being targeted making a target of 74 hotels. All the 74 hotels were served with questionnaires through email and only 68 e-mailed back the filled questionnaires. The researcher considered this response rate as adequate for analysis as it represented a 92% response rate.

In carrying out the survey, respondents were required to respond to general information about the hotel then presented with different statements that described the different forces that determine profitability in the hotel industry. The statements indicated the extent to which the hotel industry is attractive to new entrants as well as further investment by the existing hotels. They were required to score them on a 1 to 5 likert scale indicating the extent to which they perceived the statements to apply in the hotel industry. 1 representing the lowest scale while 5 represented the highest scale. Other questions required a yes or no answer.

## 4.2 Organizational Information

The study sought information on the hotel number of guest rooms, years of operation and the hotels room occupancy per night over the last high and low seasons. These factors were thought to be important information about the hotel industry as they may have a bearing on the industry characteristics as to how profitable the industry is.

### 4.2.1 Number of guest rooms

The size of any hotel is determined by the number of guest rooms. Hotels may behave differently depending on their size among other factors. The study sought to establish the number of hotel guest rooms. Out of the 68 hotels that participated in the study, 54.4% have less than 100 guest rooms followed by those with between 100 and 200 rooms at 29.4%.  The least no of hotels who participated had between 301 and 400 rooms at 4.4%. None had over 400 rooms (Table 1). This shows that the hotel industry consists of many small hotels which could have an impact in the industry competition as each hotel strives to increase or maintain its market share.

**Table 1: Number of Guest Rooms**

| Number of guest rooms | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 100 | 37 | 54.4 | 54.4 | 54.4 |
| | Between 101 and 200 | 20 | 29.4 | 29.4 | 83.8 |
| | Between 201 and 300 | 8 | 11.8 | 11.8 | 95.6 |
| | Between 301 and 400 | 3 | 4.4 | 4.4 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research Data

### 4.2.2 Years in Operation

Businesses are continually being opened while others may be closing down due to different reasons. If businesses fail to earn good profits it becomes difficult to continue operating as the firms will not be able to meet their financial obligations. High level of entry into an industry may be an indication of its attractiveness or low barriers to entry. Remaining in an industry may also be an indication of high exit barriers. If exit barriers are high then competition is high as firms have no option but remain in the industry regardless of the challenges. High profitability of an industry makes it attractive for new entry or further investment by incumbent firms.

**Table 2: Years in Operation**

| Years in operation | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Between 1 and 5 years | 2 | 2.9 | 2.9 | 2.9 |
| | Between 11 and 20 years | 13 | 19.1 | 19.1 | 22.1 |
| | Between 6 and 10 years | 4 | 5.9 | 5.9 | 27.9 |
| | Over 20 years | 49 | 72.1 | 72.1 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

The study established that the hotel industry has not been attracting many new entrants or further investment by existing hotels as 72.1% of the hotels that participated in the study have been in operation for over 20 years with only 2.9% having been in operation for between one & five years. Only 5.9% were opened between the last 6 to 10 years. This shows that the hotel industry has not been attractive for new entry. The findings are as presented in Table 2 above.

### 4.2.3 Last three years Room Occupancy

The volume of business of any hotel is reflected by the room occupancy level. Though none resident customers still bring in business, the level of room occupancy has the highest reflection on the hotel revenue and profits.

**Table 3(a) High season room occupancy**

| Room occupancy | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 1 | 1.5 | 1.5 | 1.5 |
| | Below 25% | 4 | 5.9 | 5.9 | 7.4 |
| | Between 25% and 50% | 45 | 66.2 | 66.2 | 73.5 |
| | Between 50% and 75% | 13 | 19.1 | 19.1 | 92.6 |
| | Over 75% | 5 | 7.4 | 7.4 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

This is mostly because none residents may only visit one department e.g. the restaurant while resident guests (customers) visit many departments as they receive different goods and services thus increasing the hotels revenue base. Also room revenue has a big profit margin as compared to income from all other departments.

The hotel industry has high and low seasons. Increased level of business is experienced during the high season while the low season is characterized by reduced business especially from tourists. The findings of the study in Table 3(a) above indicate that over the last high season, 66.2% of the hotels had between 25% &50% room occupancy while only 19.1% had room occupancy of between 50% and 75%. This is a grave situation as hotels expect to be fully booked with 100% room occupancy during high season. 5.9% of the respondent hotels recorded room occupancy of below 25% while only 7.4% had over 75% room occupancy.

During the low season, 76.5% of the participating hotels recorded room occupancy of below 25%.  19.1% had between 25% & 50% room occupancy as presented in Table 3(b) below. This level of low business increases competition and discourages new entry or further investment by incumbent hotels. Low profitability makes the hotel industry unattractive for investment. The low level of new entry indicates that the hotel industry has not been attractive.

**Table 3(b) Low season room occupancy**

| Room occupancy | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 1 | 1.5 | 1.5 | 1.5 |
| | Below 25% | 52 | 76.5 | 76.5 | 77.9 |
| | Between 25% and 50% | 13 | 19.1 | 19.1 | 97.1 |
| | Between 50% and 75% | 2 | 2.9 | 2.9 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

## 4.3 Attractiveness of the Hotel Industry

The objective of the study was to find out how attractive the hotel industry in Kenya is. The hotel industry attractiveness explains the value created by the economic activity. To understand the attractiveness of the hotel industry, the study adopted Porters modified industry forces model framework. The forces in the model are; bargaining power of suppliers, bargaining power of customers, threat of imitation, threat of entry, rivalry of competitors, other stakeholders, government and logistics, power play, information technology and complements. These forces determine industry profitability and hence its attractiveness as influenced by the industry forces at play. This is because industry forces have an influence on price of goods and costs in a business.

### 4.3.1 Bargaining Power of Suppliers

The power of suppliers in an industry has an impact on the industry's profitability. Powerful suppliers are not desirable as they can put pressure on industry participants through decisions to reduce the quality of products or raising of prices thus reducing profits if the industry is not able to recover the increased cost in its price of products. The study sought to establish whether there is supplier bargaining power in the hotel industry which was found to be minimal as shown in Table 4 below.

**Table 4: Existence of Supplier Power**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | No | 47 | 69.1 | 69.1 | 69.1 |
| | Yes | 21 | 30.9 | 30.9 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

69.1% of the respondents perceived supplier bargaining power as none existent while 30.9% acknowledged existence of bargaining power of suppliers as shown in Table 4 above. Not having powerful suppliers is an advantage to the hotel industry as they can set prices without the influence of suppliers. This also means hotels have a wide choice of suppliers which gives them an upper hand. The responses on various determinants of bargaining power of suppliers are presented in Table 5 below.

**Table 5: Determinants of Supplier Power**

| Determinant | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Impact of suppliers On cost | Not at all | 3 | 4.4 | 2.68 | .679 |
| | Less extent | 20 | 29.4 | | |
| | Moderate extent | 42 | 61.8 | | |
| | Large extent | 2 | 2.9 | | |
| | Very large extent | 1 | 1.5 | | |
| | Total | 68 | 100 | | |
| Supplier differences | Not at all | 3 | 4.4 | 2.63 | .644 |
| | Less extent | 22 | 32.4 | | |
| | Moderate extent | 40 | 58.8 | | |
| | Large extent | 3 | 4.4 | | |
| | Very large extent | - | 0 | | |
| | Total | 68 | 100 | | |
| Importance of volume of business to supplier | Not at all | 1 | 1.5 | 4.43 | .763 |
| | Less extent | 1 | 1.5 | | |
| | Moderate extent | 5 | 7.4 | | |
| | Large extent | 24 | 35.3 | | |
| | Very large extent | 37 | 54.4 | | |
| | Total | 68 | 100 | | |
| Supplier switching costs | Not at all | 7 | 10.3 | 2.97 | 1.119 |
| | Less extent | 14 | 20.6 | | |
| | Moderate extent | 29 | 42.6 | | |
| | Large extent | 10 | 14.7 | | |
| | Very large extent | 8 | 11.8 | | |
| | Total | 68 | 100 | | |
| Supplier concentration (number/size) | Not at all | - | 0 | 2.26 | .745 |
| | Less extent | 59 | 86.8 | | |
| | Moderate extent | 3 | 4.4 | | |
| | Large extent | 3 | 4.4 | | |
| | Very large extent | 3 | 4.4 | | |
| | Total | 68 | 100 | | |
| Presence of substitute Suppliers | Not at all | 1 | 1.5 | 4.35 | .910 |
| | Less extent | 3 | 4.4 | | |
| | Moderate extent | 5 | 7.4 | | |
| | Large extent | 21 | 30.9 | | |
| | Very large extent | 38 | 55.9 | | |
| | Total | 68 | 100 | | |
| Suppliers are few | Not at all | 1 | 1.5 | 2.19 | .629 |
| | Less extent | 58 | 85.3 | | |
| | Moderate extent | 6 | 8.8 | | |
| | Large extent | 1 | 1.5 | | |
| | Very large extent | 2 | 2.9 | | |
| | Total | 68 | 100 | | |

Source: Research data

The findings in Table 5 above indicate that majority of respondents were of the view that suppliers are too many (85.3%). The importance of volume of business to the suppliers was rated as high with a combined rating of 89.7% for large and very large extent. Supplier concentration was rated at less extent (86.8%) while presence of substitute suppliers was rated at a combined rate of 86.8% for both large and very large extent. Impact of suppliers on cost and supplier differences concentrates on the lower sides of the scale (moderate, less extent, not at all). The mean score indicate that 71.4% of the determinants had mean scores of 3.00 while 28.6% had mean scores above 4.30. The variances on the responses were minimal apart from that of Supplier switching costs which had a standard deviation of 1.119. The above findings were supported by the responses on extent of effect of supplier bargaining power on hotels profitability which was rated as low at 91.2% and the hotels power over suppliers rated as high at 94.1% (Table 6). This implies that suppliers have no bargaining power over hotels hence does not affect the hotel industry profitability.

**Table 6: Aspects of supplier power**

| Aspect | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Extent of effect of Supplier bargaining power on hotels profitability | Negligible | 1 | 1.5 | 2.10 | .493 |
| | Low | 62 | 91.2 | | |
| | Moderate | 3 | 4.4 | | |
| | High | 1 | 1.5 | | |
| | Very high | 1 | 1.5 | | |
| | Total | 68 | 100 | | |
| Hotels power over suppliers | Low | 1 | 1.5 | 3.93 | .315 |
| | Moderate | 3 | 4.4 | | |
| | High | 64 | 94.1 | | |
| | Total | 68 | 100 | | |

Source: Research data

## 4.3.2 Bargaining Power of Customers

Buyers can compete with the industry by bargaining for higher quality products or more services, by forcing down prices, and playing competitors against each other leading to reduced industry profitability. The study finding as shown in Table 7 below show that locals (Kenyans) are the main customers (38.2%) followed closely by tourists (33.8%) and business travelers at 26.9%. The low number of tourists probably due to terrorism threats, political instability and the continued travel advisories by western countries explains why the hotel room occupancy is low as indicated in Table 3(a) and (b).

**Table 7: Hotel customers**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Business | 18 | 26.5 | 26.9 | 26.9 |
| | Tourists | 23 | 33.8 | 34.3 | 61.2 |
| | Locals | 26 | 38.2 | 38.8 | 100.0 |
| | Total | 67 | 98.5 | 100.0 | |
| Missing | System | 1 | 1.5 | | |
| Total | | 68 | 100.0 | | |

Source: Research data

The study findings indicate that the hotel industry customers have a high bargaining power (83.8%). 13.2% rated customer bargaining power as moderate while 2.9% rated it as very high (Table 8). Customers with high bargaining power are not desirable due to their negative effect on profitability. When customers are few, hotels would be forced to try all means possible to attract business including lowering prices or giving incentives to the disadvantage of profitability. With high customer power, competition becomes very steep hence making the industry unattractive.

**Table 8: Overall Bargaining Power of Customers**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | High | 57 | 83.8 | 83.8 | | |
| | Moderate | 9 | 13.2 | 13.2 | 3.90 | .392 |
| | Very High | 2 | 2.9 | 2.9 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

The study presented respondents with determinants of buyer power and were asked to rate them according to how they perceive them as drivers of buyer bargaining power. The responses were as presented in Table 9 below.

**Table 9: Determinants of Buyer Bargaining Power**

| Determinant | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Buyer/guest concentration (size & number) | Negligible | 2 | 2.9 | 2.71 | .520 |
| | Low | 16 | 23.5 | | |
| | Moderate | 50 | 73.5 | | |
| | Total | 68 | 10 | | |
| Buyer/guest information about other hotels | Negligible | 2 | 2.9 | 3.90 | .602 |
| | Low | 1 | 1.5 | | |
| | Moderate | 1 | 1.5 | | |
| | High | 62 | 91.2 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |
| Buyer volume (no. of guests) | Negligible | 2 | 2.9 | 2.60 | .715 |
| | Low | 28 | 41.2 | | |
| | Moderate | 35 | 51.5 | | |
| | High | 1 | 1.5 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |
| Substitute products/services | Moderate | 3 | 4.4 | 4.75 | .529 |
| | High | 11 | 16.2 | | |
| | Very high | 54 | 79.4 | | |
| | Total | 68 | 100 | | |
| Hotel (brand) identity | Negligible | 3 | 4.4 | 2.73 | .750 |
| | Low | 20 | 29.4 | | |
| | Moderate | 37 | 54.4 | | |
| | High | 6 | 8.8 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |
| Product differences | Negligible | 1 | 1.5 | 2.21 | .561 |
| | Low | 55 | 80.9 | | |
| | Moderate | 10 | 14.7 | | |
| | High | 1 | 1.5 | | |
| | Very high | 1 | 1.5 | | |
| | Total | 68 | 100 | | |
| Buyer/guest switching cost (high/low) | Negligible | 5 | 7.4 | 1.99 | .366 |
| | Low | 59 | 86.8 | | |
| | Moderate | 4 | 5.9 | | |
| | Total | 68 | 100 | | |
| Price verses volume of Business | Negligible | 5 | 7.4 | 3.19 | 1.069 |
| | Low | 11 | 16.2 | | |
| | Moderate | 25 | 36.8 | | |
| | High | 20 | 29.4 | | |
| | Very high | 7 | 10.3 | | |
| | Total | 68 | 100 | | |
| Location of the hotel | Negligible | 5 | 7.4 | 2.91 | .973 |
| | Low | 16 | 23.5 | | |
| | Moderate | 31 | 45.6 | | |
| | High | 12 | 17.6 | | |
| | Very high | 4 | 5.9 | | |
| | Total | 68 | 100 | | |

Source: Research data

The study findings in Table 9 above show that buyers have a lot of information about other hotels at 91.2% with a mean score of 2.71. Buyer concentration was rated as moderate at 73.5% while presence of Substitute products was rated as very high at 79.4%. Product differences were rated as low at 80.9% while Buyer/guest switching cost was also rated as low at 86.8%. The responses on most determinants don't have a big difference from the mean apart from price verses volume of business which has a standard deviation of 1.069. All the above determinants make bargaining power of customers very strong. Hotel (brand) identity and Location of the hotel were not rated as strong determinants of buyer bargaining power as they were either rated moderate or low.

**Table 10: Extent of effect of Customer Power on Hotel Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | High extent | 58 | 85.3 | 85.3 | | |
| | Moderate extent | 10 | 14.7 | 14.7 | 3.85 | .357 |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

The findings In Table 10 above indicate that, the effect of customer power on hotel profitability is high (85.3%). The findings therefore signify that the actions of buyers can greatly affect the profitability of the hotel industry. This implies that buyers have a strong bargaining power over hotels hence affects the hotel industry attractiveness.

### 4.3.3 Threat of Entrants

Presence of new entrants to any industry usually brings a lot of resources, the desire to gain and increase market share and new capacity. Presence of barriers to entry in any industry and the reaction of incumbent firms determine the degree of threat of entry. Low barriers to entry leads to an increase in threat of entry and vise versa. The study sought to establish whether the hotel industry has any barriers to entry. 97.1% of the respondents perceived barriers to entry to be present in the hotel industry with only 2.9% indicating that there were no barriers to entry as shown in Table 11 below.

**Table 11: Presence of Barriers to Entry**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | No | 2 | 2.9 | 2.9 | | |
| | Yes | 66 | 97.1 | 97.1 | 1.03 | .170 |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

The researcher identified ten barriers to entry which were thought to be the most important and the study respondents were required to honestly rate their perceived strength as deterrents of potential entry. Table 12 below shows the extent to which respondents rated the different entry barriers with respect to their absence or presence in the hotel industry.

**Table 12: Entry Barriers**

| Aspect | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| High operating cost | Low | 1 | 1.5 | 4.07 | .719 |
| | Moderate | 12 | 17.6 | | |
| | High | 36 | 52.9 | | |
| | Very high | 19 | 27.9 | | |
| | Total | 68 | 100 | | |
| Price wars | Moderate | 20 | 29.4 | 3.93 | .719 |
| | High | 33 | 48.5 | | |
| | Very high | 15 | 22.1 | | |
| | Total | 68 | 100 | | |
| Startup capital requirements | Moderate | 4 | 5.9 | 4.68 | .584 |
| | High | 14 | 20.6 | | |
| | Very high | 50 | 73.5 | | |
| | Total | 68 | 100 | | |
| Expected retaliation by existing hotels | High | 1 | 1.5 | 4.99 | .121 |
| | Very high | 67 | 98.5 | | |
| | Total | 68 | 100 | | |
| Hotel (brand) identity | Negligible | 6 | 8.8 | 3.10 | 1.039 |
| | Low | 8 | 11.8 | | |
| | Moderate | 34 | 50.0 | | |
| | High | 13 | 19.1 | | |
| | Very high | 7 | 10.3 | | |
| | Total | 68 | 100 | | |
| Hotel product differences | Negligible | 5 | 7.4 | 3.12 | 1.0 |
| | Low | 9 | 13.2 | | |
| | Moderate | 33 | 48.5 | | |
| | High | 15 | 22.1 | | |
| | Very high | 6 | 8.8 | | |
| | Total | 68 | 100 | | |
| Technology | Negligible | 3 | 4.4 | 2.76 | .932 |
| | Low | 28 | 41.2 | | |
| | Moderate | 21 | 30.9 | | |
| | High | 14 | 20.6 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |

| | | | | | |
|---|---|---|---|---|---|
| Economies of scale | Negligible | 3 | | 3.65 | .903 |
| | Low | 6 | 8.8 | | |
| | Moderate | 24 | 35.3 | | |
| | High | 23 | 33.8 | | |
| | Very high | 13 | 19.1 | | |
| | Total | 68 | 100 | | |
| Government regulations / policies | Negligible | 6 | 8.8 | 2.66 | .956 |
| | Low | 26 | 38.2 | | |
| | Moderate | 23 | 33.8 | | |
| | High | 11 | 16.2 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |
| Existing hotels (competitors) | Moderate | 2 | 2.9 | 4.91 | .376 |
| | High | 2 | 2.9 | | |
| | Very high | 64 | 94.1 | | |
| | Total | 68 | 100 | | |

Source: Research data

Research findings in Table 12 above indicate that, out of the ten presented entry barriers, six were rated as either high or very high. These are existing hotels (competitors) at 97%, startup capital requirements (94.1%), price wars (70.6%), high operating cost (80.8%), economies of scale (52.9%), and expected retaliation by existing hotels (100%). Two entry barriers were rated as moderate. They are hotel (brand) identity (50%) and hotel product differences (48.5%). Technology and Government regulations/policies were rated as low at 41.2%. and 38.2% respectively. Respondents seemed to agree on most of the presented barriers as indicated by the standard deviations. These findings indicate that entering the hotel industry is not easy as entry barriers are high.

**Table 13: Extent to which new Hotels are a Threat to Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Large extent | 60 | 88.2 | 88.2 | 2.06 | .340 |
| | Moderate extent | 6 | 8.8 | 8.8 | | |
| | Very large extent | 2 | 2.9 | 2.9 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

Respondents were asked to r honestly rate the extent to which they perceived opening of new hotels as a threat to profitability. 88.2% rated opening of new hotels as a threat to a large extent, 8.8% rated as moderate extent while 2.9 rated as very large extent

(Table 13). This perception means that incumbent hotels will do everything possible to ensure new hotels don't get opened and if they do then they work hard to make it difficult for them to operate profitably since they view them as a threat to their profitability.

**Table 14: Overall Assessment of Entry Barriers in Kenya's Hotel Industry**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Moderate | 62 | 91.2 | 91.2 | 3.33 | 1.033 |
| | Very weak | 3 | 4.4 | 4.4 | | |
| | Strong | 1 | 1.5 | 1.5 | | |
| | Very Strong | 1 | 1.5 | 1.5 | | |
| | Weak | 1 | 1.5 | 1.5 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

Overall assessment of entry barriers in the hotel industry was found to be moderate with a rating of 91.2%. Only 4.4% rated entry barriers as very weak as shown in Table 14 above. These findings indicate that threat of entry is a moderate force in relation to the attractiveness of the industry.

### 4.3.4 Threat of Imitation/Substitutes

Substitutes are products that can perform the same function as the products of an industry. A threat exists if there are other products from a competing industry whose performance is better and the price is lower. Substitutes negatively affect the profitability of an industry by dictating the maximum prices of goods and services. Respondents were asked to rate the threat of substitute products to the profitability of the hotel industry. 80.9% rated it as a threat to a large extent, 14.7% rated it as moderate. The combined proportion of those who indicated it at large extent and very large extent is 85.3% (Table 15). These results indicate that threat of substitute is a strong competitive force in the hotel industry

**Table 15: Threat of Substitute Products to the Profitability**

| | | Frequency | Percent | Mean | Std Dev |
|---|---|---|---|---|---|
| Valid | Large extent | 55 | 80.9 | | |
| | Moderate extent | 10 | 14.7 | 2.10 | .428 |
| | Very large extent | 3 | 4.4 | | |
| | Total | 68 | 100.0 | | |

Source: Research data

Threat of substitutes is determined by different factors. The study sought to find out how different determinants contribute to the strength of substitute products power as a competitive force. This is shown in Table 16 below. The findings show that relative price of substitutes is the main determinant with a combined rating of high and very high of 67.6%. Buyer/guest propensity to substitutes was found to be moderate at 44.1% while buyer/guest switching costs is the weakest determinant which was rated as low (55.9%). Therefore the results indicate that threat of substitutes is a strong force that affects profitability in the hotel industry.

**Table 16: Determinants of Substitutes Threat to Hotels**

| Aspect | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Buyer/ Guest switching costs | Negligible | 15 | 22.1 | 2.01 | .702 |
| | Low | 38 | 55.9 | | |
| | Moderate | 14 | 20.6 | | |
| | High | 1 | 1.5 | | |
| | Total | 68 | 100 | | |
| Relative price of substitutes | Low | 3 | 4.4 | 3.90 | .849 |
| | Moderate | 19 | 27.9 | | |
| | High | 28 | 41.2 | | |
| | Very high | 18 | 26.4 | | |
| | Total | 68 | 100 | | |
| Buyer/guest propensity to substitutes | Negligible | 1 | 1.5 | 3.34 | .924 |
| | Low | 10 | 14.7 | | |
| | Moderate | 30 | 44.1 | | |
| | High | 19 | 27.9 | | |
| | Very high | 8 | 11.8 | | |
| | Total | 68 | 100 | | |

Source: Research data

### 4.3.5 Rivalry of Competitors

Rivalry of competitors describes competition that exists between companies in an industry. When competitors improve position of their products or feel the pressure of competition then rivalry sets in. To acquire superior competitive position in an industry, firms must adopt strategies that keep them ahead of competition. Industry rivalry leads to different survival tactics by the industry players including price wars which mostly leave all the industry players worse off than before due to reduction in profits making an industry unattractive for entry or further investment by incumbent firms.

The aim of the study was to establish the intensity of competitor's rivalry within the hotel industry in Kenya. The finding in Table 17 below indicates that, rivalry is high with 57.4% rating it as very intense and 42.6% rating it as moderate. This indicates that rivalry of competitors is a strong force in the industry and has a great effect on the profitability and consequently attractiveness of the hotel industry in Kenya.

**Table 17: Intensity of Rivalry**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Moderate | 29 | 42.6 | 42.6 | | |
| | Very intense | 39 | 57.4 | 57.4 | 1.43 | .498 |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

Industry rivalry can be due to different determinants. The respondents were presented with different determinants which the researcher thought had the most impact and they were asked to rate them as whether or not they are major determinants of competition. The findings show that the main determinants of rivalry in the hotel industry which were rated as high or very high are; Number and size of firms (73.6%), diverse competition (57.3%), Switching costs (77.9%) and exit barriers (72.1%). High exit barriers leads to increased rivalry due to the fact that regardless of the challenges faced, hotels must stay in the industry due to the high cost of leaving posed by the high exit barriers. Industry growth was rated as low at 54.4% with 30.9% rating it as negligible. Low industry growth leads to increased rivalry as hotels scramble for the few available customers.

**Table 18: Determinants of Rivalry in the Hotel Industry**

| Determinant | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Number & size of firms | Low | 4 | 5.9 | 4.9 | .966 |
| | Moderate | 14 | 20.6 | | |
| | High | 15 | 22.1 | | |
| | Very high | 35 | 51.5 | | |
| | Total | 68 | 100 | | |
| Industry growth | Negligible | 21 | 30.9 | 1.84 | .660 |
| | Low | 37 | 54.4 | | |
| | Moderate | 10 | 14.7 | | |
| | Total | 68 | 100 | | |
| Diverse competition | Negligible | 3 | 4.4 | 3.74 | 1.045 |
| | Low | 2 | 2.9 | | |
| | Moderate | 24 | 35.3 | | |
| | High | 20 | 29.4 | | |
| | Very high | 19 | 27.9 | | |
| | Total | 68 | 100 | | |
| Exit barriers | Negligible | 2 | 2.9 | 3.90 | 1.053 |
| | Low | 6 | 8.8 | | |
| | Moderate | 11 | 16.2 | | |
| | High | 27 | 39.7 | | |
| | Very high | 22 | 32.4 | | |
| | Total | 68 | 100 | | |
| Hotel (brand) identity | Negligible | 9 | 13.2 | 2.60 | 1.024 |
| | Low | 23 | 33.8 | | |
| | Moderate | 26 | 38.2 | | |
| | High | 6 | 8.8 | | |
| | Very high | 4 | 5.9 | | |
| | Total | 68 | 100 | | |
| Product differences | Negligible | 12 | 17.6 | 2.30 | .871 |
| | Low | 28 | 41.2 | | |
| | Moderate | 23 | 33.8 | | |
| | High | 3 | 4.4 | | |
| | Very high | 2 | 2.9 | | |
| | Total | 68 | 100 | | |
| Switching costs | Low | 1 | 1.5 | 4.16 | .803 |
| | Moderate | 14 | 20.6 | | |
| | High | 26 | 38.2 | | |
| | Very high | 27 | 39.7 | | |
| | Total | 68 | 100 | | |
| Information complexity | Negligible | 9 | 13.2 | 2.49 | .959 |
| | Low | 27 | 39.7 | | |
| | Moderate | 22 | 32.4 | | |
| | High | 7 | 10.3 | | |
| | Very high | 3 | 4.4 | | |
| | Total | 68 | 100 | | |

Source: Research data

Product differences were rated as low at 41.2% with 33.8% rating it as moderate and 17.6% as negligible. This means that threat of imitation is real in the hotel industry. Hotel (brand) identity was rated as moderate at 38.2% while information technology was rated as a low determinant of rivalry at 39.7% with 32.4% rating it as moderate (Table 18).

The study sought to establish respondents view on the growth of the hotel industry business over the past three years. Table 19 below shows that, all the respondents indicated that there has been a decreasing trend. This supports the findings in Table 3(a) and (b) on room occupancy over the last three years which shows that there have been low room occupancy rates. This finding also supports the rating of low industry growth (54.4%) as a strong industry rivalry determinant.

**Table 19: Business Growth over last three years**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Decreasing | 68 | 100.0 | 100.0 | 100.0 |

Source: Research data

Lack of business growth leads to increase in competition. High competition within any industry reduces returns due to the cost incurred as each firm tries to beat competition which translates to reduced profits. Players within an industry share customers from a common pool.

**Table 20: Extent of effect of Competition on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Large extent | 37 | 54.4 | 54.4 | | |
| | Moderate extent | 14 | 20.6 | 20.6 | 1.96 | .679 |
| | Very large extent | 17 | 25.0 | 25.0 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

Rivalry increases as each firm tries to increase or maintain its market share to ensure its survival. The researcher sought respondent's perception on the extent to which the hotel industry rivalry has an effect on their hotels profitability. Table 20 above indicate that, competition in the hotel industry has a great effect on profitability with 54.4% rating it at a large extent while 25% rated it at very large extent giving a combined rating of 79.4%. The results indicate that rivalry of competitors is a strong force that affects profitability in the hotel industry.

### 4.3.6 Stakeholders

Stakeholders are those who are affected or affect the operations of an industry. Different stakeholders can have different levels of power depending on their relationship with the firm or industry. Powerful stakeholders are not desirable and in case they are there then they should be given special attention. Firms must understand and treat each stakeholder well for them to accord the much needed support to the firm's products. The respondents were asked whether all stakeholders have equal power. 32.4% perceived stakeholder power as different while 66.2% perceived all stakeholders as having equal power. This is presented in Table 21 below.

**Table 21: Equality of Stakeholder Power**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 1 | 1.5 | 1.5 | 1.5 |
| | No | 22 | 32.4 | 32.4 | 33.8 |
| | Yes | 45 | 66.2 | 66.2 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

Respondents were asked to rate how they perceived stakeholder power as having an effect on their hotel profitability. Table 22 below has the results which indicate that, stakeholders are perceived as having moderate power over hotels with 50% rating.

This implies that the power of stakeholders has an average effect as an industry force that shapes competition in the hotel industry.

**Table 22: Extent of Effect of Stakeholder Power on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Large extent | 10 | 14.7 | 14.7 | | |
| | Less extent | 17 | 25.0 | 25.0 | | |
| | Moderate extent | 34 | 50.0 | 50.0 | | |
| | Not at all | 1 | 1.5 | 1.5 | 3.01 | .879 |
| | Very large extent | 5 | 7.4 | 7.4 | | |
| | | 1 | 1.5 | 1.5 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

### 4.3.7 Government and Logistics

The government has a role of public policy formulation, implementation and ensuring that there is rule of law so as to ensure there is fair business practices hence it's a major stakeholder in any industry. The study sought to establish the extent of government as a force that affects competition in the hotel industry. Industries are affected by government policies either positively or negatively. Respondents were asked whether the government has any influence on the operations of the hotel. All the respondents indicated that the government has an influence on the operations of hotels (Table 23).

**Table 23: Presence of Government Influence on Hotels**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 68 | 100.0 | 100.0 | 100.0 |

Source: Research data

The study findings on the effect of government policies and regulations on the hotel industry as well as the nature of the effect are presented in Table 24 below. The findings indicate that the effect of government policies on hotels operations is moderate (41.2%). 73.6% rated the nature of government impact on hotels operations as average. Hence government as a force is moderate as an industry force that shapes competition in the hotel industry.

**Table 24: Extent of Effect of Government Policies and Nature of Impact**

| | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Extent of effect of government policies on hotels operations | Not at all | 3 | 4.4 | 3.12 | .993 |
| | Less extent | 16 | 23.5 | | |
| | Moderate extent | 28 | 41.2 | | |
| | Large extent | 14 | 20.6 | | |
| | Very large extent | 7 | 10.3 | | |
| | Total | | | | |
| Nature of government impact on hotels operations | Negative | 9 | 13.2 | 2.6 | .719 |
| | Positive | 9 | 13.2 | | |
| | Average | 50 | 73.6 | | |
| | Total | | | | |

Source: Research data

The study sought to establish the extent of the effect of infrastructure on hotels profitability. All the respondents agreed that the state of the country's infrastructure has an effect on hotel business operations (Table 25). 51.5% indicated that infrastructure has an effect on profitability to a large extent while 25% rated its effect at a very large extent. Poor infrastructure leads to delays in guest check in into the hotels, delays in staff reporting on duty as well as delays in delivery of raw materials and increase in general cost of operations. This results show that the state of the country's infrastructure has a great impact on hotel profitability hence it's a strong industry force.

**Table 25: Extent of the effect of Infrastructure on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Not at all | 3 | 4.4 | 4.4 | 4.3 | .749 |
| | Large extent | 35 | 51.5 | 51.5 | | |
| | Less extent | 2 | 2.9 | 2.9 | | |
| | Moderate extent | 11 | 16.2 | 16.2 | | |
| | Very large extent | 17 | 25.0 | 25.0 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

### 4.3.8 Power Play

Individuals holding powerful positions in society can ignore government provisions and controls and influence business activities affecting their profitability. This may be due to their vested interests in the industry. The study sought to establish whether powerful individuals existed in the hotel industry. The findings as shown in Table 26 below indicate a response of 27.9% saying powerful individuals don't exist in the hotel industry and 70.6% saying there are powerful individuals.

**Table 26: Presence of Powerful Individuals in Government**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 1 | 1.5 | 1.5 | 1.5 |
| | No | 19 | 27.9 | 27.9 | 29.4 |
| | Yes | 48 | 70.6 | 70.6 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

Even though 70.6% acknowledged existence of powerful individuals in the hotel industry, 35.3% rated their effect on profitability at a less extent while 36.8% rated it as moderate giving a combined rating of 72.1% (Table 27). The results do not recognize power play as a strong industry force hence has no effect on hotel profitability

**Table 27: Extent of effect of Powerful Individuals on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Very large extent | 1 | 1.5 | 1.5 | | |
| | Large extent | 5 | 7.4 | 7.4 | | |
| | Less extent | 24 | 35.3 | 35.3 | 2.33 | .877 |
| | Moderate extent | 25 | 36.8 | 36.8 | | |
| | Not at all | 13 | 19.1 | 19.1 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

### 4.3.9 Information Technology (IT)

IT can be used to counter or exploit any of the other forces by creating value and reducing cost. If well implemented, IT can reduce cost of production and improve product features raising firm's profitability.

**Table 28: Presence and use of IT in Hotels**

| Aspect | Response | Frequency | Percentage | Mean | Std. Dev |
|---|---|---|---|---|---|
| Hotels use IT | Yes | 67 | 98.5 | 1.01 | .121 |
| | No | 1 | 1.5 | | |
| | Total | 68 | 100 | | |
| Use of IT reduces cost | Yes | 57 | 83.8 | 1.16 | .371 |
| | No | 11 | 16.2 | | |
| | Total | 68 | 100 | | |
| Imitation of IT use by other hotels | Yes | 48 | 70.6 | 1.29 | .459 |
| | No | 20 | 29.4 | | |
| | Total | 68 | 100 | | |

Source: Research data

The study sought to establish whether hotels use IT and whether its use reduces cost. 98.5% indicated that hotels make use of IT. 83.8% indicated that use of IT reduces cost of hotel operations thus raising profits. 70.6% indicated that hotels copy other hotels use of IT with 29.4% indicating that copying of IT use does not happen. The results in table 29 below show that use of IT has an effect on profitability to a moderate extent at 55.9%. 26.5% rated use of IT at a large extent. This implies that use of IT has an average effect on the profitability of the hotel industry.

**Table 29: Extent of effect of IT on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | Large extent | 18 | 26.5 | 26.5 | 2.40 | .775 |
| | Less extent | 5 | 7.4 | 7.4 | | |
| | Moderate extent | 38 | 55.9 | 55.9 | | |
| | Very large extent | 7 | 10.3 | 10.3 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

### 4.3.10 Complements

Complements increase value while substitutes decrease value of products because customers value the whole system. The study sought to find out whether hotels use complementary products. 70.6% of respondents indicated that hotels use complementary products (Table 30).

**Table 30: Hotels use of Complementary Products**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | No | 20 | 29.4 | 29.4 | 29.4 |
| | Yes | 48 | 70.6 | 70.6 | 100.0 |
| | Total | 68 | 100.0 | 100.0 | |

Source: Research data

The study established that, use of complimentary products has an effect on the hotel profitability with 51.5% indicating that complimentary products are used to a large extent and 30.9% indicating use to a moderate extent (Table 31). These findings imply that use of complementary products has a moderate effect on hotels profitability.

**Table 31: Extent of effect of Complementary Products on Hotels Profitability**

| | | Frequency | Percent | Valid Percent | Mean | Std. Dev |
|---|---|---|---|---|---|---|
| Valid | | 4 | 5.9 | 5.9 | | |
| | Large extent | 35 | 51.5 | 51.5 | | |
| | Less extent | 2 | 2.9 | 2.9 | 2.70 | .683 |
| | Moderate extent | 21 | 30.9 | 30.9 | | |
| | Very large extent | 6 | 8.8 | 8.8 | | |
| | Total | 68 | 100.0 | 100.0 | | |

Source: Research data

### 4. 4 Discussion of findings

The study aimed at determining the attractiveness of the hotel industry in Kenya using Porters modified model. The research findings show that Porters modified industry forces are at play in the hotel industry but at different levels. The strongest forces that have an effect on profitability were found to be customer bargaining power, threat of imitation products and competitor rivalry. Threat of entry, stakeholders, IT, complements, government and logistics were found to have average effect on the hotel industry profitability.

Supplier Bargaining power and power play were found to be weak forces. On infrastructure, all the respondents agreed that the state of the country's infrastructure has a strong effect on hotel business operations hence has a great effect on profitability while government was rated as having a moderate effect. This finding leads the researcher to suggest separation of government and logistics as independent industry forces.

This study seems to agree on some findings with other researchers who did studies on industry attractiveness and Porters industry forces. The study finding agrees with Porter (1980) who argues that, industry attractiveness is determined by the combined strength of the industry forces. The study found that Porters modified forces were at play in the hotel industry in Kenya though at different levels thus having varying influences on the competition in the industry. Cheng (2013) analyzed the hotel industry globally in porter's five industry forces and concluded that globally the hotel industry contains high exit barriers.

The finding of the study agreed with Palvia et al (1990) who argued that government is a very important industry force in developing country context as it played an important role in the economy. The study supported by infrastructure was rated as a very strong force which highly affects the profitability of the hotel industry. Porters modified model is meant to suit developing countries context.

High exit barriers leads to increased rivalry due to the fact that regardless of the challenges faced, hotels must stay in the industry due to the high cost of leaving posed by the high exit barriers. The finding by Cheng (2013) agrees with the findings of the study which found out that the hotel industry in Kenyan contains very high exit barriers. According to Porter (1980) high competition makes an industry unattractive for entry or further investment. As the study found out, rivalry of competitors in Kenya's hotel industry is very intense making the industry unattractive either for entry or further investment by existing industry players.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The objective of the study was to find out how attractive the hotel industry in Kenya is using Porters modified model. The study examined each of the ten modified forces on industry attractiveness. Data was collected by use of a structured questionnaire. Descriptive statistics were used to analyze collected data. The chapter summarizes the study findings and draws conclusions. The chapter also includes sections on recommendations, suggestions for further research and encountered limitations of the study.

## 5.2 Summary

Information on industry attractiveness helps firms make decisions on whether they should enter, exit or remain in an industry. The level of profitability in an industry determines its attractiveness. Industry analysis identifies the different industry forces that are at play in an industry as well as their strength which determines the profitability of the industry hence its attractiveness. Porter (1980) presented these forces as a Five-Force Industry Analysis Model. Other industry forces were added by Wheeler and Hunger (1990), Pelvia et al (1990), Aosa (1987), McFarlan (1984) and Grant (2008). These forces include; customer bargaining power, supplier bargaining power, threat of new entrants, threat of imitation, competitors rivalry, other stakeholders, government and logistics, power play, information technology and complements.

The study findings show that Porters modified forces are at play in the hotel industry with each force exhibiting a varying degree of influence on profitability. Research findings with respect to bargaining power of suppliers showed that majority of the responses (69.1 %) indicated that supplier power was not present in the hotel industry though (30.9%) indicated that supplier power existed. Lack of supplier power was perceived to be due to factors like: respondent’s view that suppliers are too many (85.3%), The importance of volume of business to the suppliers was rated as high with a combined rating of 89.7% for large and very large extent, Supplier concentration was rated at less extent (86.8%) while presence of substitute suppliers was rated at a combined rate of 86.8% for both large and very large extent. Impact of suppliers on cost and supplier differences concentrates on the lower sides of the scale (moderate, less extent, not at all). Therefore as a competitive force, supplier power does not affect the attractiveness of the industry hence it’s a weak force.

Research findings with regard to the customers bargaining power indicated that hotel customers in kenya poses a high bargaining power (83.8%). The determinants that make bargaining power of customers very strong were found to be buyer information about other hotels at 91.2%, Buyer concentration was rated as moderate at 73.5% while presence of Substitute products was rated as very high at 79.4%. Product differences were rated as low at 80.9% while Buyer/guest switching cost was also rated as low at 86.8%. The effect of customer power on hotel profitability is rated as high (85.3%).The findings implies that buyers have a strong bargaining power over hotels hence affects the hotel industry attractiveness.

Findings regarding threat of entry established that the hotel industry has barriers to entry. 97.1% of the respondents perceived barriers to entry to be present in the hotel industry with only 2.9% indicating that there were no barriers to entry. Out of the ten presented entry barriers, six were rated as either high or very high. These are existing hotels (competitors) at 97%, startup capital requirements (94.1%), price wars (70.6%), high operating cost (80.8%), economies of scale (52.9%), and expected retaliation by existing hotels (100%). Two entry barriers were rated as moderate. They are hotel (brand) identity (50%) and hotel product differences (48.5%). Technology and Government regulations/policies were rated as low at 41.2%. and 38.2% respectively. These findings indicate that entering the hotel industry is not easy as entry barriers are high. However on being asked to rate the overall assessment of entry barriers in the industry, 91.2% of the respondents rated entry barriers as moderate while 4.4 rated it as weak. These findings indicate that threat of entry is a moderate force in relation to the attractiveness of the industry.

The findings on threat of imitation/substitutes revealed that majority of the respondents viewed it a major threat to the industry with 80.9% rating it as a threat to a large extent and 14.7% rating it as moderate. The combined proportion of those who indicated it at large extent and very large extent is 85.3%. The threat of substitutes was found to be determined by various factors. The findings indicated that relative price of substitutes is the main determinant with a combined rating of high and very high of 67.6%. Buyer/guest propensity to substitutes was found to be moderate at 44.1% while buyer/guest switching costs is the weakest determinant which was rated as low (55.9%). 42.6% rated substitute effect on profitability at a very large extent while 20.6% rated it at large extent giving a combined rating of 63.2%. Moderate extent was rated at 33.8%. These results indicate that threat of substitutes is a strong force that affects profitability in the hotel industry.

Findings on rivalry of competitors established that rivalry is high with 57.4% rating it as very intense and 42.6% rating it as moderate. Rivalry can be due to different factors. The main determinants of rivalry in the hotel industry which were rated as high or very high are; Number and size of firms (73.6%), diverse competition

(57.3%), Switching costs (77.9%) and exit barriers (72.1%). Industry growth was rated as low at 54.4% with 30.9% rating it as negligible. Competition in the hotel industry was rated as having a great effect on profitability with 54.4% rating it at a large extent while 25% rated it at very large extent giving a combined rating of 79.4%. This indicates that rivalry of competitors is a strong force that affects profitability in the hotel industry.

Research findings with regard to stakeholders revealed that 32.4% perceived stakeholder power as different while 66.2% perceived all stakeholders as having equal power. Stakeholders are perceived as having moderate power over hotels with 50% rating. This implies that the power of stakeholders has an average effect as an industry force that shapes competition in the hotel industry. Government and logistics was another studied force. The findings show that the government has an influence on the operations of hotels with a 100% response. The effect of government policies on hotels operations is rated as moderate (41.2%). 73.6% rated the nature of government impact on hotels operations as average. Hence government as a force is moderate as an industry force that shapes competition in the hotel industry.

On infrastructure, all the respondents agreed that the state of the country's infrastructure has an effect on hotel business operations. 51.5% indicated that infrastructure has an effect on profitability to a large extent while 25% rated its effect at a very large extent. This results show that the state of the country's infrastructure has a great impact on hotel profitability hence it's a strong industry force. This finding leads the researcher to suggest separation of government and logistics as independent industry forces.

Findings on power play revealed that powerful individuals exist in the industry. 70.6% said there are powerful individuals while 27.9% said powerful individuals don't exist in the hotel industry. Even though 70.6% acknowledged existence of powerful individuals in the hotel industry, 35.3% rated their effect on profitability at a less extent while 36.8% rated it as moderate. The results do not recognize power play as a strong industry force hence has no effect on hotel profitability thus it's a weak force.

The findings on information technology (IT) indicated that hotels make use of IT with a 98.5% rating. 83.8% indicated that use of IT reduces cost of hotel operations thus raising profits. 70.6% indicated that hotels copy other hotels use of IT with 29.4% indicating that copying of IT use does not happen. Results show that use of IT has an effect on profitability to a moderate extent at 55.9%. This implies that use of IT has an average effect on the profitability of the hotel industry.

Finally research findings on complementary products indicate that hotels use complementary products (70.6%). Use of complimentary products has an effect on the hotel profitability with 51.5% indicating that complimentary products are used to a large extent and 30.9% indicating use of complementary products to a moderate extent. Hence use of complementary products has a moderate effect on profitability.

## 5.3 Conclusion

The study findings have made it possible to understand the attractiveness of the hotel industry in Kenya and the strength of the different forces that are at play. The researcher's conclusion from the findings of the study is that the hotel industry in Kenya is not attractive either for new entry or further investment by existing hotels. This is because customer bargaining power, threat of imitation products, and competitor rivalry were found to be very strong and this can have a strong bearing on the industry profitability. It was also found that though infrastructure is not a force in itself, it has a strong impact on profitability. Five other forces were found to be moderate. These are threat of entry, stakeholders, government, IT, and complements. Bargaining power of suppliers and power play were found to be weak forces.

**5.4 Recommendations**

From the findings of the study it is recommended that anybody who is interested in investing in the hotel industry in Kenya must first understand the industry forces at play and craft strategies that will be able to either suit the prevailing industry forces or that will influence the industry forces to the firm’s advantage. It’s also recommended that the government of Kenya maintains the infrastructure in good condition as this was cited as having a negative effect on the operations and profitability of the hotel industry through delays in delivery of supplies as well as late check in by hotel guests and staff.

To boost growth of the hotel industry and reduce rivalry of competitors, it’s important that the government gives special attention to improvement of tourist arrivals in the country. Incentives can be used to stimulate demand e.g. reduction of park entry fees as well as tax from tourism products as such a reduction will translate to reduced charges on goods and services offered to tourists thus boost the hotel industry.

Finally, tourism cannot flourish unless the security and safety of all hotel customers is guaranteed. It’s the duty of the government to ensure there is proper and efficient security for its citizens and visitors alike. Proper strategies should be adopted to prevent terrorist threats as this will boost the tourism industry thus ensuring hotel occupancy is raised for the hotels to be able to operate profitably.

## 5.5 Limitations of the study

The study findings should be interpreted with the following limitations in mind.

The study interviewed members of Kenya association of hotelkeepers and Caterers only but it would have been more appropriate to research on all hotels in Kenya. However, it was not possible due to cost implications and the short duration of time available for the study.

Secondly, hotels are in different categories due to differences in size, number of guest rooms, location, type of clientele, star rating etc. the study did not consider such differences. Therefore the research findings may not accurately represent all the different categories represented in the hotel industry.

Thirdly, the study relied on the e-mail to deliver and receive back the filled questionnaires. Thus the researcher cannot be sure the responses were from the intended respondents.

## 5.6 Suggestions for further research

The study was on hotels registered with Kenya Association of Hotelkeepers and Caterers (KAHC) only. However, not all hotels are members of KAHC hence further research is needed that covers all the hotels in Kenya.

There is need for further research that investigates the attractiveness of the hotel industry in Kenya within the different hotel categories e.g. those within the same star rating, same location, same clientele etc as the study did not consider such differences.

The study relied on the e-mail to deliver and receive back the filled questionnaires. Thus the researcher cannot be sure the responses were from the intended respondents.

To be sure the research responses are from the targeted respondents, there is need for research that will adopt a more verifiable mode of data collection such as personal interviews.

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# APPENDICES

## APPENDIX 1: RESEARCH QUESTIONNAIRE

**A Survey on Analysis of the Structural Attractiveness of the Hotel Industry in Kenya using Porters Modified Model**

Please, respond to the following questions honestly by giving the necessary details in the spaces provided in each section.

### PART 1: GENERAL INFORMATION

### COMPANY DATA

1. What is the name of your hotel (Optional)? ____________________

2. How many guest rooms does your hotel have?

Below 100 ( )

Between 101 and 200 ( )

Between 201 and 300 ( )

Between 301 and 400 ( )

Over 400 ( )

3. For how long has your hotel been in operation?

Less than a year ( )

Between 1 and 5 years ( )

Between 6 and 10 years ( )

Between 11 and 20 years ( )

Over 20 years ( )

4. On average, what was the hotels room occupancy per night during the last high and low season?

a) High season

Below 25% ( )

Between 25% and 50% ( )

Between 50% and 75% ( )

Over 75% ( )

(b) Low season

Below 25% ( )

Between 25% and 50% ( )

Between 50% and 75% ( )

Over 75% ( )

**PART 2: INDUSTRY ATTRACTIVENESS**

**Bargaining Power of Suppliers**

5. Do suppliers have any kind of power over the hotel?

( ) Yes ( ) No

6. If YES how strong is the supplier power?

a) Very strong ( )

b) Average ( )

c) Low ( )

7. To what extent do the following factors determine the hotel supplier's power? (Please use the scale and tick in the appropriate box)

| | | 1<br>Not at all | 2<br>Less extent | 3<br>Moderate extent | 4<br>Large extent | 5<br>Very large extent |
|---|---|---|---|---|---|---|
| a. | Impact of suppliers on cost (low/high) | | | | | |
| b. | Supplier differences | | | | | |
| c. | Importance of volume of business to supplier | | | | | |
| d | Supplier Switching costs (low/high) | | | | | |
| e. | Supplier concentration (number/size) | | | | | |
| f. | Presence of substitute supplies | | | | | |
| g. | Suppliers are few | | | | | |

8. Overall, how would you rate the power of suppliers over your hotel?

Negligible ( ) Low ( ) Moderate ( ) High ( ) Very High ( )

9. How would you rate the hotel power over its suppliers?

Negligible ( ) Low ( ) Moderate ( ) High ( ) Very High ( )

**Bargaining Power of Customers**

10. Who are your hotels main guests/customers? Please rate them (1, 2 3) according to priority.

a) Tourists ( )
b) Business travelers ( )
c) Locals or Kenyans ( )
d) Other ( specify) ___________________

11. How would you rate the bargaining power of your guests/customers over the hotel?

Negligible ( ) Low ( ) Moderate ( ) High ( ) Very high ( )

12. How would you rate the following aspects as being the determinants of guest/customer bargaining power? Use the scale below.

| | | 1 Negligible | 2 Low | 3 Moderate | 4 High | 5 Very high |
|---|---|---|---|---|---|---|
| a. | Guest concentration (size &number) | | | | | |
| b. | Guest information about other hotels products | | | | | |
| c. | Buyer volume (number of guests) | | | | | |
| d. | Substitute products/services | | | | | |
| e. | Hotel (brand) identity | | | | | |
| f. | Product differences | | | | | |
| g. | Guest/buyer switching costs (low/high) | | | | | |
| h. | Price Verses volume of | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | business | | | | | |
| I. | Location of hotel | | | | | |

13. To what extent does the bargaining power of the hotel guests/ customers have an effect to the hotels profitability?

Not at all ( ) Moderate extent ( )

Less extent ( ) High extent ( )

**Threat of Entry**

14. In your opinion, do you think there are barriers in Kenya which prevent potential investors from entering the hotel industry?

Yes ( ) No ( )

15. How would you rate the following factors as being barriers to entry into the hotel industry in Kenya? ( Please use the provided scale and tick inside the appropriate box)

| | | 1 Negligible | 2 Low | 3 Moderate | 4 High | 5 Very high |
|---|---|---|---|---|---|---|
| a. | High operating costs | | | | | |
| b. | Existing hotels (competitors) | | | | | |
| c. | Price wars | | | | | |
| d. | Startup capital requirements | | | | | |
| e. | Expected retaliation by existing hotels | | | | | |
| f. | Hotel brand identity | | | | | |
| g. | Hotel product differences | | | | | |
| h. | Technology | | | | | |
| I. | Economies of scale | | | | | |
| j. | Government regulations/policies | | | | | |

16. To what extend would you say opening of new hotels affects your hotels profitability? (Please tick as appropriate)

Very large extent ( )

Large extent ( )

Moderate extent ( )

Less extent ( )

Not at all ( )

17. What is your overall assessment of the entry barriers in the hotel industry in Kenya?

Very weak ( )

Weak ( )

Moderate ( )

Strong ( )

Very strong ( )

**Threat of Imitation / Substitutes**

18. To what extent does threat of substitutes have an effect to your hotels profitability?

Very large extent ( )

Large extent ( )

Moderate extent ( )

Less extent ( )

Not at all ( )

19. How would you rate the following factors as determinants of substitute's threat to your hotel? (Please use the scale and tick in the appropriate box)

| | | 1 Negligible | 2 Low | 3 Moderate | 4 High | 5 Very high |
|---|---|---|---|---|---|---|
| a. | Switching costs by buyers/guests | | | | | |
| b. | Relative price of substitutes | | | | | |
| c. | Guest/buyer propensity to substitutes | | | | | |
| d. | Price performance of substitutes | | | | | |

20. To what extent do substitute products have an effect to your hotels profitability?

Not at all ( )

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

**Rivalry of Competitors**

21. How intense is competition in the hotel industry?

a) Very intense ( )

b) Moderate ( )

c) Low ( )

22. How would you rate the following factors as the main determinants of competition in the hotel industry? (Please tick inside the boxes as appropriate).

| | | 1<br>Negligible | 2<br>Low | 3<br>Moderate | 4<br>High | 5<br>Very high |
|---|---|---|---|---|---|---|
| a. | Number & size of firms | | | | | |
| b. | Industry growth | | | | | |
| c. | Diverse competition | | | | | |
| d. | Exit barriers | | | | | |
| e. | Hotel (brand) identity | | | | | |
| f. | Product differences | | | | | |
| g. | Switching costs | | | | | |
| h. | Information complexity | | | | | |

23. If you compare the last three years, has business been increasing or decreasing?

a) Increasing ( )

b) Decreasing ( )

c) The same ( )

24. To what extent does competition have an effect to your hotels profitability?

Very large extent ( )

Large extent ( )

Moderate extent ( )

Less extent ( )

Not at all ( )

**Stakeholders**

25. Do all the stake holders have equal power/ influence to the hotel?

Yes ( ) No ( )

26. To what extend does stakeholders have an effect to your hotels operations?

Not at all ( )

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

**Government and logistics**

27. Do government policies and regulations have any influence on your hotel?

Yes ( ) No ( )

28. If YES to number 27 above, to what extend do government policies and regulations affect your hotel operations?

Not at all ( )

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

29. What is the nature of government's influence or impact on the hotel operations?

Negative ( )

Positive ( )

Average (50/50)

30. Does the state of the country's infrastructure affect your hotel business?

Yes ( ) No ( )

31. To what extend does the state of infrastructure in the country affect your hotel profitability?

Not at all ( )

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

**Power play**

32. Do powerful individuals in the country/government have any influence on the operations of your hotel?

Yes ( ) No ( )

33. To what extend do powerful individuals in the country affect the level of the hotels profitability?

Not at all ( )

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

**Information Technology (IT)**

34. Does your hotel make use of information technology (IT)?

Yes ( ) No ( )

35. If YES does use of IT reduce cost of operations?

Yes ( ) No ( )

36. Do other hotels copy or imitate your use of IT?

Yes ( ) No ( )

37. To what extent does use of IT have an impact on the profitability of the hotel?

Less extent ( )

Moderate extent ( )

Large extent ( )

Very large extent ( )

**Complements**

38. Does the hotel use complementary goods or services to enhance the value of other products?

Yes ( ) No ( )

39. To what extent does use of complementary products have an effect to the profitability of the hotel?

| | |
|---|---|
| Less extent | ( ) |
| Moderate extent | ( ) |
| Large extent | ( ) |
| Very large extent | ( ) |

**Thank you for taking your time to fill this questionnaire.**

**APPENDIX 2: LIST OF HOTELS**

**TOWN HOTELS**

1. Fairmont The Norfork
2. Boma Inn Eldoret
3. Crown Plaza Nairobi
4. Eka Hotel Nairobi
5. Ark Hotel
6. Aberdare Country Club
7. Fairview Hotel
8. Hillpark Hotel
9. Gelian Hotel
10. Hilton Nairobi
11. Jacaranda Hotel Nairobi
12. Lake Naivasha Country Club
13. Lake Bogoria Spa Resort
14. Maanzoni Hotel
15. Nairobi Safari Club
16. Park Villa Hotel
17. Nairobi Serena Hotel
18. Prindelnn Hotel Lantana Suits
19. Radisson Blue Hotel Nairobi
20. Sarova Stanley
21. Safari Park Hotel
22. Sunset Hotel
23. The Boma Nairobi
24. Utalii Hotel
25. The Panari Hotel
26. Wiindsor Golf Hotel & CC
27. Boma Inn Nairobi
28. Enashipei Resort & Spa
29. Fairmont Mount Kenya
30. Clarion Hotel
31. Blue Post Hotel
32. Best Western Premier Nairobi
33. Golf Hotel Kakamega
34. Hotel Royale Orchid Azure
35. Hemingways Nairobi
36. Intercontinental Nairobi
37. Laico Regency Hotel
38. Merica Hotel Nakuru
39. Karen Blixen Coffee Garden & Cottages
40. Milele Hotel Nairobi
41. Ole Dume Suits
42. Pridelnn Hotel Raphta
43. Ole Sereni Hotel
44. PrindeInn Hotel Westlands
45. Sankara Nairobi
46. Sovereign Suits
47. Sarova Panafric
48. Southern Sun Mayfare Nairobi
50. The White Rhino Hotel
51. Wigot Gardens
52. Tribe Hotel
53. Villa Rosa Kempinski Nairobi

**VOCATIONAL HOTELS**

1. Bamburi Beach Hotel
2. Amani Tiwi Beach Resort
3. Boabab Beach Resort & Spa
4. Diani Sea Lodge
5. Blue Bay Village
6. Diani Sea Lodge
7. Eden Village Watamu
8. Gishungo Apartment Hotels
9. Kinondo Kwetu
10. Leopard Beach Resort & Spa
11. Kipungani Explorer
12. Lion in the Sun
13. Mnarani Club & Spa
14. North Coast Beach Hotel
15. Mombasa Beach Hotel
16. Nyali Intercontinental Beach Hotel
17. Pa Pweza Adamsville Beach Suits
18. Pridelnn Hotel Mombasa
19. Pine Court Malindi
20. Reef Hotel
21. Sentido Neptune Beach Resort
22. Sentido Neptune Palm Beach Resort
23. Sentido Neptune Village Resiort
24. Serena Beach Resort & Spa
25. Swahili Beach
29. Almanara Luxury Villas
30. ACK Guesthouse Mombasa
31. Campers Haven & Jamboree Resort
32. Driftwood Beach Club
33. Diani Reef Beach Resort & Spa
34. Eden Beach Resort & Spa
35. Jacaranda Indian Ocean Beach Resort
36. Kilili Baharini Resort & Spa
37. Lantana Galu Beach
38. Medina Palms
39. Leisure Logde Resort
40. Millele Beach Hotel
41. Mombasa Continental Resort
42. Ocean Sports Resort
43. Msambweni Beach House & Private Villas
44. Pangoni Beach Resort
45. Pinewood Beach Resort & Spa
46. Sandies Tropical Village
47. Plaza Beach Hotel
48. Sarova Whitesands Beach Resort & Spa
49. Severin Sea Lodge
50. Sentido Neptune Paradise
51. Southern Palms Beach Resort
52. Sunset Paradise Apartments
53. Temple Point Resort

26. Turtle Bay Beach Club
27. Swahili House
28. Voyeger Beach Resort
54. Surfside Villas
55. Travellers Beach Hotel & Spa

**LODGES &TENTED CAMPS**

1. Alliance Naro Moru River Lodge
2. Amboseli Serena Safari Lodge
3. Fairmont Mara Safari Club
4. Kilannguni Serena Safari Lodge
5. Jacaranda Lake Elmentaita Lodge
6. Great Rift Valley Lodge & Golf Resort
7. Lake Naivasha Simba Lodge
8. Lions Bluff Lodge
9. Mara Simba Lodge
10. Ngulia Safari Lodge
11. Masai Mara Sopa Lodge
12. Naivasha Kongoni Lodge
13. Samburu Game Lodge
14. Sarova Shaba Game Lodge
15. Sarova Salt Lick Game logde
16. Sarova Taita Hills Game Lodge
17. Voi Safari Lodge
18. Serena Mountain Lodge
19. Elsa`s Kopje
20. Ashnil Mara Camp
21. Ashnil Samburu Camp
22. Basecamp Masai Mara
40. Amboseli Sopa Lodge
41. Ashnil Aruba Lodge
42. Keekorok Lodge
43. Lake Naivasha Sopa Lodge
44. Lake Nakuru Lodge
45. Leopard Rock Lodge
46. Loisaba
47. Mara Serena Safari Lodge
48.Mpata Safari Club
49. Ol Tukai Lodge
50. Ol Donyo Lodge
51. Rhino Watch Lodge
52. Sarova Lion Hill Game Lodge
53. Samburu Sopa Lodge
54. Saruni Samburu
55. The Ark
56. Voi Wildlife Lodge
57. The Sanctuary at Ol Lentille
58. And Beyond Kichwa Tembo Tented Camp
59. Fig Tree Camp
60. Governors Camp
61. Entim Camp Mara

23. Elephant Bedroom Camp
24. Elephant Pepper Camp
25. Governors Private Camp
26. Kiboko Luxury Camp
27. Karen Blixen Camp
28. Kitich Camp
29. Lewa Safari Camp
30. Mara Leisure Camp
31. Little Governors Camp
32. Ol Seki Hemingways Mara
33. Samburu Interpids Camp
34. Olare Mara Kempinski
35. Sanctuary Olonana
36. Siana Springs Tented Camp
37. Sekenani Camp
38. Tipilikwani Camp
39. The Sleeping Warrior Logde & Camp

62. Finch Hattons Camp
63. Governors 11 Moran Camp
64. Joy`s Camp
65. IIkeliani Camp
66. Kicheche Camps
67. Lake Elmentaita Serena Camp
68. Mara Interpids Camp
69. Larsens Camp
70. Mara River Camp
71. Olumara Camp
72. Naboisho Camp
73. Rekero Camp
74. Sarova Mara Game Camp
75. Tortilis Camp
76. Sweetwaters Serena Camp
77. Voyager Ziwani

## APPENDIX 3: LETTERS OF INTRODUCTION

**Beth Kilonzo,**

**School of Business,**

**University of Nairobi,**

**Po Box 30197,**

**Nairobi.**

**25/8/2014**

I am a post graduate student in the School of Business, University of Nairobi and conducting a study on analysis of the structural attractiveness of the hotel industry in Kenya using Porters modified model. This is in partial fulfillment of the requirement for the Master of Business Administration Degree (MBA)

Your hotel has been selected for this study and I request you to honestly fill the attached questionnaire. The information is purely for academic purposes and will be treated with strict confidence. A copy of the research project will be available free of charge to your hotel upon request.

Your assistance will be highly appreciated.

Thank you.

Yours sincerely,

| | |
|---|---|
| **Beth Kilonzo** | **Dr. Vincent Machuki** |
| MBA Student | SUPERVISOR |

**UNIVERSITY OF NAIROBI**
SCHOOL OF BUSINESS

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P.O. Box 30197
Nairobi, Kenya

DATE 24/8/2016

**TO WHOM IT MAY CONCERN**

The bearer of this letter BETH MUENI KILONZO

Registration No. D61/70879/2014

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
24 AUG 2016
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS