A STUDY OF THE FORCES THAT SHAPE COMPETITION IN THE HANDCRAFT INDUSTRY IN KENYA: AN APPLICATION OF PORTER'S FIVE FORCES INDUSTRY ANALYSIS MODEL

BY

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DECLARATION

This research project is my original work and has never been presented in any other University or College for the award of degree or diploma or certificate.

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This project is dedicated first and foremost to the Almighty God who has enabled me to complete this journey.

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ABSTRACT

The basis for crafting competitive strategies is the understanding of the forces that shape competition in a particular industry. The most widely used framework to understand the competitive forces is based on Porter's Five-Force model. The model provides an assessment of the contending forces that shape competition in the industry and determine firm strategy. Using the model, this study was designed to determine the applicability of Porter's Five Forces Model applicable in Kenya's handicrafts industry. Using a semi-structured questionnaire, data were gathered from Chief Executive Officers, Corporate Strategy Managers and/or Marketing Managers of the sampled handicrafts companies and statistically analyzed using percentages, frequencies, mean scores, and standard deviations. The major findings of the study were that out of the six forces (Porter's five competitive forces and government policies) that were used in the study, five forces were highly rated as shaping competition in the industry. These forces include rivalry among existing companies in the industry, bargaining power of both buyers and suppliers, threat of substitutes, and government policies. It was established all the factors which were used to determine the competitive strength of each force were moderately rated on aggregated terms with mean scores ranging between 3.00 and 3.99. The threat of new entrants was the only force which was found to be insignificant in shaping competition in the industry. The study established there were a number of entry barriers which make it impossible for new entrants to invest in the industry, hence don't affect the competition in the industry. The overall conclusion that could be drawn from the findings of this study was that Porter's (1980) Five Force Model was found to be highly applicable in the handicrafts industry while government was considered as a separate contending force.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

All organizations operate in a macro environment consisting broadly of the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors, and the company's immediate industry and competitive environment (Thompson and Strickland, 2003). Therefore, managers are not prepared to decide on a long-term direction or a strategy until they have a keen understanding of the company's strategic situation, that is, the exact nature of the industry and competitive conditions it faces and how these conditions match up with its resources and capabilities.

Organizations, whether for profit or non-profit, private or public have found it necessary in recent years to engage in strategic management in order to achieve their corporate goals. The environments in which they operate have become not only increasingly uncertain but also more tightly interconnected. This requires a threefold response from these organizations. They are required to think strategically as never before, need to translate their insight into effective strategies to cope with their changed circumstances and lastly, to develop rationales necessary to lay the groundwork for adopting and implementing strategies in this ever-changing environment (Bryson, 1995).

According to Pearce and Robinson (1997), in order to achieve their goals and objectives, it is necessary for organizations to adjust to their environment. Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. The state of competition in an industry, which is rooted in its underlying economics, depends on the competitive forces that work to define and/or characterize the industry structure.

Porter (1980) observes that the essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well the strategies potentially available to the firm. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them.

The economic character of industries varies according to a number of factors, namely: the overall size and market growth rate; the pace of technological change; the geographic boundaries of the market; the number and sizes of buyers and sellers; whether products are virtually identical or highly differentiated; the extent to which costs are affected by economies of scale; and the type of distribution channels used to access buyers. An industry's economic features are important because of the implication they have for strategy. For example, in capital intensive industries where investment in a single plant can run into millions, a firm can spread the burden of high fixed costs by pursuing a strategy that promotes high utilization of fixed assets.
Thompson and Strickland (2003) point out that one important component and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Hax and Majluf (1996) assert that in order to select the desired competitive position of a business, it is necessary to begin with the assessment of the industry to which it belongs. To accomplish this task, managers must understand the fundamental factors that determine the firm's long-term profitability prospects because this indicator embodies an overall measure of industry attractiveness. This study will fundamentally adopt the use of Porter's Five Force industry analysis model as the conceptual framework.

1.1.1 Porter's Five Forces Model

The emergence of strategy has led to a new thinking in the area of industry analysis. Porter (1980) developed the Five Force industry analysis Model, which has a theory that there are five forces that determine competition in an industry. These forces form the basic characteristics of competition in an industry. Hence the strongest competitive force determines the profitability of an industry and its importance in strategy formulation. By far, the Five Forces Model, which forms the basis of this study, is the most influential and widely used framework for evaluating industry attractiveness. Essentially, Porter (1980) postulates that there are five forces that typically shape the industry structure: intensity of rivalry among competitors, threat of new entrants, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers. These forces together with other context-specific forces (government, logistics, and information technology) as identified by Aosa (1997) and McFarlan (1984), will be the conceptual framework (as expounded in the literature) on which this study will be based.

The five competitive forces reflect the fact the competition in an industry goes well beyond the established players. All the five forces jointly determine the intensity of industry competition and profitability, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation. To establish the strategic agenda for dealing with these contending forces and to grow despite them, a company must understand how they work in the industry and how they affect the company in its particular situation (Pearce and Robinson, 1997).

A firm's performance behavior is affected by who it is competing with and in what sense they compete. The degree of competitiveness of the market refers to the degree to which individual firms in the market have power to influence price or other terms on which their product is sold. Based on market characteristics like the degree of product differentiation, presence or absence of entry barriers, economies of scale, mobility, exit and shrinking barriers, economists were able to classify industries (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce and Robinson, 1997). Industry and competitive analysis is an orderly process that attempts to capture the structural factors that define the long-term profitability prospects of an industry, and to identify and characterize the behavior of the most significant competitors (Porter, 1980; Hax and Majluf, 1996).

Different forces take on prominence in shaping competition in each industry. Each industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. The strategist, wanting to position his organization to cope best with its industry environment or to influence that environment in the industry's favor, must learn what makes the environment tick. This view of the competition according to Porter pertains equally to industries dealing in service as well as those selling products. As competition has increased coupled with a changing dynamic environment in the Kenyan Handcrafts Industry, it has become increasingly important for firms to understand the industry they are in so as to develop effective strategies to compete and develop competitive advantage.

According to Cockburn et al (2000), a 'five forces' analysis is essentially a structural map of the underlying economics of an industry: a map of the degree to which competitors, entrants, substitutes, and vertical bargaining power exert pressure on the margins of a firm in a particular industry. Cockburn et al further argue that a firm operating in an industry in which there are substantial returns to scale coupled with opportunities to differentiate, that buys from and sells to perfectly competitive markets and that produces a product for which substitutes are very unsatisfactory, is likely to be much more profitable than one operating in an industry with few barriers to entry, and a large number of similarly sized firms who are reliant on a few large suppliers and who are selling commodity products to a few large buyers.

1.1.2 The Kenyan Handicrafts Industry

In Kenya the production of handicrafts makes significant contribution to the national economy. Many types of Kenyan handicrafts are known around the world, but of all these crafts, basketry, wood and stone carving may be the most famous. According to Export Promotion Council (EPC) (2007), many terminologies have been used to describe the products in the industry. They include handicrafts, gift items, artisanal products, and curios among others. Of all these, the use of the term ‘artisanal products’ was adopted by the UNESCO/ITC International Symposium on ‘Crafts and the International Market: Trade and Customs Codification’. Accordingly, artisanal products were defined as those that are produced by artisans, either completely by hand, or with the help of hand tools or even mechanical means, as long as the direct manual contribution of the artisan remains the most substantial component of the finished product. Using raw materials from sustainable resources the special nature of artisanal products derives from their distinctive features, which can be utilitarian, aesthetic, creative, culturally attached, decorative, functional, religiously and socially symbolic and significant (Manila, 1997).

Production of crafts in Kenya has over time undergone transition from being a cultural practice to commercial venture, which has quickly gained acceptance as a viable sector both locally and internationally. The traditional products which were produced as cultural activities grew from cottage industry and local consumption to commercial production for international markets. However, it is still the cultural appeal that has remained one of the strongest international marketing gimmick (EPC, 2007).

Development of this sector is articulated in various Government policy documents such as the Sessional Paper No. 2 Of 2005 on the Development of Micro and Small Enterprises discussed and adopted by Parliament in April 2005, the National Export Strategy (NES) 2003-2007, and the Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2007).

1.2 Statement of the Problem

The environment within which a firm operates is perhaps the largest determinant of the strategies it adopts. Porter (1980) observes that the essence of formulating competitive strategy is to relate an organization to its environment. Organizations are environment dependent. They must scan the environment in order to spot budding trends and conditions that could affect the industry and adapt to them (Thompson and Strickland, 2003).

An industry's economic traits and competitive conditions and how they are expected to change determine whether its future prospects will be poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits while weak companies in attractive industries can report good performances (Porter, 1980; Thompson and Strickland, 2003; Pearce and Robinson, 2005).

The handicraft industry in Kenya provides a clear example of many micro and small enterprises sector in developing countries whose existence depends on rapidly degrading natural resources. However, the genesis of craft production in Kenya as a part-time activity or hobby has led to the persistent perception of this industry as a social activity. On the contrary, the current commercial craft sector is one of the main economic sectors in the country. Crafts are predominantly export items whose appeal is largely influenced by the ethnic and cultural characteristics of respective countries. To a small extent, craft production is still dependent on other competing economic activities and seasonality of production is a major characteristic in the industry. Further, the production and domestic sales of crafts is closely linked to a thriving tourism industry. These and other phenomena present a case that may be accorded varied, yet unsubstantiated interpretations with respect to the forces that shape competition in the Kenyan handicrafts industry.

Studies focusing on industry analysis have been documented (Waithaka, 2001, Oluoch, 2003; Gakombe, 2004; Ngobia, 2004; Karari, 2006; Nyale, 2007, Wachira, 2008). However, the studies have focused on different contexts. For instance Waithaka looked at the analysis of the funeral industry in which she adopted a modified Porter's Five Forces Model which included three other forces that defined the structure of the industry, that is, the government, logistics, and power play. In her study, Oluoch applied the modified Five Forces Model to assess the perceived attractiveness of the Freight and Forwarding Industry while Gakombe, Ngobia, and Karari respectively delved into the analysis of the industry forces and the strategic choices adopted by private hospitals; the basis of competition in the Mobile Phone Industry in Kenya; and an application of Porter's Diamond Model to analyze competitiveness of Kenya's Tourism Industry. Nyale's study focused on application of Porter's five-force model in the structural and competitive analysis of the mobile telephony industry while Wachira studied the insurance industry using Porter's Five Forces Model.

The studies done so far have focused on different contexts that present unique characteristics. There is no known study that has focused the application of Porter's Five Forces Model to determine forces that shape competition in the Handcrafts Industry in Kenya. It is the purpose of this study to adopt Porter's Five Forces Model to determine forces of competition in the Kenyan handicrafts industry in order to bridge the inherent knowledge gap. The Porter's Five Forces Model is considered appropriate because it offers the opportunity to both understand the contending forces that determine competition in an industry because of its proven applicability in other contexts. This study will seek to answer the question: Is Porter's Five Forces Model applicable in Kenya's handicrafts industry?

1.3 Objective of the Study

The objective of the study is to determine the applicability of Porter's Five Forces Model applicable in Kenya's handicrafts industry.

1.4 Significance of the Study

The findings of the study will benefit first, the policy makers both in government regulatory authorities and private sector will be able to utilize the findings of the study in informing their decisions regarding the way forward in the handcrafts industry. Secondly, the management and interested investors in the handcrafts industry can use the findings of the study in crafting viable strategies with respect to investment and other aspects in their organizations. And finally, the study will be use by researchers in both academic and business, as a reference tool in evaluating the competitiveness and/or attractiveness of the handcrafts industry in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature that is pertinent to the subject under study. Both theoretical and empirical literature that relate to industry analysis in general and the application of Porter's Five Forces Industry Analysis Model in particular is presented with a view to provide the basis for identifying the variables of study.

2.2 The Concept of Industry Structure

An industry can be defined as a group/collection of firms offering products or services that are close substitutes for one another (Porter, 1980; Pearce and Robinson, 2005). Individual industries may differ from each other according to the degree of competition among various buyers and sellers in each market (Lipsey, 1987). Kotler (1998) states that there are four forms of competition among firms: offering similar products and services to the same customer at similar prices; industry competition among firms making the same product or class of products; form competition among firms manufacturing products that supply the same service; and generic competition among all the firms competing for the same consumers' disposable income.

According to Porter (2008), industry structure grows out of a set of economic and technical characteristics that determine the strength of competitive forces in an industry. Porter says that industry structure drives competition and profitability, not whether an industry is emerging or mature, high tech or low tech, regulated or unregulated. There are certain characteristics of a market in which a firm operates that are likely to affect a firm's behavior and performance. To decide who is competing with whom and in what sense they compete, it is necessary to distinguish between the behavior of individual firms and the type of market in which the firms operate. Economists use the term Market Structure to refer to the latter concept (Lipsey, 1987).

The degree of competitiveness of the market structure refers to the degree to which individual firms have power over that market- power to influence the price or other terms on which their product is sold. Factors that have been used to classify industries because they influence behaviors and therefore performance of firms include the number of sellers; the degree of product differentiation; presence or absence of entry, mobility, exit, and shrinkage barriers. Others are cost structure, degree of vertical integration, and degree of globalization (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce and Robinson, 2005).

These market characteristics give rise to four known industry structure types namely, pure monopoly, oligopoly, monopolistic competition, and perfect competition. Pure monopoly exists when only one firm provides a certain product or service, that is, whenever an industry is in the hands of a single producer. At the opposite extreme of monopoly is perfect competition is in which many competitors offering the same product and service (homogeneous). Oligopoly is an industry structure in which a small number of (usually) large firms compete with each other and produce products that range from highly differentiated to highly standardized, while monopolistic competition consists of many competitors able to differentiate their offers in whole or part (Kotler, 1998; Lipsey, 1987; Brown, 1995).

The structure of the industry determines whether firms are price takers (pure competition) or price makers (all other market structures), whether they engage in advertising (firms in pure competition markets do not), whether there is competition or cooperation among different firms and so on. The important point is that the conduct is associated with structure. Finally, conduct determines performance. Three of the most important elements of performance are profitability, economic efficiency, and consumer welfare. The various market structures are assumed to perform differently. For example, there are no long-run economic profits under pure competition and monopolistic competition; efficiency exists only under pure competition; and so on (Lipsey, 1987). Porter (2008) contends that a healthy industry structure should be as much a competitive concern to strategists as their company's own position and understanding industry structure is also essential to effective strategic positioning. This is the concern of industry analysis.

2.3 Industry Analysis

According to Hax and Majluf (1996), industry analysis is an orderly process that attempts to capture the structural factors that define the long-term profitability prospects of an industry, and to identify, and characterize the behavior of the most significant competitors. Pearce and Robinson (2005) say that industry analysis is the basis of intelligent planning. It is a systemic process of gathering and analyzing information about an industry on a domestic and global scope. The information gathered would be on economic trends, social and political trends, changes in technology and the rate of change. The analysis helps in determining the true areas in which firms compete, defines what firms consider to be competition, and helps determine key factors for success as they pursue various opportunities. It provides a basis upon which firms evaluate and decide about their corporate goals and helps to develop insight into developing appropriate strategies.

Since the 1930s and 1940s, the traditional approach to analysis of industries was the Structure-Conduct-Performance (SCP) model (Brown, 1995). As the name implies, the SCP approach holds that there is an important relationship structure, conduct, and performance. According to this approach, firm and industry behavior depend on industrial structure, so once industrial structure is classified, conduct and performance can be readily deduced. The key components of an industrial structure are the number of firms in an industry, entry and exit conditions, and degree of product differentiation. Other important aspects are the extent of vertical integration, the amount and quality of information available to firms, and the amount of risk.

In the 1960s and 1970s, however, a number of economists began to find problems with the SCP approach leading to the birth of the new industrial economics. The most serious problem with the SCP approach is what has been referred to as the endogeneity question. "Endogenous" means determined within the system. In the context of the SCP approach, the endogeneity question concerns whether industrial performance is completely determined by industrial structure. The basic premise of SCP approach is that performance depends on conduct and structure. However, conduct is assumed to be dependent on structure and this implies that performance is determined by structure alone. The premise that industry structure determines industry performance implies the industry structure is predetermined ("exogenous") and that managers and entrepreneurs only passively respond to the industrial environment. This is inconsistent with what is known about business people. They are constantly trying to shape the industrial environment to fit their needs. For example, large firms may try to drive rivals out of business by offering goods for abnormally low prices, a strategy known as predatory pricing.

Another problem with SCP approach is that it does not say very much about the evolution of industrial markets. This is a key problem because competition is an evolutionary and historic process. By treating industrial structure as given, SCP analysis cannot take into account strategy and the multiple interactions among firms. According to Brown (1995), perhaps the key difference between SCP and the new industrial economics is the focus on strategy versus determinism. Traditional industrial economists believe that existing firms, markets, and production methods are a reasonable approximation of the most efficient adaptation of the existing technology that could be imposed by external order. The important point is that this approximation comes about automatically without any intervention from policy makers, so there is little role for strategic behavior by businesspeople. New industrial economists hold a much different world view: instead of being driven by a deterministic force, the market economy evolves through the interplay of firms and policy makers, who try to control economic evolution- they innovate rather than yield to the industrial environment.

Porter (1980) argues that the every firm competing in an industry has a competitive strategy, whether explicit or implicit, and that the essence of formulating a competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Porter (2008) observes that understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time.

According to Porter (2008), good industry analysis looks rigorously at the structural underpinnings of profitability. He argues that one of the essential tasks in industry analysis is to distinguish temporary or cyclical changes from structural changes. A good guideline for the appropriate time horizon is the full business cycle for the particular industry. Accordingly, the point of industry analysis is not to declare the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability. He further observes that the strength of the competitive forces affects prices, costs, and the investment required to compete; thus the forces are directly tied to the income statements and balance sheets of industry participants. Finally, Porter argues that good industry analysis does not just list pluses and minuses but sees an industry in overall, systemic terms.

In a nutshell, the purpose of conducting industry analysis is mainly to understand the forces behind industry performance in order to match strategy to industry conditions. This involves the identification of the opportunities and threats posed by the state of the industry so as to come up with the appropriate strategy, to determine what competitors are doing, what threats and opportunities exist, and whether the firm should enter, remain or exit an industry (Porter, 1980); hence the question of industry attractiveness.

Thompson and Strickland (2003) quote Kenich Ohmae as saying that "analysis is the starting point of strategic thinking". Thompson and Strickland then add that thinking strategically leads to good strategic choices based on a comprehensive strategic analysis. The analysis uses a tool kit of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. This leads to drawing conclusions about whether the industry represents an attractive investment for company funds.

2.4 Industry Attractiveness

The industry's attractiveness explains the value generated by the economic activity of it as well as the ability to share the wealth created. The most widely used framework to understand the industry attractiveness is based on Porter's five-force model. The model provides an assessment of the potential for a business to attain a superior profitability by examining the industry structure through the five forces. These forces determine industry profitability because they influence the prices, costs and required investment of firms in an industry.

According to Porter (1980), industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five forces of competition. These include threat of new entrants, rivalry within the industry, threat of substitute products, bargaining power of suppliers, and bargaining power of buyers. The collective strength of these five competitive forces determines the ability of firms in any industry to earn profits and these five forces vary from industry to industry.

These five forces delimit prices, costs, and investment requirements, which are the basic factors that explain long-term profitability prospects, and henceforth, industry attractiveness. Consequently, three points are worthy observing with regard to the impact of industry structure on the profitability of a firm. First, different industries achieve different levels of average profitability; therefore, the attractiveness of an industry is a factor that is critical to understanding the performance of a firm. Second, there is a great degree of variability observed in the profitability levels among firms competing in a given industry. Thus, the ability of a firm to deploy resources and develop capabilities to achieve a superior performance, are also very important. And third, industry behavior seems to change dramatically across time so much so that industries that enjoyed high levels of profitability in yesteryears face either mediocre or poor profitability during current times (Hax and Majluf, 1996). Porter (1980) points out that the purpose of conducting industry and competitive analysis, therefore, is mainly to understand the forces behind industry performance in order to match strategy to industry conditions.

From Porter's Five Forces model, the relative attractiveness of an industry can be ascertained and a decision made on whether to remain, enter or exit the industry. According to Thompson and Strickland (2003), the use of the model further enables organizational managers ask a number of critical questions whose answers will be indicative of industry attractiveness. The questions include: what are the industry's dominant economic features?, what is competition like and how strong are each of the competitive forces?, what is causing the industry's competitive structure and business environment to change?, which companies are in the strongest/weakest positions?, what strategic moves are rivals likely to make next?, what are the key factors for competitive success?, and therefore, is the industry attractive and what are the prospects for above-average profitability?

2.5 The Five Forces Industry Analysis Model

In any industry, whether service or manufacturing, Porter (1980), observes that the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and rivalry among the existing competitors. The collective strength of these five competitive forces determines the ability of firms in any industry to earn profits and these five forces vary from industry to industry. He point out that the purpose of conducting industry and competitive analysis, therefore, is mainly to understand the forces behind industry performance in order to match strategy to industry conditions.

This study will adopt and apply the Five Forces Model albeit with contextual modifications as suggested by different scholars and researchers. Pearce and Robinson (1997) built upon Porter's theory and postulated that designing viable strategies for a firm requires a through understanding of the firm's industry and competition which involves defining the industry boundaries and structure, competitive analysis and operating environment. They define industry structure as comprising of the industry concentration, which is the extent to which industry sales are dominated by only a few firms. It also involves the economies of scale, which are the savings that companies in the industry can achieve due to increased volumes, product differentiation or the extent to which customers perceive products/services offered by different firms in the industry as different from one another, and barriers to entry. Barriers to entry are tangible or intangible obstacles that a firm must overcome in order to enter the industry.

In Kenya, studies have been conducted that have focused on the application of Porter's Five Forces Model in some industries. In her study of the funeral industry attractiveness, Waithaka (2001), adopted the modified model advanced by Aosa (1997), which included three other additional forces (government, logistics, and power play) that were found to define the structure of the funeral industry. The same modified model has been applied by Oluoch (2003) in studying the perceived attractiveness of the freight and forwarding industry. Other studies that have adopted Porter's Five Forces Model include those of Nyale (2007) and Wachira (2008) in the mobile telephony industry and the insurance industry respectively. The studies substantiate the view advanced by Osigweh, 1989; Hussey, 1990; Austin, 1991; and Aosa, 1997) that management is sensitive to the context in which it is practiced and that strategic management models advanced in developed countries where strategic management originated may not be directly applicable in developing African countries, Kenya inclusive.

Wiseman and Macmillan (as quoted in Aosa 1997) accepted Porter's model but grouped the five forces into three categories, namely: suppliers, customers and competitors. This new classification did not alter Porter's propositions. Wheeler and Hunger (1990) also agreed with Porter but wanted to include the sixth force, 'other stakeholders'. They argued that this new category would incorporate the relative power of unions, government, and other interested parties not specifically mentioned in Porter's model. In addition, though Porter had included government as a potential entry barrier under threat of new entrants, they argued that government was very powerful and merited special mention as a separate strategic force. Porter (2008) agrees that no structural analysis is complete without a diagnosis of how present and future government policy at all levels will affect structural conditions

The work of McFarlan (1984) also added an information technology (IT) dimension to the model by exploring the way that IT could be used to exploit or counter any of the forces. It was suggested that, by adding to products an IT content, which would create added value or reduce cost, it could make it more difficult for new entrants or substitute products to be successful. Also, using IT to forge links with suppliers and customers would increase the power of the organization within the market.

In his proposition, Porter remains categorical that the underlying structure of an industry reflected in the strength of the forces should be distinguished from the many short-run factors that can affect competition and profitability in a transient way. For example, fluctuations in economic conditions over the business cycle influence the short-run profitability of nearly all firms in many industries as can material shortages, strikes, spurts in demand, and the like. Although such factors may have tactical significance, Porter states that the focus of the analysis of industry structure, or "structural analysis", is on identifying the basic underlying characteristics of an industry rooted in its economics and technology that shape the arena in which competitive strategy must be set. Firms will each have unique strengths and weaknesses in dealing with industry structure, and industry structure can and does shift gradually over time. The pattern of forces both shape an industry and constrain firms strategic choices within the industry, but industry structure is subject to change as the wider environment, the forces themselves, and the firms' strategies change.

In his reaffirmation, Porter (2008) defends and extends the framework by clarifying that it is important to avoid common pitfall of mistaking certain visible attributes of an industry (e.g. industry growth rate, technology and innovation, government, and complementary products and services) for its underlying structure, and remains categorical that the underlying structure of an industry reflected in the strength of the forces should be distinguished from the many short-run factors that can affect competition and profitability in a transient way. Following is a detailed description of the Five Forces as fronted by Porter (1980) and defended in 2008.

Threat of Entry: New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. If barriers are high and/or the new comer can expect sharp retaliation from entrenched competitors, the threat of entry is low and vice versa. The major sources of barriers to entry include economies of scale; product differentiation; capital requirements; switching cost; access to distribution channels; cost disadvantages independent of scale; and government policy. Conditions that signal the likelihood of strong retaliation to entry and hence deter it include among others a history of vigorous retaliation; established firms with substantial resources to fight back; established firms with great commitment to the industry and highly illiquid assets employed in it; and slow industry growth which limits the ability of the industry to absorb a new firm without depressing the sales and financial performance of established firms

Intensity of Rivalry among Existing competitors: This takes the familiar form of jockeying for position- using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Rivalry in some industries is characterized by such phrases as "warlike", "bitter", "cutthroat", whereas in other industries it is termed "polite" or "gentlemanly". Intense rivalry is the result of a number of interacting structural factors namely: numerous or equally balanced competitors; slow industry growth; high fixed or storage costs; lack of differentiation or switching costs; capacity augmented in large increments; diverse competitors; high strategic stakes; and high exit barriers among others.

Pressure from Substitute Products: All firms in an industry are competing, in a broader sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternatives offered by substitutes, the firmer the lid on industry profits and vice versa. Identifying substitute products is a matter of searching for products that can perform the same function as the product of the industry. Substitute products that deserve the most attention are those that are subject to trends improving their price-performance tradeoff with the industry's product, or are produced by industries earning higher profits.

Bargaining Power of Buyers: Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. The power of each industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business. A buyer group is powerful if the following conditions hold true, otherwise it is not: it is concentrated or purchases large volumes relative to seller sales; the product it purchases from the industry represent a significant fraction of the buyer's costs or purchase; the product it purchases from the industry are standard or undifferentiated; it faces few switching costs; it earns low profits; buyers pose a credible threat of backward integration; the industry's product is unimportant to the quality of the buyer's products/services; and the buyer has full information among others.

Bargaining Power of Suppliers: Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The conditions making suppliers powerful tend to mirror those making buyers powerful. A supplier group is powerful if the following conditions apply, otherwise it is not: it is dominated by a few companies and is more concentrated than the industry it sells to; it is not obliged to contend with other substitute products for sale to the industry; the industry is not an important customer of the supplier group; the suppliers' product is an important input to the buyer's business; the supplier group's products are differentiated or it has built up switching costs; and the supplier group poses a credible threat of forward integration among others. The model has been summarized in Figure 1.

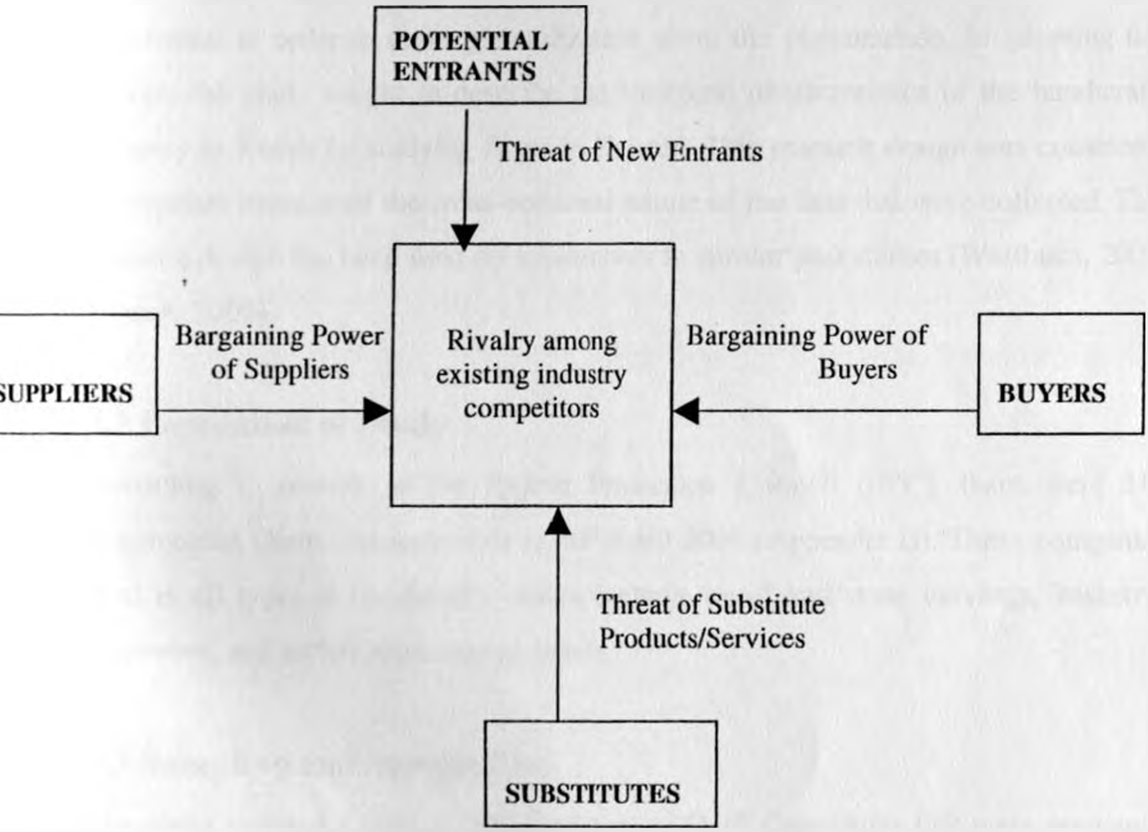

Fig. 1 The Five Forces Industry Analysis Model

Adapted from Porter, E. M. (2008), "The Five Competitive Forces that Shape Strategy", *Harvard Business Review*, Pp. 79-93.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This research methodology chapter presents a description of how the study was approached. It presents the plan of the research, that is, the research design, how data were collected and from whom, and the data analysis technique that was adopted to analyze the data in order to generate the findings of the study.

3.1 Research Design

The study was carried out through a descriptive survey research design. This research design affords the researcher the opportunity to study part of the members of the population in order to make generalization about the phenomenon. In adopting this design, the study sought to describe the structural characteristics of the handicrafts industry in Kenya by studying firms in Nairobi. This research design was considered appropriate because of the cross-sectional nature of the data that were collected. This research design has been used by researchers in similar past studies (Waithaka, 2001; Oluoch, 2003).

3.2 Population of Study

According to records at the Export Promotion Council (EPC), there were 315 Commercial Crafts Companies as at 30th April 2009 (Appendix II). These companies deal in all types of handicrafts which include wood and stone carvings, basketry, glassware, and leather ware among others.

3.3 Sampling and Sample Size

The study targeted a total of 100 Commercial Craft Companies that were randomly drawn from those located in Nairobi. This sample size was 36% of the total population and it satisfies the rule of thumb that a sample size of more than 30 for a large population is representative enough (Neuman, 2003).

3.4 Data Collection

The study used primary data which were largely quantitative and descriptive in nature. Therefore, a structured questionnaire (Appendix I) was designed for this purpose. The questionnaire was designed to solicit data on competitive forces that shape competition in the handicrafts industry in order to assess the applicability of the Porter's Five Forces Model in the industry. Respondents were presented with descriptive statements in a 5-point Likert scale on which they were required to rate by scoring the extent to which they perceived a particular statement is descriptive of the force in the industry. The questionnaires were administered through drop and pick method and respondents targeted were Chief Executive Officers or Corporate Strategy Managers of the companies. However, where such positions were found not to exist, marketing managers, and/or managers in charge of strategic planning in the organizations were targeted.

3.5 Data Analysis

Due to the cross-sectional and descriptive nature of data that were collected, the study used descriptive statistical tools of analysis. To measure the presence of the competitive forces that shape competition in the industry, cluster analysis was used. This entailed organizing variables and their relationships in measuring the extent to which they are related in describing a particular force, which was then used to determine the applicability of Porter's Five Force Model in the handicrafts industry. Variables defining a particular force were grouped into clusters and used to measure the extent to which the force is present. The presence of a force was measured by way of mean scores of each of the variables describing the force. Analyzed data were presented in tables to summarize the findings.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The study was designed to achieve one objective: to determine the applicability of Porter's Five Forces Model applicable in Kenya's handicrafts industry. To achieve this objective, corporate strategy managers and/or chief executive officers in commercial handicraft companies were targeted to provide the data. Out of the one hundred (100) companies that were targeted, all of which were served with the questionnaire, only forty-six responded by willing to fill and return the questionnaires. This formed 46% response rate, which was considered adequate for analysis. Others either declined to receive questionnaires citing various reasons while others received but never responded.

In carrying out the survey, respondents were required to respond to general organizational demographic characteristics and then presented with statements describing different forces that shape competition in the handicrafts industry. They were then required to score on a 1 to 5 likert scale indicating the extent to which they perceived the statements apply in the handicrafts industry. This would indicate the extent to which the forces shape competition in the industry.

4.2 Organizational Information

The study sought information about respondent organizations on aspects that were considered to be descriptive of the handicrafts companies. The aspects were with respect to the type of company/mode of incorporation, companies' ownership structure, and scope of operations. Seeking this information was considered necessary to lay ground for understanding the characteristics of the players in the handicrafts industry.

4.2.1 Type of Company/Mode of Incorporation

Commercial handicrafts companies operating in Kenya were found to be of different types depending on the mode of incorporation. The type of company and/or mode of incorporation were considered to be the most appropriate indicator of the nature of players in the handicrafts industry in Kenya. The study findings are shown in Table 4.1.

Table 4.1: Type of Company/Mode of Incorporation

	Frequency	Percent
Sole Proprietorship	26	56.5
Partnership	11	23.9
Limited Company	9	19.6
Total	46	100.0

The findings in Table 4.1 indicate that majority of the companies that participated in the study (56.5%) were sole proprietorships. These were followed by those incorporated as partnerships at 23.9%, while those incorporated as limited companies came third at 19.6%. These findings point out that the handicrafts industry is dominated by enterprises owned by individuals, hence it is an industry dominated by small and medium size enterprises.

4.2.2 Ownership Structure

Commercial handicraft companies in Kenya could exhibit different organizational characteristics which could determine the competitive milieu in the handicrafts industry. Such characteristics could in turn be determined by ownership structure. The study intended to establish the ownership of the handicraft companies that were targeted and the findings are presented in Table 4.2.

Table 4.2: Ownership Structure

	Frequency	Percent
Locally owned	43	93.5
Foreign owned	1	2.2
Both locally and foreign owned	1	2.2
Non-response	1	2.2
Total	46	100.0

The findings of the study in Table 4.2 indicate that out of the forty-six handicraft companies that participated in the study, 93.5% of them are locally-owned while 2.2% each are both locally and foreign owned, and foreign owned. There was no response to this aspect from one company. These findings imply that players in the handicrafts industry are fully Kenyan owned while a few are partly and/or foreign owned. Therefore, such ownership structure is reflective of the preceding findings that most of the companies were found to be solely owned.

4.2.3 Scope of Operations

The study considered that the scope of an organization's activities is a reflection of that organization's ability to serve a wider market. This also puts pressure on the need to adopt a variety of competitive strategies to be able to meet needs of diverse market segments and be able to sustain competitive advantage. The findings of the study on the scope of operations of the commercial handicraft companies that participated in the study are presented in Table 4.3.

Table 4.3: Scope of Operations

	Frequency	Percent
Within Nairobi and its environs	22	47.8
Within major towns in Kenya	4	8.7
Country wide (both rural and urban areas)	5	10.9
Regionally (within East Africa)	5	10.9
Internationally (East Africa and beyond)	10	21.7
Total	46	100.0

The study findings in Table 4.3 indicate that majority of the handicrafts companies (47.8%) operate within Nairobi and its environs followed by those that operate internationally at 21.7%. 10.9% each were found to have operations country wide and regionally respectively. These findings imply that the forces that drive competition in the handicrafts industry have both domestic and international dimensions.

4.3 Forces that Shape Competition in the Handicrafts Industry

The objective of the study was to determine the applicability of Porter's Five Forces Model applicable in Kenya's handicrafts industry. The model constitutes of five forces that shape competition in the industry and determine the attractiveness of an industry. The model provides an assessment of the competitive arena in an industry and the potential for a business to attain a superior profitability by examining the industry structure through the five forces (barriers to entry/threat of entry, intensity of rivalry among existing competitors, bargaining power of buyers, bargaining power of suppliers, and pressure from substitute products). The government was also considered as a separate force that could determine industry competition. These forces determine industry profitability because they influence the prices, costs and required investment of firms in the industry.

4.3.1 Barriers to Entry/Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. It was the intention of the study to determine whether or not players in the industry perceive entry of new firms as posing a threat to their existence. Consequently, respondents were asked to state whether or not barriers existed in the insurance industry. The findings of the study are presented in Table 4.4

Table 4.4: Presence of Barriers to Entry

	Frequency	Percent
Yes	33	71.7
No	12	26.1
Non-response	1	2.2
Total	46	100.0

From the study findings presented in Table 4.4 above, majority of respondents (71.7%) indicated that there exist barriers to entry into the handicrafts industry while 26.1% indicated there are no such barriers. There was no-response from 2.2% of the respondents. Support or otherwise of these findings is presented in Table 4.5 below, which shows the extent to which respondents rated the various entry barriers with respect to their presence or otherwise in the handicrafts industry.

Table 4.5: Entry Barriers

Entry Barrier	Response	Frequency	Percent	M.S	S.D
Economies of scale	Negligible	1	2.2	3.53	.93
	Low	5	10.9		
	Moderate	12	26.1		
	High	20	43.5		
	Very High	5	10.9		
	Non-response	3	6.5		
	Total	46	100.0		
Product differences	Low	9	19.6	3.65	1.07
	Moderate	7	15.2		
	High	17	37.0		
	Very High	10	21.7		
	System	3	6.5		
	Total	46	100.0		
Brand equity	Negligible	4	8.7	4.84	7.91
	Low	1	2.2		
	Moderate	10	21.7		
	High	18	39.1		
	Very High	9	19.6		
	55.00	1	2.2		
	Non-response	3	6.5		
	Total	46	100.0		
High operating costs	Negligible	1	2.2	3.98	1.08
	Low	4	8.7		
	Moderate	7	15.2		
	High	14	30.4		
	Very High	17	37.0		
	System	3	6.5		
	Total	46	100.0		
Capital requirements	Negligible	1	2.2	4.14	.86
	Low	1	2.2		
	Moderate	4	8.7		
	High	22	47.8		
	Very High	15	32.6		
	Non-response	3	6.5		
	Total	46	100.0		
Price wars	Negligible	1	2.2	3.86	1.06
	Low	4	8.7		
	Moderate	9	19.6		
	High	15	32.6		
	Very High	14	30.4		
	Total	43	93.5		
	Non-response	3	6.5		
	Total	46	100.0		

Entry barriers (cont'd)

Government regulation /policy	Negligible	1	2.2	3.76	1.12
	Low	7	15.2		
	Moderate	5	10.9		
	High	17	37.0		
	Very High	12	26.1		
	Non-response	4	8.7		
	Total	46	100.0		
Technology	Negligible	2	4.3	3.53	.98
	Low	4	8.7		
	Moderate	11	23.9		
	High	21	45.7		
	Very High	5	10.9		
	Non-response	3	6.5		
	Total	46	100.0		
Expected retaliation	Negligible	2	4.3	3.28	.98
	Low	4	8.7		
	Moderate	11	23.9		
	High	21	45.7		
	Very High	5	10.9		
	Non-response	3	6.5		
	Total	46	100.0		
Existing partnership by competitors	Low	2	4.3	3.72	.825
	Moderate	16	34.8		
	High	17	37.0		
	Very High	8	17.4		
	Non-response	3	6.5		
	Total	46	100.0		

In establishing the extent to which various entry barriers were perceived by the respondents to be strong in the handicrafts industry, the study used frequencies and percentages to show the status proportion of respondents who indicated various degrees of strength. It is out of the frequencies and percentages that mean scores were obtained to be used as measure of strength. A mean score of below 3.00 indicate that a particular entry barrier was found to be weak while the one with a mean score of between 3.00 and 3.99 indicate that it was found to be strong. An entry barrier with a mean score of 4.00 and above was considered to very strong.

According to the research findings in Table 4.5 above, it was established that a large proportion of entry barriers that were presented to the respondents were strong.

These entry barriers have a mean score of between 3.00 and 3.99. They include: high operating costs, price wars, government regulation and/or policy, existing partnership by competitors, economies of scale, and technology. The entry barriers that were found to be very strong include: brand equity and expected capital requirements. These have means scores of 4.00 and above.

The above findings imply that players in the industry do not face a high threat from new entrants into the industry. This is because most of the barriers to entry into the industry were found to be strong. Therefore, from the point of view of a new entrant, it is not very profitable to invest in the handicrafts industry. However, it should be observed that there were variations on the part of respondents, as indicated by the standard deviations, with respect to the strength of each of the barriers to entry. The variation ranged from a low of 0.86 standard deviations to a high of 1.12 standard deviations for capital requirements and government regulation/policy respectively. This implies that in as much as the study findings indicated that it could be difficult for new entrants to enter the handicrafts industry, there was variance of the degree to which this is so.

Consequently, respondents were asked to indicate their overall assessment of the entry barriers in the handicrafts industry and hence the threat by new companies coming in to directly compete with incumbent companies in the future. Research findings on this aspect as presented in Table 4.6 confirm the previous observation on entry barriers. The findings indicate that 4.3% and 45.7% of the respondents respectively rated the entry barriers as very strong and strong, 41.3% moderately rated them, while 2.2% each rated them as weak and very weak. It is therefore evident that threat of new entrants as a force to contend with in the industry is fairly strong as indicated by the mean score of 3.5 in Table 4.6.

Table 4.6: Overall Assessment the Entry Barriers.

Response	Frequency	Percent	Mean Score	Std. Dev.
Very weak	1	2.2	3.50	.73
Weak	1	2.2		
Moderate	19	41.3		
Strong	21	45.7		
Very strong	2	4.3		
Non-response	2	4.3		
Total	46	100.0		

Further, as a contending competitive force, respondents were asked to indicate the extent to which new entrants are a threat to their companies' profitability. The findings of the study are presented in Table 4.7

Table 4.7: Extent to which new entrants are a threat to companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	2	4.3	4.07	4.71
Less extent	6	13.0		
Moderate extent	11	23.9		
Large extent	22	47.8		
Very large extent	3	6.5		
Non-response	2	4.3		
Total	46	100.0		

The findings in Table 4.7 indicate that, generally, new entrants are a fairly major threat to the already existing commercial handicrafts companies. This is indicated by the proportion of respondents who rated the threat as not at all, less extent, and moderate extent, that is, 4.3%, 13.0%, and 23.9% respectively. The proportion of those who rated it as large extent (47.8%) and very large extent (6.5%) is higher compared to those who lowly and moderately rated it. With the mean score of 4.07 and 4.71 standard deviations, it was evident from the study that threat of new entrants into the handicrafts industry contributes fairly significantly into shaping competition in the industry. Therefore, for those still in the industry, the force was found to be fairly strong. This is evident from the study findings on the respondents' overall assessment of the entry barriers in the handicrafts industry in Kenya shown in Table 4.6.

4. 3.2 The Degree of rivalry in the Handicrafts Industry

In any industry, and where market conditions are largely reflective of perfect competition, players in the industry adopt strategies that are motivated by the need to acquire superior competitive position in the industry. The competitive behavior can also occur because one or more competitors either feel the pressure or see the opportunity to improve position. As a result, firms engage in a form of jockeying for position using tactics like price competition, advertising battles, new product introductions, and increased customer service or warranties. The study intended to determine the degree of rivalry in the handicrafts industry in order to establish its strength in shaping competition and hence strategy in the handicrafts industry as well as ascertain its impact on the attractiveness of the industry. Consequently, respondents were presented with determinants of rivalry and asked to rate them as whether or not they are major determinants of competition. The findings of the study are presented in Table 4.8

Table 4.8: Determinants of rivalry

Determinant	Response Percent		Frequency	Mean Score	Std Dev.
Number and size of firms	Negligible	1	2.2	3.80	.97
	Low	4	8.7		
	Moderate	6	13.0		
	High	22	47.8		
	Very High	9	19.6		
	Non-response	4	8.7		
	Total	46	100.0		
Industry growth	Negligible	1	2.2	3.81	.86
	Low	2	4.3		
	Moderate	8	17.4		
	High	24	52.2		
	Very High	7	15.2		
	Non-response	4	8.7		
	Total	46	100.0		
Brand identity	Low	6	13.0	3.62	.82
	Moderate	7	15.2		
	High	26	56.5		
	Very High	3	6.5		
	Non-response	4	8.7		
	Total	46	100.0		

Product differences	Negligible	2	4.3	3.43	.99
	Low	5	10.9		
	Moderate	12	26.1		
	High	19	41.3		
	Very High	4	8.7		
	Non-response	42	91.3		
	System	4	8.7		
	Total	46	100.0		
Informational complexity	Low	5	10.9	3.57	.86
	Moderate	13	28.3		
	High	19	41.3		
	Very High	5	10.9		
	Non-response	4	8.7		
	Total	46	100.0		

Determinants of rivalry (cont'd)

Switching costs	Negligible	1	2.2	3.40	.96
	Low	5	10.9		
	Moderate	18	39.1		
	High	12	26.1		
	Very High	6	13.0		
	Non-response	4	8.7		
	Total	46	100.0		
Exit barriers	Negligible	1	2.2	3.52	.90
	Low	4	8.7		
	Moderate	14	30.4		
	High	18	39.1		
	Very High	5	10.9		
	Non-response	4	8.7		
	Total	46	100.0		
Diverse competitors	Negligible	1	2.2	3.71	1.07
	Low	5	10.9		
	Moderate	10	21.7		
	High	15	32.6		
	Very High	11	23.9		
	Non-response	4	8.7		
	Total	46	100.0		

In establishing the extent to which respondents perceived various determinants of rivalry to be major motivators of competitive rivalry, the study used frequencies and percentages and mean scores as in barriers to entry. Therefore, a mean score of below 3.00 indicate that a particular determinant of rivalry was found to be a minor motivator while the one with a mean score of between 3.00 and 3.99 indicate that it was found to be a moderate motivator. A rivalry determinant with a mean score of 4.00 and above was considered to a major motivator of competitive rivalry.

According to the research findings in Table 4.8, it was established that all rivalry determinants that were presented to the respondents are moderate motivators of competitive rivalry. These rivalry determinants had a mean score of between 3.00 and 3.99. It was, therefore, established that no one determinant was perceived to be a major motivator of competitive rivalry among firms in the handicrafts industry.

The above findings imply that competitive rivalry in the handicrafts industry is not very fierce. This is because all the rivalry determinants were found to be moderate motivators. Therefore, players in the industry do not engage in aggressive competitive wars. However, it should be observed that there were variations on the part of respondents, as indicated by the standard deviations, with respect to the strength of each of the determinants of rivalry. The variation ranged from a low of 0.82 standard deviations to a high of 1.07 standard deviations for brand identity and diverse competitors respectively. This means that in as much as the study findings indicated there could be no fierce competition in the industry, there was variance of the degree to which respondents indicated so.

However, when respondents were prompted to rate the intensity of competition in the handcrafts industry, a large proportion (58.7% and 15.2%) of the respondents rated competition intensity as high and very high respectively. The findings are as shown in Table 4.9

Table 4.9: Intensity of competition in the handicrafts industry

Response	Frequency	Percent	Mean Score	Std. Dev.
Negligible	1	2.2		
Low	1	2.2		
Moderate	8	17.4		
High	27	58.7	3.87	.80
Very High	7	15.2		
Non-response	2	4.3		
Total	46	100.0		

These findings reflect the fact that rivalry in the handicrafts industry is quite high, slightly contrary to earlier findings which indicated that all the determinants to competition were found to be moderate motivators. With a mean score of 4.07 and 0.80 standard deviations, the findings indicate that rivalry among the players in the industry is a contending competitive force; hence it has the power to shape strategy. This also implies that the industry might not be such attractive to new entrants.

Consequently, respondents were asked to indicate the extent to which rivalry in the industry has an effect on their companies' profitability. The study findings are as presented in Table 4.10.

Table 4.10: Extent of the effect of competition to companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	1	2.2	3.73	.72
Less extent	1	2.2		
Moderate extent	10	21.7		
Large extent	30	65.2		
Very large extent	3	6.5		
Non-response	1	2.2		
Total	46	100.0		

Research findings as shown in Table 4.10 indicate that, overall, competition in the handicrafts industry has a great effect on the companies' profitability. This is in spite of indications by some respondents that competition has no effect at all or has effect to less extent. An aggregate proportion of those who indicated moderate, large, and very large extents shows a high of 93.4%. The mean score of 3.73 with 0.72 standard deviations indicate that competition affects companies' profitability to a large extent albeit with significant variation of the extent on the strength of the effect.

4. 3.3 Buyer Bargaining Power

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. It was the study's intention to establish whether or not consumers and/or buyers of the handicrafts products exert any influence on the industry players. The study findings as presented in Table 4.11 show the respondents' answer to this phenomenon.

Table 4.11: Existence of Buyer Bargaining Power

Response	Frequency	Percent
Yes	30	65.2
No	16	34.8
Total	46	100.0

From the study findings, 65.2% indicated that buyers have bargaining power over the handicrafts companies while 34.8% indicated otherwise. To further seek more explanation to this phenomenon, respondents were presented with determinants of buyer power and were asked to rate with respect to the extent to which they drive buyer bargaining power. Research findings are presented in Table 4.12

Table 4.12: Determinants of Buyer Bargaining Power

Determinant	Response	Frequency	Percent	M.S	S. D
Buyer concentration (number and size)	Low	4	8.7	3.76	1.09
	Moderate	9	19.6		
	High	6	13.0		
	Very High	10	21.7		
	Non-response	17	37.0		
	Total	46	100.0		
Buyer volume (volume of business)	Low	2	4.3	3.79	1.03
	Moderate	12	26.1		
	High	4	8.7		
	Very High	10	21.7		
	Non-response	18	39.1		
	Total	46	100.0		
Buyer switching costs	Low	3	6.5	4.04	.88
	Moderate	1	2.2		
	High	16	34.8		
	Very High	8	17.4		
	Non-response	18	39.1		
	Total	46	100.0		
Buyer information about what other firms are offering	Low	2	4.3	3.93	.81
	Moderate	4	8.7		
	High	16	34.8		
	Very High	6	13.0		
	Non-response	18	39.1		
	Total	46	100.0		

Substitute products/services	Low	3	6.5	3.92	1.02
	Moderate	5	10.9		
	High	9	19.6		
	Very High	9	19.6		
	Non-response	20	43.5		
	Total	46	100.0		
Price Vs total volume of business	Negligible	1	2.2	3.61	1.0
	Low	3	6.5		
	Moderate	7	15.2		
	High	12	26.1		
	Very High	5	10.9		
	Non-response	18	39.1		
	Total	46	100.0		

(Determinants of Buyer Bargaining Power Cont)

Buyer profits	Negligible	2	4.3	3.21	.99
	Low	3	6.5		
	Moderate	12	26.1		
	High	9	19.6		
	Very High	2	4.3		
	Non-response	18	39.1		
	Total	46	100.0		
Product differences	Negligible	1	2.2	3.14	1.01
	Low	8	17.4		
	Moderate	6	13.0		
	High	12	26.1		
	Very High	1	2.2		
	Non-response	18	39.1		
	Total	46	100.0		
Brand identity	Negligible	1	2.2	3.21	1.13
	Low	7	15.2		
	Moderate	10	21.7		
	High	5	10.9		
	Very High	5	10.9		
	Non-response	18	39.1		
	Total	46	100.0		

The findings in Table 4.12 show that most of the determinants drive buyer bargaining power to a moderate extent. Majority of the driving factors were rated with mean scores of between 3.00 and 3.99. These include: buyer volume (volume of business), buyer information about what other firms are offering, substitute products/services, price versus total volume of business, buyer profits, product differences, and brand identity. Only one determining factor, which is buyer switching costs, was highly rated as driving buyer bargaining power with a mean score of 4.04.

Just like other findings of the study, the findings with respect to buyer bargaining power indicate that respondents were at variance with respect to the extent to which the various determinants drive buyer bargaining power. This variation ranges from a low of 0.81 standard variations for buyer information about what other firms are offering to a high of 1.13 standard deviations for brand identity.

The above findings imply that buyers of the handicrafts industry products could exert their influence on the handicrafts companies especially when the buyer switching costs are too low and when buyers have information about what other handicraft companies are offering. These findings are reflective of the overall bargaining power of buyers over handicraft companies, which was found to be rated highly in aggregate terms as shown in Table 4.13

Table 4.13: Overall bargaining power of buyers over handicrafts companies

Response	Frequency	Percent	Mean Score	Std. Dev.
Low	3	6.5	3.75	.84
Moderate	13	28.3		
High	20	43.5		
Very High	8	17.4		
Non-response	2	4.3		
Total	46	100.0		

From Table 4.13 above, the findings indicate the aggregate proportion of respondents who rated the overall bargaining power of buyers as moderate, high, and very high is 89.2%. The larger proportion (43.5%) of the respondents indicated that the overall bargaining power of buyers over handicrafts companies is high, followed by the proportion who indicated that the bargaining power is moderate at 28.3%. The proportion which indicated the bargaining power to be very high followed at 17.4%.

The spread of the responses across all the options gave rise to a mean score of 3.75 and variation of .84 standard deviations among the respondents. It is therefore expected that handicraft companies may be having no much bargaining power over the buyers. Research findings on the magnitude of handicrafts companies' power over buyers are shown in Table 4.14

Table 4.14: Handcrafts Companies' power over buyers

Response	Frequency	Percent	Mean Score	Std. Dev.
Negligible	1	2.2	3.3721	.72451
Low	3	6.5		
Moderate	18	39.1		
High	21	45.7		
Non-response	3	6.5		
Total	46	100.0		

The findings in Table 4.14 indicate that handicrafts companies also have some bargaining power over their customers. This is indicated by the 39.1% and 45.7% of the respondents who stated that handicrafts companies' power over buyers is moderate and high respectively. Therefore, the bargaining power of buyers is balanced out and as far as being a contending competitive force is concerned, it is not a very strong force. However, this does not rule out its potential impact on handicrafts companies' profitability.

It was revealed that buyer bargaining power has a considerable effect on the handicrafts companies' profitability. According to the study findings, 28.3%, 47.8%, and 8.7% of the respondents indicated that buyer bargaining power has an effect on the companies' profitability to a moderate, large, and very large extent respectively. This is shown in Table 4.15

Table 4.15: Effect of buyer bargaining power on companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	2	4.3	3.52	.93
Less extent	3	6.5		
Moderate extent	13	28.3		
Large extent	22	47.8		
Very large extent	4	8.7		
Non-response	2	4.3		
Total	46	100.0		

The findings in Table 4.15 imply that in as much as handicrafts companies were found to have some bargaining power over buyers; the buyers' bargaining power seemed to have a significant effect on the profitability of handicrafts companies. The findings therefore signify that buyers are a contending force that shapes competition in the industry and could greatly impact on the industry's long term profitability.

4.3.4 Supplier Bargaining Power

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry that is unable to recover cost increases in its own prices. The study first sought to establish existence of supplier power in the handicrafts industry. Research findings as shown in Table 4.16 below indicate that the power of suppliers is substantial.

4.16: Existence of Supplier Power

	Frequency	Percent
Yes	41	89.1
No	5	10.9
Total	46	100.0

The findings in Table 4.16 above indicate that majority of the respondents (89.1%) were of the view that there is existence of supplier power in the handicrafts industry. However, there were those who indicated that no such power exists (10.9%). These findings affected the findings on the subsequent sections on supplier bargaining power. Respondents' responses on the various determinants of supplier power reflected this scenario to some extent. The findings are presented in Table 4.17

Table 4.17: Determinants of Supplier Power

Determinant	Response	Frequency	Percent	Mean Score	Std Dev.
Supplier differences	Not at all	1	2.2	3.52	.97
	Less extent	6	13.0		
	Moderate extent	10	21.7		
	Large extent	20	43.5		
	Very large extent	5	10.9		
	Non-response	4	8.7		
	Total	46	100.0		
Presence of substitute supplies	Not at all	1	2.2	3.67	.98
	Less extent	7	15.2		
	Moderate extent	2	4.3		
	Large extent	27	58.7		
	Very large extent	5	10.9		
	Non-response	4	8.7		
	Total	46	100.0		
Supplier concentration (number and size)	Not at all	1	2.2	3.62	.79
	Less extent	3	6.5		
	Moderate extent	9	19.6		
	Large extent	27	58.7		
	Very large extent	2	4.3		
	Non-response	4	8.7		
	Total	46	100.0		
Importance of volume of business to the supplier	Less extent	5	10.9	3.67	.82
	Moderate extent	8	17.4		
	Large extent	25	54.3		
	Very large extent	4	8.7		
	Non-response	4	8.7		
	Total	46	100.0		
Impact of supplies on costs (low/high)	Not at all	1	2.2	3.79	1.00
	Less extent	5	10.9		
	Moderate extent	5	10.9		
	Large extent	22	47.8		
	Very large extent	9	19.6		
	Non-response	4	8.7		
	Total	46	100.0		
Switching cost of suppliers (low/high)	Not at all	1	2.2	3.79	.95
	Less extent	4	8.7		
	Moderate extent	6	13.0		
	Large extent	23	50.0		
	Very large extent	8	17.4		
	Non-response	4	8.7		
	Total	46	100.0		

The findings in Table 4.17 show that majority of the responses concentrate on the higher sides of the scale (moderate, large, and very large extents) with some non-response proportions at least in every determining factor. This implies that majority of the respondents were of the view that suppliers have bargaining power over insurance companies. However, a look at the mean scores indicates that all the determinants that were presented to the respondents had mean scores of between 3.00 and 3.99. Accordingly, suppliers of the handicrafts industry exhibit moderate bargaining power on the basis of all the determinants. The findings indicate that supplier power in the handicrafts industry is manifested to a moderate extent in general and therefore, as a contending competitive force, it does significantly shape companies strategy and hence could affect the industry's attractiveness.

It was further established that the overall supplier bargaining power over handicrafts companies, the extent of effect of supplier bargaining power on handicrafts companies' profitability, and the handicrafts companies' power over suppliers are all reflective of the above findings. Research findings on these aspects are presented in Table 4.18.

Table 4.18: Aspects of Supplier Power

Aspect	Response	Frequency	Percent	Mean Score	Std Dev.
Overall supplier bargaining power over handicrafts companies	Low	6	13.0	3.45	.74
	Moderate	11	23.9		
	High	25	54.3		
	Non-response	4	8.7		
	Total	46	100.0		
Extent of effect of supplier bargaining power on handicrafts companies' profitability	Less extent	5	10.9	3.55	.73
	Moderate extent	11	23.9		
	Large extent	27	58.7		
	Very large extent	1	2.2		
	Non-response	2	4.3		
	Total	46	100.0		
Handicrafts companies' power over suppliers	Low	7	15.2	3.39	.81
	Moderate	15	32.6		
	High	20	43.5		
	Very High	2	4.3		
	Non-response	2	4.3		
	Total	46	100.0		

The research findings presented in Table 4.18 above indicate that overall supplier bargaining power over handicrafts companies is fairly strong. According to research findings, majority of the respondents (54.3%) indicated that suppliers' overall power is high. Consequently, the same is reflected on the extent of effect of supplier bargaining power on handicrafts companies' profitability with majority of the respondents (58.7%) indicating that supplier power affect the companies' profitability to a large extent. This is almost balanced with the power handicrafts companies have over the supplier as indicated by the respondents. However, in all the above aspects, the degree to which bargaining power was perceived by the respondents on either side varied across board as indicated by the standard deviations.

4.3.5 Threat of Substitutes

All firms in an industry are competing, in a broader sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternatives offered by substitutes, the firmer the lid on industry profits and vice versa. The study intended to establish the extent to which substitute products pose a threat to the handicrafts companies' profitability, and hence, a contending competitive force. The findings of the study are presented in Table 4.19

Table 4.19: Threat of substitutes' effect on handicrafts companies profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	1	2.2	3.67	0.89
Less extent	3	6.5		
Moderate extent	11	23.9		
Large extent	22	47.8		
Very large extent	6	13.0		
Non-response	3	6.5		
Total	46	100.0		

The research findings as presented in Table 4.19 show that the effect of threat of substitute products on the companies' profitability ranges from 'not at all' to 'very large extent' with the large extent having larger proportion (47.8%). The combined proportion of respondents who indicated large extent and very large extent (60.8%) is more than those who indicated not at all and less extent. Therefore, the threat of substitute products is a contending competitive force in the handicrafts industry and has a potential of shaping competitive strategy of the industry players.

The threat of substitutes is determined by various factors. The combined strength of the factors indicates the strength of threat that substitutes pose to the survival of firms that are already in the industry. The study set to establish the extent to which various determinants contribute to the strength of the power of substitute products as a contending competitive force. The findings of the study are presented in Table 4.20.

Table 4.20: Determinants of the Threat of Substitutes

Determinant	Response	Frequency	Percent	Mean Score	Std Dev.
Relative price of substitutes	Low	3	6.5	3.86	.91
	Moderate	12	26.1		
	High	16	34.8		
	Very High	12	26.1		
	Non-response	3	6.5		
	Total	46	100.0		
Switching costs by buyers	Low	5	10.9	3.81	.93
	Moderate	8	17.4		
	High	20	43.5		
	Very High	10	21.7		
	Non-response	3	6.5		
	Total	46	100.0		
Buyer propensity to substitute	Negligible	1	2.2	3.72	.98
	Low	3	6.5		
	Moderate	13	28.3		
	High	16	34.8		
	Very High	10	21.7		
	Non-response	3	6.5		
	Total	46	100.0		

The findings in Table 4.20 show that all the factors that were used in the study were moderately rated as determining factors of the strength of threat of substitutes. They were rated with mean scores of between 3.00 and 3.99. However, a case by case analysis indicates that the responses on each of the determining factors were spread across all the options on the scale ranging from non-response to negligible to very high. This gives rise to the variations among the responses as depicted by the standard variation for each of the factors.

The threat of substitutes also has a potential of having an effect of an industry's profitability. Study findings on the extent to which substitutes have effect on handicrafts companies' profitability are presented in Table 4.21.

Table 4.21: Extent of the effect of substitutes on handicrafts companies' profitability

Response	Frequency	Percent
Less extent	5	10.9
Moderate extent	6	13.0
Large extent	23	50.0
Very large extent	7	15.2
Non-response	5	10.9
Total	46	100.0

The findings in Table 4.21 show that substitutes have an effect to insurance companies' profitability to different degrees. 50% of the respondent indicated that substitutes affect profitability to a large extent, 15.2% indicated that they affect profitability to very large extent while 13.0% and 10.9% indicated that substitutes have effect on companies' profitability to moderate extent and less extent respectively. There was 10.9% non-response. The results imply that the threat of substitutes is a strong force to contend with in the handicrafts industry.

4.3.6 Government Policies

The government is a major stakeholder in any industry because of its role in defining the legal framework to guide and regulate the conduct of business. The government also plays a key role public policy formulation and implementation. It was the study intention to establish the extent to which government activity forms a separate contending force in the handicrafts industry. Study findings on the extent to which government polices have effect on operations of companies in the handicrafts industry and the nature such effect are presented in Table 4.22.

Table 4.22: Extent of effect of government policies and nature of the impact

	Response	Frequency	Percent
Extent of effect of government policies on commercial handicraft companies' operations in Kenya	Not at all	1	2.2
	Less extent	2	4.3
	Moderate extent	13	28.3
	Large extent	24	52.2
	Very large extent	5	10.9
	Non-response	1	2.2
	Total	46	100.0
Nature of government's impact on the companies' operations	Positive	10	21.7
	Negative	11	23.9
	Both (50-50)	24	52.2
	Non-response	1	2.2
	Total	46	100.0

According to research findings presented in Table 4.21, the government is a contending force that handicrafts companies would be forced to handle. The findings indicate that government policies have effect on the handicrafts companies' operations to a large extent and very large extent at 52.2% and 10.9% respectively. Further, 21.7% of the respondents indicated that the nature of the government's impact is positive while 23.9% felt that it has a negative impact. However, majority of the respondents (52.2%) indicated that the nature of government's impact is both positive and negative.

The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Introduction

This study set out to determine the applicability of Porter's Five Forces Model applicable in Kenya's handicrafts industry. Based on this objective and variables drawn from available literature, a questionnaire was developed and used to gather the data. The data collected were analyzed using frequencies, percentages, mean scores, and standard deviations. In this chapter, the findings of the study are summarized and conclusions drawn. This chapter also includes sections on limitations to the study and suggestions for further research.

5.2 Summary

Ascertaining forces that shape competition in an industry forms the basis for decision making on the most appropriate strategic behavior a firm should exhibit. The forces also determine the attractiveness of an industry, which is measured by the level of profitability in an industry and which is a derivative of the nature of the economic features and key success factors of the industry. In determining the forces that shape competition in an industry, Porter (1980) proposed criteria of identifying the forces that shape competition in any industry. He proposed a model- the Five-Force Industry Analysis Model which has been widely accepted as an industry analysis tool. The study adopted this model with a slight modification to determine the forces that shape competition in the commercial handicrafts industry in Kenya. These forces include: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, rivalry among existing industry competitors, and threat of substitute products/services. The study also included government as a sixth force.

The study findings showed that all the forces shape competition in the handicrafts industry to different degrees. Research findings with respect to the threat of new entrants revealed that it is not a major contending force in the industry. This is because large proportion of entry barriers that were presented to the respondents was strong with mean score of between 3.00 and 3.99. They include: high operating costs, price wars, government regulation and/or policy, existing partnership by competitors, economies of scale, and technology. The entry barriers that were found to be very strong include: brand equity and expected capital requirements. The findings imply that players in the industry do not face a high threat from new entrants into the industry. However, whenever new entrants made inroads into the industry was pointed out by 47.8% of the respondents as having effect on the handicrafts companies' profitability to a very large extent.

Research findings with regard to the degree of rivalry in the handicrafts industry indicated that all rivalry determinants that were presented to the respondents are moderate motivators of competitive rivalry. These rivalry determinants had a mean score of between 3.00 and 3.99. It was, therefore, established that no one determinant was perceived to be a major motivator of competitive rivalry among firms in the handicrafts industry. The findings imply that competitive rivalry in the handicrafts industry is not very fierce. Therefore, players in the industry do not engage in aggressive competitive wars.

Slightly contrary to the above findings, further research findings revealed that majority (58.7%) of the respondents perceived the intensity of competition in the handicrafts industry to be high while 15.2% of them perceived it as very high. These findings indicate that rivalry among the players in the industry is a contending competitive force; hence it has the power to shape strategy. The study results indicated that overall, competition in the handicrafts industry has a fairly great effect on the companies' profitability. This is in spite of indications by some respondents that competition has no effect at all or has effect to less extent.
Findings regarding buyer bargaining power showed that 65.2% of the respondents indicated that there exists buyer bargaining power and that while 34.8% indicated otherwise. The findings further showed that most of the determinants drive buyer bargaining power to a moderate extent. These include: buyer volume (volume of business), buyer information about what other firms are offering, price versus total volume of business, brand identity, buyer concentration (number and size), substitute products/services, product differences and buyer profits. Only one determining factor, which is buyer switching costs, was highly rated as driving buyer bargaining power with a mean score of 4.04. The findings imply that buyers of handicrafts industry products could exert their influence on the companies. This is evident from the rating of the overall bargaining power of buyers over handicrafts companies which was 43.5% high and 17.4 very high.

The findings on supplier power revealed that majority of the respondents (89.1%) indicated existence of supplier power in the handicrafts industry. However, there were those who indicated that no such power exists (10.9%). Accordingly, suppliers to the handicrafts industry exhibit moderate bargaining power on the basis all determinants. Therefore, as a contending competitive force, supplier power does significantly shape companies strategy and hence could affect the industry's attractiveness.

Threat of substitutes was another contending competitive force that was studied. Research findings indicated that the effect of threat of substitute products on the companies' profitability ranged from ranges from 'not at all' to 'very large extent' with the large extent having larger proportion (47.8%). Therefore, the threat of substitute products is a contending competitive force in the handicrafts industry and has a potential of shaping competitive strategy of the industry players.

Finally, research findings on the role of government revealed that the government is a contending force that handicrafts companies would be forced to handle. The findings indicated that government policies have effect on the handicrafts companies' operations to a large extent. Further, majority of the respondents (52.2%) indicated that the nature of government's impact is both positive and negative. The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

5.3 Conclusions

The findings of this research have brought to light an understanding of the forces that shape competition in the handicrafts industry, which affects the attractiveness of the industry. The overall conclusion that could be drawn from the findings of this study is that among the six competitive forces that were investigated, five forces were found to shape competition in the Kenyan handicrafts industry.

These forces include rivalry among existing companies in the industry, bargaining power of both buyers and suppliers, threat of substitutes, and government policies. Consequently, upon slight modification, Porter's (1980) Five Forces Model was found to be largely applicable in the Kenyan handicrafts industry.

5.4 Limitations to the Study

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

First, it was not possible to get 100% response rate due to the busy schedule for some of the respondents who never found time to fill and return back the questionnaires while some declined to participate in the study.

Secondly, there is a limitation of authenticity of the data received. It was not easy to establish whether or not the targeted respondents were the ones who participated in offering the data that was analyzed. Given that the questionnaires were delivered to respective handicrafts companies, it was not possible to be present to ensure that the right respondents participate in the study.

Thirdly, the study was limited to the use of a slightly modified Porter's Five Forces Model to determine the forces that shape competition in the handicrafts industry. This model has of late come under scrutiny that it may not be applicable to some developing country contexts. Therefore, all aspects of the model as originally developed (within developed country context) could not have been considered in the study.

5.5 Recommendations for Further Research

In connection with further research, the researcher recommends the following:

First since this study adopted the use of Porter's Five Force Model to determine the forces that shape competition in the Kenyan handicrafts industry, the same model could be used to assess the industry's attractiveness.

It is also recommended that studies focusing on the individual competitive forces be carried out in the handicrafts industry. For instance a study focusing on the relationship between determinants of competitive rivalry and competitive strategies adopted by the handicrafts companies could be done to shed more light on that particular force.

5.6 Implications on Policy and Practice

The findings of this study have various implications for policy and practice for the players in the handicrafts industry in Kenya. It is apparent that all the competitive forces in Porter's Industry Analysis Model were found to be present in the handicrafts industry. This has a number of implications for policy and practice among players in the industry and the government at large.

First and foremost, the players may need to exhibit thorough strategic thinking in order to craft appropriate competitive strategies in order to favorably position themselves in the industry. This means that the companies have to possess the requisite ability to undertake comprehensive industry analysis in order to understand the economic character of the industry as exhibited by its structure.

Secondly, the findings of the study revealed that the government is a contending force in the industry as exhibited by the policies it has put in place. This implies that the players in the handicrafts industry need to lobby the government in order to come up with policies that give due recognition and encouragement of investment in the industry.

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APPENDICES

Appendix I: Questionnaire

Part A: Company Profile

1. Name of the company____
2. Year of incorporation________________________________
3. Type of company/mode of incorporation
    a. Sole Proprietorship [ ]
    b. Partnership [ ]
    c. Limited Company [ ]
4. Ownership of the company
    a. Locally owned [ ]
    b. Foreign owned [ ]
    c. Both locally and foreign owned
        i. Local ______%
        ii. Foreign______%

Other (specify)____

5. Products and/or Services offered____
____
____
____
____

6. Market scope of the company's services/operations
    a. Within Nairobi and its environs [ ]
    b. Within major towns in Kenya [ ]
    c. Country wide (both rural and urban areas) [ ]
    d. Regionally (within East Africa)
    e. Internationally (East Africa and beyond) [ ]

PART B: Industry Forces

Barriers to Entry/Threat of New Entrants

1. Do you think there are obstacles in Kenya which prevent potential investors from entering the handicrafts industry?

   Yes [ ]   No [ ]

2. How would you rate the following aspects as being barriers to entry into the handicrafts industry in Kenya? Use the scale provided.

   1-Negligible; 2-Low; 3-Moderate; 4-High; 5-Very High

a. Economies of scale	[1]	[2]	[3]	[4]	[5]
b. Product differences	[1]	[2]	[3]	[4]	[5]
c. Brand identity	[1]	[2]	[3]	[4]	[5]
d. High operating costs	[1]	[2]	[3]	[4]	[5]
e. Capital requirements	[1]	[2]	[3]	[4]	[5]
f. Price wars	[1]	[2]	[3]	[4]	[5]
g. Government regulation/policy	[1]	[2]	[3]	[4]	[5]
h. Technology	[1]	[2]	[3]	[4]	[5]
i. Expected retaliation	[1]	[2]	[3]	[4]	[5]
j. Existing partnerships by competitors	[1]	[2]	[3]	[4]	[5]

3. To what extent would you say the new entrants are a threat to your company's profitability? (tick as appropriate)

   Not at all [ ]
   Less extent [ ]
   Moderate extent [ ]
   Large extent [ ]
   Very large extent [ ]

4. What is your overall assessment of the entry obstacles in the handicrafts industry in Kenya?

   Very weak [ ]
   Weak [ ]

Moderate [ ]

Strong [ ]

Very strong [ ]

Rivalry among Competitors

5. How many companies does your company compete with?____________

6. How would you rate the following as being the **Major Determinants** of competition in the industry? Use the scale below.

   1-Negligible; 2-Low; 3-Moderate; 4-High; 5-Very High

   a. Number and size of firms [1] [2] [3] [4] [5]
   b. Industry growth [1] [2] [3] [4] [5]
   c. Brand identity [1] [2] [3] [4] [5]
   d. Product differences [1] [2] [3] [4] [5]
   e. Informational complexity [1] [2] [3] [4] [5]
   f. Switching costs [1] [2] [3] [4] [5]
   g. Exit barriers [1] [2] [3] [4] [5]
   h. Diverse competitors [1] [2] [3] [4] [5]

7. How would you rate the **Intensity** of competition in the handicrafts industry?

   Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

8. To what extent does competition have an effect in your organization's profitability?

   Not at all [ ]

   Less extent [ ]

   Moderate extent [ ]

   Large extent [ ]

   Very large extent [ ]

Bargaining power of Buyers

9. Do you think your clients have a bargaining power over your company?

   Yes [ ] No [ ]

10. If Yes in (10) above, how would you rate the following aspects as being the determinants of buyers'/clients' bargaining power? Use the scale below.

1-Negligible; **2**-Low; **3**-Moderate; **4**-High; **5**-Very High

a. Buyer concentration (number and size) [1] [2] [3] [4] [5]
b. Buyer volume (volume of business) [1] [2] [3] [4] [5]
c. Buyer switching costs (low/high) [1] [2] [3] [4] [5]
d. Buyer information about what other firms are offering [1] [2] [3] [4] [5]
e. Substitute products/services [1] [2] [3] [4] [5]
f. Price Vs total volume of business [1] [2] [3] [4] [5]
g. Buyer profits [1] [2] [3] [4] [5]
h. Product differences [1] [2] [3] [4] [5]
i. Brand identity [1] [2] [3] [4] [5]

11. How would you rate the overall bargaining power of your customers over you?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

12. To what extent does buyer bargaining power have an effect in your organization's profitability?

Not at all [ ]
Less extent [ ]
Moderate extent [ ]
Large extent [ ]
Very large extent [ ]

13. How would you rate your power over the customers/buyers/clients?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

Bargaining Power of Suppliers

14. Whom would you identify as the company's major suppliers (those who supply it with products/services that enable it operate)?

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____

____

____

____

____

15. Do the suppliers mentioned above (if any) have any power over your company?

Yes [ ] No [ ]

16. To what extent do the following factors determine suppliers' power over you? Use the scale below.

1- Not at all **2**- Less extent **3**-Moderate extent **4**-Large extent **5**-Very large extent

a. Supplier differences [1] [2] [3] [4] [5]
b. Presence of substitute supplies [1] [2] [3] [4] [5]
c. Supplier concentration (number and size)[1] [2] [3] [4] [5]
d. Importance of volume of business to the supplier [1] [2] [3] [4] [5]
e. Impact of supplies on costs (low/high) [1] [2] [3] [4] [5]
f. Switching cost of suppliers (low/high) [1] [2] [3] [4] [5]

17. Overall, how would you rate the power of suppliers over your company?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

18. To what extent does supplier bargaining power have an effect in your organization's profitability?

Not at all [ ]
Less extent [ ]
Moderate extent [ ]
Large extent [ ]
Very large extent [ ]

19. How would you rate your power over your suppliers?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

Threat of Substitutes

20. To what extent does the threat of substitutes have an effect on your company's profitability?

Not at all [ ]
Less extent [ ]
Moderate extent [ ]
Large extent [ ]
Very large extent [ ]

21. How would you rate the following factors as determinants of substitute threat? Use the scale below.

1-Negligible; **2**-Low; **3**-Moderate; **4**-High; **5**-Very High

a. Relative price of substitutes [1] [2] [3] [4] [5]
b. Switching costs by buyers [1] [2] [3] [4] [5]
c. Buyer propensity to substitute [1] [2] [3] [4] [5]

22. To what extent do substitute products have an effect in your organization's profitability?

Not at all [ ]
Less extent [ ]
Moderate extent [ ]
Large extent [ ]
Very large extent [ ]

Government

23. To what extent do you think government policies affect your company's operations in Kenya?

Not at all [ ]
Less extent [ ]
Moderate extent [ ]
Large extent [ ]
Very large extent [ ]

24. What is the nature of government's impact on the company's operations?

Positive [ ]   Negative [ ]   Both (50-50) [ ]

25. Which aspects of government regulatory role that affect your company's profitability?

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____

____

____

____

26. To what do the above mentioned aspects affect your company's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

27. Do you think the government policies favor some of the commercial crafts companies?

Yes [ ]   No [ ]

28. If Yes in (27) above, why?

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____

29. Which other aspects of government regulation/policies do you think affect your firm's business operations?

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Appendix II: List of Commercial Crafts Producers and Exporters

NO .	NAME OF COMPANY
1.	STONE ART
2.	LARMON INTERNATIONAL
3.	CHATOW INVESTMENTS
4.	BEST CRAFT SALES LTD.
5.	TLIMS TOURS TRAVEL
6.	MIKONO REFUGEE CRAFT
7.	KIWAS CRAFTS
8.	B.S. MOHINDRA
9.	ITUMBE FOREST WOMEN
10.	HAPPY FARM LTD.
11.	MOPANI KENYA CRAFTS
12.	MASII JUA KALI ASSOCIATION
13.	INDUSTRIAL DYNAMICS
14.	SHERIE KAY LTD.
15.	KARIOKO SYONDO WOMEN JUA KALI
16.	PASTEV HOLDINGS
17.	CHAKACHE PRODUCTS LTD.
18.	UMANI ARTS AND CRAFTS
19.	JITEGEMEE SLUM MOTHERS GROUP
20.	GAYDER CRAFTS
21.	NYAKWEAERA WOMEN MULTI-PURPOSE CO-OP SOCIETY
22.	SIAFU
23.	RESAVIE
24.	SIANA CANE AND SEAGRASS/BENTWOOD
25.	MARIDADI FABRICS
26.	ARTE CONTRACT
27.	KINYONGA CREATIONS
28.	LAMU ANTIQUES
29.	JOSHUA MUKOLWE – ABISAKI ABISAKI DE'COR
30.	DORSAM JUA KALI CRAFTS
31.	MERU JUA KALI ARTISAN ASSOCIATION
32.	S. OYUGI
33.	PENDEZA WEAVING
34.	RABGARI TAILORING
35.	TAHU FASHIONS & BOUTIQUE
36.	KENYA CHILDREN FUND TRUST
37.	SASINI WOOL SPINNERS & WEAVERS
38.	ARTE FOLO
39.	GLORY COLLECTIONS FASHIONS
40.	YARN CRAFTS
41	MR. SOSPETER KAMAU

42.	ELEMENTAITA WEAVERS
43.	CALABASH DESIGN CENTRE
44.	ROBERT NDIRANGU MACHANA
45.	TWENDELEE LAVINGTON CHURCH
46.	STONEWAVE POTTERY
47.	CRAFTS VILLAGE
48.	ZUBEDA FARAJ – J.K ARTISAN
49.	JAWAGA'S TAILORING ENTER
50.	SPECIALISED TOWELS
51.	ROY MARIALA
52.	MR. DANIEL MUTINDA MUSAU
53.	OLESSI VENTURES
54.	ASHA ALI TAMADUNI
55.	DOLLICRAFT SEWING PROJECT
56.	CATHERINE KARIUKI
57.	TOTOTO HOME INDUSTRIES
58.	RIFT VALLEY TEXTILES
59.	EVA MODELL LTD.
60.	TINGA TINGA CLOTHING LTD.
61.	ADEGA CREATIONS
62.	MIGAKA AFRICA ENTERPRISES
63.	BEN OMONDI
64.	BASE AFRICA
65.	GRAMON CREATIONS
66.	ROYFESTA ENTERPRISES
67.	MARO DESIGNS
68.	THE SPINNERS WEB LTD.
69.	OBAA YAA CREATIONS
70.	BUNDU CRAFTS
71.	SAVE THE CHILDREN CENTRE
72.	BRODKKO INVESTMENT
73.	KISTEL AGENCY
74.	MALOX CURIO SERVICES
75.	KANDA PRODUCTS SERVICES
76.	KISUMU INNOVATION CENTRE OF KENYA
77.	KORENE INVESTMENTS
78.	ARANIBAR MARKETING LTD.
79.	PALMPRINTS AFRICAN ARTIFACTS
80.	TAWAKAL JKA
81.	WHANNO ENTERPRISES
82.	KENYA CRAFTS CO-OP UNION
83.	TRAINING AND PRODUCTION CENTRE FOR SHOE INDUSTRY
84.	PERFECTION PLUS
85.	COUNT SHOES
86.	FREIHANERWEG 58
87.	GILO TIES & DYE
88.	SAANA SHOES
89.	KANCHE ENTERPRISES

90.	KWA MUKULA
91.	AMNICO ENTERPRISES
92.	KAKA EXPORTS IMPORTS CO. LTD.
93.	FAALAMOON
94.	MUNYONYI MULI
95.	KATANGI JUA KALI ASSOCIATION
96.	RUTH GATHONI WAWERU KIBICHONI JKA
97.	FAIMU INVESTMENTS
98	JUMINALA AGENCIES (JUST AFRICAN IMAGE)
99.	THE WAMI COLLECTIONS
100.	NAMWANGA ENTERPRISES
101.	AFRICAN BEADS/INVESTMENTS LTD.
102.	OLMAA CRAFTS LTD.
103.	RINDA BOUTIQUE & CRAFT
104.	MR. CHRISTOPHER LUTTA/GEOFREY MBUGI
105.	A.G CRAFTS
106.	MENNONITE CENTRAL COMMITTEE
107.	JOETECH INVESTMENT LTD.
108.	DOZIC EXPORTERS
109.	CHEDALE EXPORTERS
110	NEW SAWA SAWA ART AND CRAFT
111.	BRIGITTA DESIGNERS
112.	LAKE WOMEN GROUP
113.	NOVELLY DESIGN AND HANDICRAFTS
114.	MWENENDEGA ENTERPRISES LTD.
115.	AMEGA
116.	PRODUCT DESIGN AND DEVELOPMENT CENTRE
117.	KENYA GATSBY CHARITABLE TRUST
118.	APPROPRIATE TECHNOLOGIESS FOR ENTERPRISE CREATION (APPROTEC)
119.	CHIMMA ENTERPRISES
120	CONIE IMPEXO
121.	ONE AFRICA SHOP
122.	JETRO
123.	ITDG
124.	JICA
125.	MACHAKOS CRAFTS COOPERATIVE UNION
126.	ISOLO WEAVERS
127.	UNDUNGU SOCIETY
128.	PRECIOUS HERITAGE
129.	CWAPO ENTERPRISES
130.	SALIMON INVESTMENT
131.	AKAMBA HANDICRAFTS CO-OPERATIVE SOCIETY
132.	LEMSER COMMERCIAL
133.	MAIKA AGENCIES
134.	WILSA KENYA
135.	BEMOS CRAFT DEVELOPERS
136	NEW JUA KALI POTTERIES

137.	MAVISA CARVERS AND EXPORTERS
138.	THIBARU SUPPLIES LTD.
139.	ECRO ENTERPRISES
140.	TRIO CRAFT LTD.
141.	MARIDADI FABRICS
142.	KAZURI 200 LTD.
143.	JACARANDA WORKSHOP
144.	NAMAYIANA OLOSHOIBOR – MAASAI WOMEN GROUPS
145.	BOMBOLULU HANDICRAFTS CENTRE
146.	NAIROBI HANDICRAFT COOPERATIVE UNION
147.	DOLLICRAFT WOMEN GROUP
148.	TERRA LTD.
149.	JOANDU SUPPLIERS
150.	KENAFRO CRAFTS
151.	KISII SOAPSTONE CARVERS COOPERATIVE SOCIETY
152.	TECHKA ENTERPRISES
153.	EMICS HANDICRAFTS
154.	EMTA ENTERPRISES
155.	WAIKABI LTD.
156.	OMAKA ENTERPRISES
157.	GILO TIE DYE & TAILORING BOUTIQUE
158.	ST. JUDES COUNSELLING CENTRE
159.	ORMOLU LTD.
160.	ROBOCHE CURIIOS
161.	WINVIN INVESTMENTS LTD.
162.	MAMOC ENTERPRISES
163.	MEZIKAT EXPORTERS
164.	MWASAGWE ENTERPRISES
165.	RAYVIN MAUJEFF ENTERPRISES
166.	KISII COOPERATIVE SOCIETY
167.	KAZANA KENYA LTD.
168.	LEATHER MASTERS
169.	KENYA GATSBY CHARITABLE TRUST
170.	AFRICAN HERITAGE
171.	MAKINDU HANDICRAFT COOPERATIVE SOCIETY
172.	TABAKA SOAPSTONE JUA KALI ASSOCIATION
173.	KAKUMUTI SYONDO WOMEN GROUP
174.	NAIROBI HANDICRAFT INDUSTRIES COOPERATIVE SOCIETY
175.	SMARTLINK
176.	AFRICAN INSPIRATIONS/AFRICAN MYSTIQUE
177.	EMBU WEAVERS
178.	WOODLEY WEAVERS
179.	KIKO ROMEO
180.	AMO ENTERPRISES
181.	ASANGO ENTERPRISES
182.	PAMWOD HANDICRAFT TECHNOLOGIES
183.	GHYMIL HANDICRAFTS KENYA
184.	ECO SANDALS

185.	BLACK GOLD EXPORT/IMPORT CO.
186.	NDIKI CRAFT EXPORTERS
187.	AMIGOS TOURS AND HANDICRAFTS
188.	FAIMU ENTERPRISES
189.	GIKAI INVESTMENTS
190.	JEROSKO AGENCIES
191.	ADELPHI
192.	AFRICA ADORNED JEWELLERY
193.	AFRICALABASH
194.	AFRICAN CLASSICS
195.	AI RECORDS
196.	ARANIBAR MARKETING
197.	ARBOR, OILS OF AFRICA
198.	ART COCO
199.	ARTHI NA UPEPO
200.	BANANA BOX
201.	BARKAS
202.	BEACH N BUSH
203.	BLUE RHINO
204.	BONSAI CREATIONS
205.	BUTTERFLY CENTRE
206.	CAMPBELL CLAUSE
207.	CARNELLY
208.	DENTER
209.	DESERT ROSE
210.	DUDMESH
211.	EL LORIEN
212.	ELEMENTAITA WEAVERS
213.	EMELRALD ISLE TEXTILES
214.	FEATHER BRAINED
215.	IMANI C/O THE MARIANISTS
216.	FRESH WATER PEARLS
217.	FUNZI FUNDIS
218.	GECKO ART & CRAFT
219.	GLASS GALLERY
220.	HADCO, CARMINA ROMA
221.	HALO IMANI
222.	HELL FOR LEATHER
223.	HETIMIER
224.	HOME GALLERY
225.	HOT SPOT
226.	HOT SUN ART COMPANY
227.	IMARA DESIGNERS
228.	INDIGO BOO
229.	INITIAL COLLECTION
230.	IRRESISTIBLES
231.	JAHAZI
232.	KENYA CUTTINGS

233.	KERONGERLOU WORKSHOPS
234.	K.K. WEAVERS
235.	LINES CRAFT SHOP
236.	GOLDSTAR FEEDS LTD.
237.	PANDAPTAI IMPRT & EXPORT CO LTD.
238.	NIVAS LTD.
239.	MANSUKH GANDHI EQUATOR WHOLESALERS
240.	MASAI VILLAGE WEAVERS
241.	JOY & JANE HANDICRAFTS
242.	SPARROW LEATHER WORKS
243.	FABIAN POTTERY ENTERPRISES
244.	MWENDA ANDU WOMEN GROUP
245.	NUNGUNI HANDCRAFT WOMEN'S GROUP
246.	KABATI JUA KALI ASSOCIATION
247.	KAMUSA MAENDELEO W/G
248.	JOYPET DESIGNS
249.	DIMISA DESIGNERS
250.	AFRICA CLAY AND ARTS
251.	INTERLMARK SERVICES LTD.
252.	JB ART AND CRAFT
253.	JETTY APPLIQUE DESIGNERS
254.	JIGSAW
255.	KAHARO FARM
256.	KAMILI DESIGNS
257.	KARIBU HANDICRAFT
258.	KAZURI BEADS AND POTTERY
259.	KIASILI CLOTHING
260.	KIKOY COMPANY
261.	KILNGLASS
262.	KITENGELA GLASS
263.	KIUNGA MARINE
264.	LA FARFALLA STUDIO
265.	LE AMICHE
266.	LEAKEY
267.	LEATHER WORKS
268.	LEETE
269.	LILADHAR
270.	LIVING WATER CENTRE
271.	LIZIKI DESIGNS
272.	MAASAI OSTRICH FARM
273.	MUGUMO TEXTILE
274.	MUHIKI
275.	MWAURA
276.	MWELU WEAVERS
277.	PCEA EASTLEIGH COMMUNICATION CENTRE
278.	PIMBI GALLERY
279.	PURE NATURE PRODUCTS & V. JOSSSLYN
280.	PUZZLES KIDOGO

281.	RIFT WOOD
282.	RINZO ENTERPRISE
283.	RUMA CRAFTS
284.	SHAH
285.	NATURE'S WAY
286.	NDANI INTERIORS
287.	NGARE NDARE TANNERY
288.	NGONG KIONDO WEAVERS
289.	NICKLIN ARTWORKS
290.	NJAU INVESTMENT
291.	NUBIAN CRAFT
292.	OLGA'S DOLLS
293.	STERLING CRAFT
294.	STREETWISE
295.	SULI SULI
296.	SUNPOWER PRODUCT
297.	TABAKA HERITAGE CRAFTS
298.	UHAI PRODUCTION STUDIO
299.	WATAMA CURIOS
300.	NJOKA TANNERS
301.	BRADCKO INVESTMENTS
302.	GWIKURIA WOMEN GROUP
303.	JAKUMU ARTS AND GROUP
304.	FURNTEX QUALITY FURNITURE
305.	KIVULI WOMEN GROUP
306.	KAWIRA WOMEN GROUP
307.	WAKI WOMEN GROUP
308.	MUNNGUUMO WOMEN GROUP
309.	UREMBO WOMEN GROUP
310.	GEMBU HANDICRAFT
311.	BANNER STYLES
312.	MAPENDEZI ENTERPRISES
313.	LABAN NGUGI & GROUP
314.	TOP AERIAL SUPPLIES
315.	JUJA WELFARE DEVELOPMENT GROUP

Source: Commercial Crafts Producers and Exporters as per Export Promotion Council (EPC) as at May, 2009

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DATE 12/10/2009

TO WHOM IT MAY CONCERN

The bearer of this letter Diana Chepkoech Langat

Registration No: D61/P/8521/04

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.

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