DISTRIBUTION STRATEGIES AND COMPETITIVE ADVANTAGE IN KENYA COMMERCIAL BANK LIMITED

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DECLARATION

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

Signature …………………………………….. Date ……………………….

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D61/8818/ 2005

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

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DEDICATION

I wish to dedicate this project to My Family, my son Vincent Ndungu, My daughters Jedida Njeri and Leah Wanjiku, My Son in Law Anthony and grand children TJ and Maxwell, who all contributed in many ways and enabled me to finish this project. I am highly indebted to them.

I would like to have this project in loving Memory of My mother, Jedida Njeri Wa Njoroge, "Kandua", who died, 06th April, 2009.

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Special thanks to members of staff at Kenya Commercial Bank Limited for their continuous support, without which my efforts would have been fruitless. Lastly, I would like to express my sincere gratitude to My Family and Friends for their Love and encouragement throughout my studies. Special thanks to my late mother who valued education but did not live to see me attain my postgraduate qualification.

ABBREVIATIONS

ATM-Automated Teller Machine

CBK-Central Bank of Kenya

IT-Information Technology

KCB-Kenya Commercial Bank Ltd

PC-Personal Computer

SCA-Sustainable Competitive Advantage

ABSTRACT

The achievement of a competitive advantage is a major pre-occupation of managers in the present day business environment which is characterized by intense competition. One of the sources of competitive advantage to an organization is the distribution strategies it adopts to sell its products. Successful distribution channel strategy selection, implementation, and management cannot only help to meet the shopping needs and habits of the target customers efficiently under the cost constraints of the seller; they must also mitigate the disadvantages caused by distribution channel conflicts such as double marginalization.

The purpose of the study was to determine the role of distribution strategies as a source of competitive advantage at Kenya Commercial bank. The study adopted a case study research design in which an interview guide was used to collect data and content analysis was used in analyzing the data. The research found out that some of the distribution strategies employed includes warehousing, direct distribution, intense distribution as well as indirect distribution using middlemen. Through speed of offering the service, the added value, unique resources, superior quality of services, the banks' product and service diversity, service flexibility, differentiation strategy, cost leadership strategy and unique corporate culture were adopted. The distribution strategies adopted in the organization has led to a number of competitive advantage which includes the increase in area of coverage especially in the international market, edge competitors in making the products available to customers, increase in customer satisfaction through making the products available as well as addressing their concerns more promptly.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Owing to deregulation, new technology and changing consumer behaviour, the competition in the banking sector is getting fiercer. In the banking sector the intensified competition has recently resulted in a number of banks launching non-bank financial services through their branches as well as insurance companies and other financial companies opening banks. The battle for the customers is, however, also fought through new electronic distribution channels. Greenland (2004) predicted that in the foreseeable future the branch network will remain the main channel for retail banks. However, despite these predictions, the electronic distribution channels available for financial service companies world-wide force the banks to make a number of strategic distribution channel decisions.

According to rational channel planning models (Stern *et al.*, 2006), retail banks should identify profitable customer segments attracted to branch banking, telephone banking, PC banking and Internet banking or combinations thereof. Based on this knowledge, they have to decide which distribution channels they want to offer their present and future customers. As a result of these, banks should predict both the consumer acceptance of these distribution channels and the dominating distribution channel strategies of their competitors. However, Stern et al., (2006) further observe that the problems of the retail banks are even more complex because the different distribution channels have different cost structures and different degrees of face-to-face interaction. This creates an interrelationship of distribution channel strategy and the other elements of the bank's marketing mix, such as pricing, level of personal service, and the array of services offered. Hence banks should be able to identify appropriate distribution strategies that will give them necessary competitive advantage.

1.1.1 Distribution Strategies in Retail banks

According to economic distribution channel theory, the "ideal" distribution system is one determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Stern *et al.,* 2006). Based on this information it can be determined which distribution system most efficiently meets the customers' wants. Thus, an economic distribution channel model puts the customer perspective in the forefront, analyses the output from the commercial part of the different distribution channels and relates it to the customers' benefits and costs from the different levels of service output offered by the available distribution channels.

The adaptation process in the retail banking sector is rendered visible by the adoption and promotion of electronic distribution channels. According to Cohen et al., (2000), this influences the future distribution channel structure in two ways. First, the cost of using them is different from that of other available distribution channels, and the service output they provide to the consumers is different from the service output provided by the branch-based channels. Some banks have customers that ask for the electronic channels; they consider them to be important distribution channels and are quick to introduce and promote them to their customers. Other banks have only a few customers who want to use the electronic channels and these banks are more hesitant to introduce them. Further, the electronic distribution channels influence the consumers. Many of them are exposed to the promotion of the electronic distribution channels.

Some of these customers invest time and resources in becoming PC literate and in getting to know the Internet or they learn to use the telephone for conducting their banking activities. Other consumers do not want to use the telephone for banking services; they do not become PC literate and do not get familiar with the Internet. These different customer segments are not likely to have the same wants and are not likely to be willing to pay the same price for electronic banking.

Several different distribution channels are used by the retail banks. They offer their services through branch networks, automatic teller machines, the telephone and PC/Internet-based home banking systems. Also channels such as car dealers, mobile branches (buses), and retailers are used for distributing bank services. Ordinary branch banking requires the customers to come to the branch, where they have access to a wide variety of banking services but have to wait in line before getting served. Telephone banking requires the customers to phone the bank. It is more cost-effective than an ordinary branch and it is more convenient for the customer. PC banking can be used by customers who have access to and can use a personal computer and a modem, whereas Internet banking furthermore requires access to the World Wide Web (Kalakota and Frei, 2007). Early versions of PC banking were expensive, complicated and did not achieve a sufficient level of consumer acceptance, but today it is even more cost-effective than telephone banking, and it is also more convenient. Besides, a larger number of more complex banking operations can easily be handled with PC and Internet banking.

1.1.2 Competitive Advantage

According to Porter (1985), competitive advantage is the ability to earn returns on investment consistently above the average for the industry. This therefore means that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This can be interpreted to mean that sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permits the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechana, 2004). This group of assets can be said to be what Stewart (1997) said to be "invisible assets" which in real sense is intellectual capital.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of sustainable competitive advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

1.1.3 Kenya Commercial Bank

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011 there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. According to the Central Bank of Kenya (2011), there are a total of 45 licensed commercial banks in the country and one mortgage finance company. Out of the 45 institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institution comprise 5 banks with significant shareholding by government and state corporations, 28 commercial banks and 1 mortgage finance institution. However, out of all the banks only 10 of them are listed in the Nairobi stock exchange having met the conditions of listing and applied for the same. The Central bank of Kenya annual supervision report (2011) categorizes the financial institutions into three tiers; Large, Medium and Small in terms of net assets. Out of the 45 institutions, 13 were in the large peer group with aggregate net assets of over Ksh. 15 billion. The medium tier group comprise of 17 institutions with net assets ranging between Ksh. 5 billion and 15 billion, whereas the small peer group had 15 institutions with net assets of less than Ksh. 5 billion.

Kenya Commercial Bank (KCB) commenced operations in 1896 when its predecessor, the National Bank of India opened a branch in the Coastal Town of Mombasa. In 1958 Grindlay Bank of Britain merged with National Bank of India to form The National and Grindlay Bank. In 1970, the government of Kenya acquired 60% shareholding in National and Grindlay bank and renamed it the Kenya Commercial bank. In 1976, the government acquired 100% shares, effectively taking full control of the largest commercial bank in Kenya. A wholly owned subsidiary, Savings & Loan (K) was acquired in 1972 to form KCB Mortgage and provide mortgage finance.

The government progressively started reducing its shareholding in KCB to 80% in 1988, 70% in 1990, 60% in 1996 and 35% in 1998. In June 2004 it offloaded a further 9% holding by renouncing its rights in a Rights Issue. The government however continued to remain a single major stakeholder controlling 26.2% stake in the Bank. In 2008, the Government again renounced its Rights in a 1 for 9 Rights Issue thus further reducing its shareholding to 23.6%. The completion of the current Rights issue has seen a drop in government holding to 17.7% as it did not take its allocation (Kenya Commercial Bank Annual report, 2009). With investments in four out of the five countries in the East African Community and in Southern Sudan, the bank is effectively positioned as a true regional bank. The latest investment in Burundi in 201l brought to conclusion this regional expansion. In terms of returns, the South Sudan subsidiary stands above the rest mainly because of first mover advantages the bank enjoys in that market. Returns and market share in the other subsidiaries- KCB Tanzania, Uganda and Rwanda remain low but the increased visibility and expanded network should help improve it.

1.2 Research Problem

As one of the key elements of a company's success, selecting the proper distribution channel strategy has been a focal point in both supply chain and marketing channel structure. The distribution strategy decision is usually based on finding the most profitable way to reach a market (Ford and Mottner, 2003). Successful distribution channel strategy selection, implementation, and management cannot only help to meet the shopping needs and habits of the target customers efficiently under the cost constraints of the seller; they must also mitigate the disadvantages caused by distribution channel conflicts such as double marginalization. According to Porter (1985), organizational competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This can be interpreted to mean that sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permits the firm to formulate and implement strategies that expand its efficiency and effectiveness. A firm's distribution strategy of its products and services is such a strategic asset.

Kenya Commercial Bank Limited (KCB) is a leading local indigenous bank in terms of the asset base. The government has ceded its control in the bank to the current 17.7% shareholding and thus exposing the bank to challenges that come with liberalization of government institutions. With the bank moving towards being fully privatized and competing with other privately owned financial institutions; there is need for the bank to determine an effective distribution strategy that will make its services readily available in the country and the regional market that it has entered into. In addition, the present day consumer is becoming so much enlightened and the traditional distribution strategies adopted in the banking system cannot be sustainable in the long term. Present day consumers have less time visiting a bank and therefore want greater convenience and accessibility to financial services. If banking services are found to be convenient and accessible, then the consumer will have fewer propensities to switch to other banks. Thus, KCB should adopt appropriate distribution strategies for its services in order to enhance its competitiveness.

Several studies have been undertaken locally on the subject area of distribution strategies adopted by various local companies. Irimu (2009), undertook a research on the effects of distribution strategies employed by sewing machine industry in Kenya on channel members. In her study, she found out that the location of the service facility is especially important for such business since many target customers may lack the funds for public transportation or they may feel psychologically uncomfortable to visit distance outlets. Njia (2009) researched on the Strategic responses employed by KCB to changes in Kenyan Banking industry. The study found out that the banking firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. On her part, Alumila (2004) researched on the distribution strategies used by health maintenance organization in Kenya. She found out that health care customers unlike other services value the face-to-face contact with the seller and also emphasizes a trustful relationship. In Denmark, Katz and Aspeden (2007) found out that the Internet banking customers is very similar to the PC segment. From the above studies and with the researcher not being aware of any other local study done on distribution strategies as a source of competitive advantage in the banking sector in Kenya, this gap leads to the research question, how have distribution strategies been adopted as a source of competitive advantage at Kenya Commercial Bank?

1.3 Research Objective

The objective of the study will be to determine how distribution strategies have been employed by KCB to gain competitive advantage.

1.4 Value of the Study

It will assist KCB management to evaluate how effective they have been in adopting appropriate distribution strategies of their services and products. This may enable them identify gaps in their strategies which may enhance their strategic response and as a result move to effectively manage the existing strategies which will improve their financial performance.

This study will benefit the government and especially the Ministry of Finance for making policy decisions whose overall objectives are to reduce bottlenecks in distribution of banking services and at the same time accelerate the rate of growth in the banking industry sector and take advantage of the improved economy thus more lending to individuals and institutions.

It will be useful to the shareholders of the bank in evaluating the effectiveness of the banks distribution strategies as they cope with the increasingly competitive financial market locally. Other organizations can also use the distribution strategies employed by the bank to improve their performance. It will be useful to other researchers and scholars as it will contribute to the body of knowledge in the area of non-performing of loans. In addition the study will be an invaluable source of material and information to the many other banks operating in the country since the banking industry has a great role to play in the country's quest to become a middle income country as envisioned in the Vision 2030. By identifying the appropriate distribution strategies, the industry will also be able to achieve their objective much faster and growth of the individual firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section contains literature review drawn from past studies and arguments related to the factors influencing distribution strategies in the banking industry. It covers the distribution strategies in the banking sector, competitive advantage and the how the distributions strategies adopted by a firm can be a source of competitive advantage to an organization.

2.2 Distribution Strategies in the Banking Sector

The economic distribution channel theory posit that the normative distribution channel can be determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Stern and Sturdivant, 1987). Thus it is imperative that business units establish an appropriate distribution system that is most efficient in meeting the customers' wants. Thus, an economic distribution channel model takes a customer's perspective, analyses the output from the commercial part of the different distribution channels and relates it to the customers' costs and benefits from the different levels of service output offered by the available distribution channels.

According to Frei et al., (2007), the interaction between the adoption and promotion of electronic channels by the banks and the changes in the customer segments is input to a change process where the structure of the distribution channel is adapted to the new environment. However, they note that this is not likely to happen overnight because of barriers and temporal constraints. For example, some banks will have invested in a huge branch network, which will be of no use if all or most of its customers want to switch to an electronic channel, and the customers will be tied to their present bank and its distribution channel because of habits, and perceived social, psychological and financial risks associated with switching banks. Besides, they will have to spend time searching and evaluating alternative banks in order to find a more suitable bank. Therefore, the existing distribution strategy will also influence the changes in the distribution channel structure. The change process will end when the new distribution strategy is the normative distribution channel (Bucklin, 1996).

Several different distribution channels are used by the retail banks. They offer their services through branch networks, automatic teller machines, the telephone and PC/Internet-based home banking systems. Also channels such as car dealers, mobile branches (buses), and retailers are used for distributing bank services

2.2.1 Branch Network

Ordinary branch banking requires the customers to come to the branch, where they have access to a wide variety of banking services but have to wait in line before getting served. The branch banking segment consists mainly of older, non-computer literate persons, who value personal relationships (Heskett *et al.,* 1997). These customers value the face-to-face contact with the bank teller and emphasise a trustful relationship. They do not own a PC and do not work with information technology. As are result of the adoption of technology, this segment is still large and important but it is shrinking.

As manifested by the banks' branch network, this has been the emergent strategy for most banks. For a number of banks, this is the distribution channel structure they are used to, and this is where their competences lie. It is suitable for delivering services based on face-to-face interaction, and it targets a very large segment of bank customers. However, many banks might be reducing their reliance on the branch network. The problem with the strategy is that it is expensive and likely to lead to a decreasing number of customers. Growth might be maintained through mergers and acquisitions, but only a few banks will have the luck and the skills necessary for such a strategy. A likely strategy for the banks at present pursuing this strategy is therefore to combine it with an offer of electronic home banking services. For some banks the transformation will cause problems because they lack resources or because of bad timing in the promotion of the electronic channels. These banks risk being unable to match the prices of, for example, competing Internet banks (Birch and Young, 2007).

2.2.2 Electronic Banking

Telephone banking strategy has the telephone as its most important distribution channel; it relies on a more impersonal form of contact than the branch banking strategy. According to Birch and Young (2007), majority of European countries have this system in place, but they have often used it in combination with the branch banking strategy. The advantages connected with this strategy are that all people with access to a telephone are potential customers and that it is less costly than the branch banking strategy. Thus, it gives access to a large segment and a large geographical coverage without large-scale investments. It also relies on thoroughly tested and secure technology. The disadvantages, though, are that it has attracted the most price-sensitive customers (Mols, 2008), and that this segment is likely to shrink.

PC banking has many of the same qualities as the telephone channel and most banks attach decisive importance to offering some kind of customer-friendly PC bank solution. The segment attracted to this strategy is relatively small though growing, and its members are likely to be the first to adopt the Internet bank solutions. Therefore PC banking, though transitory, may be the most important channel for the banks. The reason why so many banks attach importance to offering a PC bank solution may be that survey results have shown that the least price-sensitive customers are PC bank customers, and thus, they make up a potentially very profitable segment to serve (Mols, 2008). This trend can still be explained by the early adopters' interest in the new technology and the convenience it offers rather than by an interest in using the most cost-effective distribution channel. Therefore, it is likely that PC bank customers will eventually become more price-sensitive, which is in accordance with the predictions that Internet banking is likely to make home banking customers even more price-sensitive than they are today (Birch and Young, 2007). As with the telephone and PC banking strategy, a pure Internet banking strategy requires radical changes for many banks. They have to reduce their number of branches and foster new competences. However, the strategy has the advantage that it aims at serving the fastest-growing customer segment, and thus it will be a means to gain market shares. In addition it is a low-cost strategy, because the Internet is the cheapest distribution channel. The disadvantage is that it is difficult for Internet banks to differentiate their offerings (Birch and Young, 2007).

According to Howcroft and Kiely (2005), the electronic distribution channels and especially the Internet-based version, reduce the entry barriers into retail banking. It makes it easier to cover a larger geographical area and thus multinational/global retail banks might emerge. In the multinational version of the Internet banking strategy no further branches are needed. However, a centrally-situated branch in each country might be necessary to attract local expertise, to assist the customers in case of unexpected problems and to handle the contact with the national authorities. Problems with technical and legal security to support the exchanges over the Internet constitute a barrier to success with this strategy. It makes the Internet technology uncertain and requires the customers to exhibit a high level of trust (Angelides, 2007). Therefore, another problem might be to convince new customers that they can trust the bank, in the cases when the bank is not very well-known and has no significant physical presence (Birch and Young, 2007).

2.2.3 Multiple distribution banking

The multiple channel strategy is the most popular distribution channel strategy among banks. It gives customers a gentle transition from a branch banking strategy to a strategy emphasizing one of the electronic distribution channels, and it provides good market coverage (Moriarty and Moran, 2000). It is also a way for the bank managers to hedge their bets by making a number of smaller investments in PC/Internet banking systems, while simultaneously continuing a traditional branch banking strategy.

However, the hedge strategy is not entirely without problems. Multiple channels are likely to lead to conflicts between the branches and the departments responsible for the electronic distribution channels. It can be difficult to motivate the front personnel in the branches to promote these home banking services knowing that it leads to cannibalization and unemployment. The strategy can also result in customer problems because they may have difficulties in accepting a wide price differential between the services offered through the branches and the services offered through for example the Internet (Moriarty and Moran, 2000).

2.3 Competitive Advantage

Scholars who adhere to a resource-based view of the firm believe that resources contribute to competitive advantage but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources. Barney (1991) observes that particular combinations of these resources deliver a particular type of competitive advantage. He suggested that not all of a firm's resources hold the potential to deliver a competitive advantage. Rather, the firm's resources must possess the attributes of rareness, value, the inability to be imitated and inability to be substituted if a SCA is to be realized. However, in the real world of business, it is unlikely that all firms will have the capacity to possess or access all the resources that satisfy Barney's (1991) conditions. In addition, firms may not have the capacity to utilize these resources in the right combination even if they were accessed in an appropriate manner. On his part, Oliver 1997), argues that both resources and institutional capital are indispensable to creating SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

Competitive advantage is the ability of a firm to earn returns on investment consistently above the average for the industry (Porter, 1985). On his part, Barney (1991) observed that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. According to Meso and Smith (2000), sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechana, 2004). They are indeed the assets which Stewart (1997, p.56) referred to as “invisible assets” which in real sense is intellectual capital.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of sustainable competitive advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating a SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

2.4 Distribution Strategies and Competitive Advantage

According to Teece et al., (1997) the ability to build effective capabilities is a significant driver of performance. Capabilities are nurtured and developed within a firm in order to enhance its performance and also react or anticipate market movements. An effective performance measurement system ought to cover all aspects of performance that are relevant for the existence of an organization and the means by which it achieves success and growth (Kaplan and Norton, 1996). As a result any performance measurement system ought to include more than just financial measures.

Walker *et al*. (2002) state that to achieve desired performance levels, a firm's strategies and the resources available to it must interact positively with the requirements of the firm's markets. Both capabilities and market requirements need to be clearly defined and explicit. Arguably, both need active consideration during the strategy formulation stage. A key concern in the emerging strategic performance management in the current business environment is the need for organizations to implement systems and frameworks that not only deliver performance improvements (Witcher and Chau, 2008), but also the ability to control them against top level targets (Chau and Witcher, 2005). This remains the case for both commercial and regulated public sector companies.

Promotion and distribution strategies play a crucial role in the launch of new products to the market. Distribution is crucial in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers. Past research suggest that the launch stage absorbs the second largest part of the innovation budget after product development and that compared to failed products, successful ones had significantly more time allotted to them (Cooper and Kleinschmidt, 1988). Distribution decisions are far reaching because changing them is both resource and time demanding and hence firms have to take great care in designing their distribution systems during the launch of innovations (Stern and Sturdivant, 1987). As distribution strategy plays a role in enabling the availability and application of the product in the marketplace, therefore the distribution strategy employed by the organization would impact the nature of "market support" capability that can be provided to the innovation.

Distribution strategies management has evolved into a domain totally centered on "consumer experiences" and methods of providing and enhancing them (El-Ansary, 2005). Accordingly, the focal point in channel management when taking innovations to the marketplace would be the planning and implementation of positive consumer experiences through selection of channel mix, retail training in terms of physical stores, enriching experience at customer touch points, value-added services and consumer research would provide long term competitive advantage for the firm. In addition, value chain management would focus on partnering with up-stream and down-stream activities for efficiency enhancement and cost control. Partnership innovation management (Kay, 1993) is a relevant application, combining elements of process and product innovation management within a network structure to meet customer expectations at an economical cost.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the proposed research design, the target population, data collection instruments and the techniques for data analysis.

3.2 Research Design

The research design that was adopted was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study. The study adopted a case study in this particular study since not all the potential population of the study will be knowledgeable of such innate factor as how distribution strategies is utilized as a source of competitive advantage. In light of this therefore, a case study design was deemed as the best design to fulfill the objective of the study as the results are expected to provide an insight in understanding how distribution strategies of KCB will act as a source of competitive advantage to the organization.

3.3 Data Collection

The study used primary data which was collected through a face to face interview with the researcher. An interview guide was used to collect data on distribution strategies employed by KCB. The interview guide consisted of questions that the interviewer asked the respondents. The respondents interviewed were those involved with identification, development and implementation of the bank's distribution strategies. The interview guide was made up of three sections namely; respondents profile, organizations distribution strategies and how the distribution strategies adopted becomes a source of competitive advantage. The researcher believes that this made it possible to obtain data required to meet specific objectives of the study.

The interviewees were the senior managers and functional heads in charge of Operations, Strategy and Research, Information and Technology, Logistics and Marketing. These were considered to be key informants for this research. In addition the departments in which the intended respondents work in are the key host of the banks distribution strategies.

3.4 Data Analysis

The data obtained from the interview guide was analyzed using qualitative analysis. The qualitative analysis is adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. It also enabled the researcher to make individualistic judgment on the research subject matter. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

The research objective was to establish the role of distribution strategies at the Kenya Commercial Bank Ltd and the resultant competitive advantage. This chapter presents the analysis and findings with regard to the objective and discussion of the same and is divided into three sections namely; respondents profile, distribution strategies adopted at KCB and how the distribution strategies employed has become a source of competitive advantage to the organization.

4.2 Respondents Profile

The respondents to the study comprised the senior managers and sectional heads in the bank's head office and regional offices in Kenya. In total, the researcher interviewed eight respondents that had been intended to be interviewed in the research design. One of the respondents was not available during the interview period having travelled for a one month old on job training in the banks subsidiary in Southern Sudan. As a result the response rate was around 87% and was found to be adequate for the realization of the research objective. These respondents were purposely selected by the researcher because they were deemed to be dealing in the company with issues relating to distribution of the company products and services. The interviewee's qualification came from departments that deal directly with distribution of the firm's products and work in marketing, retail and corporate banking, IT, Sacco banking, managing projects, business development and human resources.

The time period that had been taken by the respondents in their current positions or departments was also found to be adequate for this study since they had all worked for a cumulative total period of 42 years and their total period of service in the organization and banking industry in general was cumulatively summing up to 68 years. This position means that the respondents will be more versed with the research subject area coupled with the results of their educational and professional qualifications, it was found out that the respondents were equal to the task of the research objective. The interviewees were found to have attained post graduate qualifications in their respective fields and all of them had also finalized various professional qualifications or are in the process of attaining them. Therefore, the researcher concluded that the respondents were able to answer appropriately the research questions contained in the interview guide.

4.3 Distribution Strategies employed at Kenya Commercial Bank

This section of the interview guide wished to establish from the respondent what distribution strategies KCB applies in making its products available to its clients both within the country and in the regional countries that it has set business in. This position will help to assess whether the current distribution strategies are adequate to meet the challenges facing the banking industry and also whether the present distribution strategies can act as a source of competitive environment.

On the question of which types of distribution strategies KCB applies to deliver the products to the consumer, a number of methods were identified. These methods include the use of banker's agent or what is called agency banking; correspondent's abroad , segmentation for both retail and corporate clients; direct distribution through the branch network relationship managers; use of retail network (branches) ATM , agents and branch network what is popularly called KCB

Mtaani. It also emerged that with the use of mobile phones becoming popular as a communication handset, the bank has introduced Mobi banking as a distribution strategy to deepen the accessibility of financial services to many clients as well as increase accessibility of its products to more clients. To show how popular Mobi banking has become popular among its customers, one of the respondents that supervise the account pointed out that the number of active user has increase from around 25, 000 customers in the 2010 to the current level of over 180,000 customers. This product has become more popular especially with the young clients who will not wish to visit the bank's branches and queue before accessing the services. The KCB Mtaani agents is a form of product distribution in which the bank's customers transact with the bank online through the use of agents that are spread up to the village level in the rural areas as well as in almost every estate in urban centres. The respondents noted out that this product has become so popular such that the number of the banks agents has increased almost four fold to the present over 4000 agents in the last one year alone.

The bank has encouraged these agents through various incentives such as arranging for business trips outside the country and also interchanges among them. The volume of transactions and new customers that have been transacting using KCB Mtaani agents was pointed out to be quite encouraging by the respondents. The respondents also noted that the bank's management has undertaken to increase the number of ATMs especially in the urban centres to increase the accessibility of the banks' products and also reduce the number of clients visiting the branches. As a pointer of how strategic the rolling out of the ATMs across its operational areas is, the interviewees pointed out that banks ratio of operational cost to total income has declined to the present 74%, down from 85% five years ago. This reduction of the cost has been witnessed despite the bank opening more branches locally and in the neighboring countries such as

Rwanda, Southern Sudan, Tanzania, Burundi and Uganda. This means that adoption of IT and automation of a firms processes helps in reducing the overall cost of operation despite the high initial cost.

The selection of an appropriate distribution strategy in any organization is important. This is because for effective results to be witnessed in the bank for example, the management should identify a network that is both cost effective and also able to reach more target clients and offer the expected level of results. In the case of KCB, the respondents observed that the bank indeed considers several factors which include the bank ensuring that the products and markets are in sync with the focus being availability. They pointed out that with a financial institution main offering being services- most basic services do not require sophisticated channels but to move on secure and multiple locations and therefore, there is need to ensure that the distribution channel is safe and adequate control mechanism can be incorporated at any given time. The type of the target clients is also another factor that the bank considers. They gave an example of the micro business customers to whom they suggested that indirect distribution and mobile banking are an important consideration in selecting the appropriate distribution method which is able to serve many of these clients without the visit to the branches.

The cost of offering the service is also an important parameter. The respondents noted that the distribution strategy adopted by the bank is usually evaluated to determine their cost effectiveness and their sustainability now and into the foreseeable future. The respondents also noted that the key role of distribution strategy is to ensure that the bank products reach the investment easily and in a timely manner and also cheaply. The religious beliefs of the target market are yet another factor that is considered by the bank. The respondents for example looked at the case of the Muslim clients whom they pointed out that the distribution strategies should be Sharia compliant.

The respondents pointed out that the customer needs and market dynamics change every other day and it is imperative for the bank to keep abreast with the changes in order to maintain its market position. The nature of product, industry trends and cost efficiency came out as another strong factor that is considered by the bank. They for example noted that products tailored for the youth have tended to change more frequently to meet the consumer needs .They further noted that industry demands and consideration of other market players and size, location, convenience, type and profile of the clients; the advantage edge of the firm from competition and the consumer needs are factors to be considered.

4.4 Distribution strategies as a source of competitive advantage in Kenya Commercial Bank

This section of the interview guide aimed at establishing from the interviewees how the organizations distribution strategies have become a source of competitive advantage. Competitive advantage is more likely to be based on support considerations, such as service quality, distribution channels or image and reputation factors, pertaining to the organization as a whole rather than any individual service offering. Basing competitive advantage on the organization as a whole rather than on specific offerings allows the organization to place considerable emphasis on trust and confidence to mitigate the doubts and uncertainties experienced by consumers. This therefore makes a firms distribution strategies a factor to consider in giving it a competitive advantage.

On the question on how the organization has gained competitive advantage from the adoption of distribution strategies, all the respondents answered to the affirmative. They pointed out that with adoption of effective distribution strategies by the firm; they have been able to increase numeric distribution of its products thus making the products available to more consumers. The key to achieving competitive advantage by the bank was observed will be from the organization ensuring the suitability of the products at affordable costs. However, to achieve the desired uniqueness will likely take time. KCB enjoys a wide distribution foot print as follows which can be evidenced from the ; total branches it has broken down as follows, Kenya-168 branches, and Eastern Africa 210 branches. Further, the total ATMs in East Africa 412, Mtaani agent's 3000 plus hundreds of correspondent banks in all major economies worldwide which has made the banks products accessible in a greater geographical areas. Another competitive advantage that has resulted from the banks distribution network has been the establishment of the huge grand network and its location in areas where there are no competitor banks. This has made it attract cheap results from the market

On the question of whether the banks distribution strategies have been used to avail the products to the customers, the respondents answered to the affirmative. The marketing department to a larger extent was identified by the respondents to be the pivotal department that works to the realization of the objective. The marketing division works very closely with the business units and has aligned the marketing activities of the business needs; each marketing activity has an asset or liability target to be achieved and the same is always reviewed later on by the business to gauge its success in terms of higher sales and revenues. However, some respondents noted that in some cases, the marketing department action has been out of sync with the reality. Some of the marketing system like direct sales, mobile marketing does lead to market share and profit, but there is still more to be done.

The Kenya Commercial Bank was also identified as a proactive institution that adjusts its distribution strategies to the demands of the market. An organizations strategy should be flexible enough to demands of the market. A number of actions can be identified that portray KCB as a firm which takes actions before competitors. It was pointed out that the bank was among the first to roll out the mobile banking distribution strategy, Mobi banking and agent banking. The marketing division and research was particularly flagged out as the segment which has been in the forefront in giving signals which help the management move away or adjust targets based on these signals. Despite the fact that the bank was pointed out as the pioneer in agent banking and mobile banking, it has lagged behind in internet banking unfortunately. The respondents suggested that the bank should in particular take keen interest in increasing its market share for government projects and transaction which was observed to deal with large volume of funds.

Understanding of competitor actions and intentions is one of the important strategic moves in the present day business environment. The study also wished to establish how the organization responds to such market intelligence to gain and maintain the competitive advantage of the firm. There exist close relationships between the units of the bank and marketing units, retail banking and corporate banking all working towards achieving timely response to market needs. The bank has also invested in research tools and a performance comparison that enables it gain elaborate information on the market and as such determines what areas/ issues to focus on. Market surveys have been identified as yet another mechanism that is used to generate information and check their accuracy and also pin point any deviation from the planned action. Despite the good reaction that some of the respondents pointed out, it was evident also that the bank will need to react much faster by reducing the bureaucracy experienced in the decision making process. In addition, it was also suggested that the bank will also have to increase the budget for the marketing department to enhance its market intelligence and research.

An organization should implement systems that deliver performance improvements and also these systems should be controlled against top level targets in order to sustain the existing competitive advantage. The interviewees observed that the bank has installed a modern banking system and undertaken reengineering processes, timing etc, for performance improvement. The management style of the bank is such that its strategic operations is centralized to a large extent and with this style long term strategies of the decentralized operations is uniform which will not confuse the customers. Further, they noted that since banking is always a homogeneous- product industry a product differentiation does not hold for long. The main difference between banks is the quality of services which KCB has been able to effectively use as a competitive strategy and with recognition of the same; the bank has implemented the systems and processes that are geared towards quality service

An organization’s competitive advantage cannot only be gained through distribution strategies. Instead the organization should streamline its pricing, product and place mix in such a way that the firms advantage is gained. The banks products are many and differently priced, promoted and distributed, in line with the market trends. The customers are being involved through the customer surveys and it emerged that the bank has a wide range of product offering that meets various target market. The pricing is reasonable in line with CBK regulations and in comparison to competition. In addition, the banks customer care process has taken a strategic role with studies and research as well as promotions to give the customer what they want. The banks pricing, product, promotion and distribution is based on the different markets.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The results centered on determining the role of organizational distribution strategies as a source of competitive advantage. The research therefore wished to establish how distribution strategies have been a source of competitive advantage at Kenya Commercial Bank Ltd.

The findings of the study were that KCB had put in place what can be termed as effective distribution strategies which have given it a competitive advantage in the banking industry both in Kenya and the greater East and Central Africa. The bank employs different distribution strategies that make its products reach a wider market with minimal cost. The ways in which KCB use to achieve competitive advantage was through support considerations such as service quality, distribution channels or image and reputation factors pertaining to the organization as a whole rather than any individual service offering. The other actions employed by the bank include technology development, human resource management, procurement, and firm infrastructures which enhance the performance of the primary activities as well as offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies higher prices. It also came out that for an organization to achieve and sustain gained competitive advantage includes executing a well-planned and executed strategy whose strengths are grounded in its resources, capabilities and competencies that help the company attain a competitive advantage based superior efficiency, innovation, and quality and customer responsiveness.

The distribution strategies adopted in the organization has led to a number of competitive advantage which includes the increase in area of coverage especially in the international market, edging competitors in making the products available to customers, increase in customer satisfaction through making the products available as well as addressing their concerns more promptly. Upon developing the appropriate distribution strategy it is also for an organization to evaluate customer's requirements and employ effective market penetration strategies as well as improve the organizations monitoring of the right channel performance for example micro retail and also the need of the organization to apply the push and pull strategy where wholesalers pull from the regional distribution centres. However, for success in the competitive advantage, the organization should also combine the strategy with other strategies such as utilization of core competencies, organizational brand advantage, management competencies and utilization of the existing channel goodwill.

Kenya Commercial Bank has encountered difficulties when establishing competitive advantage as services cannot be patented and so service features generally can be copied. In order to achieve competitive advantage, KCB combines distribution strategy with other activities in the bank taking cognizance that changing distribution strategies is both resource and time demanding. It therefore becomes imperative that firms have to take great care in designing their distribution systems during the launch of innovations, adopt distribution strategies that are cost effective and in the process enable the bank to achieve competitive advantage. A firm's distribution strategy is crucial in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers.

The marketing department to a larger extent was identified by the respondents to be the pivotal department that works to the realization of the objective. The marketing division works very closely with the business units and has aligned the marketing activities of the business needs; each marketing activity has an asset or liability target to be achieved and the same is always reviewed later on by the business to gauge its success in terms of higher sales and revenues. However, some respondents noted that in some cases, the marketing department actions have been out of sync with the reality. Some of the marketing systems like direct sales, mobile marketing do lead to market share and profit, but there is still more to be done.

5.2 Conclusion

An organization's competitive advantage is no longer on the products or services it offers but rather in the present day business environment, competitive advantage is found in those innate organizational capabilities that makes its products and services easily available in the market. One of these organizational capabilities is its distribution strategies that which will make the company make its products and services reach the market more economically. The achievement of competitive advantage by any organization would enable it to outperform their rivals in sales which will lead to gaining high profits. However, it should also be noted that the adoption of a particular distribution strategies should be determined by the cost as well as influence from the customer acceptance perspective.

The distribution strategies adopted by the commercial banks do not result in competitive advantage alone but rather it is achieved with other activities in the bank, assists in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers and award the commercial banks advantage that is independent of its size and the advantage because competitors are held back by an investment asymmetry. Conversely, with increased consumer understanding, either because consumers are more knowledgeable or because the products are relatively simple, or both, then elements such as price and specific service features may become more important in adding value and achieving competitive advantage. Furthermore, it should be noted that even within a given set of markets (such as retail financial services), differing degrees of knowledge and understanding across different market segments may enable some niche operators to define their markets and sources' competitive advantage more easily than is the case with the mass market players. In this respect, a market orientation may assist also the accurate mapping of the competitive arena.

5.3 Recommendation

This study makes several recommendations for policy implementation and also suggestions for further research.

Foremost, the study established that a firm may adopt different distribution strategies depending on the particular circumstances in a given location. On the basis of the above finding, it is recommended that the management of various firms should adapt their distribution method in such a way that it meets the peculiarities of a particular location, clientele, government policy and in such a way that will result to greater sale and competitive advantage. This also implies that there is no uniform distribution strategy even in a particular industry or sector but instead, it is recommended that firms adopt a distribution strategy that matches their products and operational market.

Secondly, for retail banks, the electronic channels and especially the Internet are new distribution channels that offer less waiting time and a higher spatial convenience than traditional branch banking and they are therefore attractive to a large and quickly growing segment of bank customers. This will change the distribution channel structure of retail banking and will force retail banks to decide which segments to target. However, before making large-scale investments in new electronic channels it is recommended that the relevant customer segments are identified and that attempts should be made to predict the development of their sizes.

5.4 Recommendations for further research

The study confined itself to Kenya Commercial Bank group and the findings may not be applicable in other sectors or firms in the same industry. It is therefore recommended that the study is replicated in other sectors to establish the use of distribution strategies as a source of competitive advantage.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

University of Nairobi

School of Business

Department of Strategic Management

P. O. Box 30197

Nairobi

30th September, 2012

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on distribution strategies and competitive advantage in Kenya Commercial Bank

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by allowing me to interview you. The information/ data you provide will be exclusively for academic purposes. My supervisor and I assure you that the information you will give will be treated with strict confidence. Your response will be used in aggregate hence your individual response will not be disclosed.

Cecilia Wambui Ndung'u	**J. Kagwe**
Student No: D61/8818/2005	**Supervisor**

APPENDIX II

INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

i. To determine how distribution strategies have been employed by KCB to gain competitive advantage.

Section A: Background Information on the respondents

- What position do you hold in the company?
- For how long have you been holding the current position?
- For how long have you worked in this organization?
- What is your level of education?

Section B: Distribution strategies

a. Which distribution strategies does your organization use?
b. Has the distribution strategies being used by the organization ensured availability of products to its intended customers?
c. What factors did the organization consider before choosing the distribution strategies they are currently using?
d. Did the organization consider the competitive landscape and the demand for service support when selecting distribution channel strategies for an organization?
e. Is the overall strategy of the organization on how to distribute its products linked to products and the markets it plans to serve?

Section C: Distribution strategies as a source of competitive advantage in Kenya Commercial Bank

a. Has the usage of distribution strategies by the organization led to it gaining competitive advantage?
b. Does the components of marketing system in the organization co-coordinate efforts and work in harmony in order to achieve higher sales, market share, profits and competitive advantage?
c. Is the organization market driven whereby they can sense events and trends in their markets ahead of their competitors, anticipate more accurately the response to actions designed to retain or attract customers, improve channel relations, or thwart competitors, act on information in a timely, coherent manner because the assumptions about the market are broadly shared as it enable the organization to attain and sustain competitive advantage?
d. Does the organization learn rapidly and adjust their distribution strategy in order to achieve competitive advantage?
e. As the organization distribution strategy market oriented whereby they can generate, disseminate, and respond to information about market forces and market conditions better than their less market oriented rivals in order to achieve competitive advantage?
f. Has the organization developed the capabilities to generate, disseminate, and respond to market intelligence and the processes to act on this information in order to achieve competitive advantage?
g. Has Kenya Commercial Bank implemented systems that that not only deliver performance improvements, but also the ability to control them against top level targets in order to gain a competitive advantage over other players in the market dealing with the same products and services?
h. Does the organization take great care in designing their distribution systems as changing distribution strategies is both resource and time demanding?
i. Has the organization conducted effective product, pricing, promotion and distribution activities in competitive environment where customers are central to all marketing efforts in order to improve performance?