

**RESPONSE STRATEGIES BY HERITAGE HOTELS
LIMITED TO INCREASED COMPETITION IN THE
TOURISM INDUSTRY IN KENYA**

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DECLARATION

This research project is my original work and has not been submitted to any other university for examination purpose.

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Declaration by Supervisor

This research project has been submitted with my approval as the university supervisor

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DEDICATION

This research is dedicated firstly to my dear parents Mr. and Mrs. Andrew Angir who have been a great source of inspiration to my education and without their foresight, sacrifice and support I would not have gone this far. Secondly, to my beloved children Sonia, Brian and Valerie to whom my achievements form the bare minimum legacy.

ABSTRACT

With the increasing competition that businesses especially in tourism industry face today, in order to survive, firms have to adjust their approach to business and come up with response strategies for dealing with the highly competitive environment. Traditionally more focused on the physical product and services, tourism industry is waking up to consumers who demand consistent delivery of the brand promise, changing needs and sensitivity to socio-political both locally and globally. This study sought to establish the response strategies adopted by Heritage Hotels Limited to increased competition in the tourism industry in Kenya. The study was conducted through a case study research design. The study used interview guides as primary data collection instrument. The interview guide was administered through five employees of Heritage Hotels Limited: the managing director, 2 departmental heads and 2 unit managers. Data collected was qualitative; analysis was by content analysis and presented in prose. The study findings illustrates that Heritage Hotels Limited faces a lot of competition from both small and large firms of local or international ownership and operations; the hotel faces threat of new entry into the industry; threat of substitutes aggravated by changing technology, insecurity in the country and subsequent travel advisory and fluctuation in demand. The study concludes that the hotel has responded to these challenges through competitive pricing, aggressive marketing in trade fairs, online and print media; product and service innovation and differentiation; promotion through offers and discount on repeat purchases among others. The study recommended that the hotel should expand its operations to other regions, pursue new markets and target local tourists besides foreign customers.

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LIST OF ABBREVIATIONS AND ACRONYMS

BPR:	Business Process Re-engineering
FOC:	Free of Cost
ICT:	Information and Communication Technology
KTB:	Kenya Tourist Board
OTA:	Online Travel Agency
WTM:	World Travel Market
HHL:	Heritage Hotels Limited
<i>Jr</i>	
KETA:	Kenya Tourism Awards
GOK:	Government of Kenya

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The business environment in which organizations operate is becoming more volatile, unpredictable and very competitive (Pearce and Robinson, 2005). Coping with the increasingly competitive environment has called on firms to rethink their strategies and organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000). Tourism makes an important and increasing contribution to economic growth, accounts for about 30% of international trade and represents one of the best opportunities to create income and employment for countries. Although tourism has been and continues to be an important source of revenue for Kenya, and a source of livelihood for many, its dynamics have changed in the wake of terrorism and increased competition.

Increased competition threatens the attractiveness of tourism industry and reducing the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. To meet the current demand and to strategically place themselves for the future, individual players in the industry are investing in and making internal changes to their businesses to increase their capacity and improve their processes. Tremendous changes in hospitality sector poses challenges and response strategies to these changes are central to success of firms within the sector.

1.1.1 Concept of Strategy

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholders' expectations (Johnson, Scholes and Whittington, 2005). According to Scholes (2002), the definition of strategy highlights that strategy is long-term and that it is future oriented as it tries to identify and set where the business is trying to be. It identifies which markets a business should compete in and what scopes of activities are involved in such markets. Mintzberg (1987) pointed to five types of strategies: strategy as plan (a direction, guide, course of action - intention rather than actual); strategy as ploy (a maneuver intended to outwit a competitor); strategy as pattern (a consistent pattern of past behaviour - realized rather than intended); strategy as position (locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders - strategy determined primarily by factors outside the firm); and, strategy as perspective (strategy determined primarily by a master strategist).

Strategies exist at several levels in any organization - ranging from the overall business (or group of businesses) through to individuals working in it. These are: corporate strategy (concerned with the overall purpose and scope of the business to meet stakeholder expectations); business unit strategy (concerned more with how a business competes successfully in a particular market); and, operational strategy (concerned with how each part of the business is organized to deliver the corporate and business-unit level strategic direction and focuses on issues of resources, processes, people) (Arauz, 2012). Corporate strategy is crucial as it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business and is often stated explicitly in a

"mission statement". On the other hand, business unit strategy focuses more on the choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities among other things. However, as there is always, an element of uncertainty about future, strategy is more about a set of options (strategic choices) than a fixed plan; a strategy must specify what action will happen in each contingent state of the scenario.

1.1.2 Concept of Competition

Competition in business is the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms or allocation of productive resources to their most highly-valued uses and encouraging efficiency (Stigler, 2008). Competition causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products.

Competition does not necessarily have to be between companies as it can also happen within the company; internal competition. Such is overlap between divisions of the company so that each division would be competing with the other divisions or competition pitting a brand against the other (Armstrong and Greene, 2008). By and large, increased competition threatens the attractiveness of an industry by reducing the profitability of players. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity.

Strategy for competition consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson and Strickland, 2002). Porter (1980) outlines the three approaches these strategy: striving to be the overall low cost producer, i.e. low cost leadership strategy; secondly, seeking to differentiate one's product offering from that of its rivals, that is differentiation strategy; and, lastly, focus on a narrow portion of the market, that is, focus or niche strategy.

While some firms may result to improving current markets and products, diversification or divesture, others employ techniques that ensure operational effectiveness. A firm may respond to increased competition by entering new markets with similar products. However, much as operational effectiveness is necessary, it is not sufficient in achieving sustainable competitive advantage. Competitive strategy needs to focus on unique activities (Porter, 1980). Greenstein and Compaine (2001) support the idea that different firms respond with different strategies to the same opportunities. Some offer similar solutions to different users, others develop expertise to ensure repeat business from complimentary services.

1.1.3 Response Strategies

Response strategies are the approaches that firms can make to dealing with the environmental changes identified and quantified or perceived. According to Gabrielsson, Gabrielsson, Al-Obaidi and Salimaki (2008), a good response strategy has to have at least four components: scope (has to define companies and business such as the present and planned interactions of the company with its environment); competence (this is an indication of the level and patterns of the company's competition); competitive advantage

(ensures the unique position a company develop vis-a-vis its competitors through its resource deployments); and, synergy (the joint effects that are sought from the company's resources deployment and the company scope decisions). Competition exerts pressure on firms to be proactive and to formulate successful strategies to deal with threats and harness opportunities in the environment.

Firms that do not respond effectively to increased competition are not likely to succeed in business (Porter, 1996). Essentially, firms' response strategies can be grouped into operational and strategic which involve two different types of thinking. Strategic strategies are fundamental and directional, and over-arching while operational strategies, on the other hand, primarily affect the day-to-day implementation of strategic decisions. According to Mintzberg (1987), strategic decisions consider the entire organization and represent a complex aspect of business planning. Strategy entails making major changes for the organization and recognizing that the business environment is not static and will continue to evolve. The goal of making strategic decisions is to implement policy that aims to move the organization toward its long-term goals; takes into account an organization's resources, threats to it and available opportunities.

Operational strategies relate to the daily operations of an organization. The countless interactions that take place on a daily basis represent the result of operational strategies. These decisions, therefore, can bog down an organization and make it ineffective. To prevent this, operational strategies should be consistent with strategic decisions. Good operational decisions have measurable results such as higher revenues, increased profits, increased productivity and customer satisfaction. That is, while strategic decisions usually

have longer-term implications, operational strategies usually have immediate (less than one year) implications (Bass, 2010).

1.1.4 Tourism Industry in Kenya

The tourist industry in Kenya is the second largest source of foreign exchange revenue followed by agriculture. The country is endowed with attractive tourist sites, rich culture, striking geographical diversity and landscapes ranging from beautiful beaches, to animal parks and archeological sites. The main tourist attractions are photo safaris through the 19 national parks and game reserves (De Blij and Muller, 2006). The Kenya tourism industry has grown by leaps and bounds over the years. Today Kenya is one of the most exciting and sought after travel destinations in the globe; earlier it was only the adventure freaks and wildlife enthusiasts who made a beeline for this amazing country. During the 1990s, the number of tourists travelling to Kenya decreased, partly due to the well publicized murders of several tourists (Ikiara, 2001). However, tourism in Kenya has been the leading source of foreign exchange since 1997, when it overtook coffee, and the trend continued, with the exception on 1997-1998. Kenya recorded 1,095,945 tourists' arrivals by the end of 2010, a 3.3% increase from the 1,061,200 tourists. In October 2011, arrivals closed at 1,039,852 compared to 896,228 for the same period in 2010 accounting for 16% growth. This is attributed the growth in the arrivals to the sector's efforts of diversification of source markets and ventures into emerging economies.

Tourism has over the years been reactionary to both endogenous and exogenous factors, which affect its performance. For example, following the 2007-2008 Post-election crisis, tourism revenues plummeted 54% from 2007 in the first quarter of 2008 (Maina, 2008). The tourism industry has also been affected by the financial crisis in 2008 - 2009. These

dynamics, also affected sister industries like hospitality, foreign exchange, travel among others. The hotel industry is closely linked to the tourism industry and therefore changes in latter environments have a direct impact on the former (Mittra 2001). Prior to the 1980s, the tourism industry was a slow-growing industry, consisting primarily of relatively static, few companies. Since the turn of the millennium, hotels and restaurants, on average, account for 34% of tourism earnings, attesting to the significance of hotels and restaurants in Kenya's tourism industry.

1.1.5 Heritage Hotels Limited

Heritage Hotels is a world-renowned hotel and leisure operator, which provides a wide-ranging 'beach-and-bush' adventure in all of East Africa. Heritage's Kenyan portfolio comprises seven properties under three distinct brands, offering a unique chance for discerning repeat guests to 'climb the brands'. The Voyager brand offers some of the most exciting, high-value 'beach and bush' holidays in Africa. After the endless water sports and family activities of Voyager Beach Resort, guests can soak up the wilder atmosphere of Tsavo National Park, home to the romantic Voyager Safari Camp. The Mara is also home to Heritage's most famous camp, Mara Intrepids, which is justly famous for its location, unrivalled game viewing, expert guiding, and newly refurbished luxurious riverside tents. Its sister camp, Samburu Intrepids, also just refurbished in 2011, offers similar standards of 'bush luxury' deep in Kenya's northern deserts, home to rare antelope and large elephant herds. Intrepids visitors can now combine their wilderness safari with a more modern adventure at the Great Rift Valley Lodge and Golf Resort - a beautiful lodge and leisure complex west of Nairobi, which boasts one of the most spectacular golf courses in the southern hemisphere. Guests climbing the Heritage brands will eventually find themselves

in the luxurious surroundings of Mara Explorer, where the 10 secluded open-air tents, exotic furnishings and discreet staff have earned the camp accolades as the Mara's most luxurious retreat. The camp's sister, Kipungani Explorer, offers a secluded step back in time and a unique ecotourism experience on the mystical Arabian island of Lamu.

1.2 Research Problem

With the increasing competition that businesses especially in the tourism industry face today, to survive, firms have to adjust their approach to business and come up with response strategies for dealing with the highly competitive environment. The hospitality sector, traditionally more focused on the physical product, is waking up to a consumer who is demanding consistent delivery of the brand promise and, in the upscale to luxury segments, the experiential dimension define a successful brand as much as the finer points of product design (Mittra, 2001). The competitive environment in the tourism industry is widely recognized as being complex, dynamic, and highly segmented with an implication that imply that market share is no longer assured. More so, with increased globalization, many companies have made entry into the industry 'scrambling' for customers, consequently, edging out companies.

Heritage Hotels Limited is an epitome of successful hotel chains in Kenya and Africa's most established and innovative 'safari names'. Heritage Hotels have made it through in an industry where many are underperforming or have out rightly failed. Although the company has been in the business for over 30 years, its pioneering approach has helped to set standards for the entire industry. Its Adventurers' Club is Africa's most celebrated children's club, while its flagship Voyager Beach Resort has become one of the most popular beach hotels within the continent.

Locally, studies on strategic responses and changing environment have been conducted. Mutugi (2006) conducted a study on strategic responses of Barclays Bank to changes in retail banking; Mwangi (2006) conducted a study on strategic responses by construction firms to changing environment conditions; and, Atheru (2007) assessed strategic responses to the needs of customers by Kenya Meteorological Department. Atheru (2007) established that established that the management responded through differentiation strategy and focus strategy. On the other hand, Mutugi (2006) found out that Barclays mainly employed diversification strategy and operational strategies clarifying the areas of strategic changes that may yield the greatest payoff. However, no study has been done in Kenya on how firms within hospitality industry respond to changes in competition. Moreover, despite Heritage Hotels Limited being an epitome of a successful firm in Hospitality industry, no case study has been conducted to establish how it responds to competition. It is in this light that the study sought to fill the existing gap in this area of study by answering the question: what are the competitive challenges facing firms in Kenyan Tourism Industry? What response strategies has Heritage Hotels Limited put in place in response to changes in competition? How effective are the strategies in responding to the changing external environment?

1.3 Research Objective

To determine the response strategies adopted by Heritage Hotels Limited to increased competition in the tourism industry in Kenya.

1.4 Value of the Study

The findings of the study can provide vital information to facilitate the management of organizations especially tourism industry design appropriate strategies geared towards business sustainability in response to increased competition. Thus, the findings can help them identify gaps in their response strategies and enable them to respond better to environmental changes.

The government can find the study useful as it may get insight on how it can formulate policies that govern the creation of sustainable tourism industry or national policies on a framework that is relevant and sensitive to the market forces influencing the tourism industry in Kenya and the East African region. The study can provide insights into strategy and provide a framework on which tourism industry players, can base their response strategies. The identification of the response strategies employed by one of the leading hotel chain, Heritage Group, can give an insight to other aspiring hotels on what policies and strategies are important for their success.

Business consultants may use the findings and recommendations to advise their clients on the response strategies that they need to adopt to enhance their sustainability amid competition. The study provides information to potential and current scholars on the response strategies adopted by hotels in face of competition. This expands their knowledge on response strategies in the tourism industry and identifies areas of further study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the various literature that has been done on the subject matter; response strategies to competition.

2.2 Competition and Strategy

Firms that do not respond effectively to increased competition are not likely to succeed in business (Porter, 1996). Firms in dynamic industries respond to competitive forces in different ways. While some may result to improving current markets and products, diversification or divesture, others employ techniques that ensure operational effectiveness. However, much as operational effectiveness is necessary, it is not sufficient in achieving sustainable competitive advantage. Competitive strategy needs to focus on unique activities (Porter, 1996). Greenstein & Compaine (2001), in his study on technological mediation and commercial development in the internet access market, also supports the idea that different firms respond with different strategies to the same opportunities. Some offer similar solutions to different users, others develop expertise to ensure repeat business from complimentary services. With the same products and markets, a firm tries to improve its competitiveness by protecting and building its current market position. The option of withdrawal from some current activities may be pursued especially where the firm lacks competences to compete effectively.



A firm may respond to increased competition by entering new markets with similar products. These could be markets they are currently not serving or new geographical markets. They can come up with new uses for their current products thus exploiting opportunities through some slight modifications to suit the needs of the market. Market entry strategies may include acquisition, strategic alliances and joint ventures. Firms may also react to competitive forces by developing new products. This means extending their portfolio and spreading the risk across many products. Such products can be directed to markets currently covered by the firm (Greenstein & Compaine, 2001). A firm assesses its internal capability to exploit emerging opportunities effectively and manage threats. A SWOT analysis will identify core competencies that provide competitive advantage for an organization. Nevertheless, over time, competitors may imitate such competencies. Core competencies are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains (Johnson & Scholes, 1997).

Competition has been considered to form a basis for developing strategies. The concept relies on the fact that the organization operates in a specific segment of the industry and that the forces in play in the segment include competition among the participants. Through segmentation, the organization can analyze the business they are in, position themselves strategically, allocate resources and manage the portfolios under their control. The company therefore has a duty to benchmark based on its customers' expectations and offer value to its customers better than their competitors do.

According to Hax and Majluf (1996), strategy is needed in order for organizations to obtain a ^ b l e match between their external environment and their internal capabilities. In this

case, strategy is not viewed as responding to opportunities only but equally adapting to the changes in the external environment. A good analytical model is the Porter's 5 forces model of analyzing the attractiveness of the industry (Porter, 1980)

The management levels in the organization can equally dictate the strategies undertaken in the organization. This is brought about by the various levels of management in an organization. It views strategy as the product of top management which is the corporate, the business level comes up with action programs and functional level executes the day to day operations. The organization will thus succeed if all the players work together in harmony and each level is thought to be doing their part in contribution to the collective whole.

Decisions taken by an organization over time will equally serve to determine which strategy to be undertaken. This can be seen through analysis of the organization history in relation to major milestones and decisions which triggered the same. The organization therefore exists because of the decisions which have been chosen and implemented over time. Organizations that made strategic decisions are still in survival and those that did not apply strategy are no longer in business.

According to Hax and Majluf (1996), caring about the stakeholders could be a useful way of putting the central strategies concern of the firm in a proper perspective. It is the duty of an organization not only to maximize shareholders wealth but to equally consider engaging the society in constructive activities so that it can lead to a wider customer base. In doing so, the organization considers all the factors necessary to bring about harmony between all the stakeholders in the environment.

Strategic intent can shape the strategy undertaken in an organization. This involves an active management process that needs sense of urgency, focusing the organization on the essence of winning and motivating people to achieve the same. The organization should thus get out of the comfort zone based on the resources they have under their disposal and stretch the same resources to do more for the organization. The organization therefore will need to extrapolate the resources it commands to get new opportunities and interests in the market.

Resource based view of strategy can equally be used to determine a strategy to be undertaken by an organization. The resource based view of strategy advocates that a firm will outsmart its competitors if it wields and controls resources that passes certain unique characteristics. They nature of resources has to be inimitable to avoid duplication by competitors, durable to ensure continuity in a changing environment and appropriate regarding the strategy employed by the organization. The resources equally have to be suitable to the positioning strategy adopted by the organization and competitively superior than those of the other players in the market.

In conclusion, the concept of strategy embraces the overall purpose of an organization. According to Hax and Majluf (1996), there has been a move to bring together the various concepts. This concept relies heavily on the mission which has the job of acting as a bridge between the approaches of the business of the organization and the unique competencies that it possesses. The firm should develop strategies in order to outsmart competitors as well as increase shareholder value. All the stakeholders have to be considered at all times and the organization should have an eye of identifying opportunities wherever they arise in the environment.

2.3 Competitive Advantage

Hitt and Ireland (1985), hold that a winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

According to Day (1984), competitive advantage involves every aspect of the way the organization competes in the market place. This includes prices, product range, manufacturing quality, service levels and so on. However some of these competences can easily be imitated. For example, prices can be changed virtually overnight. He notes that the real benefits come from advantages competitors cannot easily imitate and not those that give only temporary relief from the competitive battle. He notes that to be sustainable, competitive advantage needs to be deeply embedded in the organization. These are its resources, skills, culture and investment over time. The activities must be unique and different from competition. Since most businesses face competitors, the need for a sustainable competitive advantage to help them compete is evident.

The idea of sustainable competitive advantage surfaced in 1984, when Day suggested types of strategies that may help to "sustain the competitive advantage." The actual term "sustainable competitive advantage" emerged in 1985, when Porter discussed the basic types of competitive strategies firms can possess (low-cost or differentiation) to achieve sustainable competitive advantage. Interestingly, no formal conceptual definition was presented by Porter in his discussion. Barney (1991) has come the closest to a formal definition by offering the following: A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. A sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others (Porter, 1985).

2.4 Strategic Response and Environment

Ansoff and McDonnell (1990) see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises. Hamael and Prahalad (1989), perceived an organization as a foundation for sustained competitive advantage when it poses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate new values creating capabilities based on that knowledge. Unless, there is an advantage over competitors that is not easily duplicated or connected, long term profitability is likely to be elusive

Aosa (1992) noted that the action of competitors have a direct impact on a firm's strategy. He further stated that strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the company operates needs to be understood. The structure of an industry and trend in that industry will help the current and future attractiveness of that industry.

In the 1990's, many companies have acknowledged the critical importance of being customer oriented, customers pay attention to after sales services, and responsiveness of employers (Kotler, 1997). Hamael and Prahalad (1989), noted that restructuring and re-engineering - "while both are legitimate and important tasks, they have more to do with sharing today's business than with building tomorrow's industry". According to Aarker (1989), long - term success involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter. This involves identifying relevant skills and assets by observing successful and unsuccessful firms, key customer motivations, large

value added items and mobility barriers. Selecting those skills and assets that provide an advantage over competitors is relevant, sustainable and appropriate for the future. He further observed that there are three basic ways to compete, namely, on the basis of delivery, quality and price.

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy

Pearce and Robinson (2000), says that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising

environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

2.5 Factors Influencing the Strategic Responses

The computer and development in telecommunications are the most important aspects of information and communication technology that have transformed the business environment and process. According to Porter (1998) technological change especially information technology, is amongst the most important forces that can alter the rules of competition. The computer has enabled the automation of many processes in business organizations which has led to dramatic improvements in productivity and reduction in costs while telecommunications have dramatically improved the speed with which information is transmitted thus facilitating speedy decision making.

Information technology has become an indispensable ingredient in several strategic thrusts that businesses have initiated to meet the challenges of change. Such strategic thrust include internetworking, the internet, intranets and other types of networks, which have become the primary information technology infrastructure that supports the business operations. This is especially evident in electronic commerce. Using information technology for business processes re-engineering frequently results in the development of information systems that help give a company a competitive advantage in the market place, use strategic information systems use information technology to develop products

services and process and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O'Brien, 1999).

Brown (1998) defines organizational culture as the pattern of beliefs, values and learned ways of coping with experience that have developed during the course of an organizational history and which tend to be manifested in its members. Thus an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination and control and reduces uncertainty while enhancing motivation and organizational effectiveness of which facilitate the chances of being successful in the market place. Corporate cultural identity for the market is a strategic tool that is used to manipulate consumer perceptions of an organization and its product and services.

The culture of organization would need to be changed when it does not fit well with the requirement of the environment or the organization resources, the company is not performing well and needs major strategic changes, or the company is growing rapidly in a changing environment and needs to adapt. Kotler (1996) notes that truly adaptive firms with adaptive cultures are awesome competitive machines. They produce superb products and services faster and better even when they have fewer resources or less market share.

The potential for changing the culture of an organization is influenced by the beliefs of the strategic leader and extent of the strategic need (Thompson, 1997). Indeed adaptive cultures are aware some competitive machines (Kotler, 1996). However, cases of strategic drifts have also been observed in highly homogenous cultures and conservative paradigms with readiness to dismiss alternative views as having been tried and failed. When senior

managers know they are going nowhere, they become the concrete ceiling blocking many new innovations and giving little focus on the environment.

Wilson and Rosenfeld (1990), define organizational culture as the established pattern of relationships outlining communication control and authority patterns with regard to the number of levels in the structure of the organization often. Referred to as the scalar chain, Drucker (1989) suggest that those should be as far as possible, too many levels bring difficulties in the understanding of objectives and communicating both up and down the hierarchy. Successful organization once required an internal focus, structured interaction, self sufficiency, and top down approach. Today and tomorrow, organization structure reflects an external focus, flexible interaction, interdependency and a bottom up approach (Pearce and Robinson 2003).

One of the strategic responses to environmental turbulence at the heart of restructuring is the notion, that some activities, within the business value chain are more critical to the success of the business strategy than others. Business Process Re-engineering (BPR) popularized by consultants hammer and Chumpy (1993) is one of the more popular methods by which organizations have undergone restructuring efforts to remain competitive. It is intended to re-organize a company so that it can best create value for the customer by eliminating barriers that create distance between employees and customers. It involves fundamental rethinking and radical redesign of a business process to achieve dramatic improvements such as reduce cost, improve quality and service and improve on speed.

Osthuizer, *et al.* (2000) argued that successful strategies could only be implemented through an organizational structure that links peoples' abilities and skills to the mission of the enterprise. They further stated that, the key to efficient information service of the future is to reduce reliance on managerial authority, create teams that share information and delegate responsibility far down the hierarchy. They continued to argue that organizational processes must be transformed to deliver the right response at the right time to highly unique and transient user needs. They further observed that, faced with changing markets advanced technology and increased competition, many information services have come to understand that the key to corporate success lies in transforming authority and delegating responsibility and accountability far down the hierarchy.

Sheikh (2000) conducted a study on strategic response by insurance companies following liberalization and concluded that the companies in the industry consider strategic plans to be important. Kandie (2001) studied the strategic response of Telkom Kenya in a competitive environment and found that financial constraints and lack of managerial empowerment has limited the capability to respond to the environmental changes. Isaboke (2001) investigated the responses of the oil companies in Kenya to the threats of the new entrants. Response included a combination of generic strategies and lobbying for a level playing ground.

2.6 Challenges of Competition to Organizations

To grow and thrive in today's competitive environment, organizations must deal with several challenges. For companies to survive the dynamic environment, it is necessary for them to; measure the intensity of competition, assess the causes of decline, single out a viable strategy to combat decline such as leadership, liquidation and harvest (Baum &

McGahan, 2004). In order for firms to achieve and maintain competitive advantages, they must scan their environment to ensure that it provides a moving target and is fully aware of future challenges in the market place.

Businesses all over the world are faced with the challenges posed by the ever changing and turbulent competitive environment. The rate, direction and magnitude of this competition must therefore be the concern of every top executive entrusted with the running of any organization. The open system theory gives a wider and clearer explanation as to why business must be environmentally sensitive for their growth and survival. The business world is never static (Brown & Eisenhardt, 1998) hence achieving competitive advantage has been recognized as the single most important goal of a firm (Porter, 1980).

Without proper competitive strategies, firms will have fewer economic reasons for existing and finally will wither away. Although identification of the sources of competitive advantage has increasingly become a priority, application of the right strategies is still a concern to many organizations. To be able to retain competitive advantage, organizations need to examine both their external and internal environments and respond accordingly (Porter, 1985). The environment can be relatively stable or turbulent. Each level of turbulence has different characteristics and requires a different strategy. The strategy in turn has to be matched by appropriate organizational capability for survival, growth and development (Ansoff and McDonnel, 1990).

Fundamental forces of change have been experienced in the global business environment resulting in unprecedented competition. Organisations responding to these changes have realised that their existing strategies and configurations may no longer serve them well

(Ansoff and McDonnel, 1990). The rate at which technology keeps changing has led to increased competition in the business world. Firms using modern technology have a competitive advantage compared to the ones that have not changed with times (Porter, 1985).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates the research methodology that was adopted in carrying out the survey: research design, target population and sampling method to be used, data collection instrument, how data will be analyzed, interpreted and presented.

3.2 Research Design

This research took a case study research design. Case study approach is considered most suitable where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear (Mugenda and Mugenda, 2008). According to Kothari (2004), a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study; that is, is a research design that drills down, rather than cast wide.

3.3 Data Collection

The study used primary data sources to gather information that helped achieve its objective. Primary data are most apt as the information sought is gathered for the study purposes and for any other, thus, not misleading in purpose (Kothari, 2004). For the purposes of the study, the primary data was gathered through interview. Interviews have the potential to yield the highest quality and quantity of data compared to other methods as it guarantees flexibility of content and direction of questioning compared to other research instruments

such as questionnaires; hence, supplementary information can be collected in the course of the interview (Copper and Schindler, 2003).

Interview schedule, as research instrument, consisted of open-ended questions aimed at obtaining information response strategies of Heritage Hotels to competition in tourism industry in Kenya. The interview schedule was administered through personal interviews with the Managing Director, Head of Departments and Unit Managers of Heritage Hotels. According to the hotel's organization structure there is one managing director, and 7 unit managers. This sample was, thus, selected purposefully. Purposive sampling technique was used as it helps a study identify sample that is knowledgeable and provide the researcher with appropriate in-depth information (Copper and Schindler, 2003). The top management are involved in strategic management of organization, and for the purposes of this study, they are in good stead to provide the most reliable information for this study.

3.4 Data Analysis

The data collected was qualitative, thus, content analysis was used to analyze it. Content analysis is used to determine the presence of certain words, concepts, themes, phrases, characters, or sentences within texts or sets of texts and to quantify this presence in an objective manner (Copper and Schindler, 2003). Content analysis is the systematic qualitative description of the phenomena that comprise the object of study (Mugenda and Mugenda, 2003). This is done from texts within books, interviews, conversations or any occurrence of communicative language. This approach of analysis was preferred because it gives results that are predictable, directed and comprehensive and enable the researcher to shift through large volumes of data with relative ease in a systematic fashion as the

contents obtained from the interview are categorized into emerging common themes. The study's data analysis was presented in prose.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data findings, its analysis and interpretations there-of. The data findings were on the response strategies adopted by Heritage Hotels Limited to increased competition in the tourism industry in Kenya. The study targeted five employees: the managing director, 2 departmental heads and 2 unit managers who all were successfully interviewed making 100% response rate.

The study conducted qualitative analysis technique by grouping the thematic contents of responses got from the interviews. The challenges posed by the competitive environment in tourism industry was analyzed through Porter's five forces and response strategies listed (Porter, 1985).

4.2 Challenges of Competition

The interviewees were asked about various challenges facing the organization posed by increased competition in the tourism industry in Kenya. This was based on Porters 5 force industry analysis (Porter, 1985).

4.2.1 Degree of Rivalry in the Industry

The study established that there are many large hotel chains dominating the tourism industry in Kenya. These are large local and international chains such as the Sarova Group, Ashnil Group, Intercontinental Hotels, Serena Group and Fairmont Group of Hotels among others. Besides the existing ones, there are other reputable international investors who are

now investing in the country's hotel sector for instance Best Western, Radisson Blu, Kempinsk. The presence of these large chains means more choice for the traveler and increased competition for Heritage Hotels, thus, affecting Heritage's business.

The findings elicited the presence of many relatively small firms operating in the tourism industry offering accommodation at lower prices. To the question on whether the relatively small hotels affect pricing, margins, hence, profitability for every single company in the industry and Heritage Hotels, the interviewees stated that put together they take a big chunk of the market share and undercut in terms of pricing although they operate on different market segment. Others felt that they do not have a big effect on Heritage Hotels in terms of pricing or margins as the latter has built a market niche while the small hotels only attracts more of the "budget¹" type of tourists. However, they all concurred that collectively the small hotels take a substantial chunk of the market.

The study sought to establish how much time, effort and money it takes a customer to switch to a competitor and the difficulty in doing so. From the response, customers in the tourism industry tend to associate themselves with a brand most of the time. However, switching to another product these days is quick and effortless, particularly with the advent of e-commerce and numerous hotels' booking websites owing to ICT. Thus, switching costs are low.

4.2.2 Threat of Substitute Product

The study sought to establish whether there are close substitutes to the services Heritage Hotel's provide and the benefits the customers get from substituting the hotel. The response shows that there are no any close substitutes for what it offers in terms of "family holidays"

from its unique brands like the Intrepids and Explorer, which offer bush experience. Corporate guesthouses offered at the Great Rift Valley Lodge are unique and offers the best kids club in the region for cultural and wildlife entertainment.

However, there are other hotels that cater better in other segments such as the conference market or business executives. There are, therefore, substitute to conference accommodation from competitors. While Nairobi is currently ranked third conference tourism destination in Africa after Cape Town and Cairo, Heritage Hotels does not have a property in Nairobi. Therefore, industry players like Serena Hotels, Sarova Hotels, Intercontinental and Hilton have a huge market share on conference tourism from those corporate customers who choose Nairobi.

Heritage has established a niche as a family chain of hotels and its adventurers club is very popular amongst schools and with parents. The hotel's products and services are reasonably priced in the market below the quality of its offers. In terms of quality, Heritage Hotels is superior and the Mara Explorer was awarded the Trip Advisor Certificate of Excellence 2012 - an accolade given as honour to hospitality excellence to establishments that consistently achieve outstanding traveler reviews on Trip Advisor and is extended to qualifying businesses worldwide. Mara Intrepids, the Heritage Hotels' flagship luxury tented camp in Maasai Mara was feted in London at the World Travel Market (WTM)

with the Virgin Holidays Gold Award 2011, Best Hotel in Africa.

In the tourism industry, there are some companies who undercut on pricing like the Governors Camp in the Maasai Mara and other relatively small firms, which have put up camps in the Maasai Mara, Samburu and Tsavo in attempt to acquire market share. On

whether pricing of substitutes is disadvantageous to the hotel, the some interviewees stated that the effect is not much as Heritage Hotels Limited attracts a certain type of market (families and charter business (two weeks stay) making the price right for such businesses. Besides, the product quality is far superior to the prices that are paid for the same. Others, however, felt that undercutting on prices affects Heritage Hotels Limited, as the 'budget type of tourist' would settle for lower prices.

The study further found that Heritage Hotels Limited offers far superior services than the substitutes with additional services beyond basic accommodation to differentiate from or competitors. The additional services include: sundowner, hot air balloon safaris, star gazing, bush dining, and game reserve safaris in the hands of knowledgeable gold - certified guides. This is evident from the numerous positive comments received from / guests in the Hotel's questionnaires or online on Trip Advisor. The Heritage Hotels is currently rated the top hotel in North Coast of Mombasa and Maasai Mara. Its conference facility is, also, one of the most preferred in Naivasha. Although the cost of switching to similar brands are low due to access to information through the internet, strong brand image command loyalty and high price premiums.

4.2.3 Threat of New Entrants

The study inquired about the cost and time required to make entry into the tourism industry and its effect on the Heritage Hotels. From the findings, it requires huge investment in terms of money especially for real estate interior designs; a number of qualified staff; and, obtaining licenses and fulfilling all regulations which takes about 1-2 years. However, with the advent of ICT marketing costs may not be so high. The current entrants are international chains that are setting up hotels mostly within Nairobi to cater for short

supply of beds, which does not affect Heritage Hotels directly and may actually give boost the latter since travelers staying at Nairobi hotels may want to try a beach holiday or Safari.

The interviewees were required to mention any government policies or regulations that have fostered entry into the tourism industry, direct or indirect competitors of Heritage Hotels. From the findings, the Government of Kenya through the Kenya Tourist Board (KTB) has engaged in aggressive marketing of Kenya as one of most the preferred tourist destination worldwide. GOK in 2011 also launched Kenya Tourism Awards (KETA) to reward achievement of people who have contributed positively towards tourism in Kenya with the aim of aspiring players in the tourism sector in Kenya and internationally. These efforts have resulted in huge investments in the hospitality sector in the last decade. This has made top notch international hotel brands such as Best Western, Radisson Blu, Kempinsik join Hilton and Intercontinental Hotels; investing into the country. The Government is currently lobbying reputable international hotel chains to invest outside Nairobi such as the Dubai based Emmar Hospitality Investment that has started construction of a five star hotel near Maasai Mara game reserve by the name Address Hotels & Resorts. The Government gives relief; investment deductions for tax purposes and waives duty on certain hotel equipment and machinery, which foster investment into the industry.

The Government has also put in place different strategies aimed at improving the country's competitiveness as an investment destination and improve business environment for the private sector. This has resulted in growth of the industry with both new foreign and local investors making entry in the industry.

On how new entrants to the tourism industry are challenge to Heritage Hotel business, the study found that entrants have increased competition and rivalry among industry players as they scramble for market share. Commenting on whether, raw materials e.g. labor, land and other materials required by Heritage Hotels are readily available, the interviewees stated that hotels supplies ranging from accessories to food are readily available although there are challenges on land or real estate for construction of hotels, decor, and shortage of highly skilled staff required for this industry. Due to this, there is a lot of poaching of 'key star performers'.

4.2.4 Power of Suppliers

The findings show that Heritage Hotels does not depend on a particular supplier, as there are many suppliers and rates are competitive. On whether the cost of switching suppliers in terms of both time and money is injurious to the hotel, the interviewees replied otherwise since suppliers readily available both locally and internationally lowering switching costs. However, the biggest waste of time would be in setting up appropriate credit facilities with the new suppliers. The Hotel has countered this by having substitutes early enough.

On the likelihood of suppliers becoming competitors directly or indirectly by offering the services that Heritage Hotels offers (forward integration), the interviewees stated that the possibility is very unlikely in the current set up. That is, chances of suppliers engaging in forward integration are low as the initial capital outlay required is high and fixed costs are high. The assets required are highly specialized for this industry and one would have to consider the exit barriers posed by this.

4.2.5 Power of Customers

On changes to demand for Heritage Hotels' services or availability of buyers occasioned by factors endogenous and exogenous to the economy, the demand for hotel's services from European markets were affected when their economies experienced crisis weakening the Euro currency. Tourists with disposable income who travel long haul are fewer as evident in the reduced number of charter flights to Kenya. The business is also seasonal; categorized into low, shoulder, high and peak. The spate of terror attacks and insecurity in the coastal region has adversely affected tourism. The number of domestic and international tourists has dropped, as potential holidaymakers are unsure of their safety. International bookings are low following the Mombasa chaos in August and the Tana Delta clashes in September. Terrorist actions have also affected demand in the coastal island of Lamu. Bed occupancy for international tourists in September was 15% and 20% compared to between 30% and 50% in the same period last year.

There are low chances of customers becoming competitors directly or indirectly (backward integration) as the initial capital outlay required is high and fixed costs are high. The assets required are highly specialized for this industry and one would have to consider the exit barriers posed by this. However, some category of customers i.e. the tours and travel agents for example Somak Travels have turned into competitors as they have put up luxury tents in Samburu, Maasai Mara and Tsavo East under the brand name Ashnil Hotels.

The findings, further, elicited that there are substitute services readily available locally and internationally to customers. For example, due to the Euro crisis, tourists from that region now travel to cheaper and closer destinations such as Spain, Greece among others; this has a huge impact on Heritage Hotels and on the tourism industry in Kenya in general.

However, for those customers looking for unique family accommodation and experiences, Heritage Hotels is the place to go.

On whether the customers served determine the type and quality of services offered, the findings indicates that customers are the reason Heritage Hotels Limited are in business and the latter takes keen interest in formers' demand in providing its services and products as customers' needs and requirement keeps on changing from time to time. Due to this, Heritage Hotels Limited engages in continuous improvement and research in order to serve them better.

To the question on whether customers served have power to dictate the hotels' policies and services offered, the interviewees replied affirmatively. Customers dictate Heritage's services and the latter collects data from customers on what they think of the services such as food quality, accommodation standards, staff friendliness *et cetera*. Since customer trends constantly keep changing, Heritage Hotels Limited needs to keep abreast and ensure it provides what the customers want.

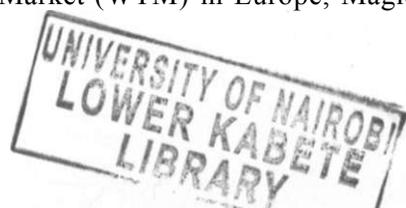
4.3 Response Strategies to Challenges

The objective of the study was to determine the response strategies adopted by Heritage Hotels Limited to counter challenges posed by increased competition in the industry.

This was based on Porters 5 force industry analysis (Porter, 1985).

4.3.1 Competition in the Industry

Heritage Hotels Limited is quite active in engaging in marketing and promotion of products and services to beat competition. Heritage Hotels Limited engages in promotion through local and international trade fairs such as World Travel Market (WTM) in Europe, Magical



Kenya hosted in Kenya and Indaba in South Africa. It also does web marketing, email marketing, search engine and google ads (through buying word), travel magazines, webinar- where it offers online seminar for its agent to enable them market the hotel internationally. The hotel also markets extensively in well know publications and magazines such as "Msafiri", "Twende". The Heritage Hotels Limited, however, needs to improve on trend analysis and market research in order to be more proactive. Recently, the hotel has put up billboard adverts using the "adopt a light" programme.

On the pricing response strategies Heritage Hotels adopts against competition, the findings indicate that it looks at demand and benchmark with key competitors; considers market segments and volumes of business offered; and, offer price incentives and discount to woo customers. Heritage Hotels Limited, further, constantly keeps tabs on what the market place is offering and try to maintain very reasonable prices and adjusts rates depending on the seasons.

Heritage Hotels Limited has adopted practices such as continuous improvement on services, email marketing, monthly newsletters, loyalty programs using privilege cards, booking rewards for agents, early bird offers among others to ward off customers switching to competitors. Heritage Hotels Limited also ensure easy payment modes for its customers through credit cards and online travel agent accounts; use of the web to ensure easy and fast access to information on Heritage properties; customers can check availability, rates, book rooms, local flights and make payment in real-time.

Further, the Hotel has regular staff training programmes to ensure that employees continue to improve and maintain key strengths such as "staff friendliness" and "family

entertainment"; this keeps clients coming back year after year and they bring their friends along too.

4.3.2 Threat of Substitute Product

On whether the Heritage Hotels Limited has encouraged internal competition (differentiation) among the services/products it offers, the findings established that the hotel uses the Trip Advisor whereby fortnight rating of properties is done and rewards given to the best performing property. This in turn steers competition leading to increase in quality of services offered. On whether they are innovative with regard to the services or product it provides, Heritage Hotels Limited keeps coming with new entertainment activities in addition to the already existing services. Chefs are trained regularly and new dishes added to the menus in line with customers' changing needs and preferences. Some / of the products offered include stargazing, spectacular wedding packages, cultural safaris and agricultural tourism.

The study sought to establish whether the hotel's services have been differentiated from key rivals in the industry to which the reply was to the affirmative through unique branding and strategic locations. On strategies that Heritage Hotels Limited has put in place to ensure brand loyalty, the interviewees alluded to continuous improvement on the services and coming up new offers in line with changing customer needs and requirements. The Hotel has strong brand loyalty and a niche with families, which has helped keep it ahead of the rest. In terms of innovation, Heritage Hotels has invested in ecommerce and set up a specific department to deal with that bringing in more business at very lucrative rates.

4.3.3 Threat of New Entrants

The study sought to establish how Heritage Hotels Limited has shielded itself against the threat of new entrants. The responses pointed to strong branding, uniqueness of ideas and continuous improvement of services to ensure and enhance brand loyalty. Other strategies have included ensuring good business practices, integrity and aggressive online marketing through the ecommerce department. On how the Hotel has responded to government policies retrogressive to its operations, the responses were to the negative.

The interviewees were asked to list some of the considerations taken by the Heritage Hotels Limited in making entry into a new market or geographical area. These included online listing of its properties in Open Travel Alliance (OTA) popular in Asia such as Agoda and the company putting up representative offices in new markets like Italy and soon Russia.

Others are personalized market contents based on geographical market. The hotel is also considering putting its content in four different languages i.e. Mandarin for Chinese Market, Spanish, Italian and Portuguese.

4.3.4 Power of Suppliers

In order to reduce the power of particular supplier, Heritage Hotels Limited source equally across various suppliers and currently has a host of many suppliers. On how the Heritage Hotels reduce the cost of switching suppliers in terms of time and money, the responses indicate that it uses many suppliers and does not over rely on one particular supplier. To encourage competition among suppliers to the benefit of the company, the Heritage Hotels Limited use competitive bidding whereby best supplier in terms of quality and price is identified. HHL has also set-up various alternatives to secure constant and regular supplies. In addition, there is a Procurement Department that does regular market surveys to ensure

suppliers gives the best prices. Good payment track records accords the hotel ability to negotiate for better prices coupled with the good relations it has with existing suppliers.

4.3.5 Power of Customers

Heritage Hotels Limited does pre-empt and/or react to changes in demand by customers by conducting continuous market research to keep abreast of changes in customers' needs. The Hotel collects data from customers using guest and online questionnaires. The information obtained, therein, helps it keep abreast of the customers' demands. During low seasons, prices are adjusted downwards and offers given to entice customers. Moreover, the HHL staff attend international trade shows where changing trends are discussed, networking carried out and information shared.

On how the Heritage Hotels Limited controls and ensures business from its large clients without losing them to competitors, The response indicates that the hotel carries out continuous improvement on services, email marketing, monthly newsletters, loyalty programs using privilege cards, booking rewards for agents and early bird offers. The hotel also keeps its products up to date and constantly seeks to improve its services. Heritage Hotels Limited also offers special offers when it can to large travel agents to keep them interested and keen on bring customers to the Hotel and not competitors.

The findings also reveal that Heritage Hotels Limited has put in place strategies to ensure that customers remain loyal. One such strategy is strong and unique branding in terms of quality of services and strategic location. Heritage properties are in best locations in Kenya such as The Great Rift Valley Lodge perched above Lake Naivasha enabling customers to enjoy one of humankind's oldest views over the sweeping floor of the world's largest

valley. The Mara Intrepids Luxury Camps overlook Talek River at the very confluence of the Mara's four game-viewing areas. Mara Intrepids enjoys one of the most spectacular locations in the world's best-known wilderness. The Hotel also uses loyalty programmes where awards are given or discounts extended to repeat guests, extra services given Free of Cost (FOC).

On whether the Heritage Hotels Limited currently possesses the necessary capability to adopt aggressive response strategies to changes in tourism industry, the interviewees were affirmative. The responses indicate that Heritage does strategic planning and forecasting. The Hotel, consequently, does strategy reviews plans in line with changes in the market and environment. This includes rebranding, renovations and refurbishments to customers' needs and requirements, retraining and redeployment of staff, pricing strategies and marketing strategies.

On what the interviewees recommend that the Heritage Hotels Limited need to do in order to stay competitive amid changes in the tourism industry, they suggested that it should consider expanding in operations by setting up properties in Nairobi and South Coast; set up representative offices in new markets in the Far East such as India, Korea and Singapore. These being the emerging economies, the hotel need to target, position its products by differentiating the same for these markets. This would, however, have a huge impact on its setup since catering for the specific needs of such tourists that are quite different from the norm (tourist from the Western) is daunting.

The Hotel has heavily relied on international tourists on most of its properties. However, with the recent spate of terror attacks and insecurity, the international arrivals have come

down meaning increased competition amongst industry players. In cognizance of this, Heritage Hotels Limited should look into tapping local tourists to visit its properties in the Mara, Tsavo, Lamu and Samburu as these properties mostly offer leisure and holiday tourism. Heritage Hotels should also emphasize on conference rooms, which they can use to tap into the local corporate market that mostly go for business and leisure. Currently, conference rooms are only provided at The Great Rift Valley Lodge in Naivasha and Voyager Beach Resort in Mombasa.

4.4 Discussion of Findings

The study established that competition in the tourism industry is characterized by few large and very many small-size firms of local and international ownership offering same products and services or substitutes. Heritage Hotels Limited tries to contain competitive pressure by offering superior quality services and competitive price. This is consistent with Hitt and Ireland (1985) assertion that firms gain competitive advantage over others by delivering benefits or services that exceed those of competing products (differentiation advantage). According to Hitt and Ireland and as found out by the study, competitive pricing against superior quality has enabled Heritage Hotels Limited gain competitive advantage over its competitors as it creates superior value for its customers and superior profits for itself.

The study established that, besides change in technology, the Government through tax cuts and policies have encouraged new entrants into the industry especially international firms. Heritage Hotels Limited has responded by differentiation of products and services, market

segmentation, employee development among others. Isaboke (2001) investigating the responses of the oil companies in Kenya to the threats of the new entrants, found that response included a combination of generic strategies. Unlike this study, Isaboke, established that affected firms also lobbied for a level playing ground from the government.

The study established that technology has formed part of Heritage Hotels Limited response strategy as it markets and promotes its products and services via web marketing, internet marketing, search engine optimization such as google ads. Technology has equally exposed its products and services to competitors, creating an avenue for substitutability of its products. This concurs with Porter (1998) who avers that technological change such as information technology through automation, while it has eased business process which is advantageous to organizations, it has equally dramatically improved the speed with which information is transmitted, predisposing the customers to alternative services, hence encouraging substitutability of products and services. Porter (1985) in his five forces analysis states that the rate at which technology keeps changing has led to increased competition in the business world. Porter (2008) states that information technology is an indispensable ingredient in several strategic thrusts to meet the challenges of change such as the internet, intranets and other types of networks. According to this study's findings, new entrants and existing firms in the tourism industry find ICT indispensable in reducing their marketing cost and reaching out to potential clients both locally and internationally.

The study established that Heritage Hotels Limited has matched its response strategies to competitors and responded to competitive pressure through strategy planning, review or evaluation. The finding is in agreement with Pearce and Robinson (2000) view that there is a need to adopt new strategies that match the challenges from the environment. Moreover,

in agreement also was Sheikh (2000) who on conducting a study on strategic response by insurance companies following liberalization, concluded that the companies in the industry consider strategic plans as very important.

The study established that the response strategies of Heritage Hotels Limited have included rebranding, renovations and refurbishments to customers' needs and requirements, retraining and redeployment of staff, pricing strategies and marketing strategies. Pearce and Robinson (2000) in agreement states that rebranding, reengineering, self-management and outsourcing are some of the dominant strategies that have been adopted for competition.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter discusses the summary of the findings as presented in chapter four. Conclusions and recommendations drawn from interviews on the Heritage Hotels Limited's response strategies to increased competition in Tourism Market in Kenya are also presented.

5.2 Summary of Findings

On increased competition and rivalry in tourism industry, the study established that Heritage Hotels faces competition from large and small; local and international hotels. The large firms include Sarova Group, Ashnil Group, Intercontinental Hotels, Serena Group and Fairmont Group of Hotels among others. Many relatively smaller firms offer accommodation at lower prices affecting pricing and margins hence, profitability for Heritage Hotels. Besides, although the smalls hotels operate on different market segment, put together they take a big chunk of the market share.

Technology innovations have enhanced substitutability of products in the tourism industry. Advent of ecommerce and numerous hotels' booking websites has made switching to another product quick and effortless. Substitutability is enhanced by the smaller hotels such as Governors Camp that have undercut on pricing and put establishments in Heritage Hotels Limited strongholds such as Maasai Mara, Samburu and Tsavo. These hotels attract 'budget type of tourist' who easily substitutes higher prices for lower ones. Additionally,

occasioned by Euro crisis, tourists from European markets looked for cheaper and closer alternative destinations such as Spain, Greece among others.

Tourism industry in Kenya has entry barriers, although this has not effectively or absolutely barred entry of new firms. Barriers to entry include the cost and time required to make entry. This includes investment for interior designs; a number of qualified staff; and, obtaining licenses and fulfilling all regulations which takes about 1-2 years. Advent of ICT brings about e-transactions and website hosting, have reduced marketing costs for new entrants encouraging entry. Demand for beds in towns such as Nairobi occasioned by dearth in supply of the same has encouraged entrants of international chains. Government regulation and policies such as aggressive marketing of Kenya abroad as tourist destination through KTB have encouraged foreign direct investment in tourism industry. Example is Best Western, Radisson Blu and Kempinsik joining Hilton and Intercontinental Hotel increasing competition.. Besides, the Government is lobbying reputable international hotel chains to invest outside Nairobi such as the Emmar Hospitality Investment giving Heritage Hotels run for their money. In addition, the Government gives relief such as investment deductions for tax purposes and waiver of duty on certain hotel equipment and machinery. Existing competitors and new entrants pose 'poaching of human resource skills' threat to Heritage Hotels. Heritage Hotels Limited face challenges on land or real estate for construction of hotels, decor, and shortage of highly skilled staff required for this industry.

Suppliers are readily available for Heritage Hotels Limited both locally and internationally lowering switching costs although there is waste of time in setting up appropriate credit facilities with the new suppliers posing threat to the hotel on time-value basis. Moreover, chances of suppliers engaging in forward integration are low owing to entry barriers.

Demand for Heritage Hotels Limited products and services are affected by factors endogenous and exogenous to the economy. Economic crisis, weakening the Euro currency, in European Markets affected demand by tourists as those with disposable income who travel long haul were fewer. Spate of terror attacks and insecurity in the coastal region, Mombasa chaos in August and the Tana Delta Clashes in September, adversely affected tourist arrival following travelling advisory by US and UK governments. Customers' power is worsened by the demand for the hotel's services experiencing low, shoulder, high and peak seasons. Furthermore, some category of customers, tours and travel agents, for example Somak Travels have turned into competitors as they have put up luxury tents in Samburu, Maasai Mara and Tsavo under the brand name Ashnil Hotels. Customers determine the policies, type and quality of Heritage Hotels Limited's products and services. The hotel strives to stay abreast of changes in demand and customers' taste and preferences from time to time.

To stem competition and rivalry in the tourism market, Heritage Hotels Limited has aggressively engaged in marketing and promotion of products and services. It markets in local and international trade fairs WTM, Magical Kenya and Indaba; web marketing, email marketing, search engine and google ads, travel magazines, webinar; marketing in publications and magazines such as "Msafiri", "Twende". Its market segments shield the Hotel from advance onslaught of small-size hotels. Heritage Hotels Limited attracts families and charter business (two weeks stay) making its high price right for such businesses.

To ensure competitive pricing, Heritage Hotels Limited assesses its market segments and volumes of business offered; benchmark its prices with key competitors; and, offer price

incentives and discount to woo customers (awards or discounts are extended to repeat guests and extra services given Free of Cost (FOC)). The hotel offers monthly newsletters, loyalty programs using privilege cards, booking rewards for agents, early bird offers among others to ward off customers switching to competitors. The hotel's prices are adjusted downwards (low seasons) or upwards (high season) based on the season. It also offers easy payment modes for its customers through credit cards and online travel agent accounts. In addition, it uses the web to ensure that customers have easy and fast access to information on Heritage properties; that is, check availability, rates, book rooms, local flights and make payment in real-time. The hotel offers regular staff training and development programs to impart on employees hard and soft skills such as "staff friendliness", "family entertainment" and ICT skills.

To curtail substitutability of its products and services, the hotel encourages internal competition whereby fortnight rating of properties are done and rewards given to the best performing property. The hotel also enjoys a broad range of products and through innovation develops new entertainment activities in addition to the existing services such as stargazing, spectacular wedding packages, cultural safaris and agricultural tourism. In addition, chefs are trained regularly and dishes added to the menus since customers' needs and preferences keep changing. Additionally, supplementary services are offered such as sundowner, hot air balloon safaris, stargazing, bush dining, and game reserve safaris in the hands of knowledgeable gold - certified guides.

Heritage Hotels Limited also enjoys unique branding, continuous improvement of products' and services' quality and strategic locations. The Great Rift Valley Lodge is perched above Lake Naivasha; The Mara Intrepids Luxury Camps overlook Talek River at

the very confluence of the Mara's four game-viewing areas. The product quality is far superior to the prices that are paid for the same. Besides, services are reasonably priced below the quality of it offers. Example is Mara Explorer which was awarded the Trip Advisor's Certificate of Excellence 2012 and Mara Intrepids awarded Gold Award Best Hotel in Africa in 2011. Besides, the Hotel exudes good business practices, integrity and aggressive online marketing to lure customers, stem substitutability, frustrate new entrants and ensure customer loyalty.

Besides local market, to stem competitive forces, Heritage Hotels Limited moves into new markets or geographical areas through aggressive online marketing such as listing its properties in Open Travel Alliance (OTA) for Asian markets and putting up representative offices in new markets like Italy. The hotel personalizes its market contents and language based on geographical market.

To reduce the power of suppliers on its operations, Heritage Hotels Limited sources equally across various suppliers. The hotel uses competitive bidding whereby best supplier in terms of quality and price products or services are considered and set-up various alternatives to secure constant and regular supplies. In addition, the Procurement Department's regular market surveys ensure suppliers gives the best prices while its good payment track record and business relationship ensures that it secures credit terms with suppliers thus eases strain on its cashflows.

To erode customers' power without losing them to competition, Heritage Hotels Limited uses guest and online questionnaires to collect views and suggestions from customers (food quality, accommodation standards, staff friendliness *et cetera*) which the hotel keep abreast

of the customers' demands. Moreover, the hotel staff attend international trade shows where changing trends are discussed, networking carried out and information shared. Heritage Hotels Limited also gives special offers when it can to large travel agents to keep them interested and keen on bringing customers to the hotel.

5.3 Conclusion of the Study

Heritage Hotels Limited faces a lot of competition from both large and small firms. The firms have either local or international ownership bringing differentiated competitive advantage into the industry. The large hotels include Sarova Group, Ashnil Group, Intercontinental Hotels, Serena Group and Fairmont Group of Hotels. Owing to entry barriers, while suppliers of the hotel find it hard to venture into the industry, several customers such as Ashnil Hotels have. The smaller hotels, though don't offer a big challenge as they operate on different market segment, offer accommodation at lower prices affecting pricing and margins hence, profitability for Heritage Hotels Limited especially the low budget customers. Aggregated, the small hotels take a big chunk of the market share.

Competitive pressure within the tourism industry has increased owing to changing technology that has enhanced substitutability of products and services offered by Heritage Hotels. Introduction of ecommerce and numerous hotels' booking websites (web marketing, email marketing, search engine and google ads) have made switching to another product quick and effortless as customers can readily get information, bombarded by information on available tourism destinations and accommodation facilities available. Substitutability of Heritage Hotels Limited's product and services is, further, affected by cheaper and closer tourism destinations such as Spain and Greece. Besides, the

Government, through tax waivers and appeals to international investors for foreign direct investments, has encouraged entrants into the industry. Political and economic environments like travel advisories, violence and terror attacks in the country, election period and Euro crisis have affected the demand for Heritage Hotels Limited products and services as it affects Kenya's attraction as a tourist destination.

Heritage Hotels Limited has adopted aggressive response strategies to competitive changes in tourism industry through strategy planning, review or evaluation of the same in line with changes in the market and environment. These include rebranding, renovations and refurbishments to customers' needs and requirements, retraining and redeployment of staff, pricing strategies and marketing strategies. Heritage Hotels Limited has, over time, engaged in aggressive, proactive and reactive, marketing of products in and during international trade fairs (WTM, Magical Kenya and Indaba); internet marketing (web marketing, email marketing, search engine and google ads) advertisement in travel magazines and webinar; marketing in publications and magazines such as "Msafiri", "Twende" among others.

Heritage Hotels Limited offer competitive pricing whereby it charges prices above what other competitors charge but with superior service and product quality. The hotel adjusts its prices downwards during low seasons and upwards during high season to ensure sustainable operations regardless of the fluctuation in demand. HHL also offers incentive such as discount or awards to repeat guests and extra services given free of cost. HHL also uses travel agents to get customers to whom newsletters are offered and booking rewards. Loyalty programs using privilege cards and early bird offers among others are given to

customers to prevent them from switching to competitors. Additionally, the hotel offers easy payment modes to its customers through credit cards and online travel agent accounts.

In addition to offering, a broad range of products and innovatively developing new ones in tandem with the changing tastes and preference of customers, HHL fosters internal competition of its products and services so as to ensure high quality offers. This is meant to stem substitutability of its products and ensure that there is a broad range of offers to accommodate all customers' diverse demand. To ensure, this, HHL constantly trains and develops its staff.

5.4 Recommendation for Policy and Practice

Given the findings and recommendations there-to, the study recommends that Heritage Hotels Limited should improve its trend analysis and market research in order to more proactive rather than reactive to what its competitors are doing. The Hotel should expand its operations to current locations favoured by tourists but it does not have properties such as Nairobi and South Coast. It should also set-up representative offices in new markets in the Far East such as India, Korea and Singapore.

Owing to the political environment in foreign countries, which form majority of its clients, given the terror attacks and insecurity in Kenya, Heritage Hotels Limited should target local population or tourist to visit its properties in the Maasai Mara, Tsavo, Lamu and Samburu. Heritage Hotels Limited, hither-to, have considerably, conference room services. The study recommends that focusing on this will enable the Hotel tap into the local corporate market that mostly go for business and leisure.

5.5 Limitations of the Study

Being that this was a case study on one firm, Heritage Hotels Limited, the data gathered might differ from response strategies that other firms in the tourism industry have adopted to match the changes in competition. This is because different firms adopt different response strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the response strategies that other firms within the industry adopt to competition.

Besides, the study was limited by the contextual and geographical location. Being that the study only focused on the Heritage Hotels Limited's management office in Nairobi, the findings might not capture well the happenings in all the hotel's establishments. However, the hotel was in one management and the strategies are formulated in Nairobi offices and disseminated to its regional establishments; therefore, the findings are representative of other offices. This limitation was, also, mitigated by taking representative sample to capture a wide view.

The study faced both time and financial limitations. The study was conducted in limited time hence exhaustive and extremely comprehensive research could not be carried on responses strategies. Further, response strategies changes with time and capture of this could not be possible. Due to limited finances, the study could not be carried out on the other establishments. The study, however, minimized these by conducting the interview at the management office since it is where strategies are made and rolled out to other establishments that, then, operate on the blue print.

5.6 Suggestions for Further Research

The study recommends that further research needs to be done on the other firms especially the small-sized ones in the tourism industry in Kenya. This is borne from the fact that different firms adopt different strategies and response strategies adopted by Heritage Hotel does not necessarily reflect what happens in other firms. Thus, studying how other firms go about response strategies to competition will help create comprehensive information on how the other players in the industry have responded to the challenges posed by competitive environment within the industry.

The study established that government policies and regulations were geared towards encouraging foreign direct investment in tourism industry, thus, raising competition. It, therefore, suggests that further studies be done on the effect of government policies on the / performance of local hotels in Kenya. The research further recommends studies to be done on the effect of macroeconomic aggregates on the performance of tourism industry in Kenya.

The findings of the study reveals that use of technology such as online marketing, electronic payment and other ICT innovations has eased entry into new markets. Besides, technology has encouraged substitutability of firms experience and eased entry of competitors into the market. Given that technology is as wide as it gets, further studies can be done on the adoption of technology as response strategy to changes in tourism industry. This will give holistic information on how technology has been used to enhance performance of firms in the tourism industry in Kenya.

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APPENDICES

Appendix I: Introductory Letter

Dear Interviewee,

RE: RESEARCH DATA COLLECTION

I am a postgraduate student of the University of Nairobi pursuing a Masters degree in Business Administration (MBA). I am currently collecting data for my research project on "Response Strategies by Heritage Hotels Limited to Increased Competition in the Tourism Industry in Kenya"

In view of the above, I am humbly requesting you to cooperate in answering the interview schedule attached here-with. You may provide me with any documentation on the same at your discretion. This will help me collect the necessary data which will help me in carrying out the analysis, hence, achieve the objectives of the study.

The information that you will provide will remain confidential and will be used exclusively for this research and not for any other purpose whatsoever. Your response and cooperation in this matter will be highly appreciated. Thank you in advance,

Yours Faithfully,

Meresha Omiti Angir

D61/P/7098/2006

Appendix II: Interview Guide

Section A: Increased Competition and Its Challenges

Degree of Rivalry in the Industry

1. Are there many large hotel chains that dominate the tourism industry in Kenya? How does this affect Heritage hotels?
2. Are there many relatively small firms operating in the industry offering the same services? Does this affect pricing, margins, hence, profitability for every single company in the industry and Heritage Hotels?
3. How easy is it for your customers to switch to a competitor, in terms of time effort and money?

Threat of Substitute Product

4. Are there close substitutes to the services you provide (such as accommodation with family or corporate guesthouses)? What benefits do customers see when they substitute you? (Probe for price, quality any other).
5. Would you consider pricing of such substitutes as disadvantageous to your company? Kindly explain.
6. Are there substitute services of superior quality than those offered by Heritage Hotels?
7. How would you consider the cost of switching to substitutes?

Threat of New Entrants

8. How would you describe initial capital requirement to get into the tourism industry? How does this affect your company?

9. Are there any government policies or regulations (such as taxation, environmental or health regulations) that have fostered entry into the industry; your direct or indirect competitors?
10. How are new entrants to the tourism industry a challenge to your business?
11. Are raw materials e.g. labor, land and other materials required by your business readily available?

Power of Suppliers

12. Does the company depend too much on a particular supplier or group of suppliers?
How will there unavailability or change in quality of supplies harm your business?
13. Is the cost of switching suppliers in terms of both time and money injurious to the company?
14. Are there likelihood of suppliers becoming competitors either directly or indirectly by offering the services that your company offers (forward integration)?

Power of Customers

15. Are there changes to demand for your services or availability of buyers accessioned by factors endogenous and exogenous to the economy?
16. Is there likelihood of your customers becoming your competitors either directly or indirectly by offering the services that your company offers (backward integration)?
17. What are the substitutes available to your customers? What is the probability of the customers substituting your services with those of rivals?
18. Do customers you serve determine the type and quality of services offered?

Section B: Response Strategies

Competition in the Industry

1. How actively does your company engage in marketing and promoting products and services to beat competition?
2. What are the pricing response strategies does your firm adopt against competition?
3. What practices has the company adopted to ward off customers switching to competitors?

Threat of Substitute Product

4. Has the company encouraged internal competition (differentiation) among the services/products it offers?
5. Is the company innovative with regard to the services/product it provides?
6. How has the company services been differentiated from key rivals in the industry?
7. What strategy has the company put in place to ensure brand loyalty

Threat of New Entrants

8. How has the company shielded itself against the threat of new entrants?
9. How has the company responded to government policies; those that are retrogressive to its operations and those that are positive?
10. What are some of the considerations taken by the company in making entry into a new market or geographical area?

Power of Suppliers

11. To reduce the power of particular supplier does the company source equally across various suppliers?

12. How does the company reduce the cost of switching suppliers in terms of both time and money?
13. What are the strategies put forward to encourage competition among suppliers to the benefit of the company?

Power of Customers

14. How does the company pre-empt and/or react to changes in demand by customers?
15. How does the company control and ensure business from its large clients without losing them to your competitors?
16. What are the strategies put in place to ensure that customers remain loyal to the company?
17. In your assessment, does Heritage Hotels Limited currently possess the necessary capability to adopt aggressive response strategies to changes in tourism industry?
(Kindly explain)
18. What do you think Heritage Hotels Ltd needs to do in order to stay competitive amid changes in the tourism industry?

THANK YOU FOR YOUR TIME