

**COMPETITIVE STRATEGIES ADOPTED BY SECOND HAND
MOTOR VEHICLE DEALERS IN NAIROBI, KENYA**

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DECLARATION

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

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This Management Research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To God for giving me good health, strength and favour throughout the MBA programme.

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ABSTRACT

The objective of this study was to establish the competitive strategies used by second hand motor vehicle dealers to cope with increased competition in the second hand motor industry. To achieve the objective a survey was conducted, subsequently the shareholders and managers of the second hand motor dealer showrooms were asked to complete a questionnaire. 54 out of the targeted 66 respondents completed and returned the study questionnaire representing 82% response rate.

It was found that 67% of the surveyed second hand motor dealer showrooms have been in operation for less than five years, 89% of them are limited companies and 96% of the surveyed respondents were aware that the industry faced stiff competition. It was found that email circulation of cars on offer to friends, sale of cheap cars, stocking of unique cars, offering of value adding services like car cleaning and fixing alarms are particularly popular competitive strategies with second hand motor dealers, they are used to a great extent by the surveyed second hand motor dealers.

The study established that Porter's generic strategies are moderately used. The second hand motor dealers use the cost leadership, focus and differentiation strategies interchangeably. On factors influencing competitiveness, hiring competent staff is the strategy that came out very to be very popular.

CHAPTER ONE

INTRODUCTION

1.1 Background

Organizations exist as open systems and hence are in continuous interaction with the environment in which they operate. The environment is highly turbulent, dynamic, and chaotic (Omondi, 2006). The chaotic nature makes it very difficult to predict what will happen and or when it will happen. Every firm competing in an industry has a competitive strategy. It may be developed explicitly through a planning process or it may have evolved implicitly through the activities of the various functional departments of the firm. (Porter, 1980).

In addition, Pearce et.al (2005) highlights that the ever changing environment continually presents opportunities and threats to the organizations. To ensure survival and success, firms need to develop capabilities to manage threats and exploit the emerging opportunities promptly. This also requires formulation of strategies that constantly match capabilities to environmental requirements. Success calls for proactive approach to business.

1.1.1 Overview of the Second Hand Motor Industry

An industry is a collection of firms that offer similar products and services (Pearce et.al, 2005). Essentially, the Motor Industry is made up of all those firms

that are engaged in the supply of motor vehicles, including parts and accessories to the final consumer, maintaining and repairing of those vehicles (Bennet et.al, 2002).

Up to the early 1990s, Kenya used to boast a robust vehicle assembly industry that supplied the country and the Africa region. Hundreds of Kenyans were engaged by these plants and their suppliers, and skills flowed in briskly. But with the liberalization of the motor industry, second- hand imports flooded the market, effectively killing the industrialization dream as far as vehicle assembly was concerned (Bennet et.al, 2002).

There has been a drastic increase in the use of second-hand motor vehicle imports to East Africa through the Mombasa port (Mwenda, 2007). The imports include vehicles headed for Rwanda, Burundi and Democratic Congo. This is made possible by the common external tariff in the region. He also highlights that in 2004, the port handled about 12.9 million metric tonnes at the port compared to 11.9 in 2003, an increase of 8.3 per cent. The port handled 54,854 vehicle units in year 2004 compared to 43,474 in 2003. In 2002, there were 39,093 and in 2001, 36,026 units, while in 2000, there were only 26,358. The local second-hand vehicle market accounted for between 18,000 to 20,000 cars every year in the past five years. Kenya Auto Bazaar Association officials said that it was a fallacy to say the vehicle market is congested whereas the country needed many more vehicles than are now available, they blamed congestion in the city on poor

infrastructure. They noted that on average, there are 400,000 vehicles on the roads which mean that in a population of 32 million people, the ratio of cars to people is 1: 800 which is considered to be very high, thus the need for more cars in the market (Bennet et.al, 2002).

Following the upturn in the performance of the economy and the ease with which customers access personal bank loans, Kenyans are importing cars and motor cycles at a very fast rate. This is a cause for worry to the registrar of motor vehicles since the office is not able to cope. Mwenda (2007) noted that new motor vehicles registered increased by 46.2 per cent in the first four months of year 2007. A total of 23,417 new motor vehicle units were registered in the period. The Kenya Revenue Authority (KRA) reported that it was now registering over 500 cars a day during this period compared to 200 registered each day in the previous months.

KRA has termed the upsurge in the importation of second-hand cars "uncharacteristic" and asked Prisons to print an average of 600 new plates a day. More Kenyans easily buy the second-hand cars going for between Kshs 600,000 to Kshs 800,000 for the Toyota saloon cars, a common feature on the roads. Central Bank of Kenya's Bank Supervision Annual Report for 2006 highlighted that the net loans and advances from banks stood at Kshs 396.1billion in December 2006 compared to Kshs 338.4 billion as at December 2005, this increase has been attributed to easy access of personal loans from

Banks. In year 2006 a total of 42,000 imported second hand cars were registered in Kenya compared to 10,000 new units. The registrar of motor vehicles noted that the increase in the importation of second hand cars is expected to continue as the economy has shown signs of further improvement (<http://www.autoappraisallimited.com>).

Strategic choices that might be right for one competitor may not be necessarily right for others (Porter, 1980). He further notes that rivalry in the industry becomes even more volatile if a number of firms have high stakes in achieving success in it. The motor vehicle industry is characterized by increasing competition, placing even greater demands on company resources. Okun et.al (2000) noted that there are many direct brokers and National dealership websites that sell vehicles directly over the internet. These websites have made many purchasers to arm themselves with information about vehicle options, pricing, availability and cross-brand comparisons before beginning the process of shopping at a dealership. This has led to intense competition within the second hand motor industry since the customer demands variety from the dealers.

It is noted that the typical Japanese consumer purchases new vehicles as opposed to used vehicles, keeps the vehicle mileage relatively low, and trades the vehicles after 3 to 5 years. Japan has approximately 8 million like-new used vehicles to sell annually (Okun et.al, 2000). Most of these vehicles are sold throughout Asia and Africa.

In addition, the Kenyan economy had been performing dismally, registering negative 0.2 growth rate in year 2000. This poor performance of the economy coupled with high interest rates and depreciation of the Kenya shilling, has reduced the purchasing power of the average Kenyan making the vehicles, and particularly new vehicles less affordable. Subsequently, there has been a sharp increase in the demand for cheap imported second hand vehicles, that is, both used and reconditioned. The market for new vehicles has shrunk by over 50% from a high of 11,588 units in 1995 to a low of 6,326 units in 2001 (Bennet et.al, 2002).

It has also been argued that the inspection of imported motor vehicles and particularly the second hand vehicles is flawed, with vehicles that exceed the age limit finding their way into the market, a fact that is not contested by the importers of second hand cars (Okun et.al, 2000). The Kenyan entrepreneurs have invested in showrooms where they store the imported cars. The showrooms are located in places that are easily accessible to customers. To add on to the showrooms there is a sales point every Sunday duped car bazaar, visit to this place confirms the influx of second hand motor vehicles in the Kenyan market.

1.2 Statement of the Research Problem

Kenya's Motor Sector has undergone major transformations since the advent of Structural Adjustment Programmes (SAPs) in the 1990s that advocated for liberalization. The sudden opening up of the Kenyan economy caught some players in the Motor Sector unprepared to face competition. The locally assembled cars have become less and less popular since liberalization. A comparison of sales volume of second hand vehicles with those of new vehicles indicate that dealers in second hand vehicles control a larger market share of approximately 60%, up from 43% in 1998 (Bennet et.al, 2002).

The contribution of this industry to Kenya's economy cannot be underestimated. A report by Mwenda (2002) notes that Kenya Motor Industry association estimates that new cars pay on average Kshs 500,000 in taxes while imported second hand cars attract Kshs 150,000. The amount of taxes per car in relation to the number of cars registered per day clearly indicates this industry's contribution to the Gross Domestic Product (GDP). This sector has also offered many jobs to Kenyan population. Additionally, Okun et.al (2002) in their study on motor vehicles recorded that the motor industry in the United States of America recorded large number of employees, raging between 388,000 to 400,600 persons in the years 1997 to 2001.

In the recent past this industry has witnessed opening up of so many showrooms; after a short period some close shop or sell to other interested

parties, others have survived the test of time – opened branches in various locations and have continued to run businesses that are perceived to be profitable. This study will help establish the strategies that have been used by the showrooms that have survived for long and also the new ones that are coming up. The members of the Kenya Auto Bazaar Association (KABA) have raised the red flag on the influx in the sector by foreigners. They say that the ‘investors mainly from Pakistan, Sri Lanka and Singapore, come to Kenya, get work permits easily, and set up dealerships for second hand cars. Since they have connections with dealers in Japan and Dubai that supply the bulk of second hand motor vehicles to the country and are pushing the locals into unfair business competition (Ochieng, 2008).

Additionally the high unemployment levels in Kenya have made many Kenyans try out any business that seems lucrative. According to (Bennet et.al, 2002) motor sector trade is characterized by big business and substantial initial capital investment as opposed to second hand car dealership, which is dominated by small businesses with low initial capital requirements. This has made many Kenyans invest in the second hand motor vehicles and thus the mushrooming of showrooms where these imported vehicles are sold from by the dealers. The motor vehicle industry is characterized by increasing competition, placing even greater demands on company resources (Okun et.al, 2000). Moreover, with minimal requirement on licenses by the government, entrants to this market are

bound to be many. This therefore calls for the existing and the new entrants to develop competitive strategies that will ensure survival and growth.

Some studies have been carried out in the motor vehicle industry. A study by Okun et.al (2002) focused on trade and industry conditions for motor vehicles for the period between year 1997 and 2001. The summary covers developments in the motor vehicle industry, with the findings showing that during 1997 – 2001 sales of imports as a percentage of total motor vehicles sales increased from 13% in 1997 to 18% in 2001 in the United States of America. It also summarizes factors that influence sale of cars as personal income growth, unemployment levels, consumer confidence and value of used cars.

Another study by Bennet et.al (2002) under the guidance of Institute of Economic Affairs focused on seeking solutions to the myriad of problems bedeviling the motor industry. The findings of the study show a rise in the market share controlled by dealers in second hand vehicles that rose from 43% to 60% in 1998. It also notes that a policy to control the motor sector is needed before any other solution is sought.

Notably both studies only highlight the rise in the increase of imports and market share but do not focus on the competitive strategies used in the industry. The competitive strategies may not differ much from those of other corporate organizations. However (Porter, 1980) observes that strategic choices that might

be right for one competitor may not be necessarily right for others. This is why the study will explore the strategies used by these dealers and establish whether this industry has unique competitive strategies that help them survive, register growth and profits and therefore stand above competition.

1.3 Research Objective

To establish the competitive strategies used by second hand motor vehicle dealers in Nairobi.

1.4 Importance of the Study

The information gathered will be of importance to:

- i. Prospective and current second hand motor vehicle dealers in Kenya.
- ii. Motor industry at large.
- iii. Contribute towards framework for further research and fill the existing gaps in the field of competitive strategies used by second hand motor vehicle dealers in Nairobi.
- iv. Scholars and researchers who may use it as a source of reference.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategy

Strategy is a multi-dimensional concept and various authors have defined the strategy in various ways. It is noted that there is no single, universally accepted definition, most of the authors only express their views that broaden the perspectives and clarify issues in strategic management. This section will define strategy from various authors perspectives, the definitions will help in better understanding of the competitive strategies which is the focus of this study.

Strategy is defined in five dimensions by Mintzberg et.al (2002). It is viewed as a plan, ploy, pattern, position and perspective. Strategy as a plan is a consciously intended course of action to deal with a situation, as a ploy is a specific maneuver intended to outwit a competitor, as a pattern is a streamline of actions, as a position is a means of locating an organization in its environment and as a perspective is an ingrained way of perceiving the world.

Strategy is basically about competition and the means by which organization tries to gain competitive advantage says (Porter, 1980). Further Hofer et.al (1980) notes that strategy is the common theme among an organization's diverse activities. Hill and Jones (2004) define strategy as an action that managers take

to attain organizations goals. For most of the organizations the overriding goal is to achieve superior performance relative to rivals and if a company's strategy results in superior performance, it's said to have competitive advantage.

A company's strategy is the management's action plan for running the business and conducting operations (Thompson et.al, 2007). They further say that a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and pleasing customers, competing successfully and improving the company's financial and market performance. The best indicators of a company's strategy are its actions in the market place and the statements of the senior managers about the company's current business approaches, future plans and efforts to strengthen its competitiveness and performance.

Strategy is also defined by Johnson et.al (2006) as the direction and scope of an organization over the long-term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. They further say that strategy exists at three levels in the organization; corporate level, where strategy is concerned with the overall purpose and scope of an organization and how value will be added in the different business units of the organization. Secondly, the business level strategy that defines how the organization will compete successfully in particular markets and finally, strategy at operational level which is concerned with how the

component parts of an organization deliver effectively the first and second level strategies in terms of resources, processes and people. Finally Pearce & Robinson (2005) define strategy as the blueprint that guides an organization's executives in defining the business their firm is in, the end it seeks and the means it will use to accomplish those ends.

This study will mainly focus on the strategies formulated at the business level of second hand motor vehicle companies. These strategies will define how the dealers compete successfully in this particular market to outwit competitors. In this regard a lot of emphasis shall be on Porter's generic strategies.

2.2 Overview of Competitive Strategy

Competitive strategy is a broad formula of how a business is going to compete, what its goals should be and what policies will be needed to carry out those goals (Porter, 1980). Competitive strategy is defined as the means that a firm can use to achieve competitive advantage in the market. It consists of approaches and initiatives the firm undertakes to attract customers and fulfill their expectations better than the competitor. Essentially, competitive strategy defines a broad formula for how a business is going to compete, what its goals should be and the policies needed to carry out these goals (Porter, 1980). He further observes that the essence of formulating a competitive strategy is to relate a company to its environment. In addition he says that an effective competitive strategy take offensive or defensive action in order to create a defensible position against the

five competitive forces; suppliers, new entrants, buyers, rivals and substitute products.

While corporate strategy defines the markets and the businesses in which a company will operate, competitive or business strategy on the other hand defines the basis on which a given business will compete. Competitive strategy hinges on a company's capabilities, strengths and weaknesses in relation to market characteristics and the corresponding capabilities, strengths and weaknesses of the competitors (Jowi, 2006). He further says that competitive strategy is concerned with competitors and the basis of competition.

The objective of competitive strategy is to knock off the socks of rival companies by doing a better job of satisfying buyer needs and preferences (Thompson et.al, 2007). Porter (1998) observes that through competitive strategy firms seek to define and establish an approach to competing in their industry to attain sustainable profitability. For a competitive strategy to succeed in a particular firm it must be tailored to the particular industry's skills and assets. He further notes that competitive position in an industry reflects an unending battle among competitors. Since every industry is unique and has its own unique structure, it is of imperative importance to note that even the competitive strategy of various firm differ with the uniqueness of the firm. There is no single universally accepted competitive strategy that applies to all firms. In this regard the study shall

establish whether the second hand motor dealers have tailored competitive strategies particular for this industry.

The goals of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against the competitive forces or influence them in its favor (Porter 1980). Competition in an industry continually works to drive down the rate of return on invested capital, since investors cannot tolerate this they are pushed by their desire to earn more to develop strategies that will ensure they have competitive advantage over the competition. Additionally the aim of competitive strategy is to do an outstandingly better job of providing what buyers are looking for. Its core lays in the firms internal initiatives to deliver superior value to customers. However it also involves offensive and defensive moves to counter rivalry from competitors, thus ensuring growth and market share retention.

The essence of formulating competitive strategy is relating a company to its environment. The strategy helps a firm withstand competitive pressure and thus cement its market position. Competitive strategy is very important to business growth and survival. Jowi (2006) points out that competitive strategy has never been more important to success than it is in today's business environment. Whether the business is small, big or just starting doesn't really matter. A company cannot survive without adequate and focused strategy to beat competition.

Formulating and implementing the right competitive strategies is a significant contributor to high profits. However there is no single right strategy that firms can apply to become competitive and thus rise above competition. Ndung'u (2006) in her research observes that it's a major challenge for managers to choose the appropriate routes depending on the organization. To be termed as competitive in an industry, a firm must aim at providing buyers with what they perceive as superior value. This requires that an organization does certain things better than competitors thereby creating superior value for customers.

Designing viable competitive strategies for a firm requires a thorough understanding of the firms industry and competition (Pearce et.al, 2005). The firm executives must understand the boundaries and structure of the industry, competing firms and determinants of competition. The competitive environment of a firm comprises its competitive position, composition of the customers, its reputation among suppliers and its ability to attract capable employees. Jowi (2006) adds that managers of firms must assess their firms current competitive position, build a vision for where they must be in the future and craft a transformation strategy to turn the future vision to reality. This therefore validates the importance of understanding the competitive environment.

When formulating competitive strategies it's important to recognize and accurately read market signals. Porter (1980) notes that market signals communicate the competitor's behavior and information that can aid in

competitor analysis and strategy formulation. To accurately interpret the signals, a firm manager must develop a baseline competitor analysis that involves understanding of competitor's future goals, assumptions about the market, current strategies and capabilities.

A company's competitive strategy deals exclusively with the specifics of management's game plan for competing successfully. It involves employment of specific efforts to please customers, its offensive and defensive moves to counter the maneuver of rivals, its responses to whatever market conditions prevail at the moment, its initiatives to strengthen its market position and its approach to securing a competitive advantage and thus outwit the rivals. A company achieves competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces (Thompson et.al, 2007).

Omondi (2006) in her study on competitive strategies adopted by airlines in Kenya notes that competitive strategy is a key area of strategy and must therefore grow out of sophisticated understanding of the rules of competition that determines an industry's competitiveness. She further states that success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how they are matched to level environmental turbulence. Each level of environmental turbulence has different characteristics, requires different strategies and different firm capabilities. Therefore for survival, growth and profitability each level of environmental

turbulence must have strategy to support it and appropriate organizational capability.

Competitive strategy is a business strategy or simply a strategy that is defined by six elements (Aaker, 1998). The first four apply to any business, even if it exists in an organization with other business units. He explains that a competitive (business) strategy specification include a determination of the product market in which the business is to compete, the level of investment, the functional area strategies needed to compete in the selected product market, usually characterized by product line strategy; pricing strategy; distribution strategy; the strategic assets or competencies that underlie the strategy and provide the sustainable competitive advantage. The allocation of resources over business units and finally, the development of synergistic effects across the business. Competitive strategy is defined by Johnson et.al (2006) as one which is concerned with the basis on which a business unit might achieve competitive advantage in its market.

In the motor industry, various manufacturers and dealers use various competitive strategies to achieve competitive advantage. Johnson et.al (2006) notes that during the 1960s and early 1970s the Japanese car manufacturers entered the European market by targeting the low-cost sector, which they believed would not be defended by European manufacturers. Their competitive strategy of manufacturing cars with simple features made the cars look cheap. This gave

them a competitive advantage since the sales volumes were so high that they gained a profitable entry into the European market.

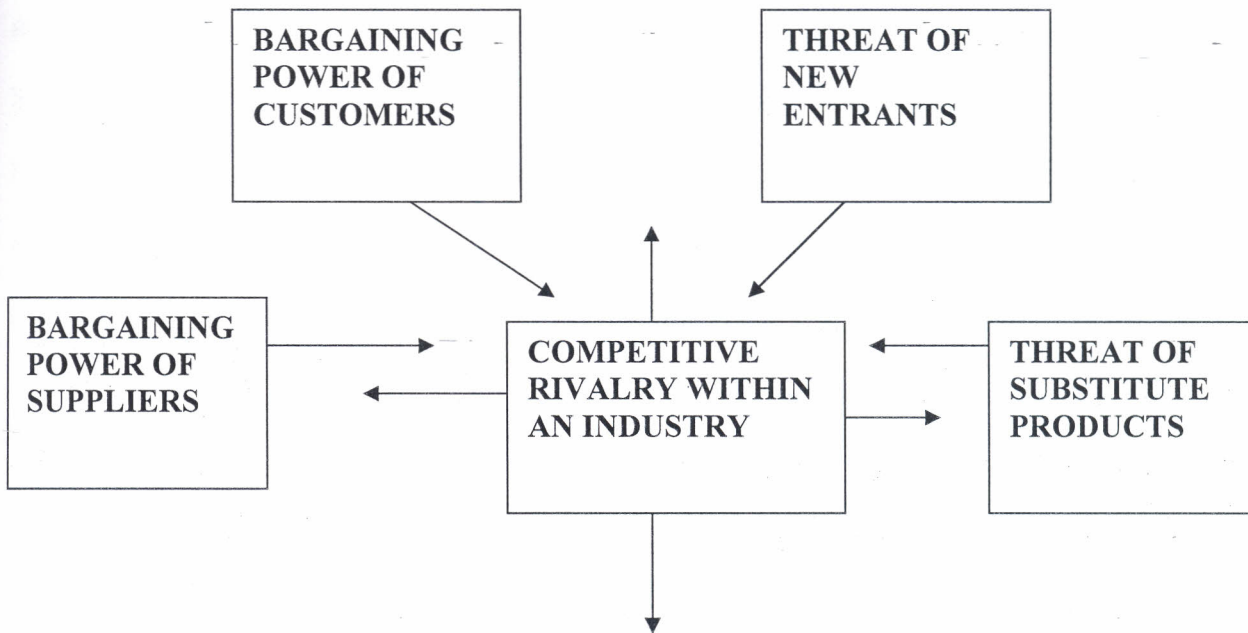
2.3 Competitive Strategy Models

The nature and degree of competition in an industry hinges on five forces that include the threat of new entrants, bargaining power of customers, bargaining power of suppliers, threat of substitute products or services and the rivalry among the current contestants (Pearce et.al, 2005). Additionally, (Porter, 1980) notes that the five competitive forces jointly determine the intensity of industry competition and profitability. In business competitiveness is about gaining advantage over competitors (Johnson et.al, 2006).

2.3.1 Porter's Five Force Analysis

Porter's 5 forces analysis is a framework for the industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School in 1979.

Fig 1: A graphical representation of Porter's Five Forces



Source: <http://en.wikipedia.org/wiki/Porter-5-Force-Analysis>.

The threat of substitute products: The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases (Wikipedia). This is a common feature in the motor industry and therefore needs to be considered when formulating competitive strategies.

The threat of the entry of new competitors: Profitable markets that yield high returns will draw firms. The result is many new entrants, which will effectively decrease profitability (Wikipedia). Secondhand motor industry is perceived to be profitable, this makes its threat of new entrants very high. This calls for the existing dealers to put this fact into consideration as they formulate competitive strategies so that they can ensure their survival, growth and profitability.

The intensity of competitive rivalry: For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation and marketing among others (Wikipedia). The secondhand motor industry is not an exception, care must be taken while coming up with competitive strategies, to remain relevant in the market, they must develop innovative competitive strategies.

The bargaining power of customers: This is the ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes (Wikipedia). This may put the secondhand motor dealers under pressure; to either sell at very low prices and make low margins or target only those customers who are not price sensitive and end up selling few units.

The bargaining power of suppliers: Suppliers of raw materials, components, and services (such as expertise) to the firm can be a source of power over the firm. Suppliers may refuse to work with the firm, or e.g. charge excessively high prices for unique resources (Wikipedia). This may challenge the secondhand motor dealers when trying to set competitive prices or get experienced sales people. This factor therefore requires attention when formulating competitive strategies in the motor industry.

2.4 Porters Generic Competitive strategies

Many planning experts believe that the general philosophy of doing business declared by the firm in the mission statement must be translated into a holistic

statements of the firm's strategic orientation before it can be further defined in terms of a specific long term strategy (Pearce et.al, 2005). They further observe that the long term or grand strategy must be based on a core idea about how the firm can best compete in the market place. The popular term for this core idea is the generic strategy.

The aim of any firm should be to develop a distinctive competence that is greater than the competitors (Omondi, 2006). Porter (1980) identifies three generic strategies for achieving the above average performance in an industry. They include cost leadership, differentiation and focus. Each of the strategy is a different approach to creating and sustaining competitive advantage. According to Omondi (2006), to be an average performer, a firm must generally make a chance amongst them rather than attempt to address all of them at once. The effectiveness of each strategy is contingent on the opportunities and threats in a firm's external environment and possibilities permitted by the firm's unique resources, capabilities and core competencies.

2.4 .1 Overall Cost Leadership Strategy

This strategy calls for being low cost producer in an industry for a given level of quality. The firm sells its products either at industry prices to earn a profit higher than that of its rivals or below the average industry prices to gain market shares (Mwakundia, 2006). The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale,

proprietary technology, preferential access to raw materials and other factors (<http://www.quickmba.com/strategy/generic>). According to Porter (1980) businesses following this strategy ensure that their processes make them the lowest cost producers or suppliers in the market. He further notes that striving to be the industry's overall cost provider is a powerful competitive approach in many markets where buyers are price sensitive. Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost curve control and cost minimizations in various functions.

In pursuing low cost leadership, managers must take care to include features and services that buyers consider essential – a product offering that is too frills – free sabotages the attractiveness of the company's products and can turn buyers off even if its price is lower than competing products (Thompson et.al 2007). The value of cost advantage depends on its sustainability, whether rivals find it easy or inexpensive to imitate the low cost methods will determine the duration of the advantage. (<http://www.quickmba.com/strategy/generic>). If a second hand motor dealer wants to adopt overall cost leadership strategy, they must make a decision sell their cars cheaply and end up selling many units or sell expensively, make high margins but sell few units.

The cost leadership strategy is only beneficial to a firm if it is able to withstand intense price competition and if the buyers appreciate the offer for low prices. Omondi (2006) notes that new entrants get deterred by low cost capabilities in the industry that make supply price increases more easily absorbed. If a firm can

achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

2.4 .2 Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes, that are valued by customers and that customers perceive to be better than or different from the products of the competition. The uniqueness in the products brings value – addition that may allow the firm charge a premium price (Mwakundia, 2006). In second hand motor industry this strategy would be workable if they can access vehicles with unique features and get patent rights with the suppliers. According to (Porter, 1980), a product can be differentiated in terms of; design, brand image, technology, features or dealer network. He further explains that if a firm successfully adopts this strategy it's very viable for earning above-average returns in an industry because it creates a defensive position for coping with the five competitive forces. In addition he says that this strategy may preclude the firm from gaining high market share but it gets compensated by creation of loyal customers who are not price sensitive.

Thompson et.al (2007) also agrees with Porter's idea on differentiation by explaining that competitive advantage results once a sufficient number of buyers become strongly attached to the differentiated attributes. They further emphasize that successful differentiation allows a firm to command a premium price for its

products, increase unit sales and gain buyer loyalty to its brands. Barney (1997) states that successful product differentiation helps a firm respond to environmental threats, furthermore this strategy reduces the threat of rivalry, because each firm in an industry attempts to carve out its own unique product niche. Differentiation extends beyond the characteristics of the product or service to encompass every possible interaction between the firm and its customers, explains (Omondi, 2006). In addition Thompson et.al (2007) says that differentiation strategies are not about pursuing uniqueness for the sake of being different but are about understanding the product or service and the customer. Differentiation insulates against the competitive rivalry because of brand loyalty by the customers and resulting to lower price sensitivity. This strategy leads to higher margins, which helps in dealing supplier power. The buyer power is also mitigated since the buyers lack comparable alternative to choose from and thus less sensitivity to price (Porter, 1980).

Whatever the route, the successful differentiation strategy should have the characteristics; generate customer value, provide perceived value and be difficult to copy (Aaker, 1998) He emphasizes that one major key to a successful differentiation strategy is to develop the point of differentiation from the customers perspective rather than from the perspective of the business operation.

2.4 .3 Focus Strategy

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

The focus strategy has two variants.

In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. (<http://www.quickmba.com/strategy/generic>). Since it is built around serving a particular target group, each functional policy is built with this in mind. It also rests on the premise that the firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly (Porter, 1980). Omondi (2006) also notes that the target segment may be defined by geographical uniqueness, specialised requirements in using the product or by special product attributes that appeal only to segment members.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very

well. Because of narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However firms pursuing a differentiation focus strategy may be able to pass higher costs onto customers since close substitute products do not exist (Mwakundia, 2006).

According to Porter (1980), the target market segments must either have buyers with unusual needs or else the production and delivery systems that serve the market segment must differ from those of other industry segments. He further states that focusing is attractive where the segment has good growth potential and the firm has the capabilities and resources to serve the targeted niche effectively. For most firms the ultimate aim is to make profit and to develop a distinctive competence greater than its competitors. In the motor industry unusual needs are mainly met better by those who deal with new motor vehicles compared to second hand motor vehicle dealers. However it is of great importance to note that the profit potential in an industry heavily depends on the collective strength of the five competitive forces that determine industry competitiveness. In addition these forces are essential for determining how a firm positions itself in the industry and thus in the end determines whether a firm's profitability is above or below the industry's average. The fundamental basis for average performance in an industry in the long run is sustainable competitive advantage. Thompson et.al (2007) explains that winning business strategies are grounded on sustainable competitive advantage. Therefore investing

aggressively in sustainable advantage creation is a company's most dependable contributor to achieve above average profitability.

A second hand motor vehicle dealer can focus to serve high net worth customers and therefore concentrate their stocks on vehicles targeted to this segment of customers. They can also narrow their perspective by choosing to stock specific makes of cars that are not common in the market in order to win the customers with special needs.

2.5 Factors Influencing Choice of Strategy

Although managers ideally prefer to formulate decisions through a systematic approach, the concept of bounded rationality would suggest that the manager might be forced to make these important decisions by giving considerations to only a limited number of the issues (Jowi, 2006). Criteria that should be used to evaluate and ultimately choose a strategy include; clarity, motivational impact, internal consistency, compatibility with the environment, appropriateness in light of resources, degree of risk, time horizon and workability (Mintzberg et.al, 2002). The second hand motor industry need to really consider their resources, degree of risk and workability of strategies before they settle on the strategy.

The compatibility between the strategy and the environment is of critical importance in the choice and formulation of a plan (Jowi, 2006). However the successful execution of the plan is also dependent on whether the organization can implement it. Mintzberg et.al (2002) further says that a strategic fit among

many activities is fundamental, not only to competitive advantage but also to the sustainability of that advantage. This is because it is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales force approach or replicate a set of product features. Cost – benefit analysis is also very vital in choice of strategy. Porter (1998) argues that a firm should always aggressively pursue all cost reduction opportunities that do not sacrifice differentiation. In addition a firm should also pursue all differentiation opportunities that are not costly. If this is not possible then the firm should be ready for a trade – off.

The degree of risk is a key factor in choice of strategy, a generic strategy chosen should lead to above – average performance in comparison to competition (Porter, 1998). It should also be sustainable and bring competitive advantage that resist erosion by competitors behaviour or industry evolution. The sustainability of a strategy requires that a firm possess some barriers that make imitation difficult. Since barriers to imitation are never insurmountable the factor of resources comes in since the firm has to keep on improving its position, to always be ahead of competition.

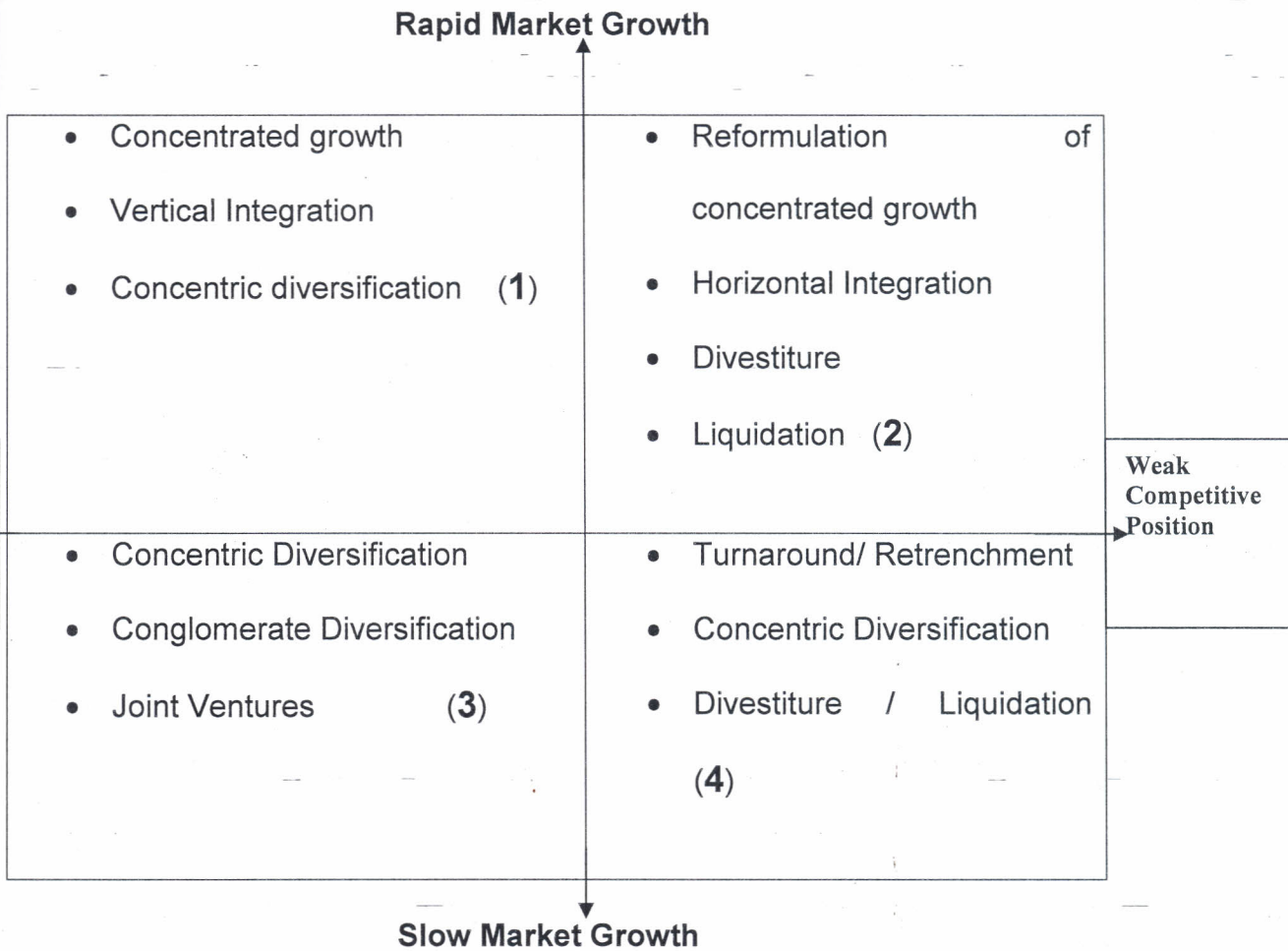
It is of imperative importance for a company to choose a strategy that it can manage to implement. Thompson et.al (2007) observes that compromise or middle- ground strategies rarely produce sustainable competitive advantage. Hence, for a company to achieve sustainable competitive strategies putting into

consideration factors that influence the choice. Strategy implementation appears an easy task and one that can happily be left to operating management. Jowitt (2006) draws attention to the fact that when the results are not as good as expected, a common reaction is to change the strategy, although many times the failure is due to poor implementation. A good strategy implemented badly can be as damaging to an organization as a bad strategy implemented well.

2.5.1 Model of Grand Strategy Clusters

To establish the competitive strategies used by secondhand motor dealers, this model may be of great importance. The dealers can use it as a guide to select promising strategies. This model is based on the idea that the situation of a business is defined in terms of the growth rate of the general market and the firm's competitive position in the market (Pearce et.al, 2005). The dealers can use this model to size themselves up against the competition and choose the right strategies for their firm.

Fig 2: Model of Grand Strategy Clusters



Source: Pearce et.al (2005)

Quadrant (1) – Businesses within this quadrant should continue with their current strategies since their customers are satisfied, changes may endanger established competitive advantages (Pearce et.al, 2005). To reduce risk of myopia the dealers can consider concentric diversification within their firms.

Quadrant (2) – If a dealer realizes that their competitive position is weak in a rapidly growing market, they need to consider reformulating their competitive strategies for their business to survive and remain profitable.

Quadrant (3) – A dealer whose business falls in this quadrant may attempt to decrease resource commitment towards the business since the market position is relatively weak and the growth is slow. They can form a joint venture with a firm that is doing well and adopt their competitive strategies.

Quadrant (4) – Businesses in this quadrant have a strong competitive position. Since the second hand market is rapidly growing, dealers here only need to strengthen their position in the market through concentric diversification, they can also have joint ventures with suppliers of vehicles overseas (Pearce et.al, 2005).

The model above can be used to explain why secondhand motor vehicle dealers make various decisions and adopt various strategies. This is because some dealers invest in the second motor vehicles business; after a short while some sell off the business to other interested parties, others diversify by investing in related services such as alarm installations while others basically concentrate on their core business of selling cars.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This chapter represents the research design that was used to achieve the objective of the competitive strategies adopted by second hand motor vehicle dealers. These are dealers offering a wide range of second hand motor vehicles including saloon, station wagons, 4x4 vehicles of different models including Toyota's, Nissans, Volkswagen and Mazda's among others.

This being a qualitative research a descriptive design was appropriate as (Cooper and Schindler, 2003) puts it; descriptive study is concerned with finding out who, what, where, when and how much. This study was concerned with the 'what' competitive strategies are used by second hand motor vehicle dealers.

3.2 Population of Study

Population of study consisted of second hand motor dealer showrooms in Nairobi. This involved all the showrooms located along the major highways including but not limited to Thika road, Mombasa road, Ngong road, Uhuru highway and Langata road. A list of the show rooms has been attached as appendix II.

To obtain a sample element of the population stratified and systematic sampling was used. Where the population embraced a number of distinct categories, the frame was organized by these categories into separate "strata." A sample was then selected from each "stratum" separately, producing a stratified sample. The two main reasons for using a stratified sampling design were [1] to ensure that particular groups within a population are adequately represented in the sample, and [2] to improve efficiency by gaining greater control on the composition of the sample (<http://en.Wikipedia.org/sampling/statistics>).

In this study the categories used were location of the showrooms, which was the road along which the showroom is located. The population was categorized under Langata, Ngong, Uhuru Highway, Mombasa and Thika Roads since they are the major highways. These formed strata out of which the sample was picked through systematic sampling. From the list of 66 showrooms 33 were chosen, since this was above 30 the size is justifiable, therefore sampling Kth ratio was $66/33 = 2$. To make up the sample we picked every 2nd showroom in the strata until 33 showrooms were picked. To get balanced opinion we collected two questionnaires from each showroom thus making it sixty six.

3.3 Data Collection

Primary data was collected and used for this study. The research instrument used was a questionnaire with both open and closed ended questions. The questionnaire was also based on likert scale. The questionnaire was

administered through two ways; personal interviews and drop - pick method. Due to the expansive nature of this study, the researcher was assisted by experienced research assistants to collect the data. Closed ended questionnaire are easier to analyze while open-ended ones permit a greater depth of response (Mugenda and Mugenda, 2003).

The target respondents for this study were the staff in top management level and those in middle level but are in sales. This is because the top management level staff were deemed to be involved in formulating strategy at corporate level while the sales people in middle management could also contribute in strategy formulation at business level and are highly involved in implementation.

Personal interviews were the most preferred (Cooper and Schindler 2003), it helps establish rapport with respondents and also clarifying any issues raised on the spot, collection of the questionnaires immediately after they are completed led to 100% response rate. The collected data was also edited. Cooper and Schindler (2003) also recommend that data should be edited to ensure consistency across respondents and to locate omissions. They further note that editing reduces errors in the recording, improves legibility and clarifies unclear and inappropriate responses.

The questionnaire had three sections; A, B, and C. Section A was to gather general motor showrooms data such as the year of establishment, target

customers, and general view on competition by the owner. Section B was used to determine the competitive strategies used in the various motor showrooms in Nairobi in order to survive the competition. It was also used to establish if there were any differences in the strategies used in the motor showrooms. Section C will be used to identify factors influencing the competitiveness of the motor showrooms operating in Nairobi.

3.4 Data Analysis

Questionnaires were edited for completeness and consistency. Statistical Package for Social Sciences (SPSS) was used to prepare and analyze the data. Data was tabulated and classified according to common characteristics. Being a descriptive research, to allow use of basic statistical analysis and descriptive statistics, responses were coded. Mugenda and Mugenda (2003) states that coding is the process of assigning numbers to subjects' responses. Tables, frequencies, percentages, bar charts and bar graphs were used to represent the data. To establish relationships between data variables Chi-square was used.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The total number of questionnaires given out was 66 and 54 of them were completed and returned. This represents a response rate of 82% which is adequate to base conclusions on.

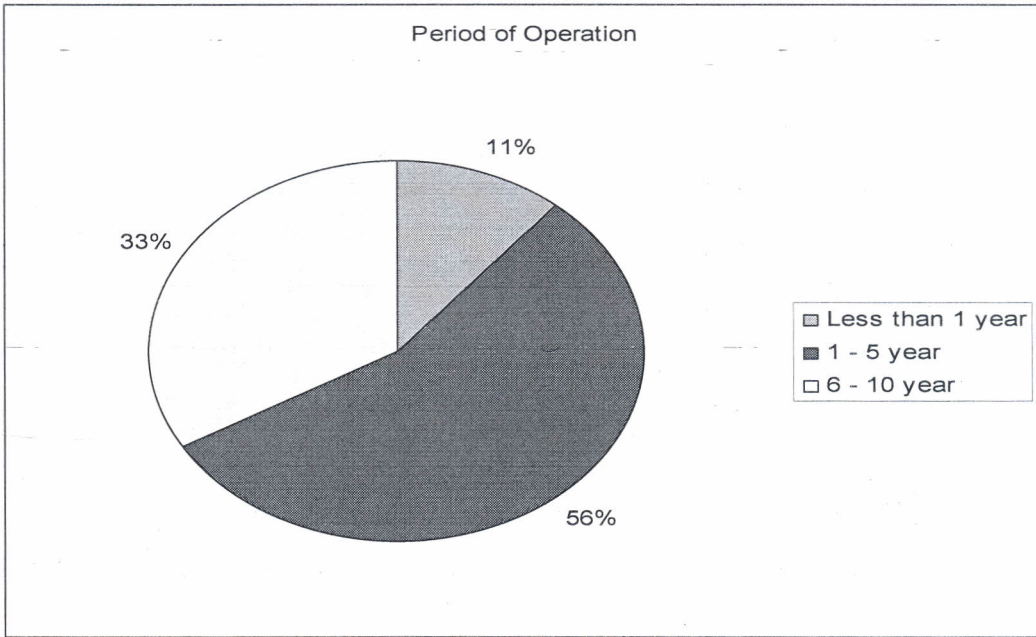
4.2 Demographic Profiles

The profile of second hand motor dealer showrooms was done at this section and it was intended to establish certain similarities like the location of the showroom, years of operation, ownership structure, number of sales people and decision influencers. Frequency tables, bar graphs, pie charts and percentages were extensively used in analyzing and presenting the data in this section.

4.2.1 Years of Motor showroom Operation

It was important to establish the duration that a motor showroom has been in operation so as to study if there is any relationship between the duration that a showroom has been in operation and competitive strategies used. It will also help establish if there are any similarities and differences between strategies applied by showrooms that have been in existence for different periods of time

Fig 3: Years of Motor showroom Operation



The above results show that 56% of the surveyed second hand motor dealer showrooms have been in operation for less than 1 year, 33% of them have been in operation for between 6 and 10 years while 11% have been in operation for less than 1 year.

These findings indicate that most second hand motor dealer showrooms have been in operation for a short period. These results confirm the earlier findings in the literature review that there has been mushrooming of secondhand motor vehicle dealer showrooms in Nairobi in the recent past.

Table 1: Relationship between Generic strategy used and period of operation

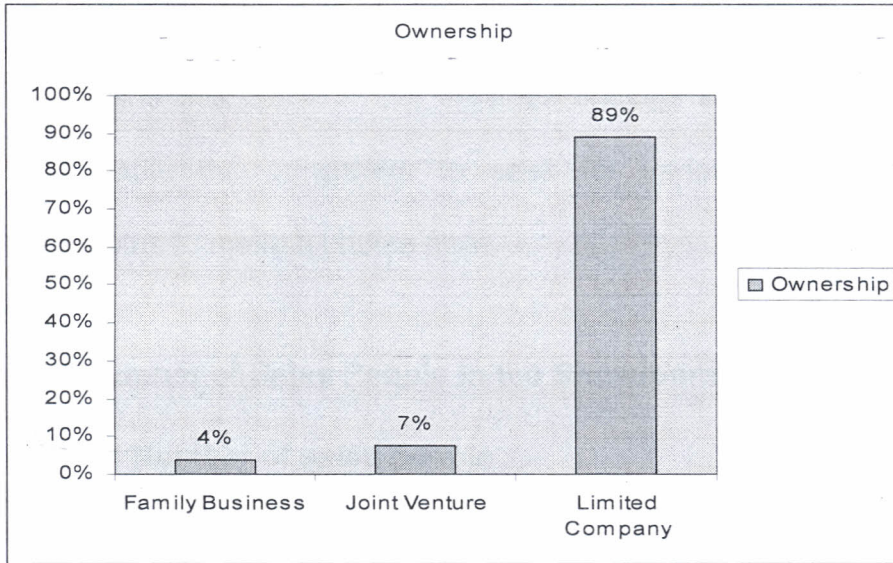
| Extent | Generic Strategy | Period in Operation | | |
|-------------|------------------|---------------------|-----------|------------|
| | | Less than 1year | 1-5 Years | 6-10 years |
| Large | Cost Leadership | 9.4% | 56.6% | 34% |
| Some | Focus | 14% | 59% | 27% |
| None at all | Differentiation | 9.8% | 513% | 38.9% |

The above results show that there is nothing significantly different in the adoption of the three strategies in the second hand motor dealer showrooms in relation to the period of operation. When chi-square was used to test the relationship the proportions were Cost leadership (0.661), Focus (0.949), Differentiation (0.374). Since these proportions are way above 0.05 it means that there is no significant difference, the three generic strategies are used interchangeably.

The results also show that companies which are less than 1 year in operation embrace competitive strategies to a small extent, those in operation between one and five years do adopt competitive strategies to a large extent while those above six years use the competitive strategies moderately.

4.2.2 Showrooms Ownership Structure

Fig 4: Ownership



Results in the figure above indicate that 89% of showrooms are limited companies, 7% of them are joint ventures or partnerships while 4% are family owned.

These results show that most second hand motor showrooms are limited companies. When chi-square was used to test the relationship between strategies adopted and the ownership structures all the proportions were above 0.05, this means that there was no significance difference between the competitive strategies used in the various ownership structures among second hand motor dealers in Nairobi.

4.2.3 Average number of vehicles in Showrooms

Table 2: Number of vehicles

| Number | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------|-----------|---------|---------------|--------------------|
| 28 | 1 | 1.9 | 1.9 | 1.9 |
| 40 | 10 | 18.5 | 18.9 | 20.8 |
| 50 | 16 | 29.6 | 30.2 | 50.9 |
| 65 | 26 | 48.1 | 49.1 | 100.0 |
| Total | 53 | 98.1 | 100.0 | |

On average the showrooms hold about 50 vehicles. Most of them operate on temporary licenses from the City council of Nairobi. This capacity may limit variety and this confirms the previous findings of mushrooming of showrooms that enable the customers to seek for variety of vehicles from different showrooms to make a choice from.

4.2.4 Number of Sales People in the Showrooms

Table 3: Number of sales people

| Number | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------|-----------|---------|---------------|--------------------|
| 3 | 11 | 20.4 | 20.8 | 20.8 |
| 4 | 1 | 1.9 | 1.9 | 22.6 |
| 5 | 10 | 18.5 | 18.9 | 41.5 |
| 6 | 27 | 50.0 | 50.9 | 92.5 |
| 7 | 3 | 5.6 | 5.7 | 98.1 |
| 8 | 1 | 1.9 | 1.9 | 100.0 |
| Total | 53 | 98.1 | 100.0 | |

From the results above 20.4% of the showrooms surveyed have 3 sales people, 1.9% of them have 4, 18.4% represent showrooms with 5 sales people, 50% of them have 6 sales people, 5.6% have 7 sales people and another 1.9% have 8 sales people. Therefore it is noted that the highest percentage of the showrooms have 6 sales persons. Six sales people can be taken as the average number of sales people though the numbers were noted to vary with the size of the showroom, this means the number of vehicles that a showroom holds.

4.2.5 Stakeholders who Influence Decisions in the Showrooms

It was important to establish who influences decisions on the competitive strategies used. This is because in a business enterprise there are many stakeholders who influence strategic decisions. This will help in establishing whether there is any relationship between strategies adopted in different showrooms in relation to the decision influencers. Establishing the major decision influencers is an important aspect of strategy since the organization relies on those who have an influence in the success of a business.

Table 4: Decision influencers

| Stakeholder | Frequency | Percent |
|------------------|-----------|---------|
| Shareholders | 31 | 57.4 |
| Showroom Manager | 23 | 42.6 |
| Total | 54 | 100.0 |

The results of this study show that major decision influencers are the shareholders / owners since they represent 57.4% while showroom managers take 42.6%. Although there is no significant difference in percentages it is still of imperative importance to note that the owners of the showrooms are the ones who are the major decision makers. This is because the main decision influencers also influence the competitive strategies adopted by an organization.

Table 5: Relationship between Generic Strategy used and Decision Influencers

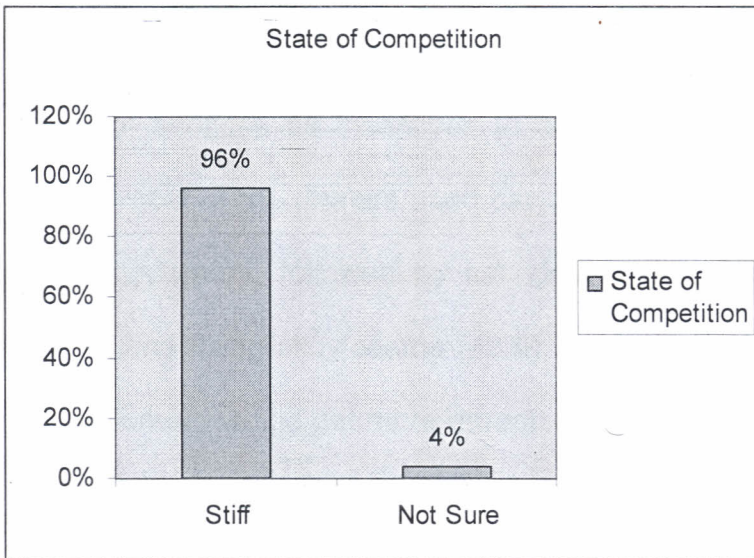
| Extent | Generic Strategy | Decision Influencers | |
|-------------|------------------|----------------------|------------------|
| | | Shareholders | Showroom Manager |
| Large | Cost Leadership | *72% | 28% |
| Some | Focus | 48% | 52% |
| None at all | Differentiation | 55.5% | 44.4% |

The table above shows a significant difference in the strategy used in relation to the decision maker. When the relationship was tested through chi-square, the proportion for cost leadership strategy showed a significant difference by having a proportion of 0.031 which is less than 0.05, this is also indicated by the high percentage of 72% in cost leadership. In Focus and differentiation strategies the extents are minimal and there is no significant differences since the chi-square proportions were higher than 0.05.

4.2.6 State of Competition in Motor Showrooms

As previously observed in literature review second hand motor dealer showrooms operate in a very competitive environment. Fig 5 below summarizes the respondent's views on the state of competition in second hand motor market.

Fig 5: State of competition



The results above indicate that 96% of the respondents view competition among second hand motor vehicle dealers as stiff while a small percentage of 4% was not sure whether it was stiff or not. Therefore, second hand motor dealers in Nairobi face stiff competition. As indicated in the introductory part of this study,

the greatest challenge facing this industry is competition which has led to rivalry among the dealers. This justifies the reason why the second hand dealers need to adopt competitive strategies that can help them stand out of the crowd.

4.3 Competitive Strategies

4.3.1 Extra Services Offered as Competitive Strategy

Table 6: Extra Services Offered

| Strategy | Respondents | Percentage |
|---------------------------------|-------------|------------|
| Installation of car alarms | 31 | 57.4% |
| Car cleaning services | 53 | 98.2% |
| Car identity | 32 | 59.3% |
| Fixing alloy reams | 21 | 42.0% |
| Insurance while at the showroom | 20 | 37.0% |

It was observed that the second hand motor vehicle dealer showrooms offered a variety of services as incentives to attract customers. According to the study findings most of the dealers used car cleaning services (98.2%) as a strategy to attract customers, followed by car identity (59.3%), installation of car alarms (57.4%) and fixing alloy reams (42%). The results can be explained by the fact that customers would get more attracted to a showroom that stocks clean cars as opposed to those that never clean their cars. Also due to the high rates of vehicle vandalism in Nairobi customers prefer showrooms where after a car purchase they will get car identity and alarm installation services as a package.

4.3.2 Reasons Why Customers Patronize Showrooms

The respondents were required to indicate the reasons that made real and potential customers get attracted to their showroom. The table below tabulates the results.

Table 7: Reasons that encourage showrooms patronage

| Strategy | Respondents | Percentage |
|------------------------------------|--------------------|-------------------|
| Charging Competitive prices | 40 | 74.1% |
| Convenient location | 39 | 72.2% |
| Stocking Good conditioned vehicles | 40 | 74.1% |
| Having Honest sales people | 37 | 68.5% |
| Negotiated car valuation fees | 37 | 68.5% |
| Advertising | 37 | 68.5% |
| Having Smart sales people | 37 | 68.5% |
| Attractive displays of cars | 35 | 64.8% |
| Stocking Wide variety of vehicles | 31 | 57.4% |
| References by friends | 40 | 74.1% |

The results above shows that out of the 54 respondents 40 (74.1%) noted that customers patronized their showroom due to charging of competitive prices, stocking good conditioned vehicles and references by friends. 39 (72.2%) attached the patronage to the location of the showroom since convenient location increases the number of walk-in customers. 37 (68.5%) noted that customers patronized because of having honest smart sales people, negotiated car valuation fees and advertising while 35 (64.8%) attributed the patronage to attractive car displays and 31 (57.4%) said it was because of stocking a wide

variety of cars. The analysis shows that each strategy is a contributor to showroom patronage since each strategy scored over 50%.

4.3.3 Strategies Applied by Second Hand Motor Dealers to Gain Competitive Edge in the Market.

4.3.3.1 Cars Offered

The table below summarizes the respondent's ratings of the extent to which they use different strategies related to the cars offered to help them remain competitive in the market.

Table 8: Cars Offered

| Strategy | N | Mean | Great Extent | No Extent | Mean Rank |
|--|----|------|--------------|-----------|-----------|
| Clean and quality cars | 54 | 2.85 | 1 | 5 | 2.05 |
| Stocking cars not common with competition | 54 | 3.33 | 1 | 5 | 2.54 |
| Stocking cars on high demand | 54 | 3.43 | 1 | 5 | 2.57 |
| Stocking cars from specific countries e.g. Japan | 54 | 3.67 | 1 | 5 | 2.84 |

The results above show that clean and quality cars is a strategy used to a great extent with a mean of 2.85 and a Friedman's mean rank of 2.05. The other strategies are all used to some extent, their mean values are not significantly different. These results are in line with the earlier observation that in this industry there is no significant difference in strategies used, most dealers used the various strategies interchangeably.

4.3.3.2 Pricing

The table below summarizes the respondent's ratings of the extent to which they use different pricing related strategies with an aim to help them remain competitive in the market.

Table 9: Pricing

| Strategy | N | Mean | Great Extent | No Extent | Mean Rank |
|---------------------------------------|----------|-------------|---------------------|------------------|------------------|
| Organizing financing for customers | 50 | 2.72 | 1 | 5 | 2.88 |
| Charging same prices like competition | 50 | 2.86 | 1 | 5 | 3.25 |
| Allowing installment payments | 50 | 3.12 | 1 | 5 | 3.38 |
| Giving discounts / sales offers | 50 | 3.32 | 1 | 5 | 3.43 |
| Charging competitive prices | 50 | 3.4 | 1 | 5 | 3.78 |
| Charging cheaper than competition | 50 | 3.7 | 1 | 5 | 4.28 |

The table above represents pricing strategies that are used by second hand motor dealers. The purpose of this analysis was to find out the extent to which the price competitive strategies are used by the showrooms. Organizing financing for customers was used to a large extent (with a mean of 2.72) by the surveyed motor showrooms to attract customers. Charging same price like competition got a mean of 2.86 showing that it was also greatly used. The other strategies like allowing installment payments, giving discounts, charging competitive prices and charging cheaper than competition were all used to some extent.

The objective of competitive strategy is to knock off and destabilize rival companies by doing a better job in satisfying customer's needs and preferences. In this industry the competitive strategies used in pricing are similar, therefore for a second hand motor dealer to outsmart competition, they may need to focus on other strategies other than pricing.

4.3.3.2 Marketing

The table below summarizes the respondent's ratings of the extent to which they use different marketing related strategies to help them remain competitive in the market.

Table 10: Marketing

| Strategy | N | Mean | Great Extent | No Extent | Mean Rank |
|--|----|------|--------------|-----------|-----------|
| Email circulation to friends | 51 | 1.88 | 1 | 5 | 4.18 |
| Websites | 51 | 2.14 | 1 | 5 | 4.78 |
| Print media (Magazines, newspapers) | 51 | 2.24 | 1 | 5 | 4.83 |
| Business cards | 51 | 2.29 | 1 | 5 | 4.95 |
| Using big screaming billboards | 51 | 2.24 | 1 | 5 | 5.11 |
| Using Radio adverts | 51 | 2.51 | 1 | 5 | 5.31 |
| Using attractive displays | 51 | 2.73 | 1 | 5 | 5.90 |
| Branding of cars bought from your showroom | 51 | 2.82 | 1 | 5 | 6.12 |
| Hand bills | 51 | 2.92 | 1 | 5 | 6.28 |
| Using Television adverts | 51 | 3.61 | 1 | 5 | 7.53 |

Table 10 shows that email circulation to friends scored a mean of 1.88 and is used to a very great extent by second hand motor vehicle dealers. Use of websites to market cars, print media, screaming bill boards and business cards are also used to a great extent. Advertising through the radio, branding of cars bought from a showroom through use of a sticker, attractive display of cars and use of handbills are used to some extent while television adverts are rarely used.

These strategies capture the essence of differentiation which according Pearce et.al (2005), is to be unique in ways that are valuable to customers and that are sustainable. However most of these strategies are not unique and the high number of second hand motor vehicle dealers using them suggest that these strategies on their own cannot create competitive advantage for the showroom.

4.3.4 Analysis of Extent to which Generic Strategies are used.

4.3.4.1 Cost Leadership

In cost leadership the company tries to be a leader in selling cars that are cheapest in the industry by ensuring costs are well managed in the showroom.

Table 11: Cost leadership

| Strategy | N | Mean | Great Extent | No Extent |
|----------------------------------|----|------|--------------|-----------|
| Brokers being in between | 54 | 1.98 | 1 | 4 |
| Maintaining a lean staff | 54 | 2.17 | 1 | 5 |
| Staff working on commission only | 54 | 2.57 | 1 | 5 |
| Management cost reduction | 54 | 2.50 | 1 | 5 |

The above results indicate that brokers being in between scored a mean of 1.98 and maintaining a lean staff 2.17, this clearly show that these strategies are popular and thus used to a large extent while staff working on commission without retainer and use of cost reduction tactics got a mean of 2.57 and 2.50 respectively thus are moderately used. These results are in line with the earlier observation that there is no significant difference in strategies adopted by the surveyed second hand motor dealer showrooms. These results also show that the showrooms do not adopt more of cost leadership strategies because the use of brokers may end up making their cars more expensive than competition because of the inclusion of a broker's fee in the cost of the car.

4.3.4.2 Focus Strategies

The table below summarizes respondents ratings of the extent to which they use different focus strategies in order to be competitive in the market.

Table 12: Focus

| Strategies | N | Mean | Great Extent | No Extent |
|---|----|------|--------------|-----------|
| Sale of cheap cars | 54 | 1.69 | 1 | 5 |
| Sale of expensive cars | 54 | 1.81 | 1 | 5 |
| Stocking what customers are looking for | 54 | 2.39 | 1 | 5 |
| Targeting specific customers | 54 | 2.39 | 1 | 5 |

The results above show that focus strategies are used to a great extent since they all scored a mean which is less than 2.5. The most greatly used strategies are sale of cheap cars 1.69 followed by sale of expensive cars at 1.81. These results can be interpreted to mean that most of the showrooms surveyed serve specific market segments and therefore the great use of the two focus strategies.

4.3.4.3 Differentiation Strategies

The extent to which differentiation strategies are used by the surveyed second hand motor dealers is shown by the table below.

Table 13: Differentiation

| | N | Mean | Great Extent | No Extent | Mean Rank |
|---------------------------------------|----|------|--------------|-----------|-----------|
| Sale of unique cars | 54 | 1.81 | 1 | 5 | 2.07 |
| Value adding services - fixing alarms | 54 | 1.74 | 1 | 5 | 2.07 |
| Have decent, executive staff | 54 | 2.09 | 1 | 5 | 2.68 |
| Using unique advertising tricks | 54 | 2.50 | 1 | 5 | 3.18 |

The results above show use of unique cars and provision of value adding services as strategies used to a great extent with a mean of 1.81 and 1.74 respectively. Having decent, executive staff and use of unique advertising tricks are moderately used. Therefore it is notable from the results that second hand motor dealers use differentiation strategy to help them become and remain competitive in the market.

4.3.6 Summary of Generic Strategies used

Table 14: Extent of use of Generic Strategies

| Strategy | Mean Values |
|-----------------|-------------|
| Cost Leadership | 2.31 |
| Focus | 2.07 |
| Differentiation | 2.03 |

The results above show that each generic strategy is moderately used by the second hand motor dealers. The results also indicate that differentiation strategy is used slightly more than the others since it scored a mean value of 2.03 followed closely by focus strategy with a mean value of 2.07. However there is no much difference in the usage of the three generic strategies, they are used interchangeably and to a moderate extent.

4.3.7 Factors Influencing Competitiveness of Motor Showrooms

Table 15: Factors Influencing Competitiveness of Motor Showrooms

| Factors / Strategy | Mean | Great Extent | No Extent |
|-------------------------------------|------|--------------|-----------|
| General cleanliness of the showroom | 2.26 | 1 | 5 |
| Attractive displays | 2.07 | 1 | 5 |
| Pre-arranged financing | 2.35 | 1 | 5 |
| Offering a variety of cars | 2.26 | 1 | 5 |
| Competent sales people | 1.91 | 1 | 5 |
| Discount offers | 2.04 | 1 | 5 |
| Strategic location | 2.02 | 1 | 5 |
| Aggressive marketing/promotion | 2.20 | 1 | 5 |
| Tight security in the showroom | 1.89 | 1 | 5 |

The above table shows that there are a number of competitive factors that influence competitiveness of second hand motor dealer showrooms in Nairobi.

The results show that tight security in the showroom scored a mean value of 1.89 thus meaning that it is used to a great extent. This can give a competitive edge because it makes the showroom attract many car suppliers leading to large varieties of vehicles for customer's choice. Competent sales people got mean value of 1.91 to mean that it was used to a great extent. This could be explained by the fact that majority of the respondents were senior sales executives who perceived their competence as the most important competitive strategy. All the other factors are moderately used since they all got below 2.5 on mean values.

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This chapter gives a summary of the findings, discussions and conclusions drawn from the study. It also covers the limitations of the study and recommendations for further research.

5.2 Summary

The objective of this study was to establish competitive strategies used by secondhand motor vehicle dealers in Nairobi. Consequently, in an effort to achieve the objective, a survey of the secondhand motor vehicle dealers in Nairobi was carried out, managers and senior sales executives were the targeted respondents. Out of the 66 targeted respondents 54 of them completed and returned the questionnaires. Out of the 54 respondents 24 were managers while 30 were senior sales executives. This made a response rate of 82% which was sufficient to base conclusions upon.

The findings from the study show that there are various similarities among second hand motor dealer showrooms in terms of location of the showroom, years of operation, ownership structure, decision influencers and the competitive strategies adopted. Most of the second hand motor dealers had operated for less than 5 years (66.7%) while 33.3% of them had operated for 6-10 years. The

mean number of years that second hand motor dealers have been in operation in Nairobi was three and a half years. This confirms the earlier findings in the literature review about mushrooming of the second hand motor showrooms in the recent past because of liberalization. The entrepreneurs in this business came in to meet the needs of medium and low income earners who need vehicles but cannot afford the locally assembled ones.

In terms of ownership structure it was noted that 89% of the of the second hand motor dealer showrooms were limited companies, 7% were joint ventures and 4% were family owned businesses. This shows that joint ventures and family ownership are not famous modes of ownership in this industry.

The findings of the study also revealed that on average second hand motor dealer showrooms hold about 50 cars. This would be taken to mean that showrooms may not have all the car varieties to suit every customers needs and this may have contributed to the mushrooming of the showroom as the entrepreneurs try to provide what the customers are looking for. This also calls for customers to visit many showrooms as they make comparisons of the various car models and price before making a choice. The dealers display their vehicles attractively to capture the customer's attention and thus walk-in to shop.

The study found out that showrooms have varying numbers of sales people, most of them ranging between 3 and 8 with an average of 6. The difference may

be attributed to by the varying sizes of the showrooms since they accommodate different number of cars. Space is a limitation because most of them operate on road reserves therefore operating under temporary council licenses.

The study established that shareholders influence most decisions in the showrooms with a percentage of 57.4% while showroom managers contributed up to 42.6%. This would be taken to mean that the industry of second hand motor dealer showrooms is not yet fully grown since the owners have not yet released power of decision making to other stakeholders fully.

With regard to competition, the study revealed that 96.3% of the respondents felt that there was stiff competition while 3.7% of them were not sure about the state of competition. These findings lay more emphasis on the reason for this study since with stiff competition, competitive strategies must be crafted to help an organization or a company outsmart the others in the same industry and therefore stand out of the crowd. In second hand motor industry the dealers must craft unique competitive strategies to help them become competitive and thus remain profitable in the business.

5.3 Conclusions

From figure 5, 96% of the respondents have a view that competition in second hand motor industry is stiff while 4% of them are not sure about the status.

Therefore it can be concluded that second hand motor vehicle dealers in Nairobi face stiff competition.

In reference to table 9, there are a number of factors that make real and potential customers patronize second hand motor showrooms in Nairobi. From the study findings it can be concluded that charging competitive prices and stocking good conditioned vehicles are very important competitive strategies in this industry of second hand motor vehicles.

In relation to cars offered, pricing and marketing strategies, the most important factors affecting competitiveness of second hand motor dealers showrooms based on mean values were email circulation to friends with a mean value of 1.88, use of website to advertise with a mean value of 2.14. From the study we can also conclude that use of print media, screaming billboards are also important to some extent. The least considered factor was charging prices cheaper than competition. This shows that the dealers are more concerned about customers being aware of their existence and attracting them to the showroom since price can always be negotiated.

Also from the results we can conclude that focus strategies are key in this industry for any second hand motor dealer showroom that wants to remain competitive. This is because from the results it is clear that the dealers focus on various and specific market segment. Segmentation helps an organization satisfy

the needs of a specific target market better than competition since all the concentration is to that market.

From table 15, we can conclude that competent sales people are an important competitive factor since they use their skills to convince customers about the benefits of various models of cars. Tight security is also very vital since it gives car suppliers confidence with the showroom, therefore the showroom gets many varieties of cars for customers to choose from and thus is considered as an important competitive factor.

Comparison of decision influencers with the generic strategies used in second hand motor dealer showrooms (Table 5) can lead to the conclusion that there is a significant relationship between choice of strategy adopted and the decision influencer / maker. Where the shareholders make decisions cost leadership strategies are adopted to a large extent.

When comparing the period that the second hand motor dealer showroom has been in operation with extent to which generic strategies are applied, it leads to the conclusion that most showrooms that had been in operation for one to five years utilized the cost leadership, focus and differentiation strategies interchangeably and to a moderate extent since each of them scored above 50%. This shows that there are no unique competitive strategies in this industry and

therefore calls upon every second hand motor dealer to come up with their own unique strategies to help them become competitive in the market.

5.4 Limitations of the Study

Time was a limiting factor since it restricted the scope of the study. The study could have obtained even better results if some aspects like including showrooms from other major towns in Kenya like Mombasa, Nakuru and Eldoret were incorporated.

The study also suffered from the general problems associated with questionnaire based data collection method like misunderstanding of the questions and respondents giving misleading responses knowingly especially in this topic of competitive strategies that respondents consider as asking too much of their confidential information.

5.5 Recommendations for Further Research

Further studies should try to link the performance of second hand motor dealer showrooms with the strategies adopted. This can help researchers to determine how certain strategies impact on the performance of the showrooms.

Future researchers should also seek to determine if there is any difference in strategies used in relation to the size of the showrooms. It could be possible that

such factors could affect the strategies adopted by different showrooms dealing with second hand motor vehicles.

Research should also focus on establishing why some competitive strategies are used more frequently than similar strategies that could lead to the same results.

A comparative study can be carried out to establish whether second hand motor dealer showrooms in the different major towns in Kenya apply the same or different strategies.

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Appendix I: INTRODUCTION LETTER

July 5, 2008

Dear respondent

RE: MBA RESEARCH QUESTIONNAIRE

I am an MBA student at the University of Nairobi majoring in strategic management. As a partial fulfillment of the requirement of the course I am required to carry out a research project. My research is titled "*Competitive strategies adopted by second hand motor vehicle dealers in Nairobi, Kenya*"

This letter is to sincerely request you to respond to the attached questionnaire and I assure you that all the information will be treated with utmost confidentiality and at no any time will your name appear or be quoted in this study. This information is purely for academic purpose.

Your assistance will be greatly appreciated.

Yours Faithfully

Mary P. Wacuka

**Appendix II: LIST OF SHOWROOM FOR SECOND HAND MOTOR VEHICLES
IN NAIROBI**

| NO. | NAME | LOCATION |
|------------|---------------------------|-----------------|
| 1 | Patience Motors Ltd | Langata Road |
| 2 | Hilltop Junction | Ngong Road |
| 3 | MultiOptions Motors | Ngong Road |
| 4 | Elite Motors | Mombasa Road |
| 5 | Ivory Motors | Langata Road |
| 6 | WestPoint Motors | Thika Road |
| 7 | Integrity Motors | Langata Road |
| 8 | Alama Trading Co. | Mombasa Road |
| 9 | Amus Motors Ltd | Muranga Road |
| 10 | Escort Motors Ltd | Uhuru Highway |
| 11 | Ami – Pal East Africa Ltd | Ngong Road |
| 12 | Sakai Trading Ltd | Mombasa Road |
| 13 | Yaya Motors | Ngong Road |
| 14 | APWS Motors Ltd | Thika Road |
| 15 | Nichibo Cars. Com | Uhuru Highway |
| 16 | Wings Motor Mart Ltd | Langata Road |
| 17 | Wagemar Automobile | Langata Road |
| 18 | Autocruise Car Dealers | Ngong Road |
| 19 | Gigi Motors | Ngong Road |
| 20 | Chaka Motors Ltd | Ngong Road |
| 21 | New Day Motors Ltd | Uhuru Highway |

| | | |
|----|--------------------------------|---------------|
| 22 | Signature Car Ltd | Ngong Road |
| 23 | Rex Motors | Uhuru Highway |
| 24 | Motherland Motors Ltd | Langata Road |
| 25 | Heritage Motors | Langata Road |
| 26 | Reak Motors Ltd | Mombasa Road |
| 27 | Optic Motor Mart Ltd | Ngong Road |
| 28 | Nagiwa Motors | Thika Road |
| 29 | Forward Cars | Ngong Road |
| 30 | Karen Motor Mart | Ngong Road |
| 31 | Lian Motors Ltd | Uhuru Highway |
| 32 | Hyper Cars Ltd | Langata Road |
| 33 | Prime Auto | Langata Road |
| 34 | Motor Care Ltd | Langata Road |
| 35 | Interlog Motors Ltd | Langata Road |
| 36 | Car Max Motors | Mombasa Road |
| 37 | Bomas Mart | Langata Road |
| 38 | Tymstar Motors | Limuru Road |
| 39 | For You Motors Enterprises Ltd | Uhuru Highway |
| 40 | Tokyo Classic Cars | Uhuru Highway |
| 41 | Asai Motors | Mombasa Road |
| 42 | Toyonissa Motors | Ngong Road |
| 43 | Motor Link | Ngong Road |
| 44 | Fortunes Of The World Motors | Uhuru Highway |

Appendix III: QUESTIONNAIRE

SECTION A

1. Name of your Company / Showroom _____
2. Title of the respondent _____
3. Location of the Showroom _____
4. For how long has the showroom been in operation
 - Less than 1 year ()
 - 1 – 5 years ()
 - 6 – 10 years ()
 - More than 10 years ()
5. How would you describe the ownership of the showroom
 - Sole proprietor ()
 - Joint Venture ()
 - Franchise ()
 - Family business ()
 - Partnership ()
 - Limited Company ()
6. How many cars can your showroom hold on average _____
7. How many sales people do you have in the showroom _____
8. Does the showroom have branches? Yes () No ()
If Yes where _____
9. Who is the **KEY** decision maker in the showroom
 - Shareholder (s) ()
 - Sales People ()
 - Showroom Manager ()
10. Who are your target customers?
 - Individual walk-in customers ()
 - Individual – referral customers ()
 - Corporate institutions ()

Government ()

NGO'S ()

11. How would you rate the state of competition in the motor showrooms?

Stiff () Not Stiff () Not Sure ()

SECTION B

1. What extra services do you offer at your motor showroom to attract more customers?

Installation of car alarms ()

Car cleaning services ()

Car identity ()

Fixing alloy reams ()

Insurance while at the showroom ()

Others, please specify _____

2. Why do you think real and potential customers visit your showroom?

Competitive prices ()

Convenient Location ()

Good conditioned vehicles ()

Honest sales people ()

Prompt payment after car sales ()

Negotiated car valuation fees ()

Advertising ()

Smart sales people ()

Attractive displays of cars ()

Wide variety of vehicles ()

3. Have you ever had cases of customers asking for refund of their deposits, incase they cancel the purchase of a car?

Yes () No ()

If yes, how do you deal with such cases?

You don't accept to refund deposit ()

You ask the customer to choose another car ()

Others, please specify

I. ()

II. ()

4. Please indicate (X) on the extent to which you have used the following action plans to beat competition. Use the following scale:

1. Used to a great extent
2. Used to some extent
3. Moderately used
4. Not used
5. Not used at all

Cars Offered

1 2 3 4 5

Stocking cars not common with competition () () () () ()

| | |
|--|---------------------|
| Clean and quality cars | () () () () () |
| Stocking cars on high demand | () () () () () |
| Stocking cars from specific countries e.g. Japan | () () () () () |

Pricing

1 2 3 4 5

| | |
|---------------------------------------|---------------------|
| Charging competitive prices | () () () () () |
| Charging cheaper than competition | () () () () () |
| Charging same prices like competition | () () () () () |
| Giving discounts / sales offers | () () () () () |
| Allowing installment payments | () () () () () |
| Organizing financing for customers | () () () () () |

Marketing

1 2 3 4 5

| | |
|--|---------------------|
| Using attractive displays | () () () () () |
| Using big screaming billboards | () () () () () |
| Using Television adverts | () () () () () |
| Using Radio adverts | () () () () () |
| Branding of cars bought from your showroom | () () () () () |
| Hand bills | () () () () () |
| Websites | () () () () () |
| Business cards | () () () () () |

Have decent, executive staff () () () () ()

Others

Networking with Financial institutions () () () () ()

2. The following are some of the factors influencing competitiveness of motor showrooms. Please indicate the extent to which they give your showroom a competitive edge. (Use the scale used above)

1 2 3 4 5

Strategic location () () () () ()

Discount offers () () () () ()

Competent sales people () () () () ()

Aggressive marketing/promotion () () () () ()

Offering a variety of cars () () () () ()

Pre-arranged financing () () () () ()

Tight security in the showroom () () () () ()

Attractive displays () () () () ()

General cleanliness of the showroom () () () () ()

Other, please specify

I. () () () () ()

II. () () () () ()

Thank you for taking time to complete this questionnaire.