

**RESPONSE STRATEGIES TO INCREASED COMPETITION BY
SPARE PARTS DEALERS FRANCHISED BY JAPANESE MOTOR
VEHICLE COMPANIES IN KENYA**

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A management research project submitted in partial fulfillment of the requirements for the degree of Master of Business Administration (MBA), Department of Business Administration, School of Business, University of Nairobi.

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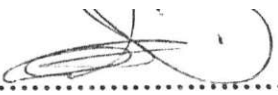
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DECLARATION

This project is my original work and has not been submitted for a degree in any other University



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DEDICATION

*To my beloved son John Theuri,
to you I bestow the forte of boundless scholarship.*

and

*to God,
Thank you*

*to rest of my family,
your inspiration was not in vain.*

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ABSTRACT

Kenya's motor Sector has undergone major transformations since the advent of Structural Adjustment Programs (SAP) in the 1990s. The environmental change created pressure to the firms to adapt their operations to the new conditions. The organizations therefore have to find new ways of coping with and pre-empting the competitive forces facing them. The franchised spare parts dealers are increasingly finding themselves competing with both non-franchised companies and briefcase businessmen who sell a combination of genuine, generic and second-hand spare parts.

This research project was a study of response strategies to increased competition by seven spare parts dealers franchised by Japanese motor vehicle companies in Kenya. The two objectives of the study were to establish the challenges of competition these companies faced in the context of changing competitive environment and to document the relevant responses made by the firms.

The study established that the changing competitive situation in the Kenyan spare parts sector has posed challenges to the franchise holders. These challenges have risen from changes in the business environment in terms of economic growth that have led to several new entrants joining the industry. Liberalization of the motor industry, legislative changes, increasing level of education among the consumers and technological advancements has also affected how the businesses conduct their activities. The management of these changes has been made more difficult by the presence of all the five forces that determine the competitive situation and profitability in the industry.

The research findings indicate that several responses by the franchised spare parts companies to changes in the environment were done. The firms are continuously reorganizing the resources and skills to match with the environmental opportunities and threats faced by the organization. The revision of the strategy at both the strategic and operational levels has been necessary and has necessitated restructuring of business processes, marketing, and culture change among other responses. New technology has also been embraced including up to date computerization of spare parts catalogues and means of communicating with customers.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

1.1.1 Organization Response Strategies for Competition

The motor industry is made up of many players who are motivated by the attractiveness of the industry attributed to the consistent market growth (appendix 4). Some of the players deal with sale of vehicles and accessories, others provide maintenance and repair services and others sell motor vehicle spare parts. Some marketers participate in all these segments while some deal with selected segments. The industry participants include franchised dealers, second hand car dealers, spare parts dealers retailing new and used parts, garages that repair vehicles and briefcase businessmen who solicit for orders and source goods on demand.

The environment within which a firm operates is perhaps the largest determinant of the strategy it adopts. Porter (1980) observes that the essence of formulating competitive strategy is to relate an organization to its environment. Organizations are environment dependent and hence must scan the environment in order to spot budding trends and conditions that could affect the industry and adapt to them, Thomson and Strickland (1993). Failure to do this could lead to serious strategic problem characterized by the maladjustment of the organization's output and the demands of the external environment (Ansoff, 1984). The success and survival of every organization depends on how well it relates with its challenges and how it positions itself to the external environment. The managers therefore, have a major task of designing response strategies that will ensure that the organization remains successful by enhancing their competitive advantage.

There are two broad levels of strategic responses in organizations. These are strategic and operational responses. The strategic responses are at two levels where, we have corporate

and business responses. According to Johnson and Scholes, (2002) the corporate level strategy deals with overall scope and purpose of the organization and ensures the stakeholder expectations are met. It enables the business decide which business-lines to concentrate on through diversification, integration, divestiture and portfolio management.

The business level strategy determines and defines how the organization competes in its market and how its long-range objectives will be achieved. This can either be through existing or new products and markets as shown in Figure 1 below. It involves fitting new strategies to changing business environment or stretching and exploiting the competences of an organization. It can also be achieved through meeting the expectation created by the regulatory and governance framework, powerful stakeholders, ethical consideration and culture, Bowman 1998).

Fig 1. Strategy Development directions

Products		
	Current/existing	New
Existing	Protect/build	Product Development
New	Market Development	Diversification

Source: Johnson and Scholes (2002), Exploring corporate strategy 6th edition pp 362

Bowman (1998) noted that a business strategy critically addresses the following questions. What market should we be trying to compete in? How should we try to compete in those segments? What key competencies do we need to build to realize this competitive strategy? What do we look like now? And lastly how can we move forward? By an organization responding to these questions they are clearly able to decide the response strategies to adopt.

Functional divisions undertake the operational level strategies, which contain more specific guidelines needed for business operating components. Example, the Finance Department strategies focus on allocation of money in the organization, accounting and control how money used. Manufacturing Department strategies focus on the products to be produced, quantities required and periods when required while, the Human resources strategies deal with acquisition and retention of human resources in the various functional levels of the organization. According to Bowman (1998), the functional structure in an organization enables a firm gain the specialization benefits and links the functional level strategies with the business strategy.

1.1.2. Motor Vehicle Spare Parts Dealers in Kenya

Motor is an old industry dating back to the 18th Century when the colonialist arrived in Kenya. The industry is monitored by the Kenya Motor Vehicle Industry Association (KMI), an umbrella body that members subscribe to and is driven by a Charter that includes a system for independent assessment of customer complaints against members. Institute of economic affairs (2002) noted that Kenya's motor Sector has undergone major transformations since the advent of Structural Adjustment Programs (SAP) in the 1990s. The SAP programs advocated for liberalization. It was felt that some players in the motor Sector were for a long time unprepared to face competition in a liberalized market despite more players joining the market. The Franchise holders in the industry operate in three main segments. They sell new vehicles and spare parts in the market, and also offer after-sales service on the vehicles.

Spare parts are divided into three usage categories. The first category consists of Preventive routine maintenance parts commonly referred to as service spare parts, which include filters and air cleaners. Secondly the corrective maintenance spare parts deal with unscheduled maintenance that involves replacement of various components either due to wear and tear of the vehicle or damage arising from accidents. Lastly parts are used for modifications and aesthetics purposes which include, re-designing of vehicles to either make them look better or be more versatile in use according to the owners needs.

Examples fitting of bull-bars, luggage carriers, modification of seats and conversion of vehicles to tour vans.

Motor vehicle Spare parts can broadly be categorized as new and second hand parts. The new parts are further classified as genuine and non-genuine spare parts. The main difference is that non-genuine spare parts are not manufactured under the supervision of the franchise holders in Japan, they also don't offer warranty after the sale of the parts and their quality, technical performance and lifespan differs from the genuine parts. The second hand spares are mainly sourced from Japan and other Far East countries. Africa Internet business guide noted that Japan, Singapore and Dubai are biggest suppliers of second-hand spare parts providing a range of used parts for various car models. Most of the second-hand spare parts are sourced from damaged cars. Kenya Association of Manufacturers 2006 statistics revealed that 72% of new vehicles registered in Kenya in year 2005 were second-hand (used units). It is also observed that the franchise holders do not stock all the model spare parts and this leads the users to seek parts from other marketers.

Wetzel (2003), in the Kenya Country Commercial guide noted that although Kenya has a large market with great potential for expansion, it has no manufacturing base for automotive parts and service equipment. Spare parts are therefore imported for both local consumption or exported to some of the neighboring countries example Uganda, Southern Sudan, Rwanda and Burundi. The marketers in the Kenya comprise of franchised dealers, independent sellers who include vehicle garages, accessory providers and numerous small and medium-sized enterprises (SME's) spread throughout the country. The sellers compete for customers, broadly categorized as corporate, fleet owners, garages and individuals. Some of the main challenges sited by consumers in the industry include price variations, identification of the correct spare parts, lifespan of the parts, warranty and the lead times. This therefore necessitates the players in the industry to remain proactive in coming up with various strategic initiatives to counter competition in these areas.

In the motor industry a franchise is held by only one company licensed to operate locally by the manufacturer. However, some companies hold multiple franchises from different manufactures. Analoui and Karami (2003) defined a franchise as a system of distribution that enables the suppliers to arrange for a distributor to distribute a specific product or service under agreed conditions. In Kenya the franchise holders have established networks of branches in various towns or have appointed dealers, agents, and distributors to sell their products, within the guidelines and standards issued by the manufactures. The non-franchised small and medium-sized enterprises in the industry have the flexibility of importing new or second-hand spare parts from unlimited global markets and compete directly with the franchise holders.

PriceWaterhouseCoopers (PWC) automotive industry analysis report available at www.pwc.com/extweb/industry.nsf reported that the established motor vehicle dealers in Kenya face intense competition from imported second-hand vehicles, mainly from Japan and United Arab Emirates. These imports are now approximated to account for about 70% of the market and there exist disparities of vehicles types, age and other usage specifications. Despite the high cost of spares since these vehicles cannot withstand rigorous terrain and roads. This is seen to be a contributing factor to increased demand of various ranges of vehicle spare parts not stocked by the franchise holders.

Kenya Motor Vehicle Industry Association (KMI) 2006 industry statistics, reported that, new vehicle sales by the franchise holders stood 10,051 units in the market representing a 5% increase compared to year 2005. The consistent annual increase in the number vehicles population from 5,869 new units sold in year 2000 to the current 10,051 units in year 2006 (Appendix 4); makes the motor industry to continue being an attractive investment opportunity. The records also show that there are seven motor vehicle companies with Japanese franchises in Kenya (Appendix 3). This research paper will focus on the response strategies adopted by these seven companies to respond to increased competition in the spare-parts market segment in Kenya.

1.2 THE RESEARCH PROBLEM

The external changes in the Kenyan economy have contributed to the intense competition faced by the firms in the country. The dynamism of the environment implies that organizations have to remain competitive, Johnson and Scholes (2002). The failure to effectively adapt the organization leads to a strategic problem, Ansoff and McDonnell, (1990). Since the environment of spare parts businesses operating in Kenya has changed significantly since the liberalization of the industry, it is expected that this must have created pressure to the firms to adapt their operations to new environmental conditions.

The motor industry offers support to various sectors and directly employs various categories of people in Kenya. These include importers of vehicles and spare-parts components. These firms are made up of different categories of entrepreneurs who have set up spare parts outlets and garages in various towns. There has been noted increase in number of outlets selling the spares in the last ten years but there are no specific statistics to quantify how many people earn a living from this sector.

The motor industry was liberalized in 1992 and this marked the end of a period where there were guaranteed business opportunities and repeat customers for the franchised spare parts dealers. Before liberalization, the franchise holders played a dominant role in the distribution and sale of spare parts in Kenya and competition was predominantly on a limited scale from the informal sector (popularly referred to as Jua Kali sector). Several small and medium-sized enterprises (SME's) have entered the market since then and they import, retail and distribute new and second hand spare parts of various Japanese vehicle models under one roof. This has resulted to increased competition in the industry since the consumers have a wider choice and flexibility in sourcing spare parts. The changes in the external environmental factors example the growing economy, legislations, technology, social cultural and economic conditions in the country have also impacted on the industry and necessitated new strategies of doing business.

Many studies have been done on responses to competition (example Chepkwony (2001), Kandie (2003), Lengopito (2004), and Musa (2004)) but none of these focused on the spare parts dealers. Mohamed (1995) and Kombo (1997) studied the motor vehicle industry and examined the impact of second hand vehicles on the sale of new vehicles by the franchise holders. This research paper will specifically focus on the spare parts segment and aims at addressing the following questions. What challenges do Japanese franchised dealers encounter from increased competition in the sector? How are the Japanese franchised spare parts sellers responding to increased competition in the sector? This study will also investigate response strategies adopted by franchised companies due to the increased competition from SME's spare parts sellers.

1.3 THE RESEARCH OBJECTIVES

The objectives of the study are:

- (i) To establish the challenges of competition faced by spare parts dealers franchised by Japanese motor vehicle companies.
- (ii) To determine the response strategies adopted by Japanese franchised motor spare parts dealers to increased competition.

1.4 IMPORTANCE OF STUDY

It is hoped that the study will be of benefit to the following:

(a) Managers:

It will help managers selling motor vehicle spare parts in Kenya understand the dynamics of the industry and help them identify ways to respond to competition in their industry.

(b) The Government

The findings will help the policy makers understand the industry better and hence enable them formulate policies and regulations on the motor industry.

(c) The Researchers

The study will serve as a stimulus to carry out research on challenges facing spare parts industry and increase the existing knowledge.

(d) To potential investors

The study will help them understand the dynamics of the motor industry and strategies adopted by franchised motor companies to respond to increased competition.

CHAPTER 2: LITERATURE REVIEW

2.1 THE CONCEPT OF STRATEGY

The changes in environmental factors produce mismatches between the structure of an organization and its environment. This makes it necessary for an organization to devise an appropriate strategy to enable it create a "fit". Ansoff (1965) calls this mismatch a strategic problem and further explains that to eliminate this problem, the organization strategy and structure must be aligned to its external environment.

Johnson and Scholes (1997) explain that, strategy is the direction and scope of an organization over the long term through its configuration of resource, within a changing environment, to meet the needs of markets and to fulfill stake holder's exceptions. According to Hamel and Prahalad (1989), Strategy is about winning and it defines the business of the company. Strategy therefore guides an organization to superior performance through establishing competitive advantage and also acts as a vehicle for communication and co-ordination within organizations. Chandler (1962), considered strategy as a means of establishing the purpose of a company by specifying its long term goals and objectives, action plans and resource allocation to achieve the set goals and objectives.

Mintzberg (1987), viewed strategy as a plan, ploy, pattern, a position and perspective. As a plan, strategy specifies consciously intended course of action of the firm. As a ploy, strategy is seen as a maneuver intended to outwit competitors. As a pattern, strategy is seen as a pattern emerging in a stream of actions. As a position, strategy is seen as a means of locating an organization in its environment. As a perspective, strategy consists of a position and an ingrained way of perceiving the world.

Strategy is one of the top management tools for coping with both external and internal changes. The organization resources and skills are matched with the environmental opportunities and threats faced by the organization. This "matching" enables the organization accomplish its goals and hence ensure sustainability. For a strategy to be

successful it must therefore be consistent with the firm's goals and values, its external environment, resources and capabilities must be in line with the organization systems.

According to Thompson and Strickland (1993), organizations depend on the environment for their survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them. Johnson and Scholes (1999), states that the organization operates within environments, which are turbulent, and rapidly changing. The important environmental factors that influence and determine the success of competitive strategies adapted by the organization are found within the competitive environment, which constitutes the industry within which an organization operates.

The effects of liberalization cannot be ignored since this has led to stiff competition in many sectors of the Kenyan environment and has also made firms change their activities in order to survive. This can be seen in various spare parts shops opened in various strategic areas in the market, For example along Kirinyaga, Bunyala, Dar el Salaam roads in the city of Nairobi. This is assumed to be the main contributor to diminished patriotism on the franchise dealer outlets by the consumers who are price sensitive, or those who seek the availability of a variety of motor vehicle models spare parts in one shop.

Due to the fact that environment is constantly changing, it is imperative that an organization has to constantly adapt its activities to reflect the new environmental requirements. Yesterday cannot be used to predict tomorrow therefore companies that would like to survive must adapt and adopt change, Porter (1980). According to Ansoff (1990), a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises, is considered a winning strategy in any organization.

2.2 ORGANIZATION AND ENVIRONMENT

Paine and Anderson (1997; pp 16), describes the firm's environment as "those inputs to an organization, which are under the control of other organization or interest groups or are influenced by the interaction of several groups, such as economy". According to Pearce and Robinson (2002), the external environment can be divided into two sub-categories: those in the remote (general) and those in the operating (task) environment. The remote environmental factors originate beyond a single firms operating situation and include political, economic, social, legal and technological factors. They present to the organization opportunities, threats, and constraints and affect businesses operating in a particular product area.

Pearce and Robinson (1997) defined the operating environment as "factors in the immediate competitive situation that offer challenges to a firm as it attracts resources or markets its good and services". These include a firm's competitive position, customer profile, accessible labor, and the firm's reputation among suppliers and creditors. A firm is able to control most of these factors based on decisions made. Example by comparing a firms profile with competitors the firm is able to identify their weaknesses and strengths. The present and potential customer profiles enable a firm to anticipate for changes in the market and allocate resources that influence demand patterns. This necessitates a firm to establish dependable relationships between their suppliers and creditors who, in return support, and ensure long-term survival and growth of the firm. However, this is only possible if the firm is able to attract and retain capable employees to run the operations.

Johnson and Scholes (1997) stipulated that factors in the external environment are very dynamic and interactive. The impact of one could affect all the operating factors. Example, a favorable economic environment will result to increased demand that affects the stock levels, customers are likely to change their consumption patterns that might necessitate need for new product lines^and competitive strategies. We also note that the assessment of likely impact of the remote and operating environment on effectiveness of strategies is further complicated by the inability to predict the effects. This is because

different external forces affect the strategies at different times with varying strengths and this is very difficult to measure until a strategy is implemented. Moses Ochieng, the sales manager at Auto-Cruise car dealer, noted that the increase in vehicle sales can be attributed to the fact that people especially the middle class, are able to access loans and buy vehicles (qtd in Business Daily July 19 2007, pp 12).

Pearce and Robinson 1997 noted that the strategic managers gauge the strategic significance of a firm's internal competences on the basis of the opportunities and threats present in the firm's competitive industry environment. The environmental industry analysis provides information needed to identify opportunities and threats in a firm's environment. This helps a manager search for effective strategies, which are matched with mission priorities and aid in laying a foundation for strategy formulation. Consequently this leads to the adoption either aggressive, diversification, defensive and or turnaround oriented strategies. They are matched with the firm's opportunities and threats and the firm's strengths and weaknesses and hence ensure continued success.

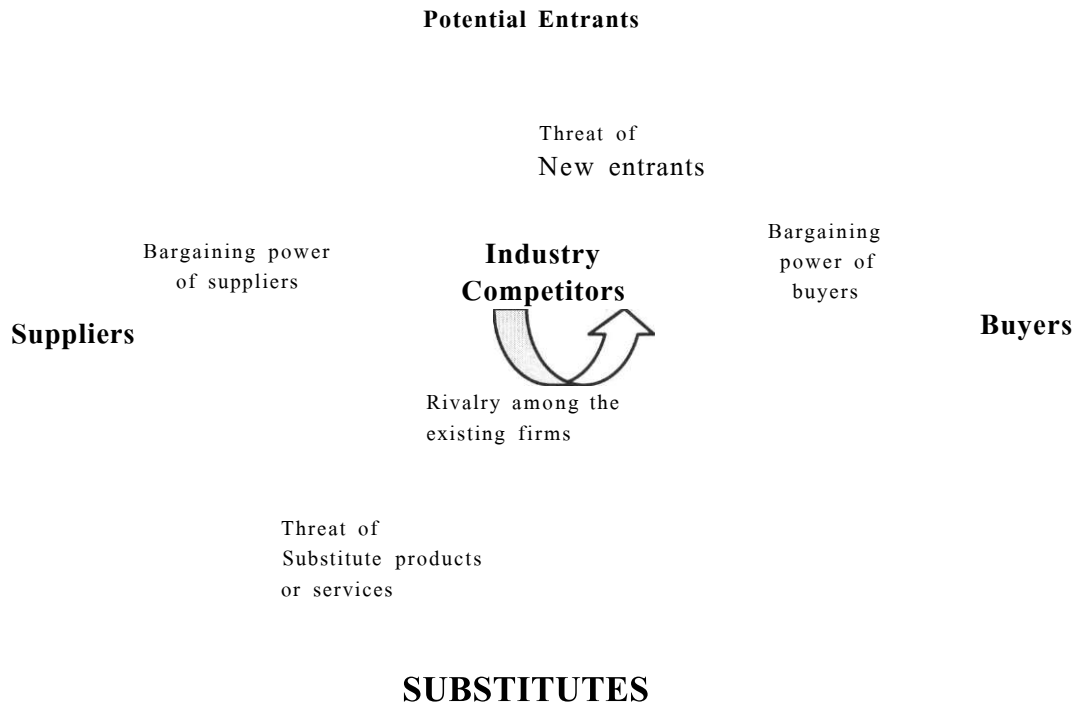
The main challenge of organizations is that they operate in a dynamic environment and strategies applicable today may not be applicable tomorrow. Porter (1985). This therefore makes it difficult for most organizations to maintain a Competitive advantage all the time and necessitates ongoing revision of their strategies. Hamel and Prahalad (1989) explained that an organization has a foundation for sustained competitive advantage when it possesses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate new value creating capabilities based on that knowledge Porter (1985). Unless there is an advantage over competitors that is not easily duplicated or connected, just like its survival, long-term profitability in an organization is likely to be elusive.

2.3 COMPETITION AND ITS CHALLENGES

In business, there are two conventional types of competition: the imperfect (monopolistic) and perfect competition. In monopolistic competition, just like with oligopolistic competition, there is intervention by the government or collusion by firms to exclude potential entrants that might compete with the operative firms, (Clark 2000). Perfect competition, also known as resource-based competition, means that profits arise through efficiency and superior resources or intangible assets (Hamel and Prahalad, 1990).

Pearce and Robinson (1997) noted that, "the essence of strategy formulation is coping with competition". The industry attractiveness and competitive position of a firm largely influence and shape the choice of competitive strategies adopted. This is therefore seen as the key role of managers in an organization. Porter (1985) stated that "Competition is at the core of success or failure of firms". While the competitive forces in the industry can either be passive or active and this determines the profitability or the attractiveness of the industry, which, is a key consideration for entry or exit. Competition in an industry continually work to drive down the rate of return on capital invested. If the returns are below the expected rate, in the long run the investors seek alternative industries.

Fig 2 The Five competitive forces that determine industry profitability



Source: Porter (1985) pp 4 Competitive advantage. Creating and sustaining superior performance.

Figure 2 above, illustrates the structure of competition within a market. The strength of each of the five competitive forces needs to be assessed critically when developing a strategy. An industry is attractive when the competitive forces are not strong and also when a firm has a competitive advantage. However, the model is not applicable in all the industries because of restrictions present in an industry; example legislations. Pearce and Robinson (1997) noted that every industry has an underlying structure or set of fundamental economic and technical characteristics that gives rise to competitive forces. The strongest force usually determines the profitability of the industry. It's therefore crucial for the strategist to devise a plan of action that will provide defense against the competitive forces and also influence the balance of the forces through strategic moves that match the company's strengths and weaknesses. Porter (1985) stipulates that the

competitive position of a firm is determined by how well the firm identifies its key success factors like marketing, distribution network, and technology. Knowledge of the underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company. The strengths in these areas are used to build a company's strategy by attacking the competitor's weaknesses and hence creating a defense against threats to its competitive position and future performance.

Kombo (1997) noted in his study that the franchise and subsidiary motor vehicle companies have been affected a lot by the environmental forces, besides competition among themselves. Increased competition has therefore necessitated franchise holders to create a network of distribution outlets in various towns. Kombo explained that some of the companies are unveiling new vehicle models more frequently, others have refurbished show rooms and there is increased lobbying to the government to control importation of second hand cars and spare parts. Thatiah (2007) noted that the 2007 Kenya Government budget highlighted a twenty per cent increase in import duty of the spare parts. This is believed to be a response to the franchise dealers constant lobbying to the government for stringent regulations to safeguard themselves from increased competition in the industry.

Globalization has continued to open up the business segments necessitating organizations to come up with new ways of doing business. Today, organizations respond to both local and international competition. In Kenya there are a notable increased number of spare parts importers. Some institutions order and supply all kinds of Japanese model spare parts either in retail or wholesale and lead times are getting shorter compared to the 1990's. African Business.com noted that the market for automobile spare parts, in particular, has been an attractive sector for United Arab Emirates based enterprises, which have emerged among the leading suppliers of spare parts to many countries in East, Central and Southern Africa.

Liberalization of the motor industry in 1992 led to increased competition and this resulted to entry of new firms in the industry. Mohamed (1995), noted that before liberalization there was a ban on importation of complete built units but there is a noted influx of

reconditioned and used vehicles imported in the Kenyan market. Wangui (2007) expressed that the growth in the motor sector is not only benefiting the new car dealers in the country but also second hand dealers of vehicles and spare parts.

Bureaucracy characterized by tall structures with a chain of command levels of managers and supervisors hinder effective information flow in businesses. There is delay in decision making as excessive consultations and protocol is followed,. This is noted to hinder-responsiveness in competitive or critical industries.

2.4 ORGANIZATIONAL RESPONSE STRATEGIES

Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that results in the formalization and implementation of plans designed to achieve a firm's objectives. Ansoff (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in the transforming future environment. Strategic response is thus a reaction to what is happening or expected to happen in the environment. The survival of a firm is dependent on the strategic responses to environmental changes. Aosa (1999) stipulated that industries are responding to customer's demands by becoming more innovative in responding to their changed environment. Firms are therefore seen to use strategies like customer services, credit facility, post paid cards and provision of convenience goods and services.

A firm may respond to increased competition by market development strategy. This can be on the existing markets or new geographical markets. The market entry strategies may include strategic alliances, acquisitions and Joint ventures. Nganga (2004) noted that pharmaceutical firms respond to environmental changes through formation of mergers and acquisitions. He noted that Glaxo Welcome acquired the Egyptian company Amoun pharmaceutical and later merged with Smith Kline Beecham to become GlaxoSmithKline.

Clark (2002) expressed that joint ventures, collaborations and strategic alliance are becoming popular. They involve two or more organization sharing resources and activities to pursue a strategy. Collaborative strategies involve building relationships with stake holder's example the production and distribution systems to acquire synergy in operations hence achieve competitiveness. Koigi Nyambura (2002) noted that Post bank and Citibank formed a strategic alliance to be able to reach customers. Nganga (2004) noted the collaboration of GlaxoSmikline with Cosmos limited, a local indigenous generics drugs manufacturer, to produce some of its products enabled them to be competitive in the market. Johnson and Scholes (2002) noted that organizations operating in environments that have become unfavorable may respond by one of the defensive strategies, which include joint ventures, retrenchments, divesture or liquidation.

Porter (1985), asserts that a change in the competitive position requires a company to decide on which generic strategies to adopt. The choice depends on a firm's perception of the environment and the basis of successful competition. He argued that organizations achieve competitive advantage by providing their customers with what they want or need in a more effective way than the competitors.

Figure 3: Three Generic Strategies

		Competitive Advantage	
		Lower cost	Differentiation
Scope	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3. Cost Focus	4. Differentiation focus

Source: Porter (1985). (pp 12) Competitive advantage. Creating and sustaining superior performance

Thompson (1993) noted that cost leadership is usually traded off against differentiation. Differentiation adds to costs in order to add value for which customers are willing to pay

premium prices; since customers are served differently and uniquely. Cost leadership strategy is adopted by marketers who sell lower cost goods or those that have either low quality specifications popularly referred to as counterfeit or generics. Porter (1985) noted that cost leadership requires a firm to have economies of scale, which enables firms to favorably achieve lower costs of production. Cost efficiency is created through efficient scale facilities and tight cost minimization in research and Development, Sales, advertising and inputs.

Clark (2000) noted that a product can be differentiated by creating something perceived industry-wide as being unique and Pearce and Robinson (2002) calls it a unique ways of appealing to the customers. This can be achieved through design and creation of innovative features. It's also achieved when firms carry our massive campaigns to emphasis the products uniqueness to build a strong brand identification and great loyalty. The Franchise owners differentiate their spare parts through the manufacture of genuine parts that are unique in terms of quality, length of service and are covered by warranty. This is achieved through investment in research and development and design expertise, which is done by the manufacturer to achieve greater reliability, performance and longer product life. The independent spare parts sellers usually address the special needs of buyers in certain segments. Most of them specialize in second hand body parts and have lots of flexibility in sourcing from the various suppliers.

Focus strategies are used to appeal to customers in a certain segments, Porter (1985). Organizations identify certain segments that they want to serve and then adopt either cost or differentiation strategy to meet the needs of that particular segment. This is witnessed where the spare parts sellers stock a mix of the various parts specifications; genuine, counterfeit and second-hand to appeal to customers who would wish to look at varieties depending on their purchasing power. Example garage owners and mechanics may have a set budget for a repair job and hence seek a combination of parts and usually they patronize the shops that stock the different varieties. A few marketers are unfortunately stuck in the middle due to their unwillingness to make choices about how to compete and they stock spare parts for all car models with varying specifications.

Porter (1985) further noted that the successful implementation of the generic strategies requires an understanding of where costs are incurred throughout the organization. This is successfully achieved through analysis of the value chain activities, however difficult. Porter further explained that sustained competitive advantage therefore requires effective control of cost drivers and ensures that factors like learning, linkages, interrelationships and timing provide the key opportunities for creating the advantage.

Hamel and Prahalad (1990) noted that firms can also respond to environment through the resource-based view that focuses on the strengths and weaknesses, opportunities and threats analysis. Organization capabilities enable firms to respond effectively to opportunities and threats. The organization therefore concentrates their efforts in areas where they have distinctive advantages. This makes them more effective and efficient in their operations. As a result where they have no distinctive advantages they can outsource the services to the experts and concentrate on their core business.

Through horizontal integration firms can control markets by acquiring a wider network. This can also be achieved through advertising, brand promotion and product differentiation. Vertical integration involves taking over forms and hence internalizes them and reduces competition.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 THE RESEARCH DESIGN

It is important to have a full spectrum of how the industry is responding to competition. This at its best is done through a survey covered through the descriptive study. A descriptive design was used in this study since it allows one to describe the characteristics of certain goals and estimate the proportion of companies who respond in a certain manner to various variables of the research, Bryman and Bell (2003). The data collected from the franchised motor companies sellers enabled the researcher to find out some of the response patterns that exist and perhaps go unnoticed in the industry.

3.2 TARGET POPULATION

The population of interest for this study consisted of the Japanese franchised motor vehicles spare parts dealers operating in Kenya. According to a list obtained from Kenya Motor Vehicle Industry Association as at July 24, 2007, such dealers were seven (Appendix 3). A survey study was done and in-depth interviews were conducted because the population of interest was small and this approach ensured that data was collected from all the units of the population. Studies done by Chepkwony (2001), Kombo (1997) and Njoya (2004), used this method to form the basis for concrete generalizations from the data analysis.

3.3 DATA COLLECTION

Both primary and secondary data was used in this study. Semi-structured Personal interviews were done. The topics or issues asked were derived from the objectives of the study and literature reviewed. The interviews were conducted after making appointments with senior management staff of spare parts dealers of franchised Japanese motor

Companies. The researcher provided the interview guide in advance to enable the interviewees prepare adequately and detailed notes were taken during the interviews.

The standard interview guide used (See Appendix 2) enabled the researcher avoid variations in the conduct of interviews. Open-ended questions permitted free responses from the respondents, without providing or suggesting any structure for replies and this gave an opportunity for in-depth probing of issues.

3.4 DATA ANALYSIS

The data was analyzed through content analysis. According to Mugenda and Mugenda (1999), content analysis is the systematic qualitative description of composition of the objects or materials of the study. It involves observation and detailed description of the objects, items or things that comprise the study and therefore allows respondents to give a wide range of ideas about an issue in much detail. The responses given by the interviewees were analyzed for content. Ngumo (2006) and Njoya (2004), Kandie (2001) and Lengopito (2004) had successfully used this method in past studies.

CHAPETR 4: DATA ANALYSIS AND INTERPRETATION

Data analysis entailed analyzing and interpreting the findings of the study as set out in the research objectives. A total of seven companies were targeted and the researcher interviewed only six companies. This represents 86% of the target respondents. The data collected was analyzed through content analysis since most of it was qualitative.

4.1 PROFILE OF FRANCHISED COMPANIES STUDIED

The responses received were analyzed to determine common characteristics among the respondents. The study found that 50% of the spare parts dealers franchised by Japanese motor companies are foreign owned. Two companies (33%) are locally owned and one of them is quoted in the Nairobi stock exchange. Only one company represented by 17% of the population is both locally and foreign owned, and the research revealed that the government of Kenya owns 20% of the company shares. The study also found that 83% of the franchise holders have over 20 years presence in the Kenyan market. Toyota East Africa limited, a subsidiary of Toyota Motor Corporation is the only company that has been operational for less than ten (10) years. Previously the Toyota franchise was held by Lonrho Motors East Africa, which went under receivership and sold its stake to the franchise owner.

The research revealed that 33% of the companies interviewed do not have branches in Kenya and of the 67% with branches locally, 50% of them have branches in Uganda Tanzania and Sudan. It was observed that some of the franchised holders are only authorized to operate in Kenya and the franchise is held by different companies in East and central Africa regions.

Table : Distribution of Year 2006 Spare Parts Sales Turnover

Year 2006 Turnover in Million (Kshs.)	Number of companies	Percentage
Below 100	2	33%
101 -500	1	17%
500 - 1000	2	33%
Over 1001	1	17%
Total	6	100%

4.2 CHALLENGES OF COMPETITION

This section addresses first objective that aims at determining the challenges of competition faced by spare parts dealers franchised by Japanese motor vehicle companies in Kenya. The respondents were asked to indicate the challenges their businesses faced from competition from the various aspects of competition in the industry. A content analysis was done and responses are reported below.

Most marketers described Competition in the industry as intense. They noted that pricing is a major competition factor. The non-franchised spare parts dealers sell a combination of genuine, non-genuine and second hand parts. These marketers are able to offer lower prices to the market due to the quality and cost of their spare parts. It was noted that the some of the independent genuine spare parts importers, who buy products from the Eastern Asia market, are able to circumvent some government controls. This consequently makes it possible for them to have lower costs that are passed on the customers in form of lower prices which, the franchised sellers cannot match without making losses.

It was further noted that the spare parts sellers are required to meet various legislations when importing the spar parts in Kenya. These include the pre-export verification of conformity to standards (PVoC) and Kenya Bureau of Standards (KEBS) requirements.

The Franchised sellers observed that the non-franchised players have a lot of flexibility and evade some of the requirements and are hence able to reduce their importation costs. They have therefore become a major threat to the franchised companies. This has consequently resulted to reduction of the franchised sellers' income as they devise strategies of winning the customers. The respondents felt that the legislations should be enforced strictly to all marketers equally to enhance a level playing ground where no sellers have undue advantage on others.

The respondents identified economic growth of the Kenyan economy as a factor causing challenge. The Central bank of Kenya 2007 economic survey noted that the economic growth was at 6% in June 2007. It was noted that there is more money in circulation today. The banking industry has become very competitive and is willing to lend money to both individuals and companies without collaterals. The Kenyans in the Diaspora are also sending more money home and this has increased the level of investments and the consumers spending habits. The study revealed that there is notable increase in demand for genuine parts that have necessitated increase in stock levels held by the franchise owners. However, this has also changed the character of the customers who are constantly exploring options available in the market without a concern of being offered credit facilities. The respondents highlighted that more entrepreneurs have opened spare parts shops some of which are strategically located outside their business premises. It was noted that some streets in the city of Nairobi example Kirinyaga, Baricho and Dar-el Salaam roads house hundreds of spare parts sellers and they are known for their competitive prices and varied stock items that suit various consumer budgets.

Increased levels of education and awareness, among Kenyans have led to the emergence of a more demanding customer. The respondents noted that some customer log into the internet and conduct intense research on various aspects of the spare parts trade, use, quality and versatility. Some customers visit the dealers with more information and use it to challenge the technical staff. The respondents revealed that customers are increasingly expecting shorter turnaround times, have knowledge on shipping procedures, usage

specification and are increasingly using this knowledge to demand for competitive and better services.

The respondents noted that impact and presence of competition in the market is evident through declining sales, increased price related complaints, irregular customer base due to shift in loyalty and irregular purchase patterns by the major customers. Competition is also perceived through enquiries from non corporate customers seeking quotations for various items. This is believed to be an approach used to come up accurate price comparisons with competition.

4.3 RESPONSE STRATEGIES TO INCREASED COMPETITION

This section addresses the second objective of the study that aimed at determining the response strategies adopted by Japanese franchised motor spare parts dealers to the increased competition. The respondents were asked to indicate the strategic responses they adopted in their businesses.

50% of the respondents stated that restructuring of operations had been done in their company. This involved the re-organization of company structure to eliminate bureaucracy and reduce costs. It involved consolidating some department's roles at functional levels for example resulting from a previous fifteen operational sections to seven functional areas. This resulted to improvement in service delivery and the structures are more business oriented since various functional areas were combined and streamlined to remove duplication of activities. It was noted that this was successfully achieved through training conducted first to prepare the staff and secondly through lots of negotiations with functional heads.

The respondents stated that there is increased emphasis on Marketing and product coverage activities. This is aimed at enhancing revenue base, increasing profitability and improving the accessibility of genuine parts in the various target markets. New markets are targeted to reach those in remote areas and to capture new business. Promotions are

conducted constantly and there is increased advertising on both print and electronic media to educate people and offer discounted products. There is noted increased field visits by the marketing and sales officers to lure new customers by offering give away promotion items on purchase of genuine parts.

All respondents also noted that Customer service has been given a more prominent role in their businesses. There is constant refurbishment of customer lounges, show rooms and reception areas to make the customers comfortable. Introduction of customer friendly services example electronic enquiries through short messaging services (SMS) and acceleration of resolution of queries is being enhanced progressively. The companies are constantly exploring ways to make the consumers happy through convenience and most often spare parts bought are transported to customer's premises without any extra charges. There is also increased Customer service training in the organizations to remind and educate staff, on new or better ways of serving the customers. Some companies noted that they conduct customer service contests where customers are asked to rate the employees serving them and the winning employees are recognized while other staff encouraged to improve.

Incorporation and upgrading of new information technology system was noted to be a key factor in the industry. All the companies noted that their systems were highly manual in the past five to ten years but the situation has now changed. It was further noted that all the companies interviewed have installed Wide area networks to integrate the various business divisions located in various parts of the country. Some companies have connected their branches through Satellite links and this has enhanced quality data transmissions around the country. Some of the companies interviewed noted that they have on line connections with their regional offices in Africa. As a result they are now able to monitor stock levels orders, sales, and debtors with the online systems available and take timely action. This has enabled them to have a competitive edge over their competitors, who mainly operate manual systems.

CHAPETR 5: SUMMARY, DICUSSIONS AND CONCLUSIONS

5.1 SUMMARY, DISCUSSIONS AND CONCLUSIONS

The first objective of the study was to establish the challenges of competition faced by spare parts dealers franchised by Japanese motor vehicle companies in Kenya. The study revealed that increased competition from independent sellers who stock a combination of genuine, second hand and also counterfeit parts was high. Despite the Kenya government having good legislations, enforcing them was difficult. It was therefore felt that this has created unfair competition since some players evade some requirements governing the importation procedures and hence end up with lower importation costs of the same product. Price has therefore become a key competition aspect in the industry and the franchised dealers marketing costs have gone up as they aim at securing and expanding their Customer base.

The study established that the changing competitive situation in the Kenyan spare parts segment has posed challenges to the franchised holders. These challenges arose from changes in the business environment in terms of economic growth liberalization, legislative changes increasing level of education and technological advancements. The management of these changes has been made more difficult by the presence of all the five forces that influence the competitive situation in the industry.

Findings of the research showed that the franchise holders are in constant touch with government lobbying for changes in regulations to ensure a level playing field with competition. They felt that if all the standards were applied to all marketers equally competition on price issues would reduce. Kenya has good regulatory guidelines on importation of spare parts and it was felt that the government keenly scrutinized the activities of franchised firms as opposed to the independent importers who often do not adhere to all the requirements. Challenges experienced by the companies are in line with known challenges of competition example pricing, shift in customer loyalty, declining profit margins and need for first response to the market trends. In conclusion we note that

the effects of globalization, trade treaties entered into by countries, further intensify competition. If the existing companies do not adequately prepare to accommodate and respond to them they will be thrown out of business since the government will no longer protect their activities.

The second objective of the study aimed at determining the response strategies adopted by Japanese franchised motor spare parts dealers to the increased competition. The findings were that Market development is widely done by introducing existing products to new markets. There is increased marketing of spare parts in the rural areas. This is done through appointment of dealer and stockiest outlets in the various towns and venturing the export market. The marketers are constantly changing the technology in line with the global trends though use of Internet ordering systems, Electronic parts catalogue to identify parts correctly and online systems that enable them manage the stocks.

The research finding indicated that several responses by the franchised companies to changes in the environment were done. These include restructuring of business processes and organization structures, increased marketing activities, change of culture through training, increased focus on customer care and management activities; introduction of new technology new technology has been embraced including up to date computerizing of spare parts catalogues among other responses.

The study also found out that the companies adopt the Johnson and Scholes (2002) strategy development directions model, in diversifying their customer base and Porter (1985), three generic strategies were used by the companies to address the customer needs. It was noted that most of the franchised companies used differentiation and focus strategies while cost was not widely used by the independent sellers. The franchised companies mainly focused on protecting their existing markets through customer education, sales promotion and use of attractive discounting structures. New markets are targeted through network development and the introducing of new products and technology to cater for the improved technology of cars in the market.

Protecting the existing market by responding to emerging challenges is very crucial for the survival of an institution. Through the Kenya Motor Vehicle Industry Association, the franchise holders are increasingly lobbying to the government for a level playing ground. It is evident from the study that the benefits realized by the franchise holders after implementing various response strategies have enabled them to remain competitive in the market.

5.2 LIMITATIONS OF THE STUDY

The study though very important and targeting a small number of respondents was not easy because of some limitations.

The respondents were busy and I made numerous calls before being granted an interview date. I took one month to collect the data from six respondents, some of who delegated to other staff in their department and one respondent was still unavailable at the time of compiling my project. It was also noted that some of the respondents were suspicious that the information gathered would be used against them and hence I felt they may have withheld some crucial information.

The spare parts sales statistics were unavailable from both the Kenya Motor Vehicle Industry Association and the franchised companies interviewed were unwilling to give statistics of several years' performance. It was noted that the companies do not exchange the spare parts sales statistics freely like the case for new vehicle sales. This research was therefore unable to come up with comparative statistics to show the impact of competition to the actual spare parts sales of the franchised companies.

5.3 RECOMMENDATIONS FOR FURTHER RESEARCH

This study focused on the responses of Japanese franchised spare parts sellers in Kenya to challenges of increased competition. A similar study could be done targeting all spare parts dealers in Kenya.

The respondents recommended the need to evaluate the success of policies formulated by the government to govern the spare parts trade in Kenya. A study in this area would help us understand whether there is a level playing field by all the marketers in the spare parts businesses in the Kenyan motor industry.

The spare parts sector has very many non-franchised sellers and it would also be important to evaluate the success of their businesses and strategies used to survive in the highly competitive industry.

5.4 IMPLICATION OF STUDY FOR POLICY AND PRACTICE

The findings of this study will serve as stimuli to policy makers to understand the industry better and hence enable them formulate policies and regulations on the motor industry. It will help them identify areas where marketers perceive discriminate policies are in use, examine them closely and work on streamlining them.

The industry players and the potential investors will also understand some basic dynamics of the motor industry and strategies adopted by franchised motor companies due to increased competition. This will help them prepare adequately and allocate enough resources to crucial functions of their business.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

15th August 2007

Irene Muhindi
School of Business
University of Nairobi

Dear Respondent,

I am a postgraduate student at the University of Nairobi. In partial fulfillment of the requirement for the award of the degree of Masters of Business Administration (MBA), I am conducting a research study on "Response strategies to increased competition by spare parts dealers franchised by Japanese motor companies in Kenya"

Your company has been selected to form part of this study. I request your assistance in completing the questions outlined in the attached interview guide and would appreciate if you could provide any other information.

The information and data collected will be used for academic purpose only and will be treated in strict confidence and in no instance will your name be mentioned in this research. A copy of the research project will be made available to your organization upon request.

Thanking you in advance.

Yours faithfully

Irene Muhindi

MBA STUDENT

APPENDIX 2: INTERVIEW GUIDE

Company Name

Position of the interviewee

PART A: GENERAL CHARACTERISTICS

1. what is the ownership of your organization
Locally owned
Foreign Owned
Both Local & Foreign owned
2. Is there any government participation in ownership of your organization?
Yes No If Yes what percentage?
3. How long has your organization being in operation in Kenya?
1-10 years 11 -20years Over 20years
4. How many branches does your organization have in Kenya?
1-5 6-10 Over 10
5. Do you have branches outside Kenya?
Yes No
If yes, where they are situated and reason(s) for this choice.
6. Please indicate your annual spare parts sales volume for the last 5 years
a) 2006. b) 2005. c)2004. d)2003. e) 2002

PART B: CHALLENGES OF COMPETITION

- 1) How would you describe competition faced by your company in the Spare parts business segment? -
- 2) How does competition manifest itself in your company?

- 3) What challenges has your business faced from each of the following aspects of competition. Explain each briefly
 - i. Entry of new providers
 - ii. Competitive rivalry among providers
 - iii. Bargaining power of customers
 - iv. Availability of substitutes
 - v. Power of suppliers
- 4) Explain briefly challenges your organization has faced from competition on other aspects.

PART C: RESPONSE STRATEGIES TO INCREASED COMPETITION

- 1) What responses do you apply or have you applied in dealing with these challenges of increased competition in your company?
- 2) Explain how your organization has responded to challenges of competition in each of the following aspects
 - i. Entry of new providers
 - ii. Competitive rivalry among providers
 - iii. Bargaining power of customers
 - iv. Availability of substitutes
 - v. Power of suppliers
- 3) In what other ways has your organization responded to competition in other aspects?

Thank you.

**APPENDIX 3: SPARE PARTS MOTOR COMPANIES WITH
JAPANESE FRANCHISES IN KENYA**

	Company	Make
1.	CMC Motors Group	Maruti, Suzuki, Mazda
2.	Toyota East Africa	Toyota
3.	D.T. Dobie	Nissan
4.	General Motors East Africa	Isuzu
5.	Simba Colt Motors	Mitsubishi
6.	Ecta Kenya Limited	Subaru
7.	Ryce Motors	Daihatsu

Source: KMI statistics June 2007

Appendix 4: New vehicles Sales in Kenya

SALES FIGURES FOR THE YEARS 2000 - 2006

MAKE	2000		2001		2002
Toyota	938	16.0%	1099	17.4%	1270
Nissan	947	16.1%	880	13.9%	960
Peugeot	522	8.9%	564	8.9%	633
Isuzu	847	14.4%	976	15.4%	1099
L/Rover	223	3.8%	277	4.4%	226
Mitsubishi	1021	17.4%	1105	17.5%	1238
Mazda	217	3.7%	224	3.5%	195
Volkswagen	101	1.7%	136	2.1%	184
Mercedes Benz	123	2.1%	239	3.8%	128
Subaru	48,	0.8%	46	0.7%	46
Others	882	15.0%	780	12.3%	947
TOTAL	5869		6326		6926

Source: KMI statistics June 2007

	2003		2004		2005		2006	
18.3%	1642	20.9%	2545	25.5%	2543	26.7%	2506	24.9%
13.9%	995	12.6%	1231	12.3%	1404	14.7%	1392	13.8%
9.1%	460	5.8%	223	2.2%	186	2.0%	164	1.6%
15.9%	1387	17.6%	1868	18.7%	1432	15.0%	1680	16.7%
3.3%	231	2.9%	244	2.4%	308	3.2%	238	2.4%
17.9%	1524	19.4%	1822	18.3%	1704	17.9%	1922	19.1%
2.8%	148	1.9%	78	0.8%	56	0.6%	24	0.2%
2.7%	156	2.0%	128	1.3%	112	1.2%	156	1.6%
1.8%	223	2.8%	245	2.5%	222	2.3%	285	2.8%
0.7%	63	0.8%	80	0.8%	82	0.9%	83	0.8%
13.7%	1038	13.2%	1515	15.2%	1486	15.6%	1601	15.9%
	7867		9979		9535		10051	