COMPETITIVE STRATEGIES ADOPTED BY SMALL SUPERMARKETS IN NAIROBI

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

To my Mum and Dad for supporting me financially and encouraging me all through and most of all for praying for me. I wouldn’t exchange you for anything. My Brothers Timo and Mwas for pushing me to finish the course, my sister Carol who never gave up on me and more so my fiancée Kirui for loving and encouraging me you are simply the best. I love you all. To my friends who went out of there way I thank you so much and may God Bless

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ABSTRACT

The ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from competitors and the small supermarkets are not exceptional. Consequently, all small supermarkets have continuously monitored and adapt to the environmental change. As a result of this, firms have to employ various strategies to survive in the industry.

The study sought to find establish the competitive strategies adopted by small supermarkets operating in Nairobi. In attempting to get the objective, a simple random sampling technique was adopted. The population considered for the study was 227 small supermarkets operating in Nairobi. The data was sampled by taking the supermarket appearing after every five. Towards this end, the study collected primary data from the supermarkets on the competitive strategies they apply. The data was collected through the administration of questionnaires to the small supermarkets.

The study established that the branding of an outlet differentiates it from others, the outlets use brand name in order to cultivate customer loyalty, charging fair prices, ensuring good customer services, reducing the prices of goods in order to attract customers and improving goods quality before selling, convenience and ease of accessibility, consistency with other outlets, general cleanliness of outlet, attractive in outlet layout, moving with change in consumer tastes and preferences, included improvement of customer service, cost cutting measures, use of latest technology, ensuring that the supermarkets are located in more strategic locations, automation of operations, business process rationalization, increased advertising and staff training.

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CHAPTER ONE: INTRODUCTION

1.1 Background

The service sector is expanding at an increasing rate and is becoming intensely competitive. As such, every organization needs to adopt some strategies which will enable it to have a competitive edge over the others. As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from competitors. Strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. Influences such as economic restructuring, intensified competition, government regulations, and technological advances have resulted in heightened environmental turbulence and uncertainty for small business firms. As noted by Covin and Slevin (1989), small businesses are particularly susceptible to environmental influences due to limited resources and the devastating consequences of poor managerial decisions.

According to Porter (1980), the ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. The characteristics of the competitive context are considered to be the factor that most strongly influences the type of strategy a company pursues or can formulate, and the level of profitability. It is also accepted that a company’s ability to be competitive and profitable depends not only on the type of strategy it formulates and implements, but also on the way in which it is formulated

(Rogers, Miller, and Judge 1999). According to Kotler (1994), positioning is the act of designing the company’s offering and image so that it occupies a distinct and valued place in the target customer’s mind. The management of a supermarket establishment therefore, needs to describe to his customers how his store differs from current and potential competitors. Using his store attributes, he can project an image or personality that directly influences the consumer patronage of the store. It is then ultimately the consumer’s perception of all the competing outfits that will decide or establish the mode of direct or indirect competition among industry participants.

In today's world of cutthroat fierce competition, customer satisfaction is very essential to not only exist but also to excel in the market. Today's market is enormously more complex. Henceforth, to survive in the market, the company not only needs to maximize its profit but also needs to satisfy its customers and should try to build upon from there (Slater and Olson, 2001). The fast-changing competitive environment and firms' competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management. These strategies involve a decentralized and responsive work organization, based on co-operative relations not only within the firm but also in its relations with customers, suppliers and competitors. However, firms are also increasingly resorting to traditional market mechanisms through the use of contingent workers and arms'-length subcontracting relations.

1.1.1 Concept of strategy

A strategy is a pattern or plan that integrates an organizations major goal, policies and action sequences into a cohesive whole (Porter, 1980). Strategic management is therefore concerned with deciding on a strategy and planning how the strategy is to be put into effect through strategic analysis, strategic choice, strategic implementation and control (Johnson and Scholes, 1993). The strategic management process allows an organization to take advantage of key environmental opportunities to minimize the impact of external threats, to capitalize upon internal strengths and overcome weakness. A large number of research studies have concluded that organization's that have adopted strategic management are likely to be more profitable and successful than those that do not (Fred, 1996). One of the most prevalent questions within strategic management is how firms are able to attain profits that allow them to gain superior competitive performance compared to their competitors. Porter's (1980) model of competitive strategy proposed that firm's position within an industry was an important factor in attaining competitive advantage. This position is largely influenced by the firm's strategic responses to the continuous environmental changes.

Strategies which are implemented within an organization should support the culture associated with the firm. The proposed strategy should preserve, emphasize, and enhance the culture, in accordance with the culture supporting the proposed strategy. The service industry has of late been under intense competition from big supermarkets which have opened other outlets in the estates thus challenging the small supermarkets which have been operating in the estates. Environment is a key factor to a firm's success.

Environment can be relatively stable or highly turbulence. Each level of environmental turbulence; has different characteristics, requires different strategies and requires different firm capabilities (Ansoff and McDonell, 1990). Thus there is need for continuous strategic diagnosis. Strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and internal capability in order to assure the firm's success in the future environment. Based on appreciation that periodic planning systems are not able to perceive and respond to threats and opportunities in a turbulent/chaotic environment.

According to Pearce and Robinson, (2002), for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. The dynamism of the environment implies that the organization has constantly redesigned their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. Considering that performance is the major objective of an organization, it is generally accepted that the structure and decision making in an organization is influenced by environmental complexity and volatility, Miles and Snow (1978). It is further argued that the alignment of strategies of organizations with the requirements of their environment outperform organizations that fail to achieve such an alignment, (Beal 2000). Environment scanning is generally accepted as being the first step in the process of aligning strategy with environment, (Beal 2000). This is because environmental scanning will help the organization to learn more about opportunities for taking competitive advantage and threats referring to its survival (Lang et al 1997).

1.1.2 Competitive strategies

Competitive strategies are designed for situations where only partial information is available, whereas an optimal solution would require complete knowledge of all circumstances, or of the future. The extent of market orientation in a firm must be congruent with the competitive strategy adopted (e.g. Conant *et al.,* 1990. In fact, the importance of the match between business strategy and marketing strategy has been empirically illustrated (Olson *et al.,* 2005). The argument that competitive strategies drive market orientation is founded on the assertion that marketing activities are likely to be influenced by strategic choices at the macro competitive strategy level (Slater and Olson, 2001).

The level of competition strategy a firm uses will depend on a number of factors which include; the greater the number of firms operating in the industry, the greater will be the level of competition faced by each firm in that industry, on the extent to which its products are similar to its competitor's products. If a firm operates in an industry where its competitor's products are an almost perfect substitute for its products, then the firm will generally face a high level of competition. If however a firm is able to offer a product which is different from that of its rivals, then the firm will face less competition and the ease with which competitors can enter or leave the industry. If firms find it difficult or costly to enter the industry, then existing firms may find that they face limited competition. Whereas if it is relatively easy to enter an industry, firms will generally find that they face a high level of competition. Generally speaking, an industry could be described as being highly competitive whenever a large number of relatively small firms, who offer similar products, operate in the industry. If however the industry is dominated by a small number of large firms, the industry could be described as being highly concentrated.

1.1.3 Small supermarkets in Nairobi

According to Fahy (2002) a small business is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships or sole proprietorships. The legal definition of 'small' varies with by the country and the industry. In addition to the number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition. Small businesses are usually not dominant in their field of operation.

The City Council of Nairobi 2010/11 License granting has categorized the various applicants based on the nature of the businesses they operate and the area they occupy, location of the business and therefore the large and small supermarkets have been separated as the annual fee charged is different. The supermarkets have been categorized as either small or large based on the area in which they occupy. The small supermarkets occupy an area of between two thousand and five thousand square feet. Smaller and independent stores/supermarkets, purchase through brokers who get their deliveries from open or wet markets or from rural farms directly. Direct procurement from rural farms would be more convenient if farmers were organized as groups else the brokers would be tempted to give preference to large scale farmers so that they cut on transaction costs hence maximize their profits.

1.2 Statement of Problem

Ensuring that an organization can compete effectively in the marketplace is one of the principal tasks of management. In an era of transformational change, Huselid (1995) argue that as other sources of competitive advantage have become less important, what remains, as a critical differentiating factor is the organization, its employees and how they work. An organization's competitive strategy must be appropriate for its resources, environment circumstances, and core objectives. The process involves matching the company's competitive strategic advantages to the business environment the organization faces. One objective of an overall corporate competitive strategy is to put the organization into a position to carry out its mission effectively and efficiently, Gold (1991). A good corporate competitive strategy should integrate an organization's goals, policies, and action sequences (tactics) into a cohesive whole, and must be based on business realities. Strategy must connect with vision, purpose and likely future trends.

Until recent past, there were only a few supermarkets in Kenya, Uganda and other African countries and these were located only in big towns and cities and targeted only the rich class of people. With liberalization, privatizations, and globalization however, many more supermarkets, some located even in small towns and targeting middle and low-income earners have emerged. This is an indication that supermarkets are fast expanding from high class-markets to middle class and even extending further from the town centre to estates, (Central Bureau of Statistics, 2009). The small supermarkets are mostly found in the main streets in the estates, some with more than one outlet selling the same kind of goods, invested large sums of money in the business and also paid goodwill. They have been categorized as small by the City Council of Nairobi based on the area they occupy which is mostly small. The supermarkets have to design new and achievable strategic plans as the big supermarkets have moved from towns to the estates and therefore the rate of competition has moved a notch higher which necessitates a business entity to have thorough competitive strategies to counter competition.

Recent studies done in the area of competitive strategy include: Amir (2007) did competitive strategies adopted by petroleum retail stations in Kenya a case of Mombasa city and the findings showed that all stations are applying some strategies for competition but most of them combine both the cost leadership and differentiation strategies at the same time, most of which are the multinationals due to their favorable financial capabilities. A few local companies and the independent owners mainly focus on price strategy and sell at lower prices. Obado (2005) did competitive strategies employed by the sugar manufacturing firms in Kenya and found out that the sugar manufacturing firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the most widely practiced amongst the firms while differentiation strategy mainly revolves around customers’ service, distribution networks, and branding. Focus strategy is also in use, though quantities sold to target customers are relatively low.

A study by Kitoto (2005) on competitive strategies adopted by Universities in Kenya found out that Kenyan universities use satisfactory quality of teaching and recognized degree with acceptable quality in order to achieve overall cost leadership. High teaching quality, highly skilled and competent lecturers and course content being covered within the prescribed time frame were the main ways Kenyan universities achieved differential advantage. In relation to focused strategy, it was observed that the universities mainly offered market driven courses and ensured flexibility on courses offered. Other competitive strategies employed by the universities were subsidizing fee for staff dependants, offering school based courses, employing lecturers on part time basis and publicity to create and enhance positive image of the university. Billow (2004) did a survey of strategies adopted by supermarkets in Nairobi and found out that supermarkets in Nairobi practice Competitive strategies but mostly do it informally. Growth strategies, cost leadership differentiation, location strategy, customer service and communication strategies were the most common competitive strategies supermarkets firms applied.

As observed above, the studies conducted on competitive strategies adopted by various organizations have not considered the strategies which the small supermarkets are using to counter competition from the large supermarkets which have moved from town to their area of operation which is the residential areas. This research will therefore seek to identify the competitive strategies being adopted by small supermarkets in Nairobi. This problem statement leads to the following question: what are the competitive strategies adopted by small supermarkets operating in Nairobi?

1.3 Research Objective

To establish the competitive strategies adopted by small supermarkets in Nairobi.

1.4 Importance of the study

The study aided various stakeholders: the supermarket owners obtained details on challenges facing the industry and the details of strategies to the challenges. In addition the study provided the justification to the strategies adopted depending on the success obtained.

The policy makers obtained knowledge of the service industry dynamics and the appropriate strategies, they therefore obtained guidance from this study in designing appropriate policies that will regulate the industry.

For academicians, this study formed the foundation upon which other related and replicated studies can be based on. Investors gained an insight on the business and its strategic position within the environment, which can assist them in determining their viability of their investments.

CHAPTER TWO: LITERATURE REVIEW

2.0 Competitive strategies

Two schools of thought have emerged on the conceptualization and adoption of competitive strategies. One school of thought has predominantly considered that viable firms can either seek efficiency or differentiation. The more efficiency is sought by management, the less differentiated the firm would be. While the more differentiation is sought by management, the less efficient the firm would be Hambrick (1983) and Porter (1980). Porter (1980), representing this school of thought, conceptualized low costs vs. differentiation in terms of a continuum, with low costs at one end and differentiation at the other end. According to Porter (1980), "a firm will ultimately reach the point where further cost reduction requires a sacrifice in differentiation. It is at this point that generic strategies become inconsistent and a firm must make a choice".

The members of this school of thought have considered that the value chain required for a low cost strategy is qualitatively different from the value chain required for the differentiation strategy. The emphasis of the differentiation strategy would be on gaining (even at considerable costs) superior quality and image throughout the value chain while the emphasis of the low cost strategy would be on the lowering of costs wherever possible. Because of different thrusts of the strategies, according to this school of thought, viable firms tend to compete with one strategy only. Porter (1985) said that “sustained commitment to one of the strategies as the primary target is usually necessary to achieve success”. Later on he hedged this position by stating that, "A cost leader must achieve parity or proximity in the bases of differentiation even though it relies on cost leadership for its competitive advantage. A differentiator cannot ignore its cost position, because its premium prices will be nullified by a markedly inferior cost position." Murray (1988) regarded this hedging by Porter (1985) as implying an inconsistent logic "that a cost leader that competes against a product differentiator must also be a product differentiator, and vice versa."

Hambrick (1983) excluded the possibility of firms competing with more than one strategy. He proposed that even though the competitive strategies may be found among various industries, not all of them would be found within any one industry setting. He argued that the low cost strategy would be unlikely to be found in a dynamic industry environment. According to Dess and Davis (1984) competitive strategies represent broad strategy types of strategic groups. Consequently, the choice of strategy can be viewed as the choice of which strategic group to compete in.

The second school of thought has considered that the low cost strategy and the differentiation strategy may be adopted simultaneously by an enterprise (Philips, et al. 1983) and (White 1986). Accordingly, the adoption of the differentiation strategy would entail promoting higher product quality. This would likely mean higher costs across a number of the functional areas in order to support the differentiation strategy and quality products would presumably channel greater market demand toward the firm.

Development of competitive position helps the firm to more accurately forecast both and long-term growth and its profits potential (Pearson and Robinson, 1997). Suppliers and creditors pose dependable relationships between a firm and its suppliers and creditors are essential to the firm’s long-term survival and growth. They provide the firm with financial support, services, material and equipments. Human resources are a source of competitive advantage. A firm's ability to attract and hold capable employees is essential to its success. A firm's access to needed personnel is affected by its reputation, local employment rates, and the ready availability of people with needed skills. Customers consume company's products. They are the source of sales revenue. Development of a profile representing present and existing customers improves the ability of managers to plan strategic operations, to anticipate changes in the size of the market and to relocate resources so as to support forecast shifts in demand pattern, (Pearce and Robinson 2002).

2.1 Forces that shape competition

Porter (1980) argues that competition in an industry is determined by its basic underlying economic structure. He suggests that awareness of the five forces that competitive environment can help a company understand the structure of its industry and take out a position that is more profitable and less vulnerable to attack. These five competitive forces are:

2.1.1 The threat of substitutes

According to Miller (1992) a substitute performs the same or a similar function as an industry's product by a different means. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry's product. Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry's product. When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry's profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability and often growth potential.

Substitutes not only limit profits in normal times, they also reduce the bonanza an industry can reap in good times (Whitley 1999). The threat of a substitute is high if: It offers an attractive price-performance trade-off to the industry's product. The better the relative value of the substitute, the tighter is the lid on an industry's profit potential, or the buyer's cost of switching to the substitute is low. Switching from a proprietary, branded drug to a generic drug usually involves minimal costs, for example, which is why the shift to generics (and the fall in prices) is so substantial and rapid. Strategists should be particularly alert to changes in other industries that may make them attractive substitutes when they were not before. Of course the substitution threat can also shift in favor of an industry, which bodes well for its future profitability and growth potential, Stalk (1992).

2.1.2 The power of buyers

Powerful customers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions. As with suppliers, there may be distinct groups of customers who differ in bargaining power. A customer group has negotiating leverage if: there are few buyers, or each one purchases in volumes that are large relative to the size of a single vendor, (Davidson 2001). Large-volume buyers are particularly powerful in industries with high fixed costs, the industry's products are standardized or undifferentiated, buyers face few switching costs in changing vendors and buyers can credibly threaten to integrate backward and produce the industry's product themselves if vendors are too profitable. Producers of soft drinks and beer have long controlled the power of packaging manufacturers by threatening to make, and at times actually making, packaging materials themselves, (Pfeffer 1994).

A buyer group is price sensitive if: the product it purchases from the industry represents a significant fraction of its cost structure or procurement budget, the buyer group earns low profits, is strapped for cash, or is otherwise under pressure to trim its purchasing costs, the quality of buyers' products or services is little affected by the industry's product, the industry's product has little effect on the buyer's other costs (Barney 1991). Here, buyers focus on price. Conversely, where an industry's product or service can pay for itself many times over by improving performance or reducing labor, material, or other costs, buyers are usually more interested in quality than in price.

Most sources of buyer power apply equally to consumers and to business-to-business customers. Like industrial customers, consumers tend to be more price sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes and of a sort where product performance has limited consequences. The major difference with consumers is that their needs can be more intangible and harder to quantify. Intermediate customers, or customers who purchase the product but are not the end user, can be analyzed the same way as other buyers, with one important addition. Intermediate customers gain significant bargaining power when they can influence the purchasing decisions of customers downstream. Producers often attempt to diminish channel clout through exclusive arrangements with particular distributors or retailers or by marketing directly to end users. Component manufacturers seek to develop power over assemblers by creating preferences for their components with downstream customers, (Kotler 1997).

2.1.3 The power of suppliers

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labor, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Companies depend on a wide range of different supplier groups for inputs. A supplier group is powerful if: It is more concentrated than the industry it sells to, the supplier group does not depend heavily on the industry for its revenues, industry participants face switching costs in changing suppliers, suppliers offering products that are differentiated, there being no substitute for what the supplier group provides and the supplier group being credibly threatened to integrate forward into the industry. In that case, if industry participants make too much money relative to suppliers, they will induce suppliers to enter the market, (Porter1980).

2.1.4 Rivalry among existing competitors

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends on the intensity with which companies compete and on the basis on which they compete. The intensity of rivalry is greatest if: Competitors are numerous or are roughly equal in size and power, industry growth is slow, exit barriers are high, rivals being highly committed to the business and have aspirations for leadership especially if they have goals that go beyond economic performance in the particular industry, firms cannot read each other's signals well because of lack of familiarity with one another, diverse approaches to competing, or differing goals, (Chimhanzi 2004).

The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability. Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price cuts are usually easy for competitors to see and match, making successive rounds of retaliation likely. Sustained price competition also trains customers to pay less attention to product features and service, (Kotler 2000).

Price competition is most liable to occur if: Products or services of rivals are nearly identical and there are few switching costs for buyers, fixed costs are high and marginal costs are low, capacity must be expanded in large increments to be efficient, the product is perishable. Competition on dimensions other than price is on product features, support services, delivery time, or brand image, for instance—is less likely to erode profitability because it improves customer value and can support higher prices. Also, rivalry focused on such dimensions can improve value relative to substitutes or raise the barriers facing new entrants. While non price rivalry sometimes escalates to levels that undermine industry profitability, this is less likely to occur than it is with price rivalry, (MacDonald 1995).

Porter (1980) observes that, the dimensions of rivalry are whether rivals compete on the same dimensions. When all or many competitors aim to meet the same needs or compete on the same attributes, the result is zero-sum competition. Here, one firm's gain is often another's loss, driving down profitability. While price competition runs a stronger risk than non price competition of becoming zero sum, this may not happen if companies take care to segment their markets, targeting their low-price offerings to different customers. Rivalry can be positive sum, or actually increase the average profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of price, products, services, features, or brand identities. Such competition can not only support higher average profitability but also expand the industry, as the needs of more customer groups are better met. He further argues that, the opportunity for positive-sum competition will be greater in industries serving diverse customer groups. With a clear understanding of the structural underpinnings of rivalry, strategists can sometimes take steps to shift the nature of competition in a more positive direction.

2.1.5 Threat of entry

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition. The threat of entry, therefore, puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors. The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability, (Slotegraaf and Dickson, 2004).

2.2 Environmental Analysis

In formulating business strategy, managers must consider the strategies of the firm's competitors. While in highly fragmented commodity industries the moves of any single competitor may be less important, in concentrated industries competitor analysis becomes a vital part of strategic planning. Environmental analysis has two primary activities; obtaining information about important competitors, and using that information to predict competitor behavior. Casual knowledge about competitors usually is insufficient in competitor analysis. Rather, competitors should be analyzed systematically; using organized competitor intelligence-gathering to compile a wide array of information so that well informed strategy decisions can be made, (Beheshti 2004). Overly, environmental scanning can be a continuous process so that the organization can constantly be aware of its environment, watching out for emerging opportunities and threats.

According to Johnson et al (2008), the first level of the environment analysis concerns the degree of turbulence and uncertainty existing in the business environment. This provides an understanding of the basic conditions surrounding the organization. The level of turbulence can be explained in terms of the degree to which the external environment is likely to change, and also predictability which is concerned with the degree to which the change can be predicted. Uncertainty can be determined by examining the degree of complexity within the environment and the degree of dynamism. As Johnson et al (2008) continues to argue, this level will involve assessing whether the environment is simple or complex to understand and whether it is static or dynamic, facing rapid change.

The next level of the environment is the macro-environment, which includes the development in the wider business environment relating to political, economic, social and technological changes. It is these factors that can create opportunities or threats and impact on the strategic development and ultimately business success or failure. The inner level of the environment will encompass the competitive pressures within the industry and power of customers and suppliers, (Wilson 1997).The various level stipulated by

Johnson et al, (2008) cannot be viewed in isolation, rather they are interrelated and hence should be analyzed in tandem.

Porter (1981) presented a framework for analyzing competitors. This framework is based on: competitor's objectives, competitor's assumptions, competitor's strategy and competitor's capabilities. Objectives and assumptions are what drive the competitor, and strategy and capabilities are what the competitor is doing or is capable of doing. A competitor analysis should include the more important existing competitors as well as potential competitors such as those firms that might enter the industry, for example, by extending their present strategy or by vertically integrating.

The two main sources of information about a competitor's strategy are what the competitor says and what it does. What a competitor is saying about its strategy is revealed in: annual shareholder reports, interviews with analysts, statements by managers and press releases. However, this stated strategy often differs from what the competitor actually is doing. What the competitor is doing is evident in where its cash flow is directed, (Prahalad and Hamel 1990).

Knowledge of a competitor's objectives facilitates a better prediction of the competitor's reaction to different competitive moves. Competitor objectives may be financial or other types. These include growth rate, market share, and technology leadership. Goals may be associated with each hierarchical level of strategy - corporate, business unit, and functional level. The competitor's organizational structure provides clues as to which functions of the company are deemed to be the more important. Whether the competitor is meeting its objectives provides an indication of how likely it is to change its strategy, (Prahalad and Hamel 1990).

The assumptions that a competitor's managers hold about their firm and their industry help to define the moves that they will consider. A competitor's assumptions may be based on a number of factors, including any of the following: beliefs about its competitive position, past experience with a product, regional factors, industry trends and rules of thumb. A thorough competitor analysis also would include assumptions that a competitor makes about its own competitors, and whether that assessment is accurate, (Johnson et al 2008).

Knowledge of the competitor's assumptions, objectives, and current strategy is useful in understanding how the competitor might want to respond to a competitive attack. However, its resources and capabilities determine its ability to respond effectively, Porter (1981). A competitor's capabilities can be analyzed according to its strengths and weaknesses in various functional areas, as is done in a SWOT analysis. The competitor's strengths define its capabilities. The analysis can be taken further to evaluate the competitor's ability to increase its capabilities in certain areas. A financial analysis can be performed to reveal its sustainable growth rate. Since the competitive environment is dynamic, the competitor's ability to react swiftly to change should be evaluated. Some firms have heavy momentum and may continue for many years in the same direction before adapting. Others are able to mobilize and adapt very quickly. Factors that slow a company down include low cash reserves, large investments in fixed assets, and an organizational structure that hinders quick action, (Porter 1981).

2.3 Environmental regulations and firm strategy

First, if government regulation is perceived as having a major impact on the functioning of an industry, then the use of the conventional five forces model would translate this impact into relevant effects on the firm through some or all of the five forces. From a normative perspective, the predicted effects could then lead to a change in firm behavior if such a change were viewed as beneficial to the firm. The predicted effects would not be viewed as exogenously determined constraints on firm behavior but as outcomes which at least in terms of significance to the firm, could be altered by a shift in firm strategy. This also implies that a change in regulation may not only call for a change in the firm's strategy Vis-a –vie these conventional market forces, but also a change in strategy toward government itself, (Whitley 1999).

According to Boddewyn and Brewer (2004) a country that borders another contain resources and institutions which are nation specific, such as national and human factor endowments, market potentials, value systems and others. Most of these elements can easily be translated into industry and firm level impacts through the use of the forces model. Levitt's (2003) observations on the globalization of markets and Ohmae's (2000) views on the "borderless" world suggest, from a normative perspective, that firms should attempt to bridge and even eliminate such differentials among nations. However, the concept of "state", with a focus on political sovereignty, implies that "generic" models such as the forces model to guide strategy cannot be merely extended to the international business context, (Boddewyn and Brewer 2004).

In fact, various strands of international business research demonstrate the need to include government regulation as a separate force driving industry competition, including the dependency models, neo mercantilist models and bargaining models, Brewer (1992). In particular bargaining models figure prominently in the literature, (Kobrin 2000). Several authors, including Poynter (1995) and Yoffie (1993) have described the differential impact of government regulation among industries. In addition, Salorio (1993) has analyzed the diverging strategies of firm's vis-à-vis government regulations in terms of the international configuration of their value added activities. Hence, both from a descriptive at the industry level and from a more normative perspective at the firm level, government significantly affect what constitutes an effective strategy.

2.4 Performance in a competitive environment

Firm strategy is the fundamental basis by which firms move towards the preferred position in the framework, (Whitley 1999). Firms in a competitive institutional environment have two strategic options: firstly, they may compete with rivals through the more traditional market mechanisms, on the basis of elements such as price, product and quality. Such competitive strategies are captured by existing strategy paradigms, such as Porter's (1980) framework. These can generally be referred to as market competition strategies. However, firms opting to compete on such elements must also take into account the competitive edge of their rivals. In addition to this, firms may compete for the benefits of the institutional environment, by aiming primarily to change their position within the framework, (Khanna and Palepu 1997).

Such strategies are defined as institutional strategies. Firms would therefore follow market competition strategies to maintain their positions within the framework and institutional competition strategies to move within the framework towards the preferred position. Four types of strategies are available to firms in a competitive institutional environment: Market competition strategies including dominant market competition and niche market competition, institutional competition strategies, including institutional competition for support and institutional competition on governance, (Langlois et al 1990).

2.5 Competition in the retail market

Competition is a contest between individuals, groups, nations, restaurants and animals for territory, a niche, or a location of resources. Proponents of retail competition reason that competitive pressures to attract and keep customers can spark innovation in products, services, technology, and most importantly produce savings for consumers. It arises whenever two or more parties strive for a goal which cannot be shared. Competition occurs naturally between living organisms which co-exist in the same environment. Business is often associated with competition as most companies are in competition with at least one other firm over the same group of customers, Lynch (2003).

According to David (2000), the level of competition a firm faces will depend on a number of factors which include; the greater the number of firms operating in the industry, the greater will be the level of competition faced by each firm in that industry, on the extent to which its products are similar to its competitor's products. If a firm operates in an industry where its competitor's products are an almost perfect substitute for its products, then the firm will generally face a high level of competition. If however a firm is able to offer a product which is different from that of its rivals, then the firm will face less competition and the ease with which competitors can enter or leave the industry. If firms find it difficult or costly to enter the industry, then existing firms may find that they face limited competition. Whereas if it is relatively easy to enter an industry, firms will generally find that they face a high level of competition. Generally speaking, an industry could be described as being highly competitive whenever a large number of relatively small firms, who offer similar products, operate in the industry. If however the industry is dominated by a small number of large firms, the industry could be described as being highly concentrated, (Darrow *at al.*, 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the proposed research design, data collection and the techniques for data analysis that was used.

3.2 Research design

The research design was a survey of the small supermarkets operating in Nairobi. This research design allowed for contact with otherwise inaccessible participants. It has been observed that a survey is feasible when the population is small and variable. When all items of the population are covered, no element of chance is left and highest accuracy is obtained. Cooper and Emory (1985) contend that surveys are more efficient and economical than observations.

3.3 Population of the Study

The population of the study consisted of small supermarkets operating in Nairobi. According to the City Council of Nairobi licensing data for 2010, a small supermarket is one defined to occupy between 1,000 to 5,000 square feet. Based on the same information, there were 227 small supermarkets in Nairobi (Appendix II).

3.4 Sample

In the study, the researcher used simple random sampling technique. The technique accorded all the members of the population equal chances of being represented in the study. The researcher picked the supermarket which falls in a number after every five in the City Council of Nairobi licensing data for 2010. This enabled the researcher to arrive at 45 supermarkets to be the sample size.

3.5 Data Collection

The study used primary data; these were collected through self-administered questionnaires. Structured questionnaire consisted of both open ended and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaire is divided into three sections. Section one is designed to obtain general information on person and organization profile, section two consisted of questions regarding the supermarket customers, while section three consisted of questions on competitive strategies adopted by the supermarkets. Respondents were the chief operations manager. The questionnaire was administered through "drop and pick later" method. The respondents of the study were expected to give an insight into some of the strategies they have put in place to ensure that they have a competitive edge over its competitors. These respondents are involved in formulation and implementation of organization's strategies.

3.6 Data Analysis and Presentation

The data was analyzed by the use of descriptive statistics to summarize and relate variables were attained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures, mean, percentages and frequency distribution tables while tables and graphs were used for presentation of findings. However, before final analysis is performed, data were cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. This method of analysis is most desirable as it enabled the researcher to have an insight of the most commonly used strategies by the small supermarket.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1: Introduction

The research objective was to establish the competitive strategies adopted by small supermarkets operating in Nairobi. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 46 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 46 questionnaires issued, only 35 returned. This represented a response rate of 76%.

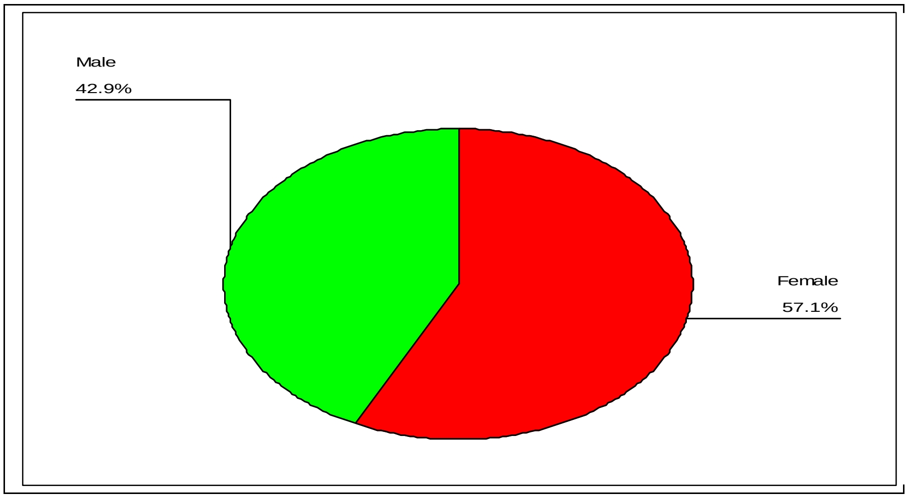
4.2 Personal and Organization Profile

The demographic information considered in this study for the respondents included the gender of the respondents, age, length of service in the supermarket, supermarket existence, position held in the supermarket and the number of employees currently employed.

4.2.1 Gender

This is a set of characteristics that are seen to distinguish between male and female. In this context, a man and woman. Of the 35 respondents, 57.1 percent were female while 42.9% were male. This therefore means that female supervisors/managers are commonly used by the small supermarkets in Nairobi.

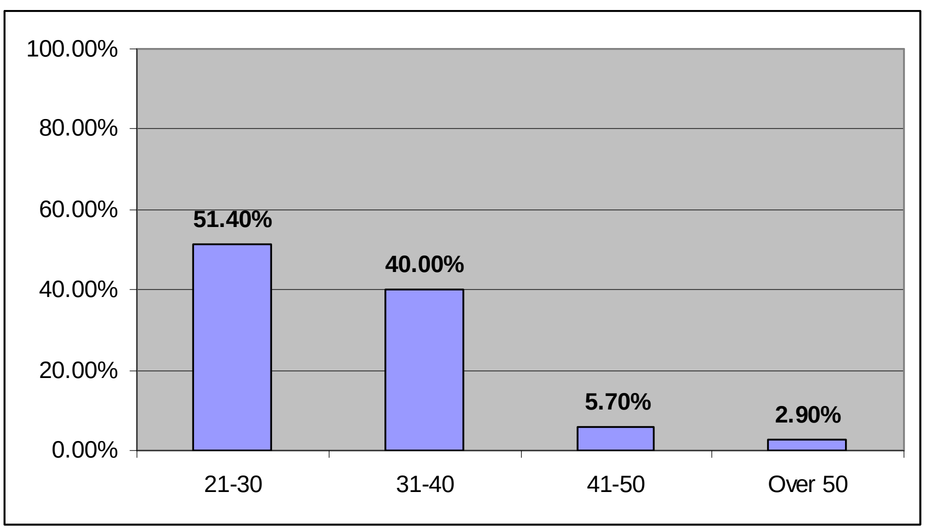
Figure 4.1: Respondents gender



4.2.2 Age bracket

Age is the length that one has lived, the questionnaire aimed at getting an age bracket that worked in the small supermarket.

Figure 4.2: Respondents age bracket

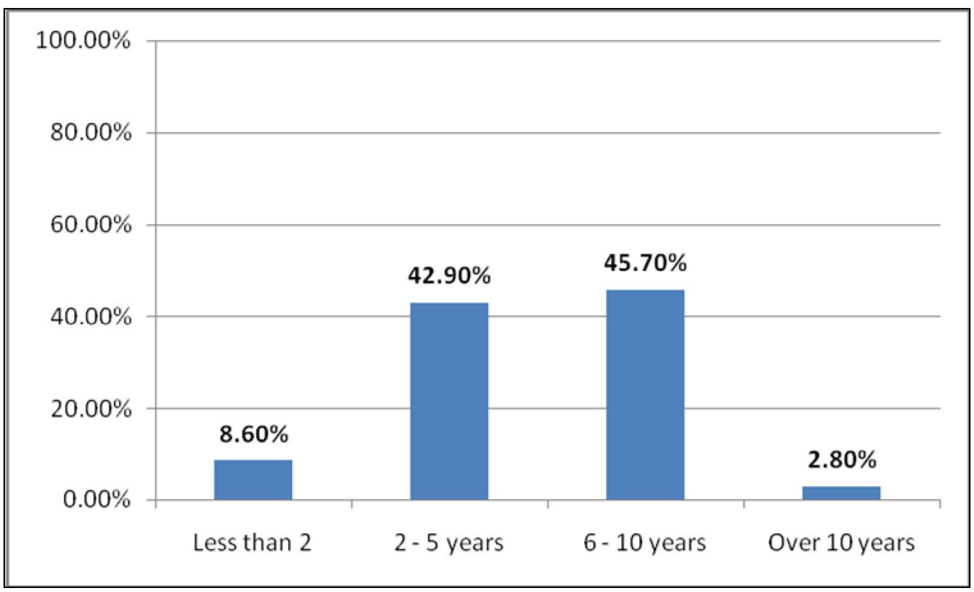


The findings presented in table 4.1 show that, 51.4% of the respondents were of age 21-30 years, 40.0% were between 31-40 years of age, 5.7% were between 41-50 years old and a few (2.9%) were over 50 years. On average the majority of the respondents are between the age brackets of 21-30 years. This therefore means that young people of below thirty years managed the small supermarket this could be interpreted to mean that since the supermarkets were small the supervisors /manager were young people without much experience. Thus as the supermarket grew so did the managers.

4.2.3 Length of continuous service with the supermarket

This is the duration of service in the supermarket by the respondent staff in the supermarket.

Figure 4.3: Length of continuous service with the supermarket



The results presented in figure 4.3 shows that the number of years of service in the current organization varies from a period of less than 2 years to over 10 years. 45.7% of the respondents had worked in their respective organizations for a period of between 6 and 10 years, 42.9% had worked for a period of 2 to 5 years, 8.6% had worked for a period of less than two years while 2.8% had worked for more than 10 years. Majority of the respondents have worked in their organization for over 6 years, thus there is high level of understanding of their organization.

4.2.4 Duration of supermarket existence (Years)

This describes the number of years the supermarket has been serving its customers. The longer the duration the more the owners have mastered what their customers need and therefore stocking the goods.

Table 4.1: Duration of supermarket existence (Years)

	Frequency	Percent	Cumulative Percent
Under 5	2	5.7	5.7
6-10	13	37.1	42.8
11-15	15	42.9	85.7
16-20	4	11.4	97.1
21-25	1	2.9	100.0
Total	35	100.0	

From the findings 42.9% of the respondents said the supermarkets which they work for a between 11 and 15 years, 37.1% said there supermarket has been in existence for 6 to 10 years, 11.4% said it has been in existence for 16-20 years while 5.7% said there supermarket was under 5 years old. 2.9% of the respondents said the supermarket they work for is 21-25 years old. Majority of the supermarkets have been in existence for over 6 years, which indicates that the supermarkets are still working on the way to compete with the other larger supermarkets and therefore have been able to establish their strengths and weaknesses.

4.2.5 Position in the organization

The position held in the organization determines the kind of information one have regarding the competitiveness strategies used by the supermarket and therefore the more senior position the more information available.

Table 4.2: Position held in the organization

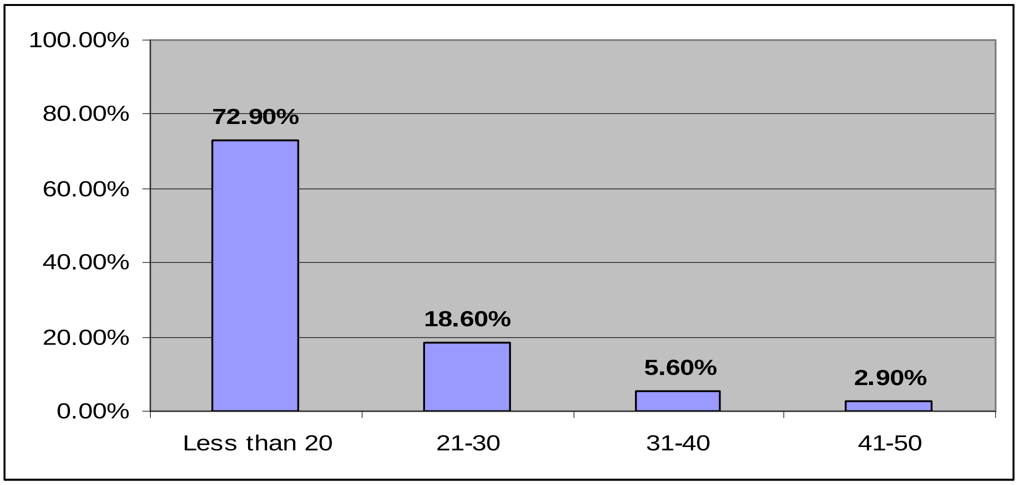
	Frequency	Percent	Cumulative Percent
Director	3	8.6	8.6
Supervisory staff	13	37.1	45.7
Management staff	12	34.3	80.0
Other	7	20.0	100.0
Total	35	100.0	

From the findings 37.1% of the respondents were supervisory staff, 34.3% were management staff, 20.0% were in other category while 8.6% were directors. This shows that majority of the respondents deal with customers on day to day basis. This therefore means that the respondents are staff that understood the environment and customer behavior in the market.

4.2.6 Number of employees in the organization

This is the total aggregate of employees serving the supermarket at any one time and these gives an insight into the size of the supermarket as the bigger the supermarket the more the employees they employ.

Figure 4.4: Number of employees in the organization



Majority of the respondents (72.9%) said they have less than 20 employees, 18.6% said they have 21-30 employees, 5.60% said they have 31-40 employees, while 11.4% said they have 41-50 employees. The number of employees in a supermarket is determined by the size of the supermarket and in this case the supermarkets are too small to employ many people.

4.3 Supermarket position in service delivery

These describes the position of the supermarket in serving its customers in terms of whether they meet the expectation of the customers, the prices they charge for the goods and the market been served by the supermarkets.

Table 4.3: Supermarket position in terms of offering services

	Frequency	Percent	Cumulative Percent
Fall short of customer expectation	8	22.9	22.9
Meet customers expectation	20	57.1	80.0
Surpassed customer expectation	7	20.0	100.0
Total	35	100.0	

The respondents view regarding the position of the supermarket in offering services to its customers, 57.1% said the supermarkets meet customers expectation, 22.9% said they fall short of customer expectation while 20.0% said they surpass customer expectation. The customers visit supermarkets with the expectation that they will get what they want and therefore they have expectation which the supermarkets should at all times fulfill.

4.3.2: Reasons for patronizing the supermarket

This describes the factors which the customers consider before deciding to visit the supermarket whenever they need to purchase some goods.

Table 4.4: Reasons for patronizing the supermarket

	Frequency	Percent	Cumulative Percent
Good customer service	5	14.3	14.3
Competitive prices	13	37.1	51.4
Sales promotion, advertisement and home deliveries	6	17.1	68.6

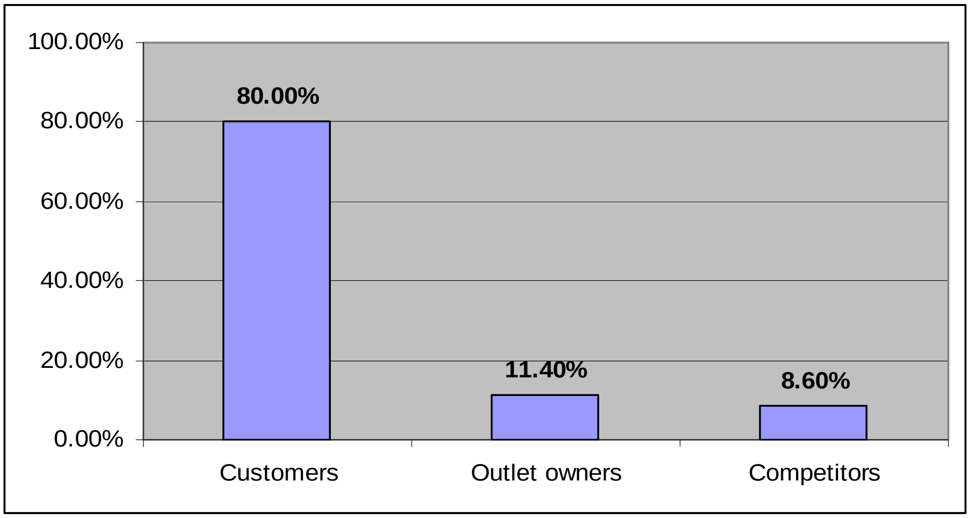
Strategic location of outlet and interior decor	10	28.6	97.1
Specialized services/goods	1	2.9	100.0
Total	35	100.0	

The analysis above shows that 37.1% of the respondents said their customers patronize because of the competitive prices which they charge them, 28.6% said it's because of the strategic location of the outlet and interior décor, 17.1% said it results from sales promotion, advertisement and home deliveries while 14.3% said its due to good customer service which the customer are given when they visit the supermarket. 2.9% thought that the reason for patronization is due to specialized goods and services. The customers would patronize a supermarket if all conditions to their shopping there are met and these could be the case as the respondents views varied with the supermarket which they own or work in.

4.3.3: Who influences the products stocked by supermarkets

The respondent were required to give response as to why the stock the products they stocked in the supermarket.

Figure 4.5: Who influences the products stocked by supermarkets

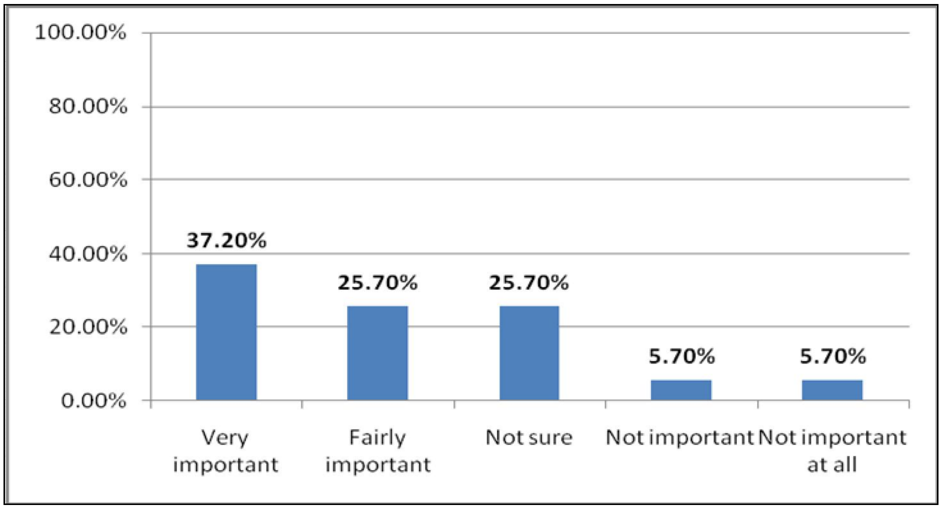


The findings indicate that the customers (80.0%) are the ones who influences the products stocked by the supermarkets, 11.4% said it's the outlet owners while 8.6% said it's the competitors. The customers customer's visit a supermarket with the expectation that they will get the goods and services which they need and therefore the supermarkets are obliged to ensure that the customers gets all what they need and that could be the reason as to a higher proportion of the respondents said it is customers.

4.3.4: Supermarkets branding

This is a way in which supermarkets differentiate themselves from their competitors and it entails the use of various techniques.

Figure 4.6: Importance of branding

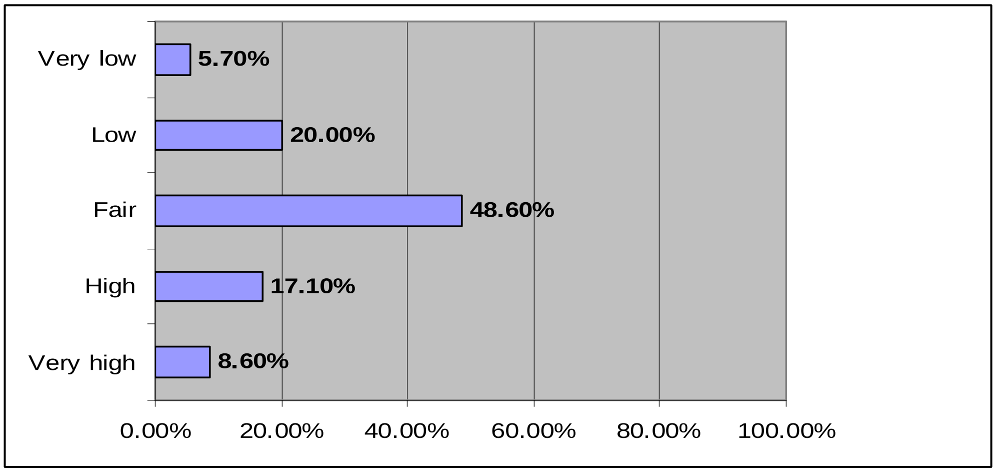


The findings show that 37.2% of the supermarkets value the branding of its outlets very importantly, 25.7% value the branding fairly importantly while another 25.7% were not sure whether branding is important. 5.7% said branding was not important and the other 5.7% said it was also not important at all. A larger proportion of the supermarkets value supermarkets branding as it differentiate the supermarket with its competitors.

4.3.5: Customer's view of the prices charged

The customers are a great asset to the businessmen and therefore the prices which the supermarkets charge determines their shopping perception and therefore the lower the prices the higher the shopping thus the higher the returns to the owners of the supermarkets.

Figure 4.7: Customer's view of the prices charged

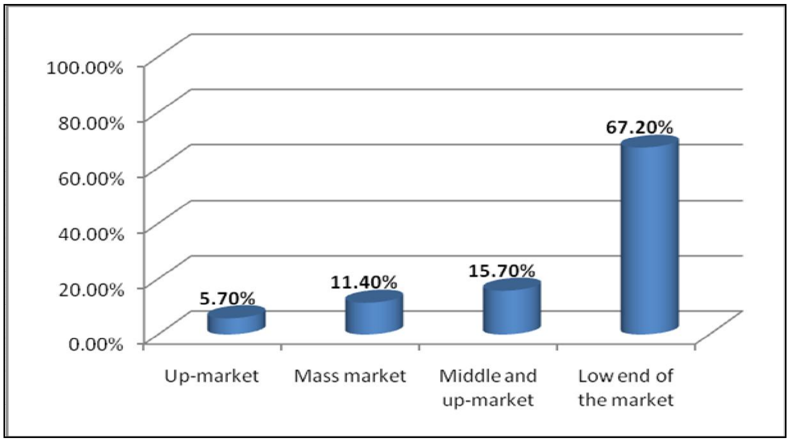


The figure above indicates that supermarket owners think that most of the customers' view their prices as fair (48.6%), 20.0% think that it was low while 17.1% said they think the customers view the prices as high. 8.6% of the respondents said they think the customers view the prices as very high and the remaining 5.7% said they think it is very low. The prices charged by the supermarkets depend on many factors and therefore the perception of the respondents will vary depending on the market it serves and the location of their supermarket.

4.3.6: Perception of the market served

The market served by the supermarket determines the prices charged and therefore the customers would like the supermarket to stock the kind of goods which they need and these determines the perception of the customers.

Figure 4.8: Customer's perception of the market served



The findings on figure 4.19 below show that majority of the outlets (67.2%) serve the low end of the market, 15.7% serve the middle and up-market, 11.4% of the respondents said they serve the mass market class while only 5.4% of the outlets serve the up-market. The location of the supermarket determines the market in which they serve and therefore in this instant majority of the supermarkets are located in low income areas and thus serve in low end market.

4.4 Competitive strategies

Competitive strategies are designed for situations where only partial information is available, whereas an optimal solution would require complete knowledge of all circumstances, or of the future. The extent of market orientation in a firm must be congruent with the competitive strategy adopted. The analysis will seek to answer the type of strategy used by the supermarket.

4.4.1: Type of strategy used by supermarkets

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, an organization finds its industry niche and learns about its customers. Whatever strategy a business chooses, it must fit with the company and its goals and objectives to gain a competitive advantage.

Table 4.5: Type of strategy used by supermarkets

	Frequency	Percent	Cumulative Percent
Reducing the prices of goods in order to attract customers	9	25.7	25.7
Offering free samples at times	3	8.6	34.3
Improving goods quality before selling	4	11.4	45.7
Ensuring good customer services	19	54.3	100.0
Total	35	100.0	

The supermarkets use various strategies, 54.3% said they use the strategy of ensuring good customer service are accorded to the customers, 25.7% said they reduce the prices of the goods in order to attract customers, 11.4% said they improve the quality of the goods before selling them while 8.6% said they offer free samples at times in order to attract customers. The type of strategy to be used should be one which leads to attraction and retention of customers and also one which can be sustained by the supermarket for a longer duration of time. The supermarkets were keen with the level of customer service they offered as 54% of the supermarkets use the strategy. It could be because it is a effective strategy and at the same time a cheaper one as compared with free samples and reduction of prices, this are small supermarkets which buy the products from the manufacturers and then sell them as they are. Most of these supermarkets are yet to break even therefore cannot engage in the strategies.

4.4.2: Action plans to beat competition

The respondents were to give their independent opinion on the action plans used by supermarkets to beat competition. The range was ‘Not important at all (1)’ to ‘Very important’ (5). The scores of ‘not important/not important at all’ have been taken to represent a variable with a mean score of below 2, the scores of not sure have been taken to represent a mean score of 2 to 3 while the scores of 3 to 5 have been taken to represent fairly important/very important. A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents.

Table 4.6: Action plans to beat competition

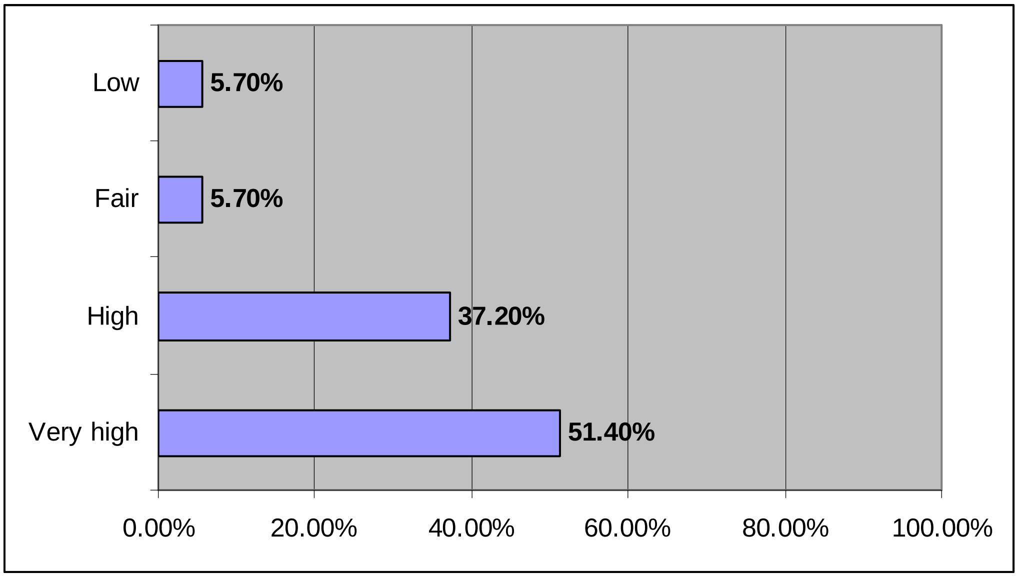
	Mean	Std. Deviation
Increasing number of outlets	2.06	1.3707
Security measures e.g. well lit area	2.4000	1.0347
Convenience and ease of accessibility	4.5143	.7425
Attractive in outlet layout and design	3.3429	.9684
Consistency with other outlets	4.4000	.8471
General cleanliness of outlet	4.3571	1.1617
Uninterrupted power and water supply e.g. provision of generator, large storage water tanks	1.6857	1.1054

The findings shows that, the supermarkets use action plans except the use of uninterrupted power and water supply e.g. provision of generator, large storage water tanks (mean 2.6857) which the respondents said they were not sure about it. The action plan used mostly was the convenience and ease of accessibility (mean 4.5143), followed by consistency with other outlets (mean 4.4000) then general cleanliness of the supermarket (mean 4.3571). There was a high degree of variation among respondents, an indication that some respondents put more emphasize on some factors than others. This is indicated by standard deviation 1.1617 for general cleanliness of outlet and 1.1054 for uninterrupted power and water supply e.g. provision of generator, large storage water tanks. On average the small supermarket try to use some of the action plans however they are not so important except for uninterrupted power which they are not keen about. This can be interpreted since this are small supermarket and they and they have not broken even therefore issue of increasing outlets, security and design may not be a priority at the moment.

4.4.3: State of competition in the industry

Competition is a contest between individuals, groups, nations, restaurants and animals for territory, a niche, or a location of resources. It arises whenever two or more parties strive for a goal which cannot be shared. Competition occurs naturally between living organisms which co-exist in the same environment. If a firm operates in an industry where its competitor’s products are an almost perfect substitute for its products, then the firm will generally face a high level of competition.

Figure 4.9: State of competition in the industry



Majority of the respondents (51.4%) said that the state of competition in the industry was very high, 37.2% said it was high while 5.7% were of the opinion that it was fair while the other 5.7% said it was low. Therefore the state of competition in the industry arises as a result of large supermarkets and also the kiosks and therefore the small supermarkets face challenges from various competitors.

4.4.4: Strategic responses to competitive environment

Strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. In order to effectively achieve the firm's objectives, these set of plans and actions must be strategically fit to the complexities and dynamism of a rapidly shifting environment.

Figure 4.10: Strategic responses to competitive environment

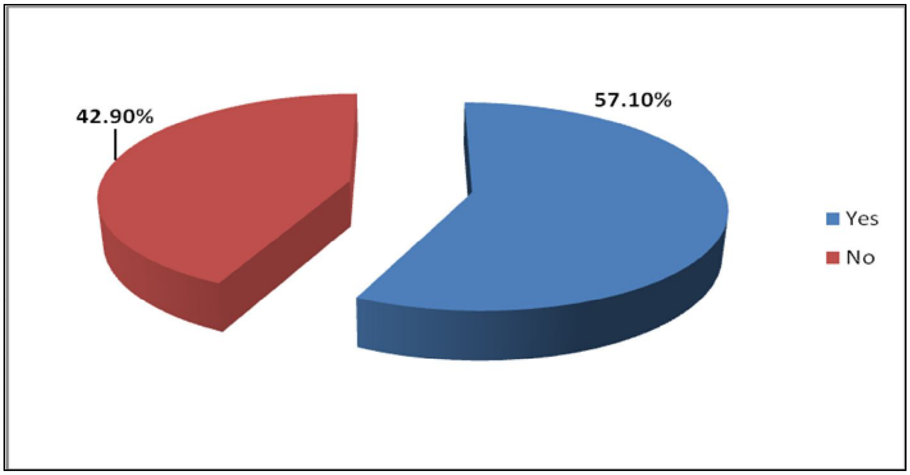


Figure above shows that a greater number of respondents, 57.1% were of the opinion that the organizations strategic responses to competitive environment was adequate, 42.9% thought it was not adequate. The organizations response should counter what the other competitors had come up with so that the market share of the supermarket is not eaten up by the competitors.

4.4.5: Competitive options used in response to competition in the market

The respondents were to give their independent opinion on the competitive options used by the supermarkets in response to competition in the market. The range was 'Not important at all (1)' to 'Very important' (5). The scores of 'not important/not important at all' have been taken to represent a variable with a mean score of below 2, the scores of not sure have been taken to represent a mean score of 2 to 3 while the scores of 3 to 5 have been taken to represent fairly important/very important. A standard deviation of >1.1 implies a significant difference on the impact of the variable among respondents.

Table 4.7: Competitive options used in response to competition in the market

	Mean	Std. Deviation
Use of latest technology	3.7714	1.0869
Cost cutting	4.1143	.9873
Business process rationalization	3.2286	.9103
Automation of operations	3.1286	.9848
Customer service	4.4000	1.0059
Increased advertising	3.3714	1.1653
New products/services	2.1000	1.0000
Branding	2.1000	.9701
Staff training	3.3143	1.2313
More strategic locations	4.2857	1.3884

All the factors above are important to supermarkets in their quest to respond to competition in the market. The importance of the factors varied as some were more important than others but generally branding (mean 2.1000) and the use of new products (mean 2.1000) were the only factors which the respondents said they were not sure whether they are used. The factors which were mostly used to beat competition were the use of customer service (mean 4.4000) then the use of more strategic locations (4.2857) followed by cost cutting measures (mean 4.1143) and the use of latest technology (mean 3.7714). There was a high degree of variation among respondents, an indication that some respondents use the competitive options than others. The supermarkets are considered young.

4.5: Analysis of the Micro-Environment

Environmental analysis has two primary activities; obtaining information about important competitors, and using that information to predict competitor behavior. Casual knowledge about competitors usually is insufficient in competitor analysis. Rather, competitors should be analyzed systematically.

4.5.1 Threat of entry

The respondents were to give their independent opinion on the competitive options used by the supermarkets in response to competition in the market. The range was ‘Not important at all (1)’ to ‘Very important’ (5). The scores of ‘not important/not important at all’ have been taken to represent a variable with a mean score of below 2, the scores of not sure have been taken to represent a mean score of 2 to 3 while the scores of 3 to 5 have been taken to represent fairly important/very important. A standard deviation of >1.1 implies a significant difference on the impact of the variable among respondents.

Table 4.8: Threat of entry

	Mean	Std. Deviation
Price reduction	4.3714	.94202
Product differentiation	3.5429	1.12047
Capital requirements	4.0000	1.21268
Access to distribution channels	3.9143	.88688
Government policy	3.6857	1.05081

From the findings the respondents were of the view that the following factors; price reduction (mean 4.3714), product differentiation (mean 3.5429), capital requirements (4.0000), access to distribution channels (3.9143) and government policy (mean 3.6857) regarding threat of entry have been used effectively in maintaining sustainable competitiveness. The small supermarkets and the government use the above factors in order to try and restrict competition from potential entrants.

4.5.2 Power of substitute products

Substitute products are ones that satisfy the need despite being technically dissimilar.

Table 4.9: Power of substitute products

	Mean	Std. Deviation
Relative price performance	3.8000	.90098
The extent of switching costs	4.0286	1.04278

The respondents agreed that relative price performance (mean 3.800) and the extent of switching costs (mean 4.0286) are considered by the supermarkets before determining the prices they will charge so that the customers' does not use the substitute products due to high cost of the normal goods.

4.5.3 Bargaining power of buyers

Powerful customers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants against one another, all at the expense of industry profitability.

Table 4.10: Bargaining power of buyers

	Mean	Std. Deviation
Number of buyers in the locality	4.4571	.74134
Undifferentiated products	4.2714	.77784
Low profits of the buyers	2.7143	.86675
Awareness of alternative products	4.0857	.85307
Low switching costs	3.6571	1.21129

The findings show that the supermarkets takes into consideration the bargaining powers of the buyers which includes the number of buyers in the locality (mean 4.4571), undifferentiated products (mean 4.2714) , awareness of alternative products (mean 4.0857) and low switching costs (mean 3.6571). However low profits of the buyers (mean 2.7143) was a factor which was considered moderately by the supermarkets. The number of buyers denies the industry any alternative market to sell to if prices offered by buyers are low and therefore the supermarket factors in the number of buyers before fixing the prices while at the same time undifferentiated products enables the buyer to focus on price as the important buying criterion and these makes the supermarkets to ensure that they charge fair prices as they are aware that their customers will compare the prices. Awareness of alternative products enables the buyers to trade around the market and these has been significantly increased by improvement in information technology which has made switching costs to be lower.

4.5.4 Bargaining power of suppliers

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labor, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices.

Table 4.11: Bargaining power of suppliers

	Mean	Std. Deviation
Few number of suppliers	2.8000	1.25558
Proprietary difference of supplier products	4.0000	1.05719

The suppliers determines the prices the goods are to be sold and therefore their bargaining power should be considered by the supermarkets and in these instance the supermarkets puts more emphasize on the proprietary difference of supplier products (mean 4.00) while the number of suppliers influence (mean 2.80) to a moderate extent the competitiveness of the supermarkets. The findings shows that majority of the supermarkets uses proprietary difference of supplier products as these unique features of images will make it impossible for the industry to buy elsewhere.

4.5.5 Rivalry among existing competitors

The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability.

Table 4.12: Rivalry among existing competitors

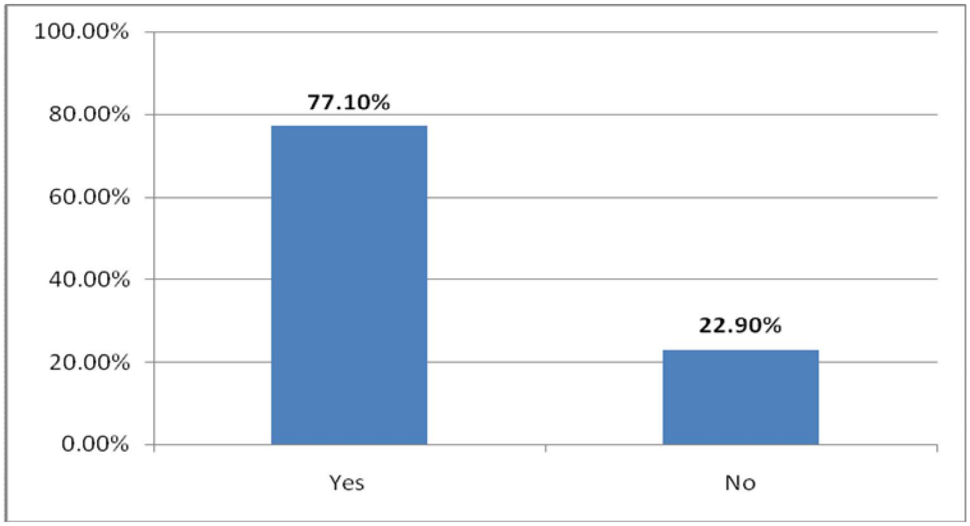
	Mean	Std. Deviation
Numerous rivals	3.5429	1.19663
Low industry growth	3.5714	1.11897
High fixed or storage costs	3.4857	1.03955
High exit barriers	1.9714	.92309

The competition which the existing competitors pose to a supermarket will affect the returns which the supermarket will get and therefore the supermarkets considers the numerous rivals, the low growth of the industry and the high fixed or storage costs. The exit barrier (mean 1.9714) is not considered by the supermarkets because it is not an option to be used in order to maintain sustainable competitiveness. Some industries feature cut-throat competition, while others are more relaxed. If there are fewer firms of similar size, they will tend to, formally or informally, recognize that it is not in their interest to cut prices and therefore they will maintain the prices which they have been charging their customers. Low industry growth will force the supermarkets to compete against one another to increase their sales volume.

4.5.6: Environmental changes

This is two primary activities obtaining information about important competitors and using the information to predict competitors' behavior.

Figure 4.12. Environmental changes



The analysis above shows that 77.1% of the respondents said there are some changes which necessitate strategic response while 22.9% said there are no environmental changes which have occurred. There is likelihood that there are some changes which have occurred as depicted by a higher response of those who said there is some changes. Also this means that the environment is very turbulent this could be due to the large supermarket venturing in the same area where we have small supermarket and product offered by small supermarket.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1: Summary

In summary, majority of the supermarkets are managed and run by younger people of below thirty years old and these could be attributed to the supermarkets been small. The findings indicate that the respondents have worked in the supermarkets for over six years indicating high level of understanding of the supermarket. The position held by the respondents differed but it was a position which holds crucial information regarding the supermarkets as it was managerial, supervisory and directorship. A higher proportion of the supermarkets employ less than thirty employees indicating that they are small and thus need to employ less staff.

The study established that majority of the supermarkets have been in existence for a period of more than five years and therefore they have understood the customers' expectation and they have met them. The customers patronize a supermarket because of competitive prices, strategic location of outlet and interior decor, sales promotion, advertisement and home deliveries and good customer service. The products a supermarket stock mostly determines the customers they would attract and therefore at any time the outlet should ensure that it stocks the good which the customers' needs. Branding of a supermarket differentiates it from others and that could have been the reason for majority of the respondents saying branding is very important.

With regard to the prices charged by the supermarkets, there was varying views from the respondents but majority of the supermarkets said the customers view the prices as fair, however the prices charged by the supermarkets depend on many factors and therefore the perception of the respondents will vary depending on the market it serves and the location of its supermarkets. The respondents indicated that there are some environmental changes which have occurred which necessitate strategic responses. The respondents indicated that supermarkets use various strategies which included ensuring good customer services, reducing the prices of goods in order to attract customers and improving goods quality before selling.

The action plans which use to beat competition includes convenience and ease of accessibility, consistency with other outlets, general cleanliness of outlet, increasing number of outlets, attractive in outlet layout and design and security measures. The respondents acknowledged that the state of competition in the industry is very high and these could be attributed to competition in the industry arising from large supermarkets and also the kiosks. The strategic responses which the supermarkets have put in place are considered adequate by majority of the respondents and therefore the market share of the supermarkets will remain intact. In order to align itself to the operating environment, the supermarkets should expand the business before others enter the market, employment of enough staff, dictate the market by reducing prices to put off competition, invest in intensive advertisement campaign, improving customer relations and ensuring that the supermarket moves with the change in consumer tastes and preferences.

The competitive options used by the supermarkets in response to competition in the market included improvement of customer service, cost cutting measures, use of latest technology, ensuring that the supermarkets are located in more strategic locations, automation of operations, business process rationalization, increased advertising and staff training. Majority of the respondents were of the opinion that the strategies used in maintaining sustainable competitiveness

5.2: Conclusion

From the research findings and the answers to the research questions, some conclusions can be, made about the study.

Customer satisfaction is very vital for the success of any supermarket. The study showed that the supermarkets does all they can to ensure that customer expectations are met and these include good customer service, strategic location of outlet and interior décor and ensuring that the prices they charge are competitive. The customers are the greatest asset to the supermarkets and therefore the goods and services been stocked should be the ones which the customer’s needs. The prices charged by the supermarkets were fair thus enabling majority of the customers to purchase what they need at competitive prices.

The changes in the environment will affect the performance of the SMEs and therefore the supermarkets needs to strategize how to counter the changes and these necessitate exploitation of strategies like ensuring good customer services and reducing the prices of goods in order to attract customers.

Sustainable competitiveness of a firm is crucial to its business and therefore the use of the various strategies by the firms to deal with threats resulting from entry by competitors, power of substitute products, bargaining power of buyers and suppliers and the competition from existing competitors indicates the supermarkets willingness to ensure that they protect their business territory.

5.3 Recommendations

The study recommends the following:-

5.3.1 Recommendations on supermarket

The supermarkets should ensure that their supermarkets meets the customer's needs by stocking all the goods which the customers' needs. Since the customers patronize the supermarkets on the basis of the quality food and good customer service, the outlets should ensure then that they maintain the highest level of quality at all times and at the same time also they should stock the products which their customers need. The supermarkets should never deviate on its main goal which varies with the level of operation the firm is so that they can be able to grow systematically.

In view of the results findings, it is recommended that all the supermarkets should use their brand name to the satisfaction of its customers and not exploit them. The use of all the strategic options by the supermarkets will ensure that if one option fails then they can use the other to respond to the changes in the market.

Recommendations regarding the use of the various micro-environment strategies are that the supermarkets should ensure that they adopt only the strategies which will ensure that they are beneficial to their business and not adopt all the strategies which could be costly to the supermarkets in the long run.

5.4 Recommendations for further Research

The study confined itself to small supermarkets operating in Nairobi and which were selected after every four and therefore supermarkets operating in the same area could have been chosen and thus this research should be replicated on all the small supermarkets operating in Nairobi and the results be compared so as to establish whether there is consistency among the small supermarkets. One could also look into the customer perceptions the questionnaire were given to the staff who worked in the respective supermarket.

5.5 Limitations of the study

This study was based on a sample limited to small supermarkets operating in Nairobi. The study did not cover other supermarkets operating in Nairobi and therefore the strategies which the big supermarkets use could be different. The questionnaire were given to the manager/ supervisors who most cases happened to be relatives of the owners therefore they might have been biases in some of their responses.

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APPENDICES

APPENDIX I: AUTHORIZATION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 27/09/2010

TO WHOM IT MAY CONCERN

The bearer of this letter SARAH WAHJIRU

Registration No: D61/8911/05

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

APPENDIX II: QUESTIONNAIRE

Please give answers in the spaces provided and tick (√) the box that matches your response to the questions where applicable.

SECTION ONE: PERSON AND ORGANISATION PROFILE

1) Name of Supermarket: ____

2) Gender? (tick as appropriate)
   a) Female ( ) b) Male ( )

3) What is your age bracket? (Tick as applicable)
   a) Under 20 years ( )
   b) 21 – 30 years ( )
   c) 31 – 40 years ( )
   d) 41 – 50 years ( )
   e) Over 50 years ( )

4) Length of continuous service with the Supermarket? (Tick as applicable)
   a) Less than two years ( )
   b) 2-5 years ( )
   c) 6-10 years ( )
   d) Over 10 years ( )

5) For how long has your supermarket been in existence?
   a) Under 5 years ( )
   b) 6 – 10 years ( )
   c) 11 – 15 years ( )
   d) 16 – 20 years ( )
   e) 21 - 25 years ( )
   f) Over 25 years ( )

6) Which category best describes your position in the organization:

   a) Director ( )

   b) Supervisory Staff ( )

   c) Management Staff ( )

   d) Other (Please State) _______________ ( )

7. How many employees does your organization have currently?

   a) Less than 20 ( )

   b) 21 – 30 ( )

c) 31 – 40 ( )

d) 41 – 50 ( )

e) Over 50 ( )

PART B: CUSTOMERS

1) According to your opinion, where is your supermarket in terms of offering services to its customers?

a) Far below Customer Expectation ( )

b) Fall short of customer expectation ( )

c) Met Customer expectation ( )

d) Surpassed customer expectation ( )

2. Why do you think these customers patronize your outlet? Because of:

a) Good customer service ( )

b) Competitive prices ( )

c) Sales promotions, advertising and home deliveries ( )

d) Strategic location of outlet and interior décor ( )

e) Specialized services/goods ( )

3. Please indicate some of the difficulties you encounter in trying to meet the needs of these customers?...
....

4. Who influences the decision to stock the products (foods) and services you offer at your supermarket?

Customers ( ) Outlet owner ( ) Competitors ( ) Suppliers ( )

5. In your opinion, how important is it to brand your outlets?

a) Very important ( )

b) Fairly important ( )

c) Not sure ( )

d) Not important ( )

e) Not important at all ( )

6. How do your customers view the prices you charge for the goods and services?

Very high ( ) High ( ) Fair ( ) Low ( ) Very low ( )

7. What is the customer's perception of the market you serve?

Up-market ( )

Mass market ( )

Middle and up-market ( )

Low end of the market ( )

PART C: Competitive strategies

1. Are there changes in the environment which have occurred that necessitate strategic response? Yes ( ) No ( )

2. Which type of strategy does your supermarket use?

Reducing the prices of goods in order to attract customers	
Offering free samples at times	
Improving goods quality before selling	
Ensuring good customer service	

3. What factors may have influenced the speed of strategic change in your organization?..

4. Please indicate the extent to which you have used the following action plans to beat competition in the market? Use a scale of 1 – 5 with; 1 – Very important, 2 – Fairly important, 3 – Not sure, 4 – Not important and 5 – Not important at all.

FACTORS	1	2	3	4	5
Increasing number of outlets					
Security measures e.g. well lit area					
Convenience and ease of accessibility					
Attractive in outlet layout and design					
Consistency with other outlets					
General cleanliness of outlet					
Uninterrupted power and water supply e.g. provision of generator, large storage water tanks					

5. What are some of the strategies you use to attract customers and retain them?...
....
....
6. How would you rate the state of competition in the industry?

Very high ( ) High ( ) Fair ( ) Low ( ) Very low ( )

7. Do you consider the organization's strategic responses to competitive environment as adequate? Yes ( ) No ( )

8. In your view, what actions should your organization take to strategically align itself to the operating environment in order to enhance customer satisfaction?...
....
....
....

9. How important has each of the following competitive options been used by your firm in response to competition in the market? Use a scale of 1 – 5 with; 1- Very important, 2 – Fairly important, 3 – Not sure, 4 – Not important and 5 – Not important at all.

FACTORS	1	2	3	4	5
Use of latest technology					
Cost cutting					
Business process rationalization					
Automation of operations					
Customer service					
Increased advertising					
New products/services					
Branding					
Staff training					
More strategic locations					

PART D: Analysis of the Micro-environment

10. In you view, to what extent are the following strategies effective in maintaining sustainable competitiveness of your firm in the neighborhood. Use the scale as follows:

    1- Not at all, 2.-Less extent, 3- Moderate extent, 4-Large extent, 5-Very great extent

Strategies	1	2	3	4	5
a) Threat of Entry					
Price reduction					
Product differentiation					
Capital requirements					
Access to distribution channels					
Government policy					
b) power of Substitute Products					
Relative price performance					
The extent of switching costs					
c) Bargaining power of buyers					
Number of buyers in the locality					

Undifferentiated products					
Low profits of the buyers					
Awareness of alternative products					
Low switching costs					
d) Bargaining power of Suppliers					
Few number of suppliers					
Proprietary difference of supplier products					
e) Rivalry among existing competitors					
Numerous rivals					
Low industry growth					
High fixed or storage costs					
High exit barriers					