STRATEGIC RESPONSES TO COMPETITIVE ENVIRONMENT BY MOBILE TELEPHONY FIRMS IN KENYA

BY:

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DECLARATION

This is my original work and has not been submitted for any degree or diploma in any other institution.

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D61/62852/2010

This project has been submitted with my approval as the candidate's supervisor.

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DEDICATION

This work is dedicated to my mother, Deborah, and to my siblings, Melvin, Gordon, Kenneth and Enock. Thank you all for your prayers, patience, support and understanding. A special dedication to my late dad, Johnson, for being a true source of inspiration and always encouraging me to do my best.

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ABBREVIATIONS AND ACRONYMS

2G: Second Generation

3G: Third Generation

CCK: Communications Commission of Kenya

MBA: Master of Business Administration

R & D: Research and Development

SCA: Sustainable Competitive Advantage

SPSS: Statistical Package for Social Sciences

ABSTRACT

This study was carried out on mobile telecommunication firms in Kenya to evaluate the strategic responses to competitive environment and how they were effective in improving performance. Four mobile telecommunication firms were identified: Safaricom, Airtel, Orange and Yu. Data collection was made through administration of questionnaires to employees working in these organizations. Competition is a major environmental influence to business growth. In order to be sustainable, firms have to respond strategically to such factors. Different firms have adopted tactics against these challenges. Results indicate that different companies adopt different strategies namely popularity of the brand name, reduction of prices, offering excellent customer care, investing in advertisement, increased expenditure on research, targeting corporate customers, outsourcing on non-core functions and developing customized solutions for different market segments. The study recommends adoption of strategies that have proved successful across the four firms to gain more from the increased competitive space.

CHAPTER ONE:
INTRODUCTION

1.1. Background of the study

Firms have to respond strategically to environmental factors in order to be sustainable (Hamel and Prahalad, 1993). One of the environmental influences to a business arises from competition. Increased competition threatens the attractiveness of an industry and reducing the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate positive response to perceived and actual changes in the competitive environment.

A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. The rapid growth of the mobile telephony sector in Kenya has acted as a major catalyst to triggering competition. The services sector is increasingly becoming a dominant force in the world economy and therefore deserves much attention. The objective of this study is to determine the strategic responses by Kenyan mobile telephony firms to the competitive environment.

1.1.1. Strategic responses

Many managers are finding out, sometimes the hard way, that the business environment in increasingly changing, and that the old rules do not apply anymore. To compete in today's rapidly changing environment, new strategic responses are required that most managers may have never thought possible. In addition, managers must understand that at the heart of these new strategic responses is innovative management through advanced information technologies. Thus, businesses are continuously evolving and to match the advances in the technological world. Environmental changes shape opportunities and challenges facing organizations. One of these changes is competition. An organization needs to respond to competition, timely and appropriately, in order to remain successful. This is by adopting a strategy that fits with the current environment it is operating in. In order to respond effectively, the organization needs to assess the direction of the change, speed of the change and its response capability. The strategy adopted in response to competition must fit/match the activities of the organization to the environment. It must build sustainable advantage and improve the company's performance.

In order to identify the best strategy, strategic analysis must be conducted before. A company that responds to competition without a strategy is like a ship without a rudder, going around in circles. Strategic analysis will help identify the company's competencies (strengths) and vulnerabilities (weaknesses). It will also help the company to identify conditions it can turn to its advantage (opportunities) and those that can hurt it (threats).

1.1.2. Competitive environment

Succeeding in the present, rapidly changing competitive environment is a challenge to management. Everything seems to be changing: markets, customer demands, technologies, global boundaries, products and processes. In the midst of these seemingly overwhelming changes, managers are being asked to make critical competitive decisions that will affect not only the present position of their firm, but also its future success. Any successful organization has to look at the competition, and moreover, be aware how it can influence its strategy. The business environment is very dynamic and is increasingly changing. New entrants are coming in every day. Customers are increasingly making unique and unpredictable product demands. The operating field is becoming more competitive day by day and firms have to change tact in order to remain relevant.

One way to look at competition is by industry analysis. Competition drives down rates of return on invested capital. If the rate is competitive, it will encourage investment. If not, it will discourage competition. Porter (1980) looked at the forces influencing competition in an industry and the elements of industry structure. The forces are threat of new entrants, threat of substitute products, macro factors like changes in technology and micro factors like customers' or buyers' changing needs.

Sustainable competitive advantage comes about by performing different activities in different ways. Strategy is about being different from rivals. In order to react effectively to competition, the mobile telephony firms must identify: the competitors, strategies used by the competitors, performance of the competitors and moves they are likely to make. It also needs to know the competitors’ strengths and weaknesses.

1.1.3. The Telecommunications Industry in Kenya

The Kenya telecommunications landscape is quickly evolving, now having a total of four players. These are: SAFARICOM, AIRTEL, ORANGE and YU. The mobile telephony market in Kenya has an estimated subscriber base of 21 Million. With a national population of 38 Million, it means that about 50% of the market has not been reached. This is one of the reasons why the telecommunications industry in Kenya is becoming highly competitive and attractive.

In the telecommunications industry in Kenya, focus for a long time has been on the 2G technology. This is 2^{nd} generation technology whereby users are able to use their phones primarily for voice and SMS services and low-speed internet access. 2G technologies involve a user being allocated a circuit of which he/she occupies for the entire period of the call and no other user can occupy the circuit. This eventually translates to fewer throughputs even with huge network resources available.

However, since the year 2007, focus has changed from 2G to 3G. In 3G technologies, users are able to use the network to access high speed internet services, make video calls and video conferencing. Several users can transmit and receive data simultaneously using the same channel. This boosts the throughput capacity of the network. With 3.5G technology, it is now possible to do video-streaming. It will go a long way in enhancing the era of digital TV.

In Kenya, the telecommunications industry is regulated by the CCK. CCK is enhancing the change in the landscape of telecommunications in Kenya by issuing licenses to more players. Three years ago, there were only two players (Safaricom and Zain). Two more players have been licensed i.e. Orange and Yu. Many more players may come into the market very soon since it’s now easy to acquire a GSM license. Number portability has been introduced. This is one of the key revolutionary trends in the telecommunications sector. With this technology, subscribers are able to enjoy the services of another network provider even without changing their numbers. This means that, if one provider is not offering a particular service, subscribers can switch and use the services from other operators. This is forcing operators to improve on the services they are offering.

Safaricom Limited

Safaricom Limited is the leading telecommunications company in Kenya. The Mobile subscriber base for Safaricom has grown steadily to a record high of 16 Million, which represents 76% of the total market share in just 11 years of operation. Safaricom Limited, started as a department of Kenya Posts & Telecommunications Corporation. TELKOM launched operations in 1993 based on an analogue ETACS network and was upgraded to GSM in 1996 (license awarded in 1999).Safaricom Limited was incorporated on 3rd April 1997 under the Companies Act as a private limited liability company. It was converted into a public company with limited liability on 16th May 2002.

The Government of Kenya, held a 60% shareholding at the time of incorporation. Safaricom was thus a state corporation within the meaning of the State Corporations Act (Chapter 446) Laws of Kenya, which defines a state corporation to include a company incorporated under the Companies Act which is owned or controlled by the Government, or another state corporation. The remaining 40% shareholding was owned by UK based

Vodafone group Plc. Until 20th December 2007, the GoK shares were held by Telkom Kenya Limited, which was a state corporation under the Act. The Government of Kenya transferred 25% of the shares it held in Safaricom to the public in March 2008. The GoK thus ceased to have a controlling majority in Safaricom.

Airtel Kenya Limited

Bharti Airtel Limited is a leading integrated telecommunications company with operations in 19 countries across Asia and Africa. The company ranks amongst the top 5 mobile service providers globally in terms of subscribers. The company's product offerings include 2G & 3G mobile services, fixed line, high speed broadband through DSL, IPTV, DTH, enterprise services including national & international long distance services to carriers. Bharti Airtel had over 244 million customers across its operations at the end of January 2012.

Airtel was launched in Kenya in 2000 as Kencell and rebranded to Zain in 2008 and finally Airtel in 2010. It offers a host of value added services including Airtel Money, Prepaid and Postpaid plans, International roaming, Local and international text messaging, 24-hour customer care centre, Internet access and Mobile Top up. Its customer base is growing tremendously - so is its coverage and service quality, which is considered the best in the county. Airtel is now the 2nd largest mobile telephony firm in Kenya, after Safaricom.

Orange Mobile

In the year 2008, Telkom Kenya's partnership with France Telcom Group, saw the launch of the Orange brand in Kenya. Orange bought 49% of the company's shares leaving the balance of 51% to the Kenyan Government. Their new corporate identity "ORANGE" was inspired by new investments and a fresh new approach to doing business. This was the beginning of a new and exciting journey for Telkom Kenya ltd. Telkom Kenya adopted the brand "Orange", influencing its mission, vision, values and strategy.

Orange plays a prominent role in the information and communications technology sector, serving thousands of Kenyans across the country. The company currently has a customer base of approximately 1,000,000 customers on GSM, fixed and CDMA wireless platforms, with a country-wide presence.

Yu Mobile

Essar Telecom Kenya is Kenya's fourth mobile cellular network under the brand "yuMobile." Launched in December 2008, yuMobile achieved the fastest network rollout speed in the region, by achieving countrywide coverage in approximately 10 months from launch. Currently, the network has a subscriber base of over 2.3M subscribers and offers subscribers competitive call rates. Its tariff offer is not only simple but the lowest in the market, ensuring that communication is also affordable to the people at the bottom of the pyramid. With a focus on being the best sales & distribution company in Kenya, it has continued to work diligently towards claiming its place in the mobile telephony market by successfully unveiling exciting packages targeting various market segments. In this new wave of technology, it has opted not do everything by itself and therefore has formed various key partnerships. It believes in creating enduring relationships with its business associates. This has seen it forming alliances with companies that are experts in their fields in order to ensure excellent service delivery. Its service offering includes Voice, SMS, Mobile Data, Mobile Money Transfer (yuCash), Electronic Mobile top-up (Eneza), Caller Ring Back Tones (Dunda), MMS and International dialling, with much more in the pipeline.

1.2. Research Problem

Many firms have come to rely on changing strategy for sustaining competitive advantage and creating customer value. Due to increased globalization of businesses, strategic change is gaining importance worldwide for various reasons which range from market access to reduction of risk. Mobile telephony firms are especially affected by increased competition arising from similarities in the products and services offered.

After the entry of new players into the Kenya mobile telephony market, Orange and YuMobile, all the players have had to change strategy so as to retain and/or tap in more customers. While there was a near monopoly before with Safaricom having holding 80% of the market share, the four players now have to change strategy as they all offer similar products and services, and thus differentiation is very important. The mobile telephony firms have had to come up with new products and services, and ways of doing business in order to maintain hold on market share and customer loyalty.

Several researchers have analyzed strategic responses to competitive environment by mobile telephony firms in Kenya. Mwania (2011) and Tanui (2008) researched on the strategic responses by Telkom Kenya towards the increasing competition in the telecommunication industry. Munyoki (2007) looked at Safaricom's responses to competition. Most of these researchers studied strategic responses to competition by specific mobile telephony firms. Wambua (2011) studied strategic responses adopted by mobile phone companies to changes in the telecommunication industry. He looked at the responses to change in general. This study therefore aims to breach the gap by analyzing all the mobile telephony firms in Kenya. It aims to answer the question: What strategies have been adopted by mobile telephony firms in Kenya, in light of increased competition?

1.3. Research Objectives

This study reviews the mobile telephony firms in the telecommunications sector in Kenya, Safaricom, Airtel, Orange and Yu. The study is based on a review of strategic responses to competition employed by these firms with the following objectives:

i. To determine strategies adopted by mobile telephony firms in Kenya, in response to increased competition.
ii. Evaluate the performance of the firms to assess the effectiveness on the strategies adopted.
iii. To give policy recommendations based on the findings of (i) and (ii) above.

1.4. Value of the Study

The study will be invaluable to the firms' management in that it will provide an insight into the successes of the present strategies being employed and others which may be implemented later, and how they could be used to ensure competitive advantage. The study will also be important to the government in the determination and establishment of a regulatory/legal framework for the telecommunications industry in Kenya.

This study will help improve on literature on the telecommunications industry in Kenya. It will further be helpful to other companies in markets which face similar competitive circumstances and also to business students who wish to study various market dynamics in a continually changing environment.

CHAPTER TWO:
LITERATURE REVIEW

2.1. Introduction

This is a review of past studies on dynamic competitive environments and how organizations identify and respond strategically to them. The focus is on the mobile telephony firms in the telecommunications industry in Kenya.

2.2. Concept of Strategy

A strategy is the commercial logic of a business that defines why a firm can have competitive advantage. Strategy is what a company does and how it actually positions itself commercially and conducts the competitive battle (Koch, 1988). Strategy is the direction and scope over the long term, which achieves advantage in a changing environment through its configuration, resources and competences, with the aim of fulfilling stakeholder expectations (Johnson Scholes & Whittington, 2005).

The word strategy is derived from two Greek words: stratos (army) and ago (ancient Greek for leading). While it has no single definition, strategy may be seen as a multidimensional concept that embraces all the critical activities of an organization. The lack of a single definition points to the selective attention given to the various aspects of strategy by different authors (Aosa, 1992).

Mintzberg et al (1999) defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. They view strategy as a ploy, pattern, position, plan and perspective. Strategy as a ploy is the action taken by an organization with the intention of outwitting its rivals. As a pattern, strategy emerges without preconception from a series of actions visualized only after the events it governs. Strategy as a position is a means of competitively positioning an organization in its external environment. As a plan, strategy specifies a deliberate course of action designed before the action it governs, while as a perspective, strategy reveals an organization's perception of the outside world. According to David (2007), strategy can be described as the unique and distinctive actions that a company takes on the organizations value chain to achieve a competitive advantage.

It is the winning plan that an organization has in place to remain competitive. Strategy must be geared to the success of the organization. Successful strategies have key ingredients: the organization must set clear, simple and long term goals that it pursues into the foreseeable future. Strategies that support these goals will therefore be necessary to sustain continued growth. Business strategy should be developed after thorough understanding of the competitive environment. Business competitive environment includes both internal and external factors. A detailed understanding of these factors ensures strategy is aligned towards competitiveness of the organization. Organizational resources need to be appraised objectively and regularly while effective implementation will greatly determine how successful a business strategy is.

2.3. Competitive environment

Competition is a key feature in any vibrant economy. Customers want services quicker, cheaper, and they want it their way. The fundamental quantitative and qualitative shift in competition requires organizational change on an unprecedented scale. Today, an organization's sustainable competitive advantage should be built upon its corporate capabilities and must constantly be re-invented (Joshi, 2011).

The concept of Sustainable Competitive Advantage appeared in 1984, when Day suggested certain types of strategies to sustain the competitive advantage. The term SCA was proposed by Porter in 1985, when he discussed the basic types of competitive strategies firms can follow (low cost, differentiation and focus) to achieve SCA (Slater and Naver, 1995). There is no common meaning for 'competitive advantage' in practice or in the marketing strategy literature. Sometimes the term is used interchangeably with distinctive competence to mean relative superiority in skills and resources. Hoffman (2000) summarizes all previous works which deal with SCA. Based on the analysis of different perspectives found in the literature he proposed the following definition of SCA: A SCA is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitor, along with the inability to duplicate the benefits of this strategy.

Competition is seen as a state which produces gains for the whole economy, through promoting consumer sovereignty. It may also lead to wasted (duplicated) effort and to increased costs (and prices) in some circumstances. With a small number of goods and services, the cost structure means that competition may be inefficient. These situations are known as natural monopoly and are usually publicly provided or tightly regulated. Experts have also questioned the constructiveness of competition in profitability. It has been argued that competition-oriented objectives are counterproductive to raising revenues and profitability because they limit the options of strategies for firms as well as their ability to offer innovative responses to changes in the market (Armstrong, 1994). In addition, the strong desire to defeat rival firms with competitive prices has the strong possibility of causing price wars (Greene, 2007).

Three levels of economic competition have been classified. The most narrow form is direct competition (also called category or brand competition), where products that perform the same function compete against each other. For example, a mobile firm competes with another mobile firm. The next form is substitute competition, where products that are close substitutes for one another compete. The broadest form of competition is typically called budget competition. Included in this category is anything that the customer might want to spend their available money on (Porter, 1985).

It should also be noted that business and economic competition in most countries is often limited or restricted. Competition often is subject to legal restrictions. Competition may be legally prohibited as in the case with a government monopoly. Tariffs, subsidies or other protectionist measures may also be instituted by government in order to prevent or reduce competition. Depending on the respective economic policies, pure competition is regulated by competition policy and competition law (Kirzner, 1982).

The competitive environment, also known as the market structure, is the dynamic system in which a business competes. The state of the system as a whole limits the flexibility of your business (Mack, 2009). World economic conditions, for example, might increase the prices of raw materials, forcing companies that supply your industry to charge more, raising your overhead costs. At the other end of the scale, local events, such as regional labour shortages or natural disasters, also affect the competitive environment.

In addition to direct competitors, some businesses also face competition from providers of dissimilar products or services (Porter, 1985). For example, a mobile firm offering data services competes with other mobile telephony firms, but it also competes with data network firms focussing solely on offering data services. The mobile firm is up against a firm specializing in its core business.

Differentiating your product or service in a competitive environment entails developing an element of your business that competitors can't imitate (Porter, 1985). For example, if a firm's voice quality is similar to those of its competitors, customers have no reason to go out of their way to use the firm's service. But if the voice quality is superior -- perhaps clearer, and less congested -- customers wanting better service will migrate to the firm that provides it.

CHAPTER THREE:
RESEARCH METHODOLOGY

3.1. Introduction

In this chapter, the research methodology adopted to meet the objectives stated in chapter one of the study is described. The research design, population, data collection, data collection instruments and data analysis techniques and presentation of the report are outlined.

3.2. Research Design

The design of a study pertains to the strategy or schedule used to collect evidence to analyze the findings and from which to draw conclusions (Brewerton and Millward, 2001). This study employed a cross-section survey. The justification for its use is because it enables the researcher to assess the degree of relationship that exists between the mobile telephony firms and analyses the correlation between them.

The design involved an accurate description of an association between variables, concerned with specific prediction, narration of facts and characteristics concerning the four different firms. This research design minimized bias and maximized reliability of the evidence collected (Kothari, 1990). This study was done on representative samples of the population which were compared before giving conclusions.

3.3. Target Population

The study population included all the mobile telecommunication firms in Kenya: Safaricom, Airtel, Orange and Yu. The respondents were drawn from employees in departments tasked with formulation and implementation of strategy in all the mobile telephony firms. From the results, Safaricom Ltd had the highest number of employees in this department, nine, followed by Airtel with six while the rest of the firms, Yu and Orange, had five and three, respectively.

From Safaricom, the Head of department, four project managers and 4 project officers were interviewed from the Strategy and Planning department. Six section heads gave their feedback from Airtel, drawn from the Business Planning and Analysis unit, which encompasses the sales team. For Orange, the respondents were from the Marketing and Strategy department. Yu Mobile respondents were from the Strategy and Operations department.

3.4. Data Collection

The researcher used both primary and secondary data. Primary data was obtained using structured questionnaires which contained both open and closed questions. This method was chosen because if administered properly, the data collected is free of bias. Additionally, questionnaire as a tool is easy to construct, has easy to follow rules and principles for construction, and copies of the questionnaire reach a considerable number of respondents.

Pretested questionnaires were then administered directly or mailed to respondents. Its success depended on the willingness and honesty of respondents. Generally, responses from questionnaires were objectified and standardized and this made tabulation easy. The respondents filled out the self-administered questionnaire by grading each statement in the questionnaire using the likert scale with a five-response scale where the respondents were given five-response choices. The researcher opted to use the likert scale because it is easy to analyze, quick to collect data and also shows a person's feelings. On the other hand, secondary data was obtained from existing case reports, administrative documents and online resources. The documents meant to confirm the evidence from the primary source.

3.5. Data Analysis

Since the study involved quantitative data, a number of quantitative analysis methods were used. The researcher used both descriptive and inferential statistics. The descriptive statistics concerned organizing and summarizing the data at hand to make it more intelligible. SPSS software, which includes a wide range of statistical and graphical data analysis functions, was used to analyze the data.

Tables and charts were generated and critical analysis and description of the outcome made accordingly. Inferential statistics were then used to generalize and draw inferences from the sample data to the entire industry. The researcher used the organized and coded data from the survey to determine the most practiced strategies by presenting results in frequency distribution tables, pie charts, summarized percentages and graphs.

CHAPTER FOUR:

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1. Introduction

This study was undertaken to review strategic responses to competition by mobile telephony firms in the telecommunications sector in Kenya: Safaricom, Airtel, Orange and Yu. The results in this section are based on twenty three responses i.e, nine from Safaricom Limited, six from Airtel, five from Orange and three from Yu Mobile.

On the year of establishment, the oldest company in this sector is Telkom Orange which was established in 1999, followed by Safaricom Ltd and Airtel, both established in 2000, while Yu mobile is the most recent to join the sector in 2008.

Table 1: *Summary of data collected from mobile telephony firms*

Company Name	**Year of Establishment**	**Frequency**	**Percentage**	**Valid Percentage**	**Cumulative Percentage**
Safaricom	2000	9	39.1	39.1	87.0
Airtel	2000	6	26.1	26.1	26.1
Orange	1999	5	21.7	21.7	47.8
Yu	2008	3	13.0	13.0	100
Total		**23**	**100**	**100**	

4.2. Competitive strategies

The following section offers an analysis of the stakeholder views of the competitive strategies adopted by the mobile telephony firms in Kenya in light of increased competition.

Popularity of the brand name

The popularity of the mobile telephony company's brand name was found to be a strong competitive strategy according to stakeholders. All the respondents agree or strongly agree that a popular brand name is a strong competitive strategy, with respondents strongly agreeing for Safaricom while this is least for Orange mobile.

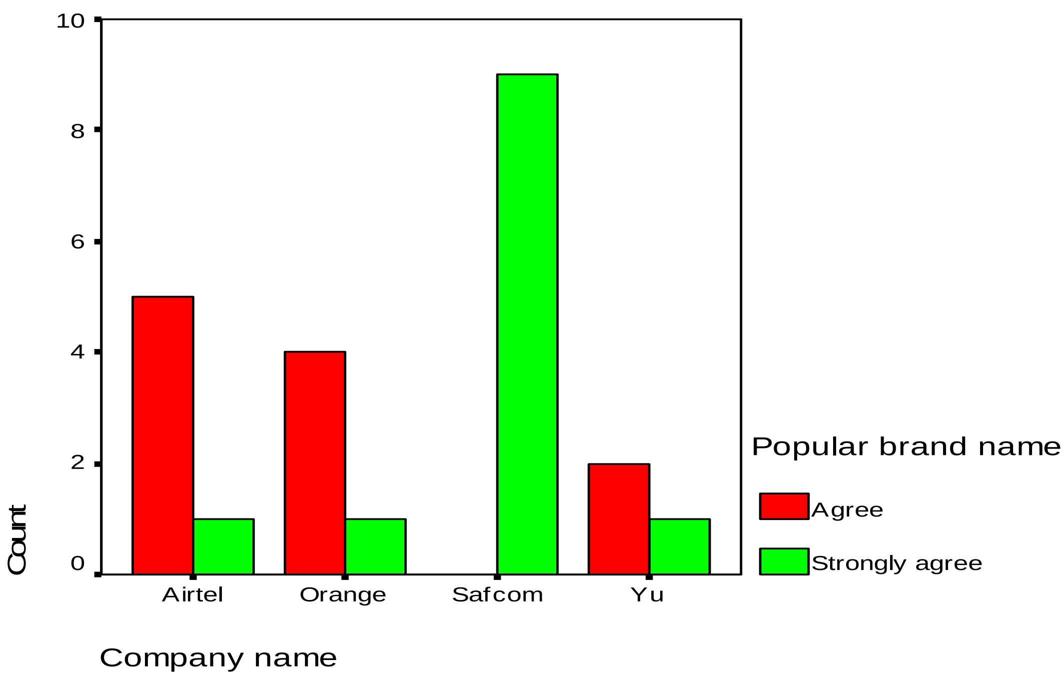

Figure 1: *Popularity of the brand name*

Acquiring qualified and skilled staff

The skill and qualification of the company's staff was ranked high among respondents from Safaricom and least among respondents from Airtel. However, the results are contrasting among respondents from Yu mobile.

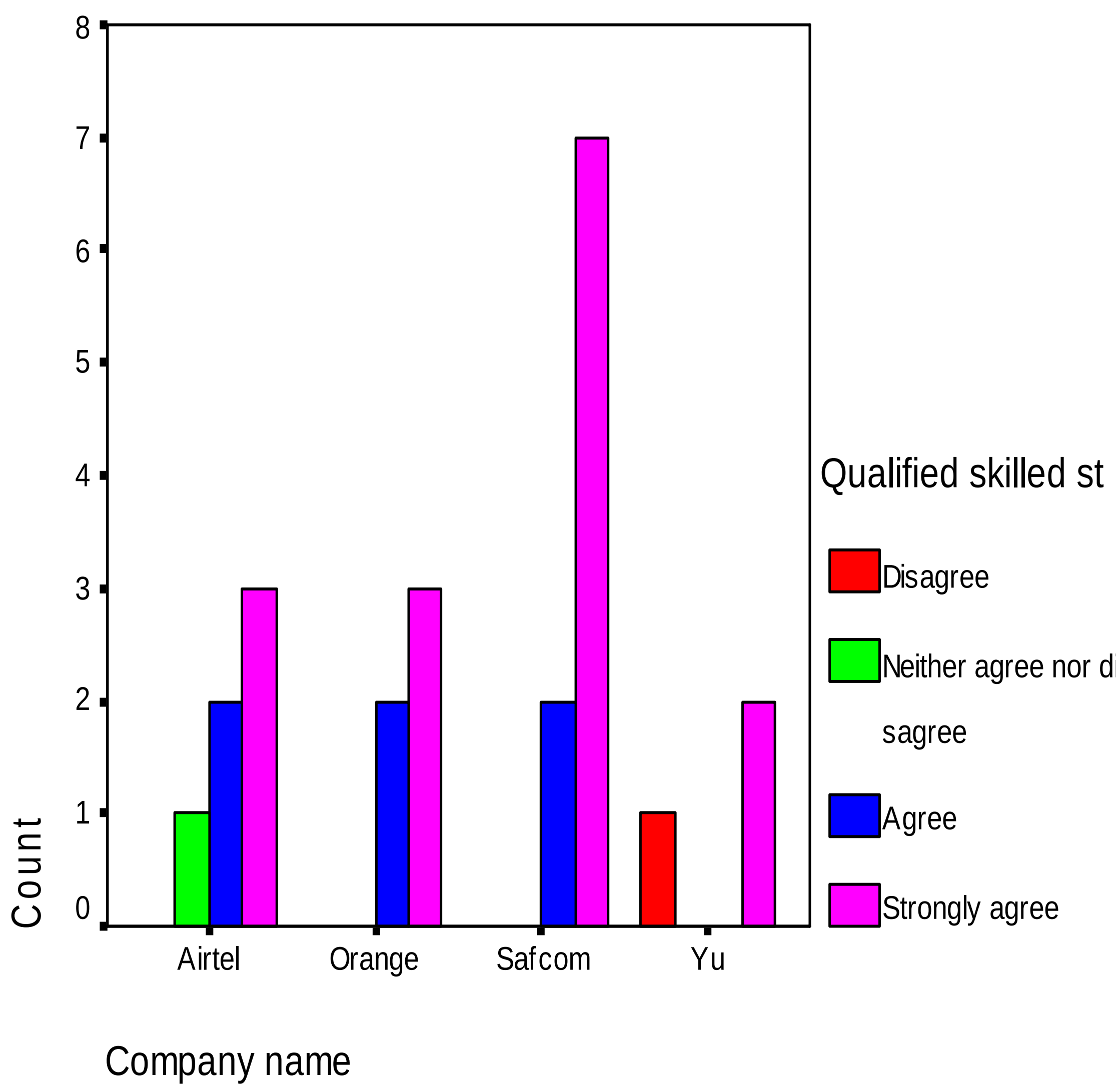

Figure 2: *Acquiring qualified and skilled staff*

Offering excellent customer care

The quality of customer care as a competition strategy for mobile telephony firms was also analyzed. Among the respondents from Airtel, opinion is evenly distributed among those who are indifferent, those who agree and strongly agree. A respondent from Yu and Orange disagree that customer care is a competitive strategy. Respondents from Safaricom agree on the importance of customer care to a firm's competitiveness.

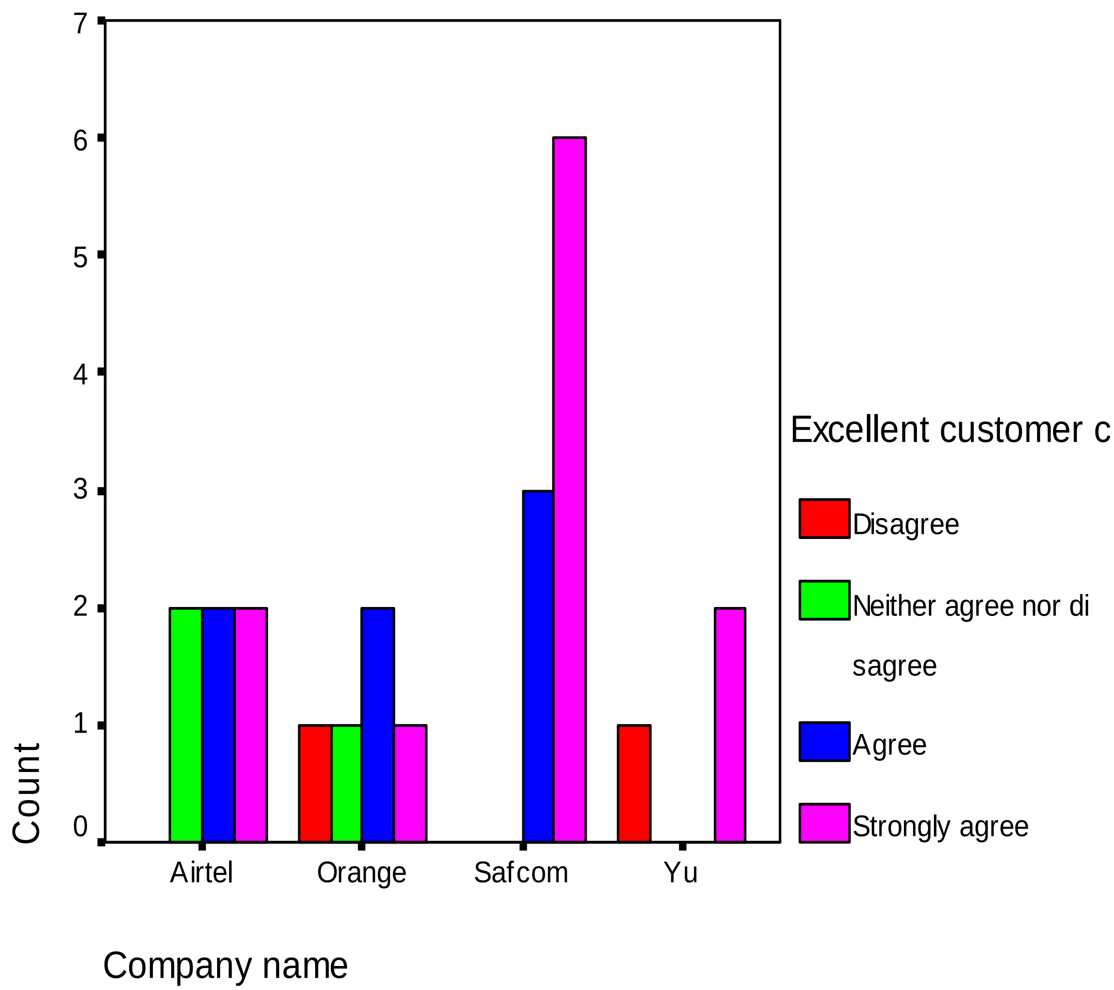

Figure 3: *Offering excellent customer care*

Suitability of business location

Location was not considered as a very strong competitive strategy. The respondents rated it averagely with only Yu Mobile respondents rating it highly, probably because it is a new company, and wishes to strategically position itself in the market.

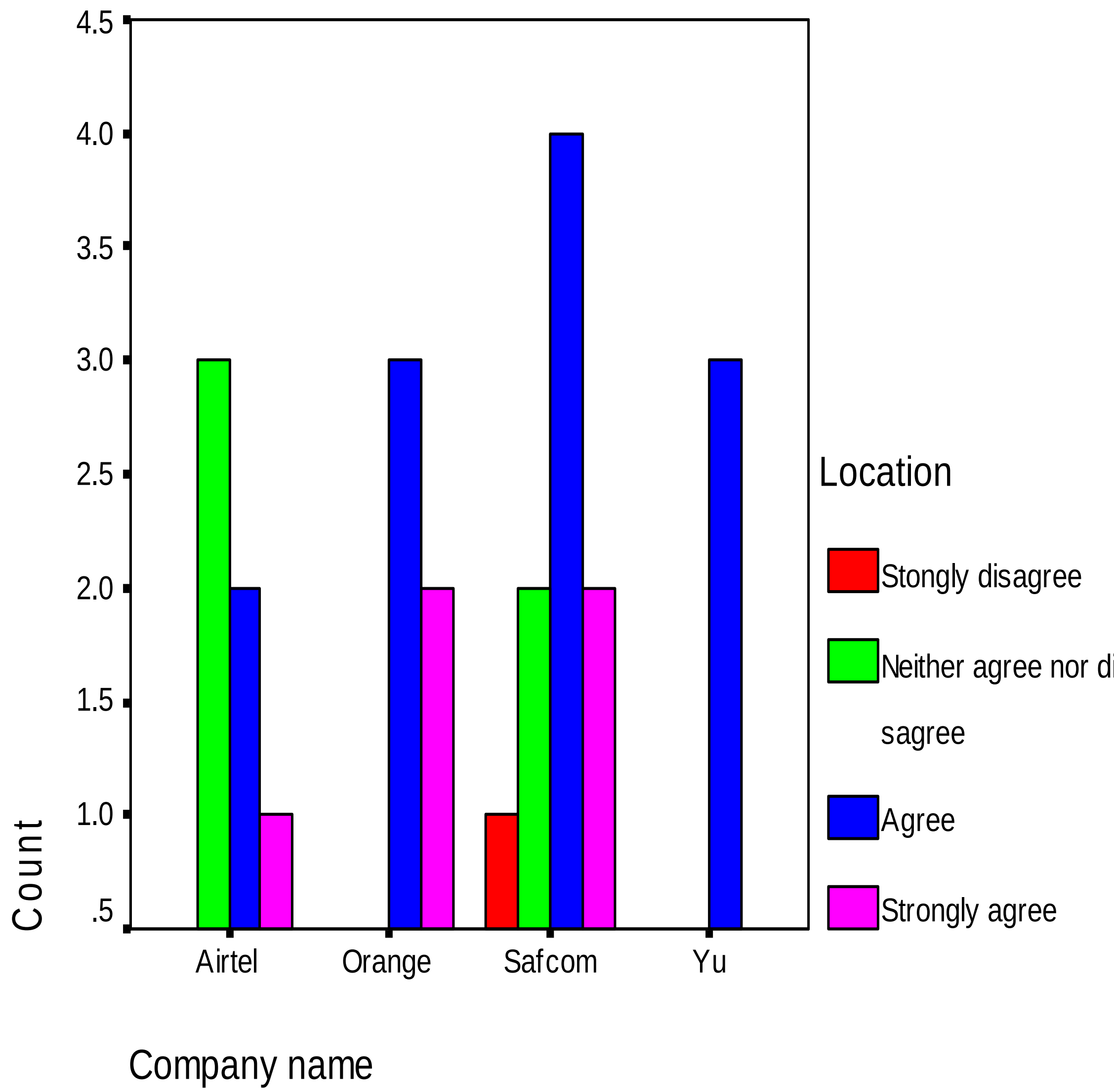

Figure 4: *Suitability of business location*

Improving in quality of products and services offered

With all the competitors offering similar products, most of the respondents viewed this as not such a strong strategy. This could be attributed to the level of exposure of the customers who mainly have mobile phones purely for voice and sms services. Differentiation is not very keen to them.

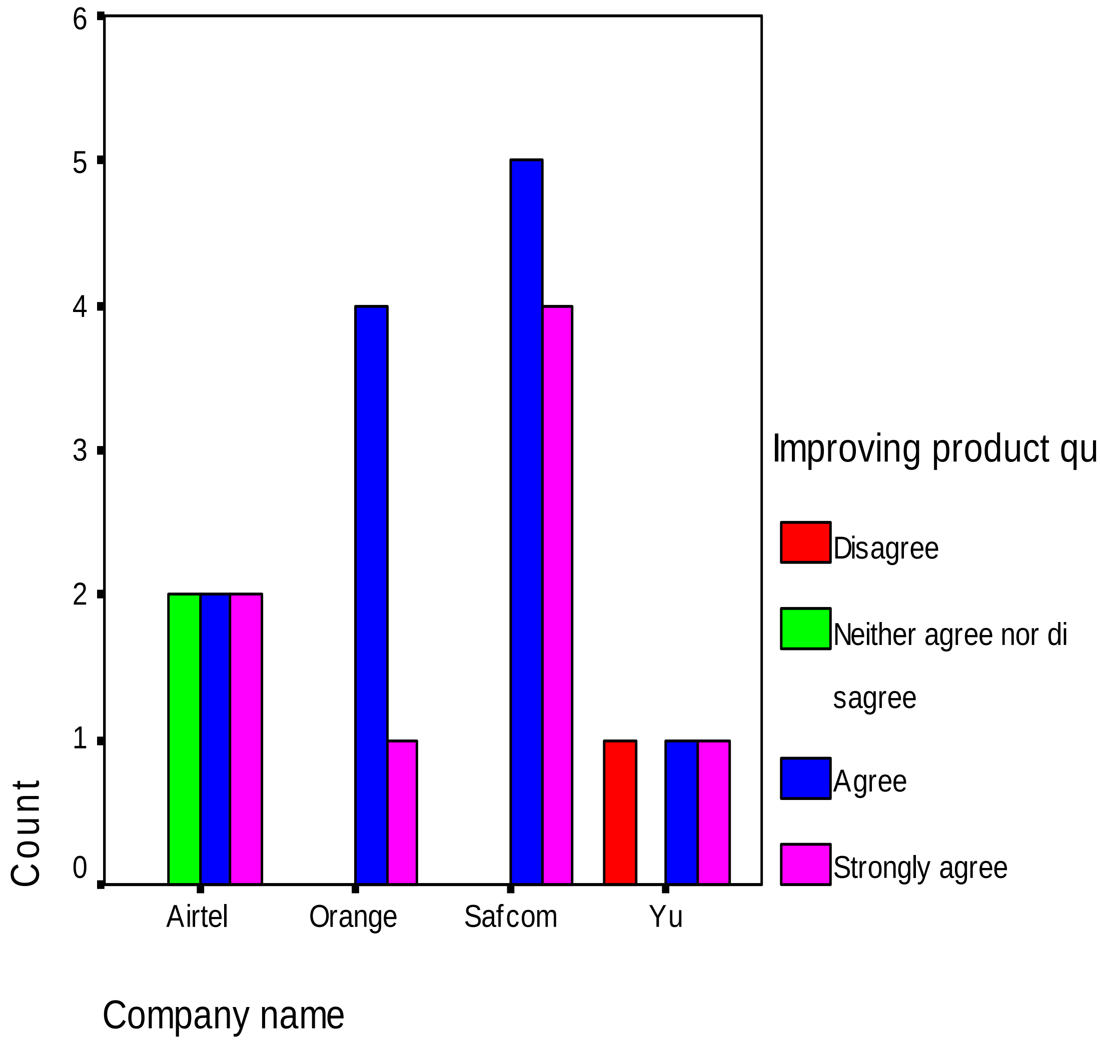

Figure 5: *Improving in quality of products and services offered*

Emphasis on reduction of prices of products and services

This was a very popular strategy with the Yu Mobile and Airtel. With a target of capturing market share, the two focused on enticing subscribers with very low prices. The main player, Safaricom, was most indifferent to this approach as it aims to consolidate its revenues.

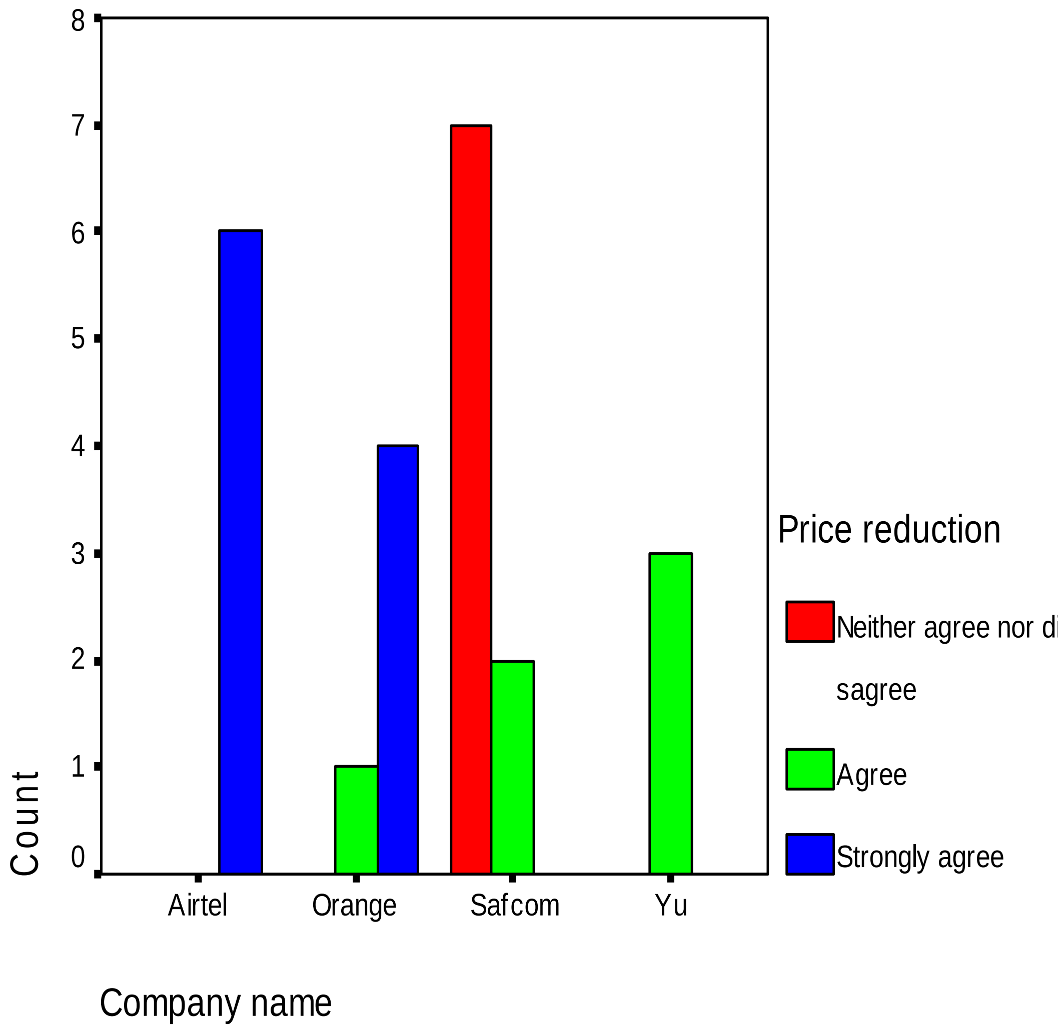

Figure 6: *Emphasis on reduction of prices of products and services*

Increased investment in advertisements

This strategy was most popular with the main player, Safaricom. The other three firms invested minimally on advertising as they wish to minimize their expenditure. In order to maintain their hold on market share, Safaricom is willing to spend much on advertising as it anticipates greater returns, due to increased awareness.

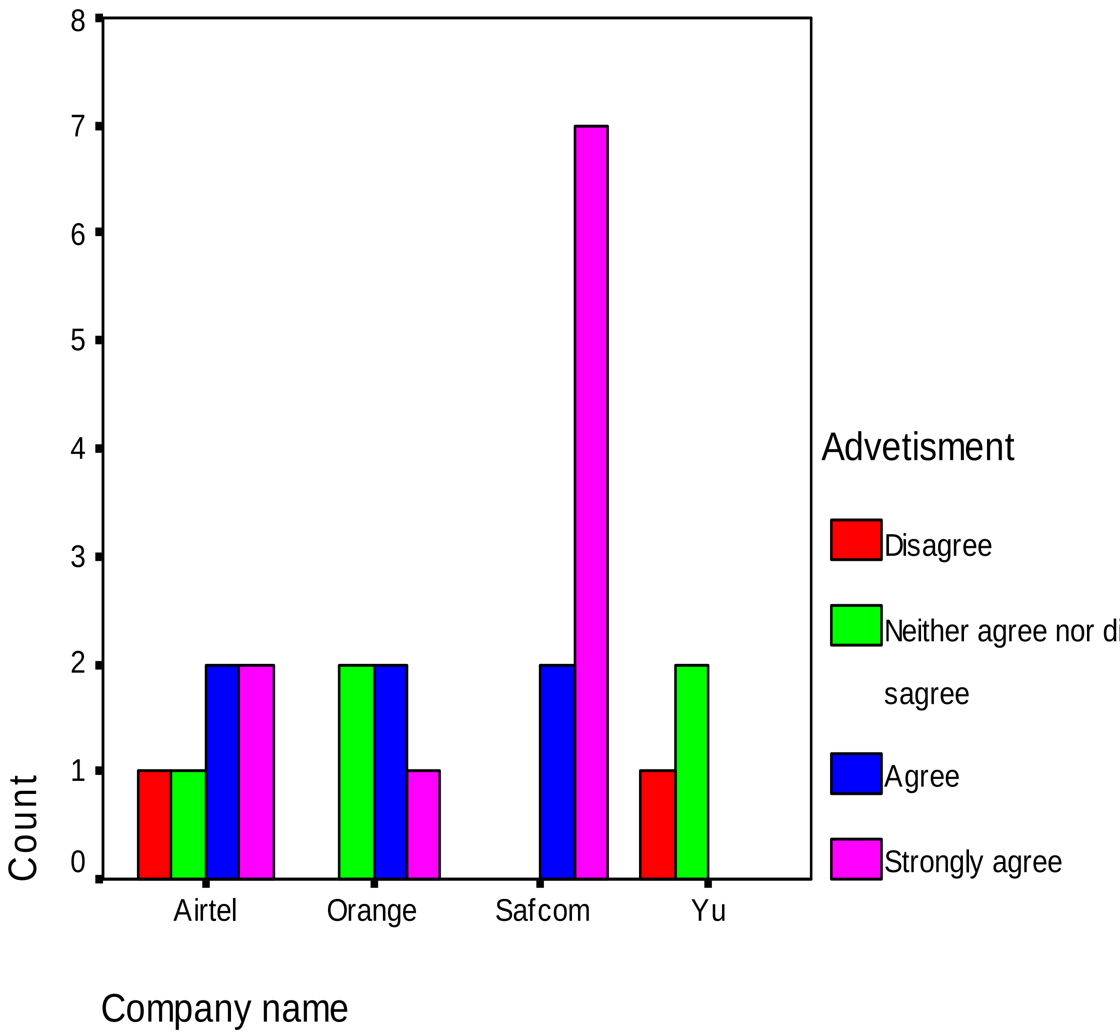

Figure 7: *Increased investment in advertisements*

Offering promotions to customers

The responses here were varied. While Safaricom greatly gave promotions to reward its loyal customers and promote usage, Yu greatly used this strategy to tap in on low-end customers and gullible Kenyans who are excited with free offers. Airtel's and Orange's respondents were divided and hence cannot be termed as a major strategy.

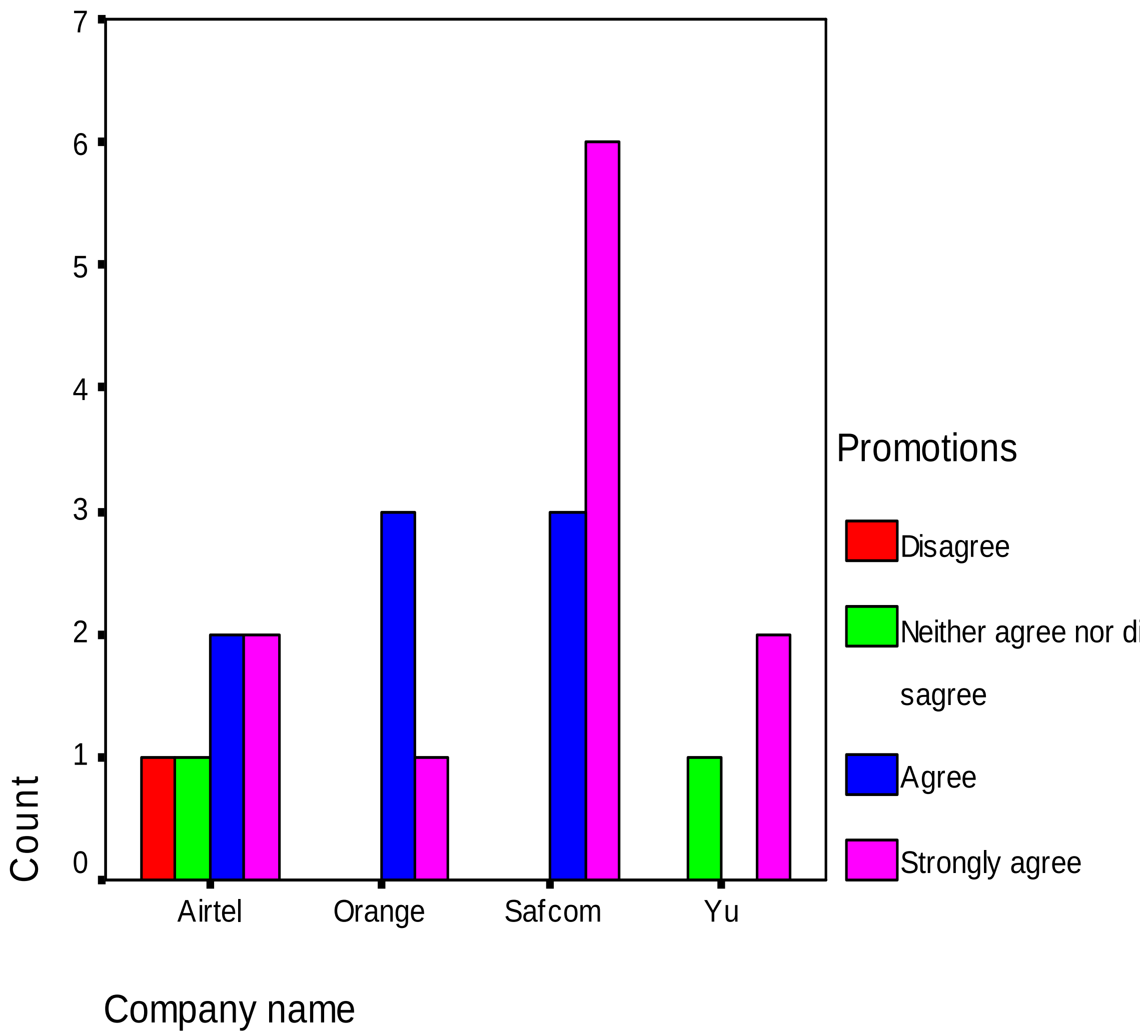

Figure 8: *Offering promotions to customers*

Offering Gifts and Incentives to Customers

Airtel came out strongly here due to the nature of Kenyans to like free things. It is worth noting that there is often a catch to the freebies, e.g, calls within the same network only.

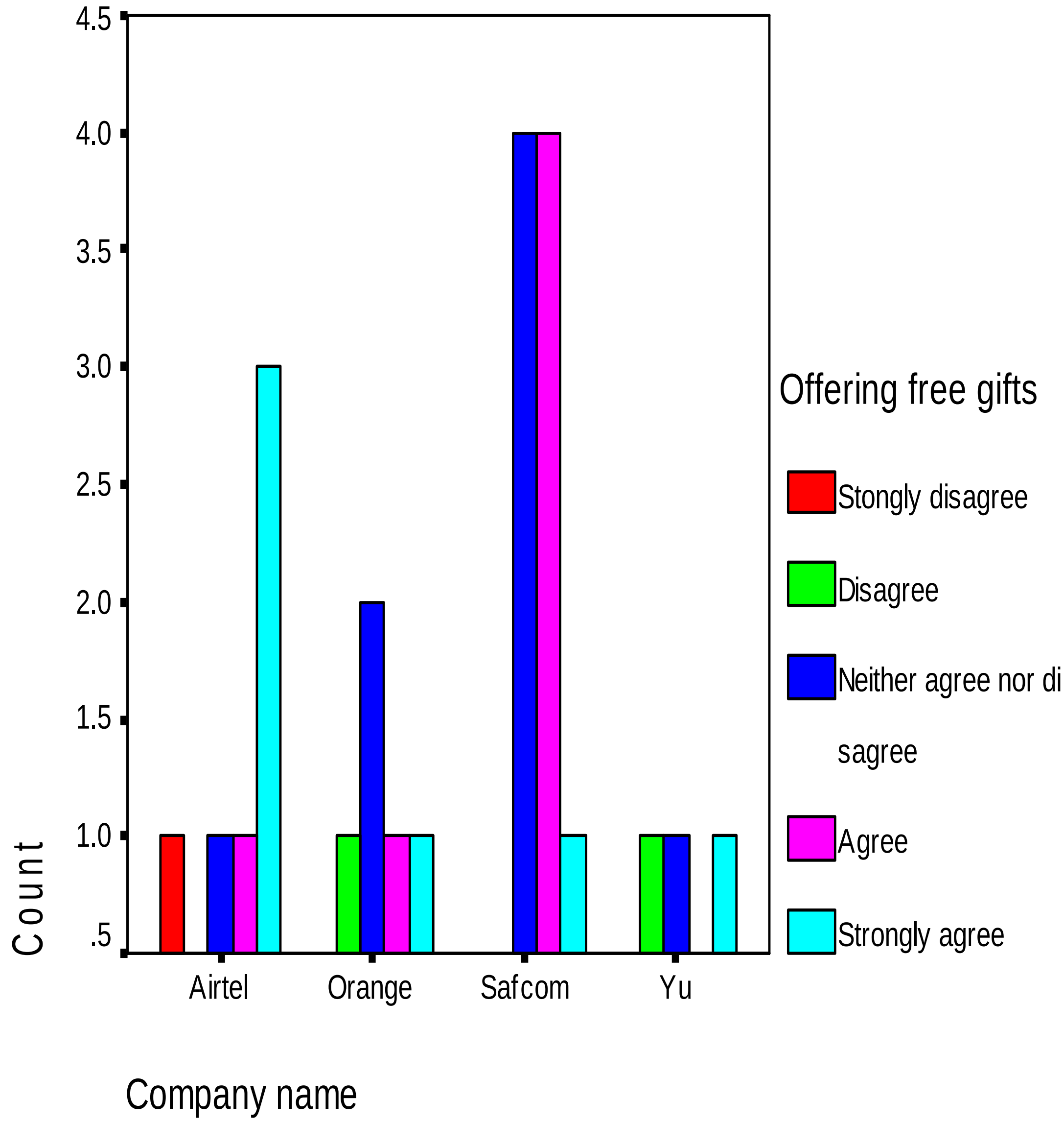

Figure 9: *Offering gifts and incentives to customers*

Expansion of the business

The first three players, Airtel, Safaricom and Orange, greatly agreed with expansion as a strategy as the mobile penetration is still at 50%. Yu mobile is still a bit indifferent as it is a new company and expansion would require massive resources.

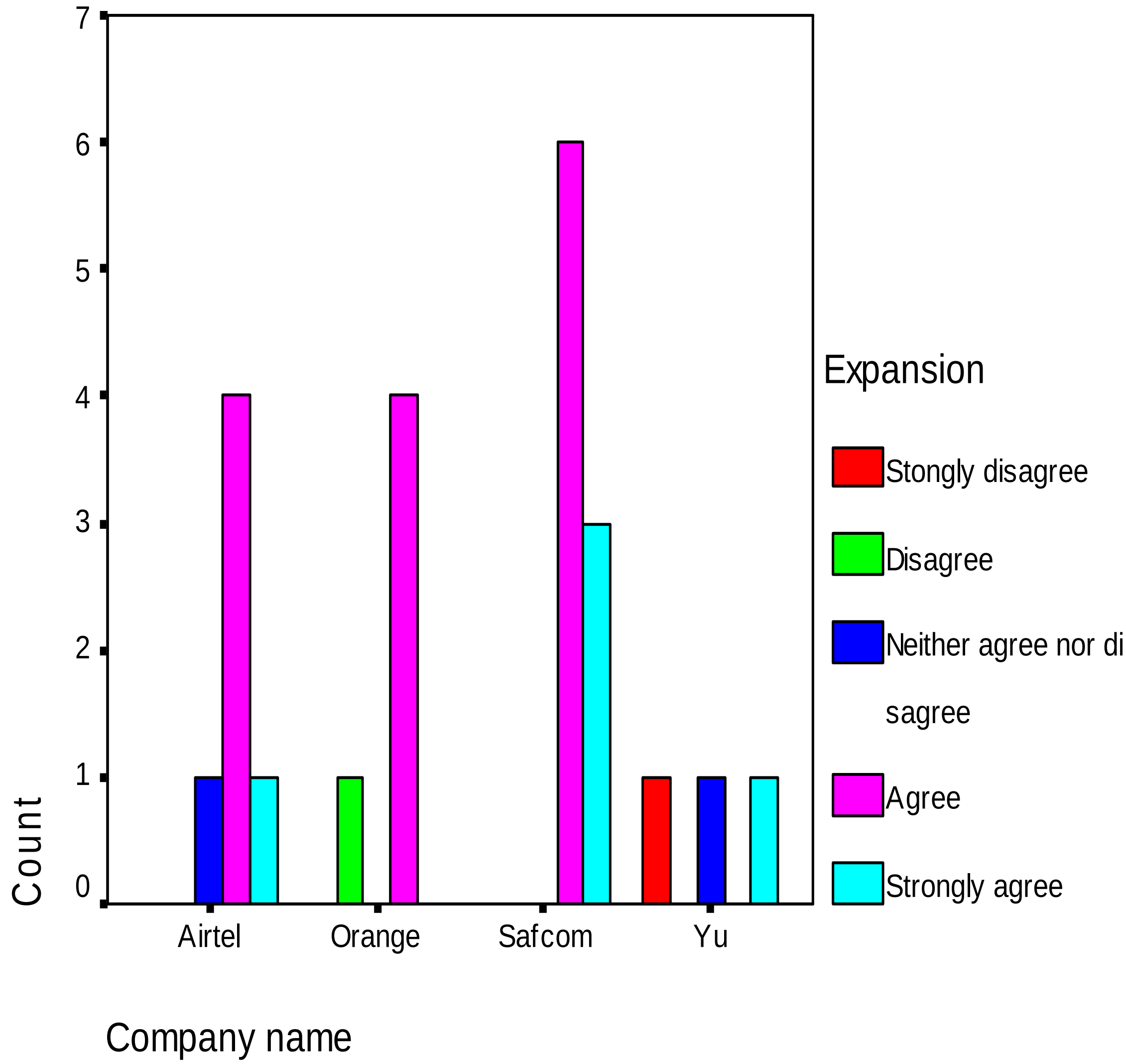

Figure 10: *Expansion of the business*

Repositioning of the company in the market

The premier players, Airtel and Safaricom, do not view this as a big bet as they have been in the field for long and have amassed market share. The new players, Orange and Yu, see it as a plus as it will help them re-brand and better appeal to subscribers. It is a key strategy to Orange, which is still associated with the old, unreliable Telkom.

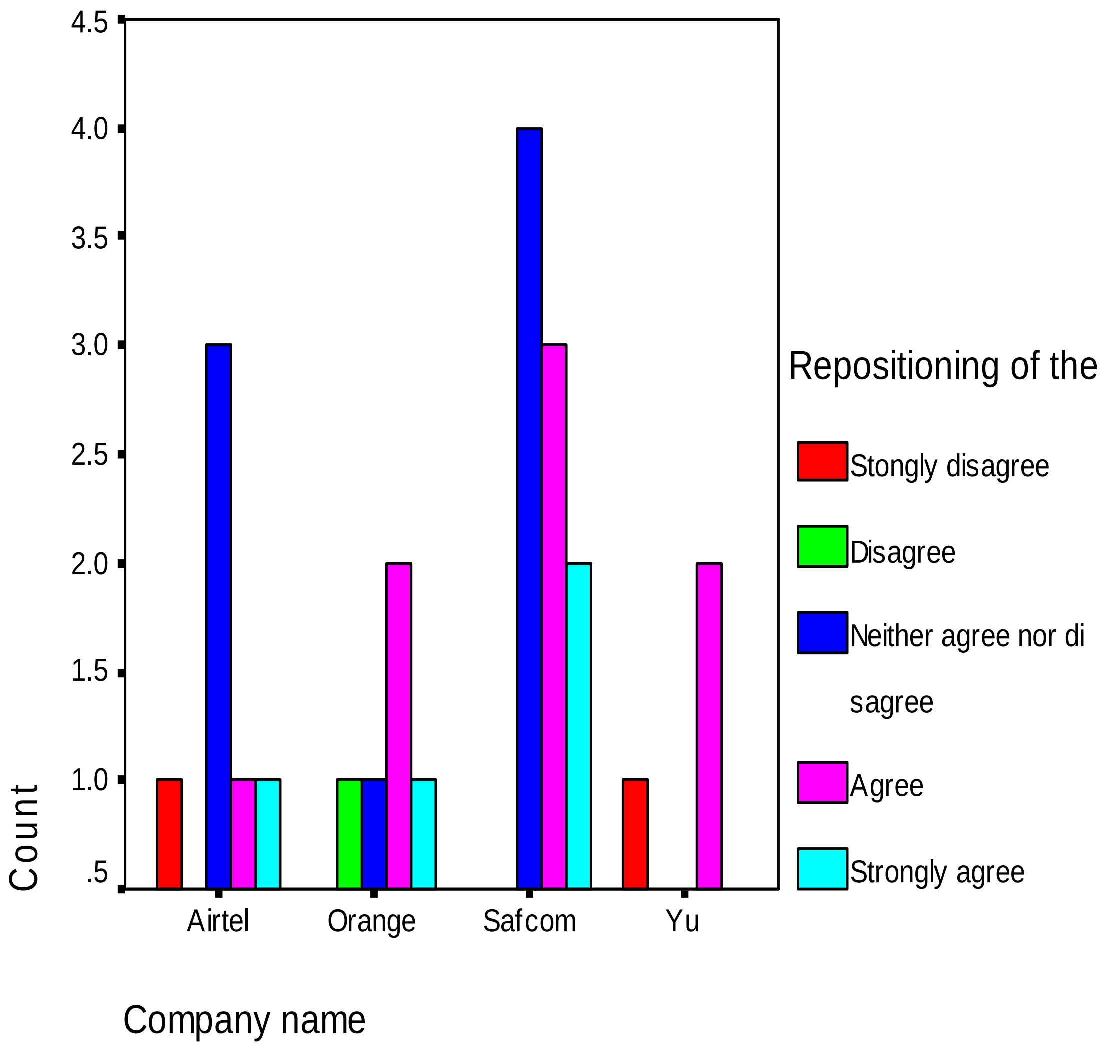

Figure 11: *Repositioning of the company in the market*

Outsourcing of non-core businesses to external firms

The foreign firms, Airtel and Yu, have strongly adopted this strategy as a means of cutting down on costs and thus, concentrate on their core business. Safaricom is still hesitant as it is a Kenyan company and wishes to safeguard local jobs, though the market dynamics are forcing them to adopt it in some areas e.g, cleaning services and field contractors.

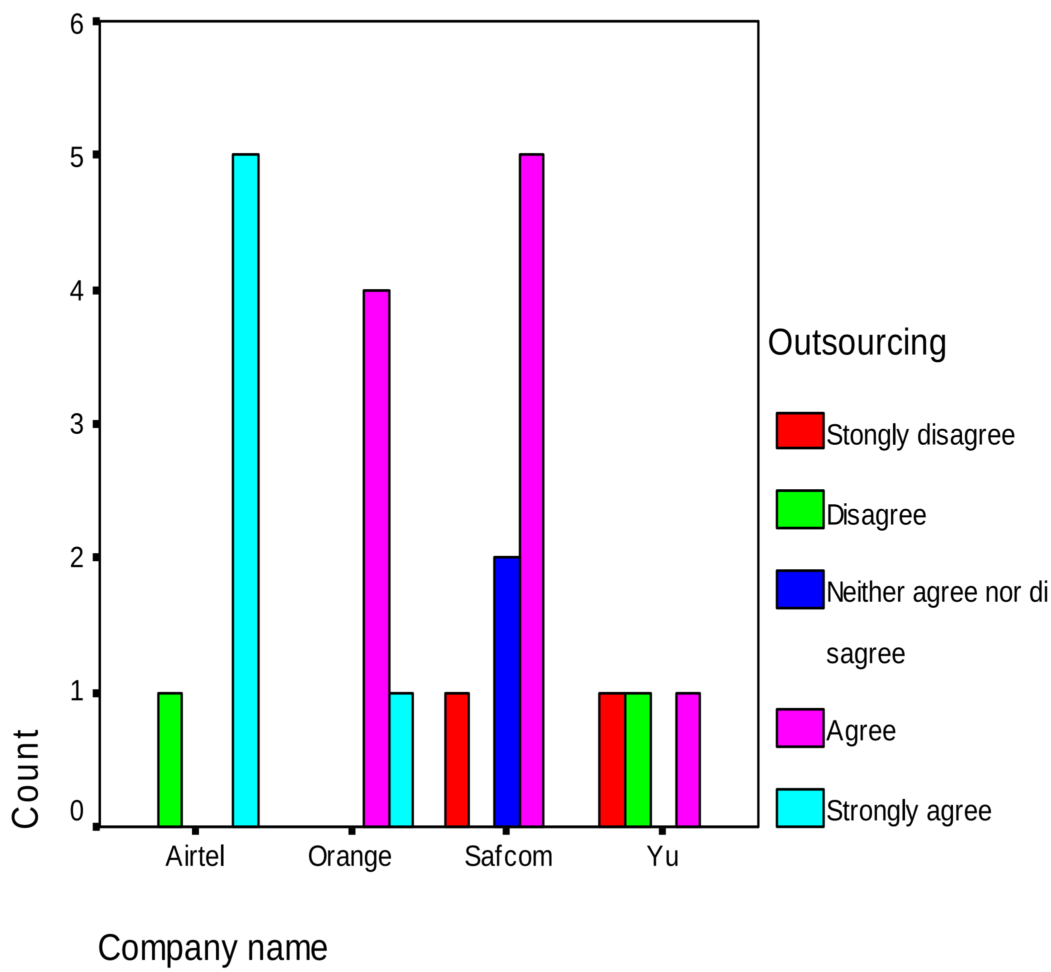

Figure 12: *Outsourcing of non-core businesses to external firms*

Forming alliances with other companies

Aiming to better themselves and bid for greater opportunities, all the companies are venturing into alliances so as to better areas they may not be good in. It will also help them raise capital for expansion.

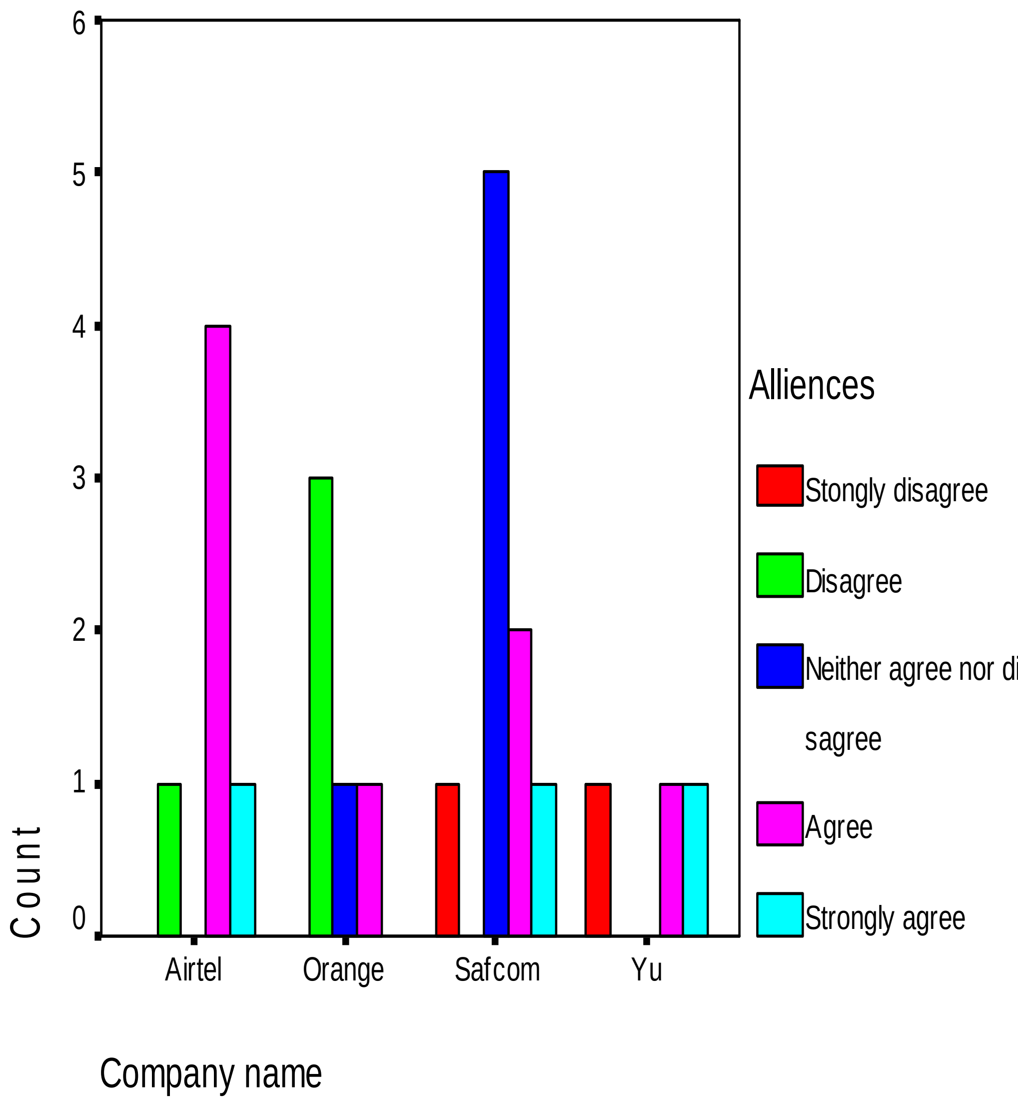

Figure 13: *Forming alliances with other companies*

Offering cash discounts to customers

The above strategy has not been adopted widely by all the firms. This is because the prices are at near rock bottom and further changes downwards would erode the profit margins.

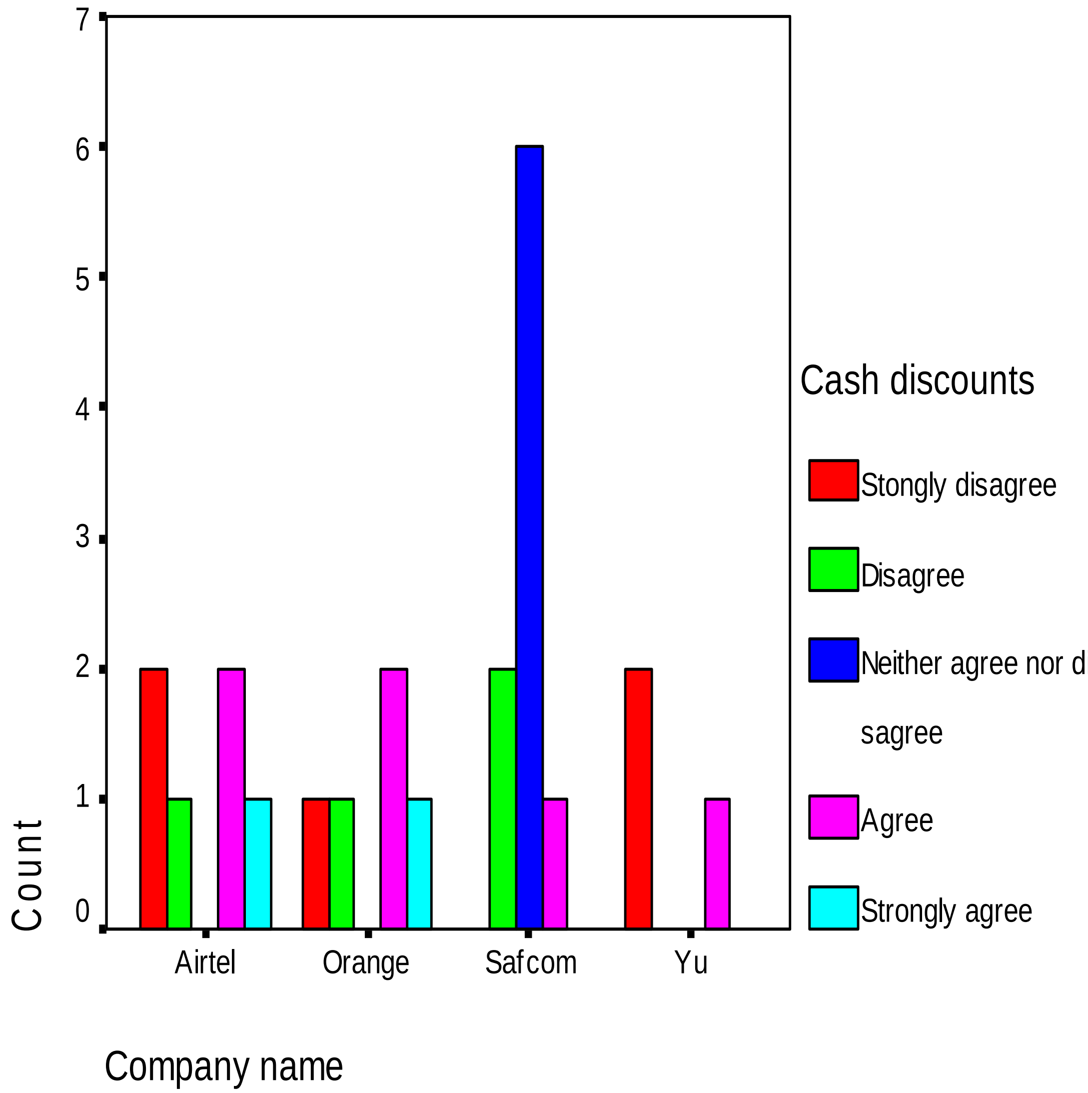

Figure 14: *Offering cash discounts to customers*

Offering credit facilities to customers

In a bid to entice subscribers and promote spending, new services have been developed by all the firms to allow subscribers to use the services upfront before payment e.g, Okoa Jahazi. To reduce the risk of debt, there is a limit to which subscribers can borrow.

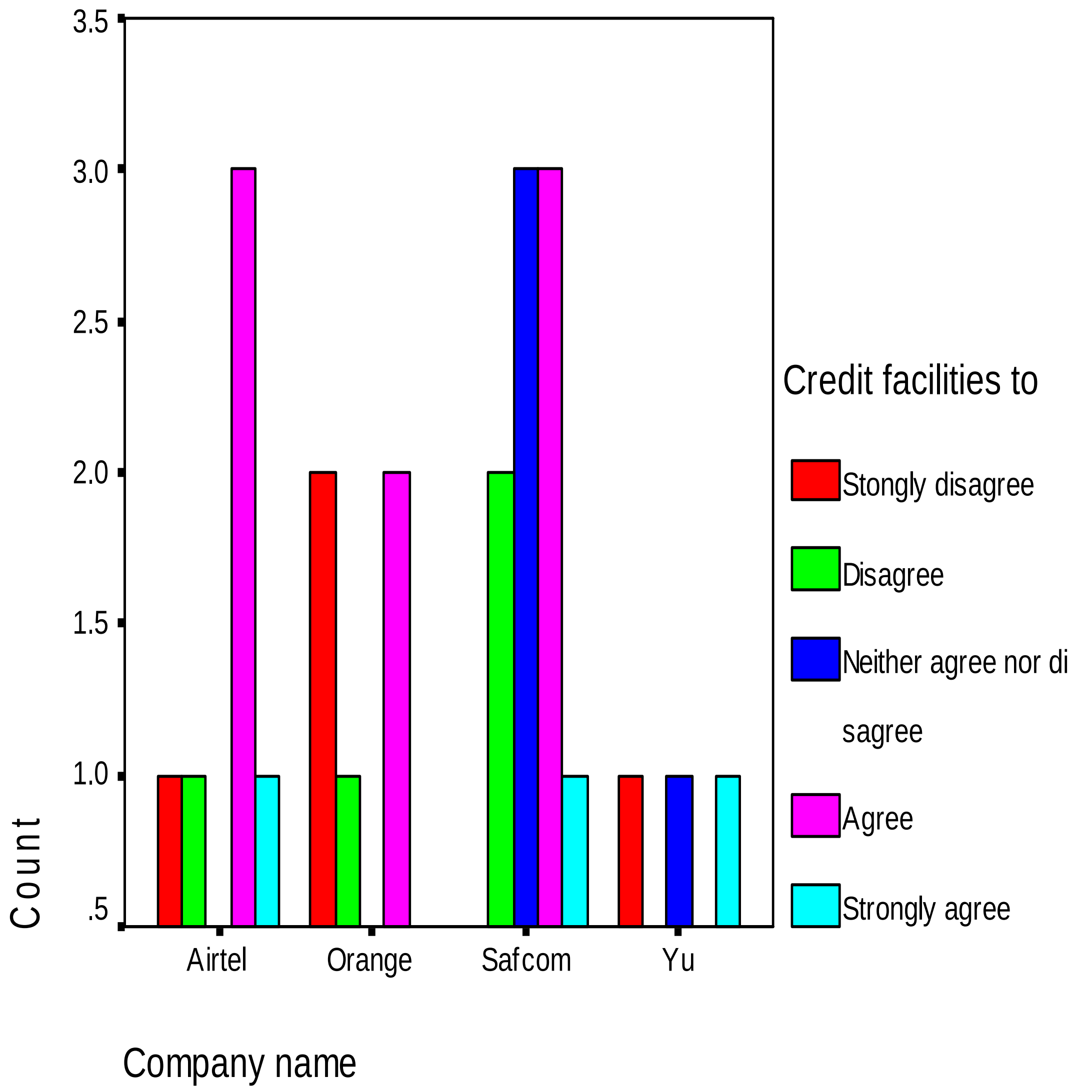

Figure 15: *Offering credit facilities to customers*

Increasing expenditure on research and development

Realizing the importance of continuous improvement, Orange and Safaricom have greatly invested in R&D. This could be attributed to the government support they enjoy, thus providing capital. Airtel and Yu are passive in this area, probably because their investments are in the mother countries.

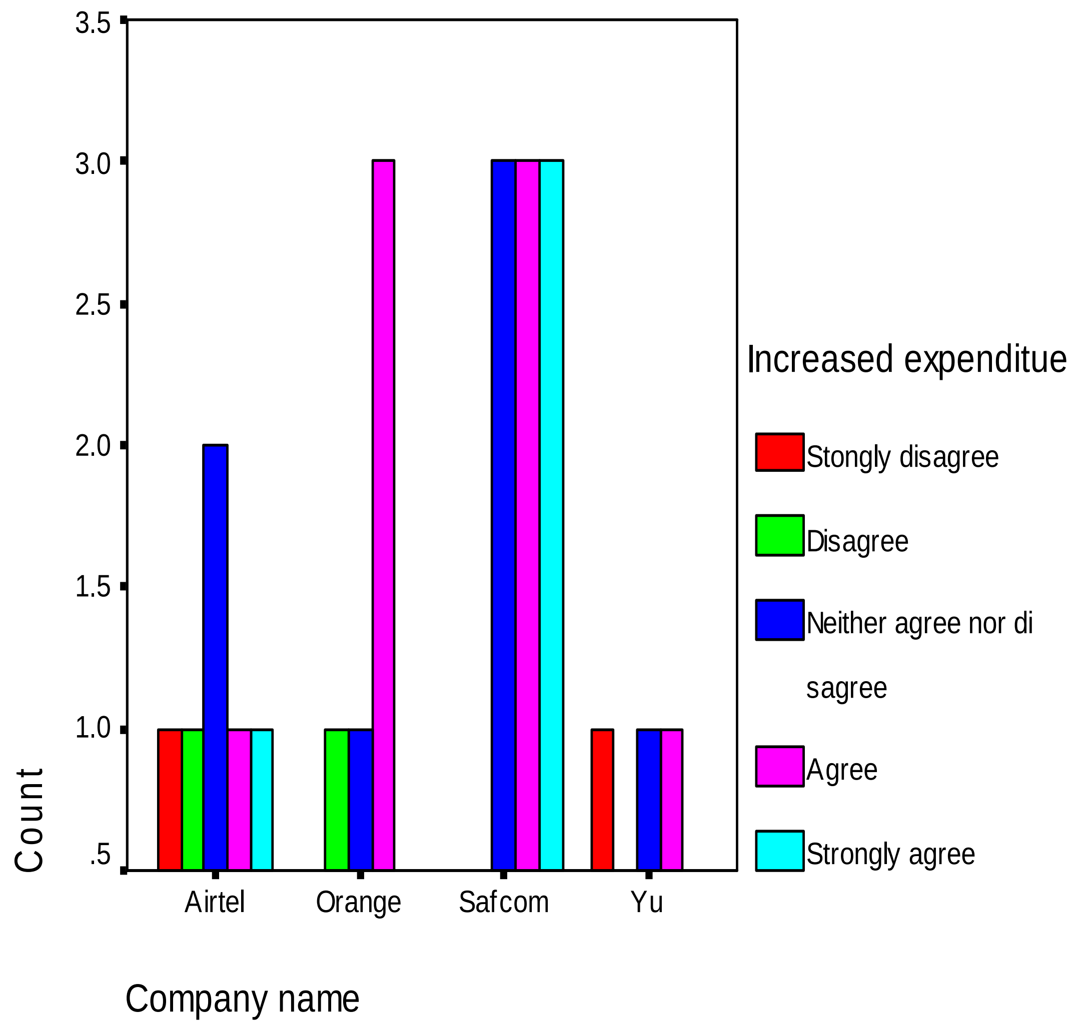

Figure 16: *Increasing expenditure on research and development*

Targeting corporate customers

All the firms are now targeting corporate customers as a means of increasing revenue. Corporate customers return more, as compared to individual customers. They also assure a company of continued revenues even when returns are low.

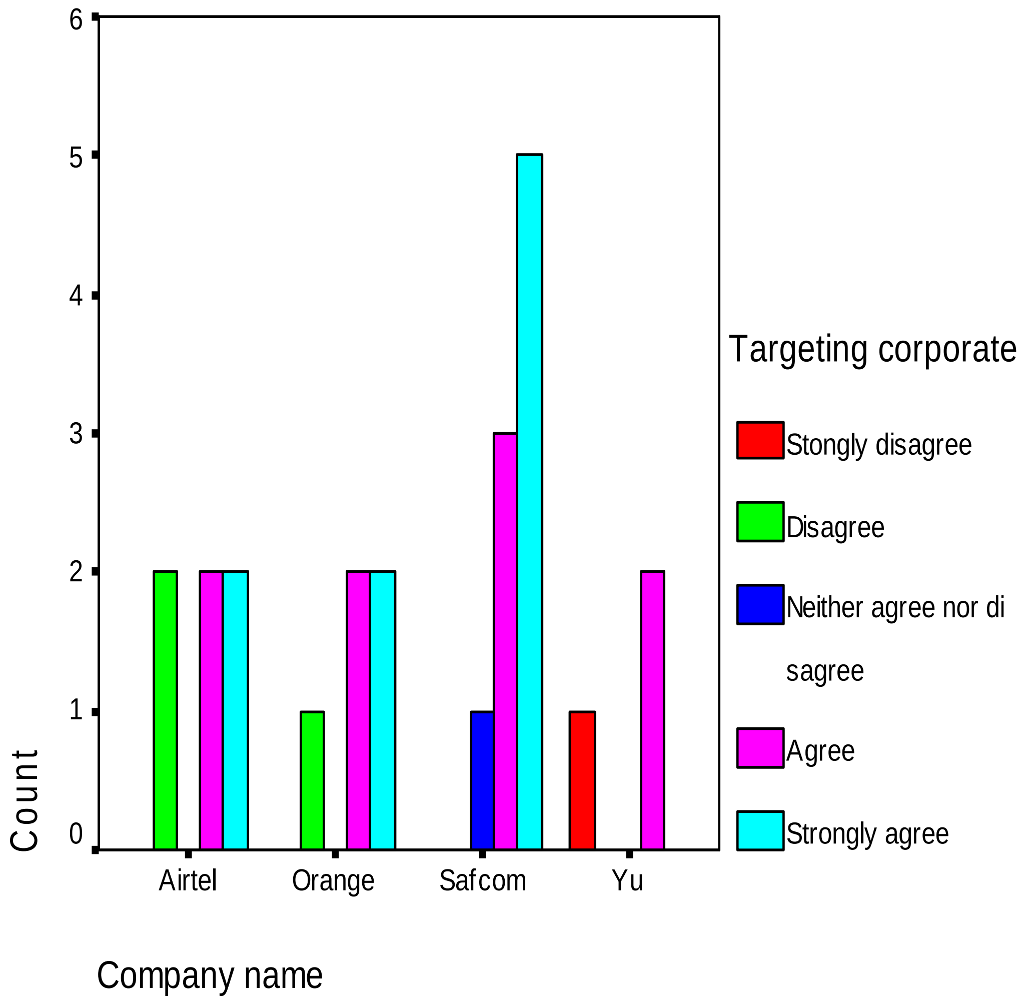

Figure 17: *Targeting corporate customers*

Developing customized solutions for different market segments

Having the largest market share, Safaricom has strongly adopted this. Safaricom has the flexibility of customizing its products for different classes of subscribers, in different areas e.g, ‘Campo tariff’, for university students. Orange is specializing in the data market.

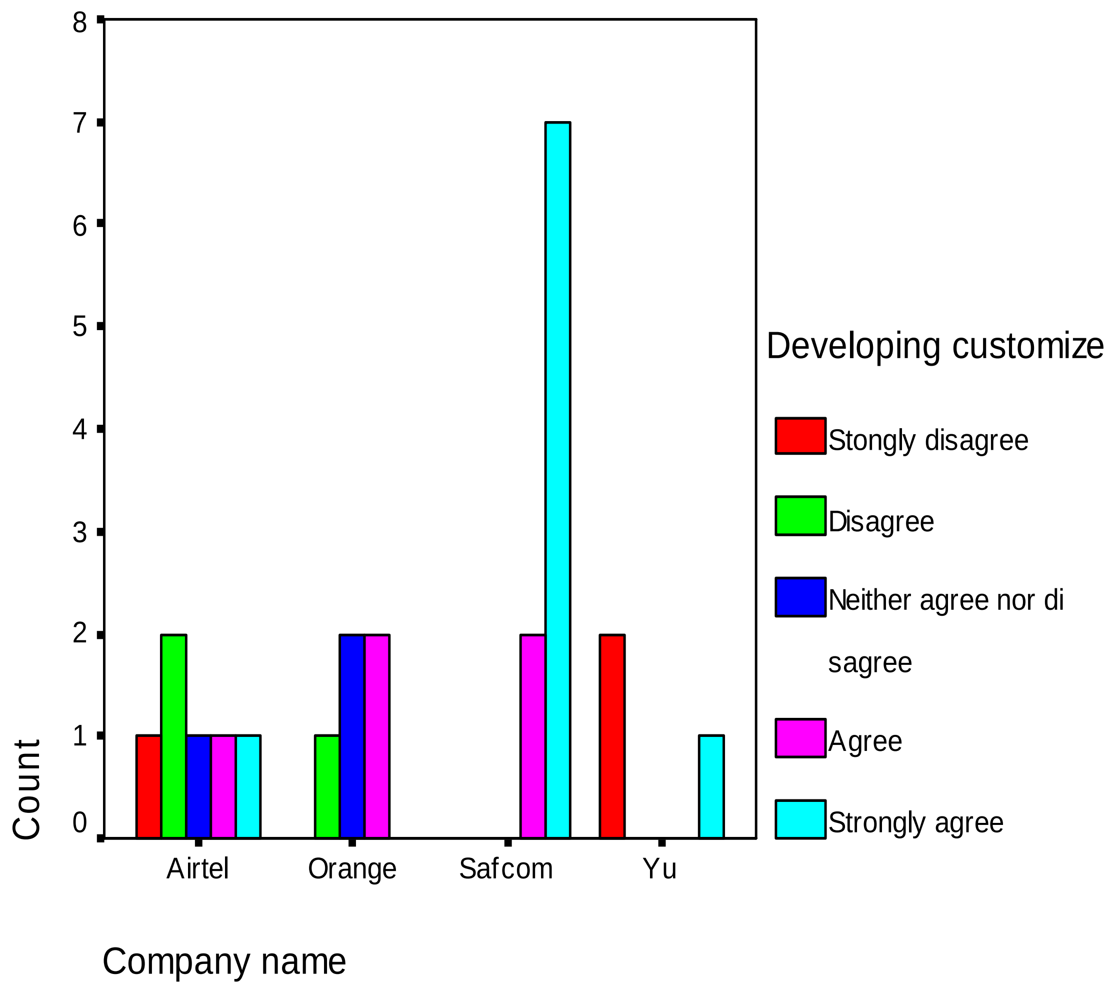

Figure 18: *Developing customized solutions for different market segments*

Communicating to customers on new products' availability

This is tied to availability of finances for advertising and as seen earlier, Safaricom is leading the pack. The other players opt to cost cut.

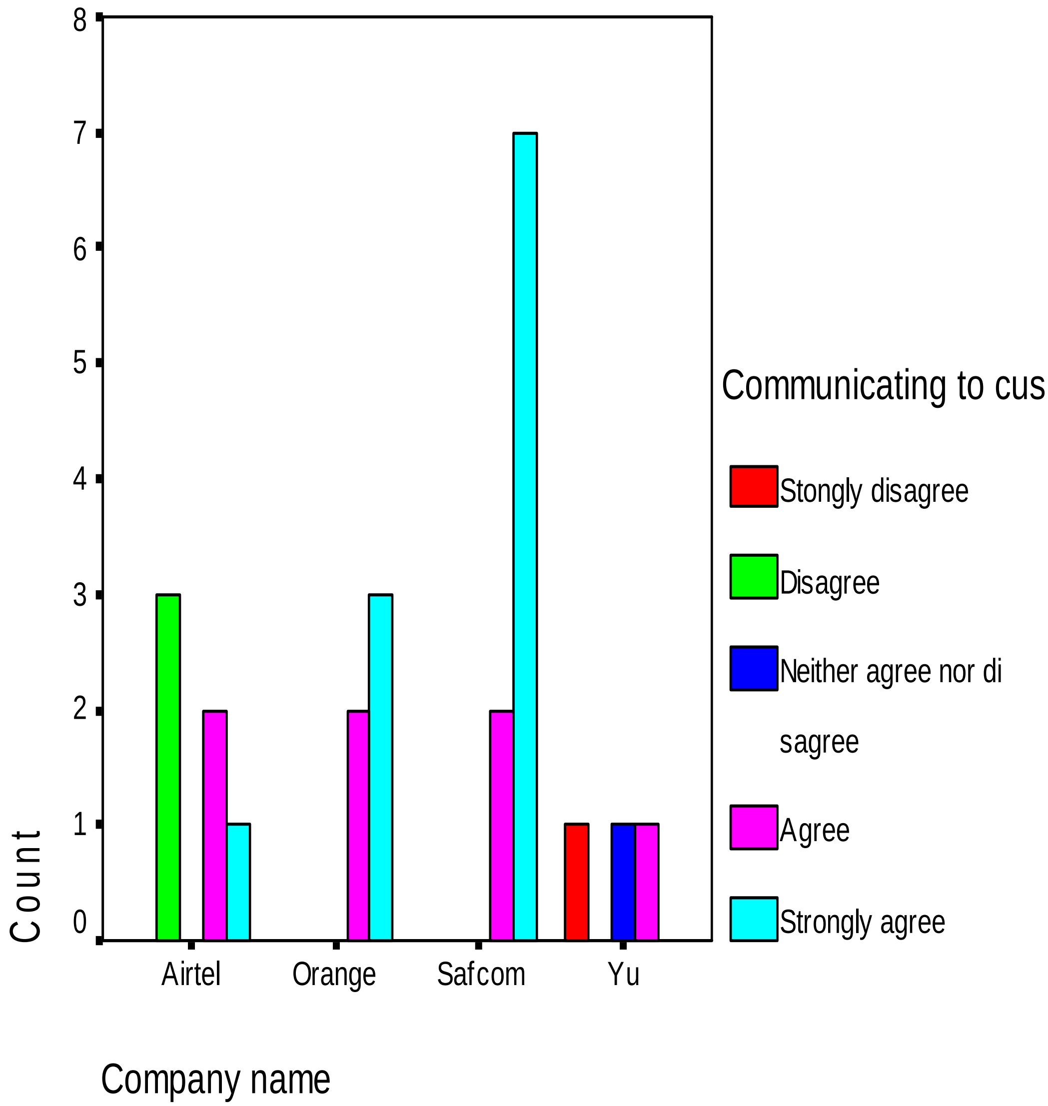

Figure 19: *Communicating to customers on new products' availability*

Offering after-sale services to customers

This is a strategy aimed at attracting customer loyalty and requires investment. Safaricom has strongly adopted this and it can be attributed to the increase in number of loyal customers and those willing to purchase products from its retail shops.

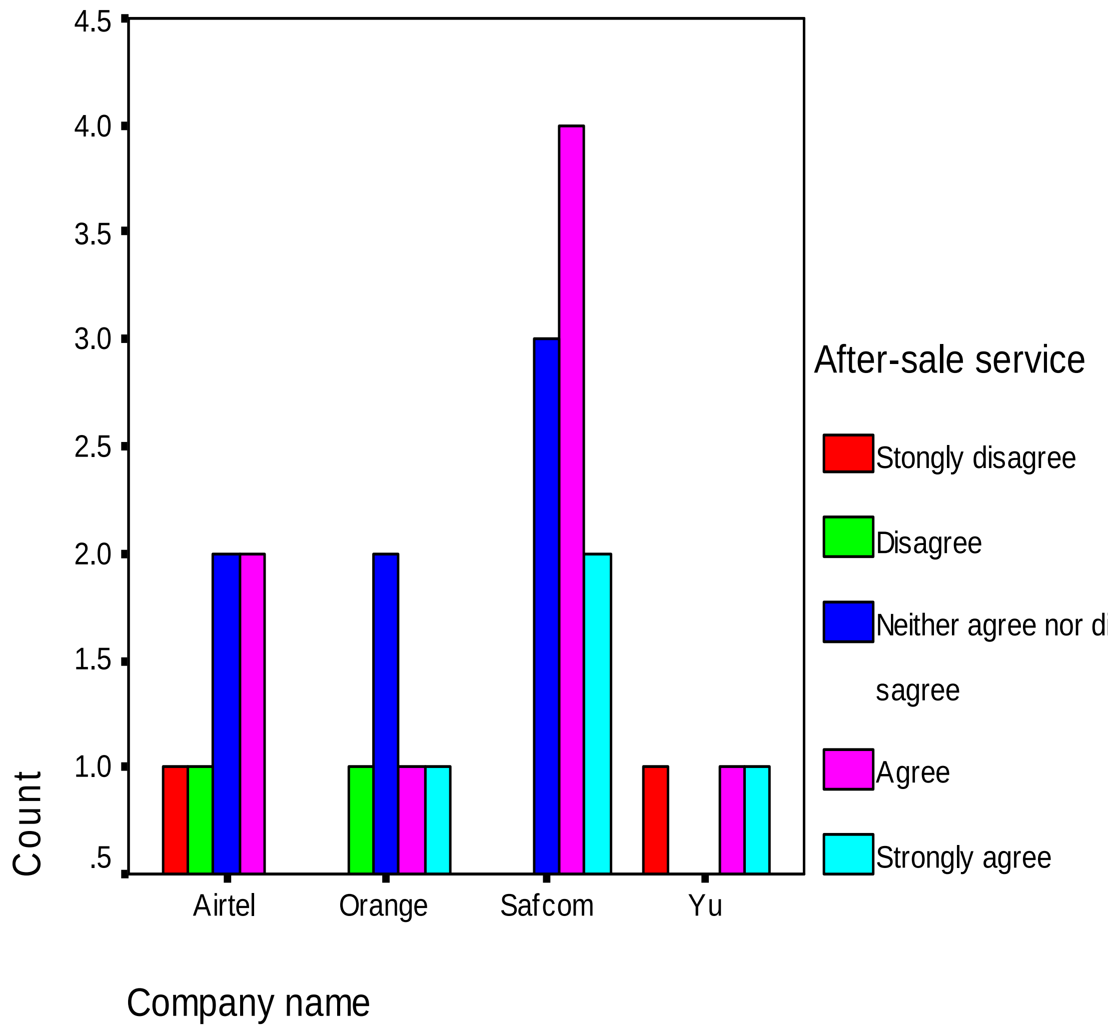

Figure 20: *Offering after-sale services to customers*

Providing showroom display for products and services available

This has not been strongly adopted as most firms do not have showrooms and the nature of the customers is that most do not visit the retail shops. They mainly seek help via phone calls. Safaricom has an advantage because of having many retail shops.

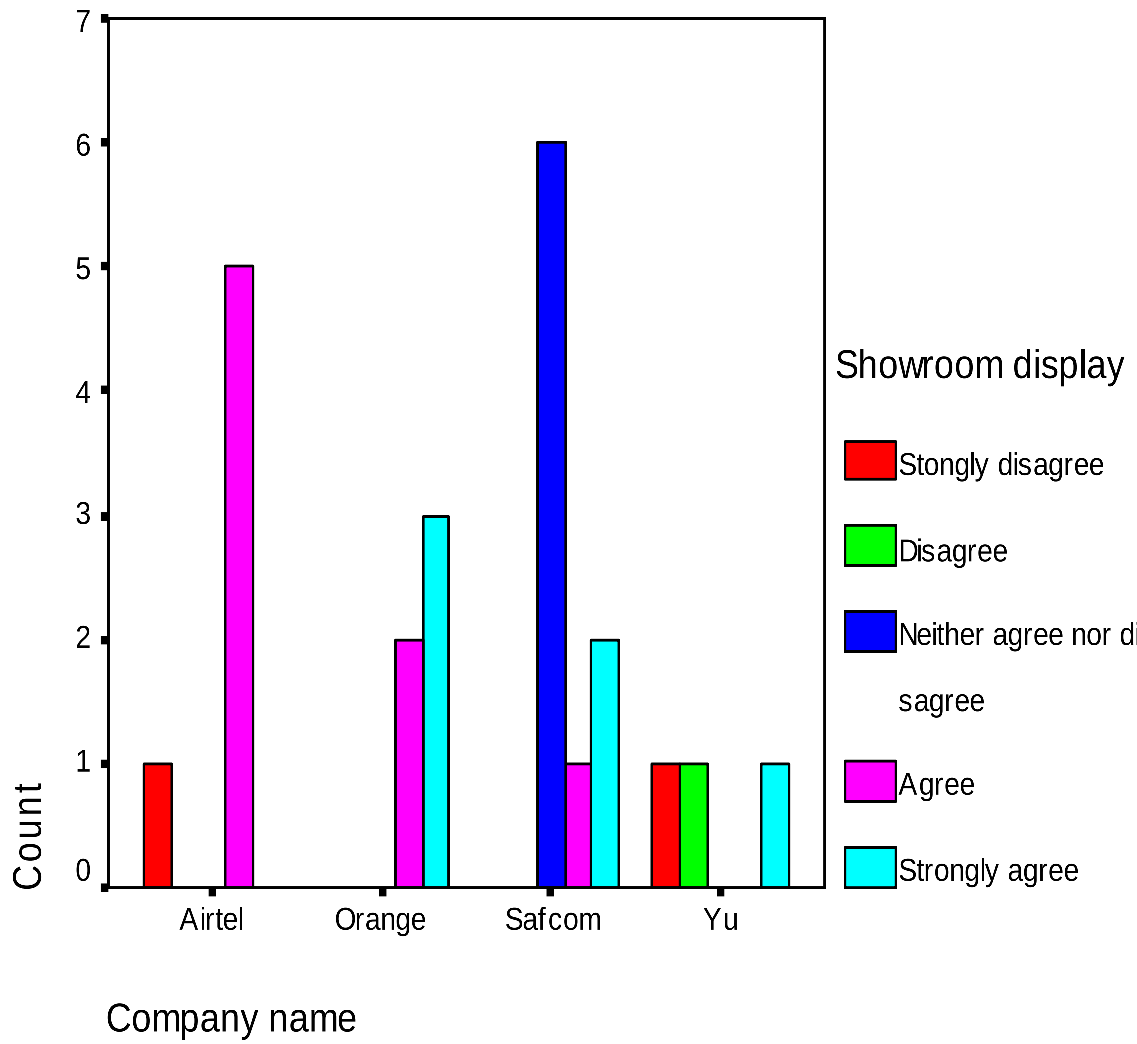

Figure 21: *Providing showroom display for products and services available*

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter synthesizes the data acquired from the cross- sectional survey using the outlined research methodology, at the backdrop of the problem statement and objectives of the research in order to draw conclusions and make the necessary recommendations to the subject matter.

5.2. Conclusion

The overall objective of this study is to evaluate the strategies adopted by mobile telephony firms in Kenya, in response to increased competition. It is intended to answer the research question, “What strategies have been adopted by mobile telephony firms in Kenya, in light of increased competition? Considering the research findings above, different strategies have been adopted by the different firms with mixed results.

All the four firms are in business with an aim of increasing revenue and maximizing on profit, while minimizing on costs. All the four firms hope to achieve this with the strategies adopted. It is now over two years since the environment became competitive and the strategies adopted are starting to show results. Safaricom is riding on its popular brand name and this has ensured increase in its numbers, though there is a drop in revenue owing to reduced call rates. There are those subscribers who are willing to stick to Safaricom even if competitors are offering rock bottom prices. Safaricom has also maintained its hold on market share because of its excellent customer care. They have a dedicated call center that employs 1500 employees on permanent and pensionable terms with additional benefits, which motivates them. The call center is open 24 hours a day, 7 days a week. The customer care agents are always ready to help. They have invested in technology to ensure more calls get to the call center, to ease the congestion that used to be experienced in earlier years.

Further to these, they have 43 retail centers all over the country to offer customer service to walk-in customers and thus relieve the call center. This is also beneficial to the customers who like a physical contact to assist them. The retail centers also have showrooms where after sale service is offered, free of charge. The staff are qualified and well trained to serve customers.

Safaricom has maintained its lead in the market by heavily investing in technology. They were the first to launch 3G services when the other operators felt it was expensive and not necessary. They are now testing 4G technology in readiness for deployment. It has contractors from all over the world and a fully-fledged R & D department. Safaricom is the biggest spender in advertisements in the country and these has helped it maintain its popularity amongst Kenyans. Subscribers get to know of new products and services via the various media sources immediately they are launched.

Airtel has studied Kenyans habits and on realizing Kenyan callers to be price sensitive, they have lowered their prices to near rock bottom. This helped to double its subscriber base within one year. They offer many promotions to entice customers and freebies to encourage them to stay in their network. Other competitors have no option but to follow suit, if they wish to continue gaining subscribers. Airtel has outsourced most of its non-core services. This has helped it cut on costs and focus on its core business. The drawback is that it has led to job losses and resulted in bad publicity owing to various strikes and go slows by the outsourced staff. It has formed alliances with other firms and this has helped it bring in much needed expertise and additional capital. Realizing the importance of a popular brand name, it now competes with Safaricom for advertising space. This is gaining fruit and has helped it is ease off the disadvantage brought about by constantly changing name.

Orange has heavily invested in rebranding itself so as to remove the old, negative tag associated with Telkom. Previously, Telkom was associated with failure thus Orange wants to come out as a new entrant with superior and better products. It has also curved out the niche of being identified as the market leader in the data front. Realizing that the voice market is congested, it has specialized in data services and is now competing with the Safaricom as the provider of choice.

As the latest entrant into the voice market, Yu Mobile has had to do a lot to gain a foot-hold. It opted to specialize in price reduction. This has borne fruit as it has tripled its subscriber base and surpassed Orange in subscriber numbers. Kenyans are very price sensitive and will go for any offer that gives them a cheaper option. Yu is offering free calls within its network whole day and this is sending ripples among the other players.

5.3. Recommendations

From the research findings and the conclusions that have been made, the following measures are recommended. Despite enjoying the market leader position and maintaining its hold on subscriber base, its influence is slowly waning with customers viewing it as a rich man's club. It needs to be responsive to the market dynamics, especially as pertains to price wars. It has lost close to two million subscribers in a space of two years and this trend is worrying if it is to continue. To ensure it maintains its hold, it should venture into the un-entered areas and even diversify its products' offering so as to spread its avenues for getting market e.g, cloud computing and widening its data market etc.

It should also come up with unique products for different segments and not focus purely on voice. As all the four operators are offering similar products and services, it needs to differentiate itself and specialize in quality, in-order to stand out. These can include hastening the roll-out of the 4G technology which is not currently present in Kenya. The other operators are just rolling out 3G now, five years after Safaricom rolled it out. Having stirred up the market and tapped in additional subscribers by its low prices, Airtel should invest more in advertising to ensure it becomes a household name in Kenya.

In case of changes in ownership, which are inevitable, the directors can negotiate to ensure the name remains unchanged as the past changes have proven to be a de-service to Airtel; it takes time before a new name sinks to the subscribers- they will always view it as a new entrant and thus treat it cautiously. Subscribers will also be proud to be associated with a company that promotes the local economy. Thus Airtel should ensure it creates jobs for the locals, and if by any chance they have to outsource externally, they should verify the terms to ensure the employees do not get a raw deal. They should localize their operations and have local faces so that the locals can identify with it. More of the profits should be channeled back into the local economy.

Orange enjoys immense assets from Telkom and this can be sold to provide additional capital to expand its operations. It should come out strongly as an efficient service provider so as to shed off the old tag associated with Telkom. With the government support in terms of shareholding, it should lobby for support to expand its operations and invest in R & D, to ensure they are at par with the best in the industry. It should take advantage of the assets it already has.

Despite being in the market for barely two years, Yu has become a household name, especially with the bottom of the pyramid class. Having proved itself as a force to reckon with, it should now work on consolidating its gains by expanding its infrastructure. This will help provide countywide coverage so as to compete with the other competitors. Customers will thus be spoilt for choice as they will not be tied on one provider. The mobile market is still relatively young and open for more expansion. Being relatively new with no past negative tag, it should start on the excellence pedestal to sell itself as a superior brand. It should work on venturing into other un-explored sections. Being a foreign firm, it should put a local face to its operations so that the locals can identify with it.

5.4. Areas of Further Study

During the course of the study, certain areas were found wanting and required further research. Further study may be on the role of the regulator in leveling the operating environment and the implications of the competitive environment to the economy. Worth studying also would be how other firms in other countries in the mobile telephony market have reacted to a competitive environment.

The researcher also suggests that further study should be done to compare on how firms in other industries have reacted to competitive environments. This will help gauge on the complexity or flexibility of the telecommunications industry. Thus it will be possible to make valid conclusions.

5.5. Limitations of the Study

Time was a key constraint during the study. The researcher had to balance between normal work duties and conducting the research. Time also affected the number of respondents, due to limitations of accessing a higher number. Getting respondents to be interviewed was another challenge. Many had little time to dedicate to the questionnaire.

Respondents wanted an assurance as to confidentiality of the information they were disclosing. Others were not sure if the researcher would live to the commitment to use the information provided exclusively for the purposes of the research. Some respondents from the other firms held the researcher with suspicion, especially owing to the fact that he worked at Safaricom. This made it difficult for some respondents to open up and freely respond to all the questions put to them. The cost of printing and circulating the material was also a constraint.

5.6. Implications of the Study on Policy, Theory and Practice

The Communications Commission of Kenya (CCK) will find the results of this study useful for regulating the mobile telephony industry in the country as it continuously tries to streamline the market to ensure an even playing field. Specifically, the results will inform on measures to regulate the industry in niche markets and other competitive advantages, rather than only price wars, which have been witnessed lately in the industry, with much negative gains.

A lot of theory exists on strategic responses by firms to competitive environments. The existing theory is however general and is rarely specific to the telecommunication industry. This study has provided additional material to the telecommunication industry, which is still relatively young in Kenya.

The findings of this study, although informed by theoretical grounding on strategic competition, have demonstrated that due to the changing business environment, firms are innovating fast and their market competition strategies are less informed by theory but by customer needs. Therefore, based on the findings of this study, it is imperative that the theoretical framework on strategic competition be reviewed to reflect the dynamic business environment. Since liberalization of the mobile telephony industry in Kenya, competition has been characterized mainly by price wars and negative publicity amongst competitors.

While such strategies have proved popular, they affect the overall profitability and effectiveness of the industry. This study has shown that firms can still engage in competition but focus on their strategic competitive advantages instead of destructive practices. These findings will therefore lead to change of the practice of competition in the industry.

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APPENDICES:

Appendix I: Introductory Letter

Lameck Kisienya,

P.O. Box 1203-00200,

Nairobi.

Dear Sir/ Madam,

RE: PERMISSION TO CARRY OUT A MBA RESEARCH

I am a post graduate student at the University of Nairobi conducting a research on "*Strategic Responses to Competitive Environment by Mobile Telephony Firms in Kenya*" as a partial fulfillment of the requirement of degree of Master of Business Administration.

Being one of the respondents, I kindly request you to respond to the attached questionnaire. The information requested is needed purely for academic research purpose and will therefore be treated with utmost confidentiality.

Your assistance will highly be appreciated.

Thank you.

Yours sincerely,

Lameck Kisienya

Appendix II: Consent- Mobile Telephony Firms

Safaricom

Safaricom
0 3 SEP 2012
NETWORK & SERV... ...ATIONS
RECEIVED
TEL: 42...
P.O. Box 66827 - ... NAIROBI

Do proceed
[signature]

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE......02/07/2012...........

TO WHOM IT MAY CONCERN

The bearer of this letter.....LAMECK KISIENYA.....

Registration No.......D61/62852/2010.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
02 JUL 2012
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Airtel

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

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02 JUL 2012
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

airtel
3 OCT 2012
RECEIVED
Customer Care Division
Nairobi, Kenya

Data had been collected.

Orange

RECEIVED
24 JUL 2012
telkomkenya
Home of Orange

Approved

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

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SCHOOL OF BUSINESS
02 JUL 2012
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Yu

Essar Telecom Kenya Limited
yuMobile RC, Essar Hse.
04 OCT 2012
x 45742-00100,
0753 777590
Nairobi, Kenya

Data collected

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

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02 JUL 2012
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P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix III: Questionnaire

Instructions: Fill in the blank spaces and tick where appropriate.

PART A: COMPANY PROFILE:

1. **Company Name: ………………………………………………………**
2. **Year of establishment: ……………………………………………..**
3. **Department: …………………………………………………………**
4. **How long have you been in the organization?**
    - Less than 1 year
    - 1-2 years
    - 2-3 years
    - 3-5 years
    - Over 5 years
5. **Ownership of the company:**
    - Privately owned.
    - Wholly owned by the government.
    - Owned partly by the government and partly private.

PART B: COMPETITIVE STRATEGIES THE COMPANY HAS ADOPTED

Scale used for rating responses

5: *Strongly agree*	**4:** *Agree*	**3:** *Neither agree nor disagree*	**2:** *Disagree*	**1:** *Strongly disagree*

STRATEGY	**5**	**4**	**3**	**2**	**1**
Popularity of the brand name					
Acquiring quality and skilled staff					
Offering excellent customer care					
Suitability of business location					
Improving in quality of products and services offered					
Emphasis on reduction of products and services					
Increased investment in advertisements					
Offering promotions to customers					
Offering gifts and incentives to customers					
Expansion of the business					
Repositioning of the company in the market					
Outsourcing non-core businesses to external firms					
Forming alliances with other companies					
Offering cash discounts to customers					
Offering credit facilities to customers					
Increasing expenditure on research and development					
Targeting corporate customers					
Developing customized solutions for different market segments					
Communicating to customers on new products' availability					
Offering after-sale services to customers					
Providing showroom display for products and services available					

Appendix IV: Mobile Telecommunication Firms in Kenya

1. Safaricom Kenya Limited. Established 1999.
2. Airtel Kenya Limited. Established 2000.
3. Orange Kenya Limited. Established 2008.
4. Econet Wireless Kenya (Yu). Established 2008.

(*Source: Communications Commission of Kenya www.cck.go.ke 2012*)