AN APPLICATION OF McKINSEY MATRIX IN THE ASSESSMENT OF ROUTE ATTRACTIVENESS IN KENYA AIRWAYS LTD.

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA), FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI.

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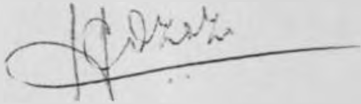
DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.



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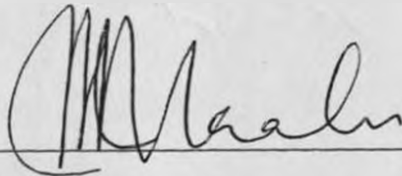
The project has been submitted for examination with my approval as the University Supervisor.



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DEDICATION

I dedicate this work to my beloved parents. Your strong will, commitment to excellence, love and devotion have inspired me in life. Truly, you are the wind beneath my wings.

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I would like to thank the following for the incredible impact they have made in my life and, as a direct or indirect result, this study.

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ABSTRACT

The study set out to find out whether the McKinsey Matrix is applicable as a market assessment tool within the context of Kenya Airways. The motivation behind the study was the pressure that has been brought on to airlines by major changes in their operating environment in the recent past, which have forced them to venture out in search of new routes in order to survive. The fear is that the rush may have resulted in the opening of unattractive routes that do not deserve resource allocation. The question of interest, which the researcher sought to answer, was whether there exists a formal strategic tool that can be used to assess new routes for attractiveness before entry or to assess existing routes for attractiveness to justify the resources allocated to them.

Data was collected through questionnaires and a few personal interviews. Two separate questionnaires were sent out. The first one achieved an 87% response rate while the second achieved a response rate of 91%. A total of 63 questionnaires were sent out and 56 received back resulting in an overall response rate of 89%. For independence, the first questionnaire was sent to head office managers seeking weights for the matrix factors while the second one was sent to individual country managers who scored aspects of their routes against factors weighted in the first questionnaire.

Findings of the research indicate that Kenya Airways' routes fall into 4 of the 9 cells of the McKinsey Matrix. 52% of the routes fall within the "Grow/Penetrate" cell of the matrix and are spread across the six regions of the company. This indicates that they fall in highly attractive markets in which the airline has high/strong business strength. 10% of the routes fall in the "Invest

for Growth" cell indicating that they are in very attractive markets in which the airline has average business strength. 31% fall in the "Selective Harvest or Investment" cell. These are routes in markets where the airline has good business strength but the markets are losing attractiveness. Lastly, 8% fell in the "Segment and Selective Investment" cell showing that they are in markets of average attractiveness where the airline has average business strength.

The McKinsey Matrix recommends a mix of resource allocation decisions for the routes that fall into each cell. For the routes in the "Grow/Penetrate", resource allocation should be geared towards seeking dominance and growing. The "Invest for Growth" routes should channel their resources towards identifying weaknesses and building strength so as to gain leadership. In the "Selective Harvest or Investment" routes, the airline needs to channel resources towards identifying growth segments and investing strongly in them. Lastly, the matrix recommends that for the routes in the "Segment and Selective Investment" cell, the airline should identify growth segments, invest selectively and specialise in them.

The research concluded that the McKinsey Matrix is applicable as a market assessment tool within the context of Kenya Airways and its recommendations make sense and are applicable to an airline. Further research needs to be carried out to determine whether the tool can be developed further into a system that automatically monitors performance of routes periodically once performance data is up-loaded.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 The Concept of Market Attractiveness

Markets have features by which they can be defined. These features can broadly be categorised into distinct factors whose intensity will vary with each market. The degree of each factor in the mix can affect the appeal of the market to an investor. Looked at collectively, these factors will either define the market as attractive or unattractive to investors. Any person intending to enter a market cannot afford to remain oblivious to these external factors as they will dictate the entry strategies employed and the eventual success or failure in the market.

Attractiveness of markets is key to the choice of profitable markets. Businesses strive to have in their portfolios profitable markets that increase their value. Should the investment fail to increase the value of the firm by more than the capital invested, then it would be regarded as money thrown away *(Myers, 1984:128)*. In the explanation of their market attractiveness evaluation model, *Dawid & Reimann (2003)* described the selection of the *right* markets or market niches to be targeted as the single most important factor in determining success or failure of a business.

Measures of market attractiveness vary in different industries and markets. However, some forces affecting market attractiveness apply across markets. According to *Porter (1980)*, these forces include competition, barriers to entry and exit, bargaining power of buyers and

suppliers in the market and government policies. These are the forces used to assess markets for attractiveness using Porter's Five Forces Model. McKinsey Model goes on to include technology, pricing trends, market segmentation and risk among others. Other models for evaluating attractiveness include the Boston Consulting Group (BCG) Matrix, Arthur D. Little (ADL) Matrix, the Product Life Cycle and the Ansoff Matrix among others.

In many cases, decision-making involves the allocation of large sums of money to existing or new markets. The assessment of market attractiveness helps to ensure that business funds are allocated appropriately to deserving business units or markets. It helps insulate businesses from running huge losses due to wrong and often costly resource allocation decisions made without the use of appropriate tools. The above-mentioned tools attempt to eliminate this risk.

1.1.2 The Airline Industry

A route system comprises several markets served by an airline. Each of these markets will have its own distinct features capable of conveying signals of market attractiveness or unattractiveness. These require careful assessment before selection. An airline's route system is essentially the key to all planning. Airline planning involves the planning of routes and services, fare structures and fleet development. Whereas these activities are interrelated and require close coordination, route planning drives them all. Airline planning decisions are important to aircraft manufacturers, airport planners, the investment community and the airline itself *(ICAO Working Paper 5, 2005)*.

Route planning is a core part of the airline strategy. Other structures then fall into place. These include organisational structures, setting up of satellite offices and recruitment of staff among others. At the core of Kenya Airways' strategy is the route system. As *Alfred Chandler (1962)* says, structure follows strategy since strategy involves determining long term goals and objectives and the allocation of resources. Structure, on the other hand, will be the resulting design of the organisation through which the enterprise is administered and the strategy supported. Thus, the route system is the heartbeat of an airline.

As stated earlier, several factors will affect the attractiveness of routes that an airline selects. Internationally, governments grant rights to airlines through bilateral agreements, which enable them to operate to their destinations. These agreements form the basis for the operation of an airline's route system. These agreements are known as Bilateral Air Service Agreements or BASAs. The rights therein will include the authority to pick up passengers from certain destinations and discharge them in others. The degree of flexibility accorded an airline by such agreements will partly determine the attractiveness of the target destination.

Multilateral agreements such as COMESA and Yamoussoukro Declaration were aimed at relaxing the protectionist stance that African governments were taking over their skies. To date, the majority of African countries that are signatories to the same agreements do not adhere to their ideals.

1.1.3 Kenya Airways

Route planning decisions can and do result in the allocation of huge sums of money and other resources. Kenya Airways' investment in three Boeing 777 aircraft worth a total of about $300 million was the result of route planning, which forecasted growth in existing markets such as London and Amsterdam and expansion into new markets such as the Far East, the rest of Europe and possibly the United States. Capacity adjustments on routes also have cost implications. For instance, the cost of operating a Boeing 767 to Mombasa is double that of operating the smaller Boeing 737 aircraft.

Kenya Airways' route system presently comprises 37 destinations. Four of these are domestic; twenty-three are within Africa, three in Europe, one in the Middle East and four in Asia and the Far East. Included is an new destination – Freetown – that was rolled out in the first quarter of 2006. In the year 2004/05, two new destinations (Lubumbashi in the DRC and Djibouti) were rolled out *(Annual Financial Report & Accounts 2004/05).*

Kenya Airways has faced some expansion limitations by way of restrictive BASAs. The restrictions are mainly on weekly flights and seats flown, which prevents it from expanding further into certain markets. Foreign governments tend to impose such restrictions to protect their flag carriers from competition. The most cases of restrictive BASAs have been within Africa. A few Asian countries have also adopted this protective stance.

It is worth noting that the Kenya Government's policies can affect and have indeed affected the attractiveness of certain markets in the world to Kenya Airways. Currently, Kenya has imposed rather stringent visa requirements for certain West African nationals. This has in turn reduced the appeal not only of markets in West Africa, but also markets in the Middle and Far East, which are the preferred destinations of the West African traders.

World events and calamities can affect the level of attractiveness of certain destinations to an airline. For instance, there has been a recovery in tourism due to several factors some of which are the aggressive marketing campaigns by the Kenya Tourism Board, the relaxation of travel advisories by the US and the tsunami disaster off the Asian coast. These, and particularly the December 2004 tsunami disaster in Asia, have all diverted some tourist traffic to the Kenyan coast and contributed to the attractiveness of the Nairobi-Mombasa route to Kenya Airways. This has resulted in the allocation of additional resources such as larger aircraft and the associated costs to the route *(Annual Financial Report & Accounts 2004/05).*

The potential for cargo in markets has also affected the attractiveness of routes to Kenya Airways. Certain regional and African routes previously served by the 116-seater Boeing 737 aircraft have now been upgraded to the larger 216-seater Boeing 767 aircraft, which have a much higher capacity for cargo. Such routes include Lagos and Dubai.

1.2 Statement of the Problem

The "four horsemen of the apocalypse" *(Tarry, 2003)* namely the terror attacks in the US, the war in Iraq, the global economic slowdown and the SARS outbreak in the Far East have made the airline industry more cost-conscious than it has ever been. This worst period in aviation history *(Spinetta, 2003)* resulted in airlines reducing costs and/or opening new routes to boost revenues since costs can only be reduced by so much. *Mutia (2002)* says that after the 9/11 WTC attacks, world carriers went looking to tap into profitable markets after the Trans-Atlantic routes became extremely unstable and unprofitable, and that Kenya in particular, saw an unprecedented increase in capacity offered by major carriers such as British Airways and KLM.

With major airlines encroaching its key markets, the need to enter new markets and expand in existing ones became more urgent for Kenya Airways. Its reaction has been to increase frequencies to routes such as Johannesburg and to expand into markets such as West Africa, Europe and the Far East. New destinations to date are Bamako, Dakar, Istanbul, Hong Kong and Bangkok, Maputo and Guangzhou. Freetown and Paris are to be rolled out in 2006.

Kenya Airways has plans to invest heavily in additional aircraft for its future market expansion plan. The enormity of the planned investment implies that the attractiveness of these markets must be able to justify the resources allocated for the expansion.

Several studies have assessed markets for attractiveness and evaluated reactions within industries when some forces influencing attractiveness changed. While studying the dairy industry, *Bett (1995)* concluded that firms in the industry had to alter their marketing mixes in the face of liberalisation. *Njau (2000), Mohammed (1995)* and *Sheikh (2000)* all found that firms have had to adjust their strategic variables when faced with competition. *Mutia (2000)* while studying the aviation industry attractiveness, found the Kenyan market to be attractive to international airlines. None of these studies however, assessed markets for attractiveness with the aim of solving the resource allocation problem. More specifically, there is no research work documented on the problem facing Kenyan airlines of assessing markets for attractiveness prior to resource allocation.

Out of the many tools for resource allocation, the one that stands out is the GE/McKinsey Matrix, which is particularly relevant for this study as it was successfully used to solve a problem similar to the one an airline would have in deciding how to allocate its limited resources to its many routes. The matrix was developed by McKinsey & Company for General Electric (GE) to assist it monitor the performance of its 43 Strategic Business Units (SBUs) as a basis for resource allocation. This parallel makes this particular tool most suited for this study.

Kenya Airways currently lacks a formal strategic model that relates market attractiveness with resource allocation decisions. This study is therefore aimed at applying the McKinsey Matrix to Kenya Airways' route system to help classify its routes appropriately in terms of

attractiveness so as to pave way for informed resource allocation decisions. Important to note is that Kenya Airways' routes will be treated as a portfolio of products. As *Haspeslagh (1982:70-71)* points out, portfolio techniques (the McKinsey matrix included) are appropriate at multiple levels of the organization, the lowest level being a portfolio of *products* within a business. The McKinsey Matrix is widely associated with the General Electric Group. It will be of interest to see whether the matrix can be directly applied in the Kenyan context or if modifications will have to be made first. Being a model developed in the western world, its applicability in a third world setting may be doubted. Further, the Kenyan context is unique in that there is relatively less use of formal strategic models. Informal methods developed in-house are in wider use.

The question therefore is **can the McKinsey matrix be applied in the airline industry to assess markets and guide decisions on entry, exit and capacity adjustment?**

1.3 Objective of the study

Objective of this study is to determine the applicability of the McKinsey Matrix as a market assessment tool within the context of Kenya Airways.

1.4 Importance of the Study

It is deemed that the study will be of importance to the groups such as airline management as it shall help make guided decisions during market selection and allocation of resources to routes. Findings from this study will also help them balance their portfolio of routes.

It will assist management of diversified corporations in resolving the problem of resource allocation to different business units. Researchers will also find the study of importance as they apply the McKinsey Matrix to different industries or to diversified companies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The predicament of how to allocate resources across different business units in the corporate portfolio for diversified companies is much the same as that of allocating resources to new and existing routes for airlines. Both are investments. As *Myers (1984:128)* explains, "a strategic commitment of capital to a line of business is an investment project. If management does invest, they must believe the value of the firm increases by more than the amount of capital invested - otherwise they are throwing money away". Thus, the attractiveness or otherwise of routes or projects must first be determined before the company's resources can be committed.

2.2 Resource Allocation Problem

In the airline industry, decisions are constantly being made on the route system. Resources have to be injected or shifted between routes in line with strategic decisions. Entry, exit and capacity adjustment decisions all come with cost implications. For this reason, management should have a clear guidance about which routes to allocate resources to. In order to allocate available resources to projects, managerial attention can be focused on the broad constructs of competitive strength and market attractiveness *(Abell & Hammond, 1979)*. These two sets of variables can help airline management determine which markets are attractive enough to warrant allocation of resources. *Pfeffer and Salancik (1978)* agree that to cope with the many influences on the resource allocation decision, managers reduce the complexity of their

decision-making environment through the process of selective attention and simplification. Despite there being several tools to assist management with this task, they are rarely put into use.

Portfolio planning techniques are attractive as they simplify the resource allocation problem. They can be applied to both businesses and products alike. The strategic implications drawn from the models have, as a primary message, the assignment of investment priorities to the various business units of the firm *(Hax & Majluf, 1984: 174)*. Product portfolio analysis also helps assign strategic roles for each product based on the product's strength and the market's attractiveness. These individual roles are then integrated into a strategy for the whole portfolio of products, taking into consideration the product portfolios of the main competitors *(Palia, 1991)*.

Portfolio planning theory points out that investment should be made in products according to their relative competitive position and the relative attractiveness of the markets in which these products compete. Resources ought to be concentrated in products that have a strong competitive position in an attractive industry and should be reallocated from weak products in unattractive markets *(Slater, 1992)*. The best portfolio should be the one that fits the company's strengths and helps exploit the most attractive opportunities.

Whereas the importance of portfolio planning tools cannot be over-emphasised, it has been noted that due to the variety of models and the variety of approaches for implementing each

one *(Wind, Mahajan & Swire, 1983)*, there is a substantial variability in the application of the theory by corporations.

2.3 Industry Attractiveness

According to *Porter (1980)*, industry attractiveness is defined by five forces namely rivalry within the industry, the threat of new entrants, the threat of substitute products, bargaining power of suppliers and the bargaining power of buyers. The lower these forces are (other than the barriers to entry), the higher the profitability of the firms in the industry. *Thompson and Strickland (1989)* concur when they say that the ideal competitive environment from a profit-making perspective is one in which both suppliers and customers are in a weak bargaining position, there are no good substitutes, entry barriers are relatively high, rivalry among present sellers and the government influence are only moderate.

According to the GE/McKinsey model, industry attractiveness is defined by the set of external forces beyond the control of the firm. These will include the market size and growth, profitability levels in the market, competitive rivalry, the opportunity to differentiate products and the distribution channels among others. About these factors, *Hax & Majluf (1983)* say that they are critical external factors uncontrollable by the firm, and are used to determine the overall attractiveness of the industry in which the business belongs. General Electric Corporation while applying the GE-McKinsey Matrix used market growth and profitability as two of six criteria for assessing market attractiveness *(Bower et al., 1991:729)*.

2.4 Business Strength

It is also known as the competitive position or strength of a business. The core of a situation analysis is to ascertain business strength with which to craft winning strategies. The idea is to assess internal strengths and weaknesses and craft strategies that will reduce the internal weaknesses while warding off external threats and exploiting external opportunities presented by uncertainties inherent in the external environment. On the importance of ascertaining business strength, *Courtney et al (1997)* argue that given the varying levels of uncertainties faced by high-tech firms, underestimating uncertainty can lead to strategies that neither defend against the threats nor take advantage of the opportunities that higher levels of uncertainty may provide.

Hax & Majluf (1983) think of business strength as being defined by "critical internal factors, or critical success factors, which are largely controllable by the firm". These critical success factors (CSFs) should ideally be based around what prospective customers value and want. The matrix can accommodate as many CSFs as the industry demands. These CSFs can be different from one market to another. Some internal factors that affect business strength include strength of assets and competencies, relative brand strength, market share, market share growth, customer loyalty, relative cost composition, relative profit margins, quality and access to financial and other investment resources.

In 1980, GE used three criteria for assessing competitive strength *(Bower et al., 1991:729)*. Two of these were first, the SBU's Return on Assets (ROA) relative to industry average ROA, and second, the SBU's sales growth relative to the industry's average sales growth.

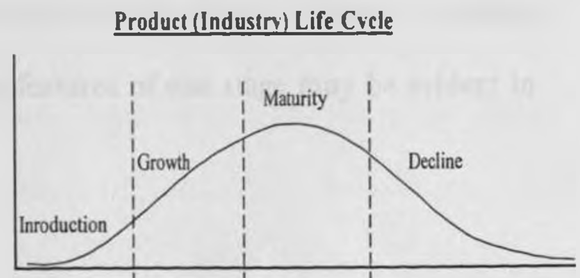
2.5 Ansoff Matrix

Also known as the Product-Market Expansion Grid. It was developed by Igor Ansoff in 1957 and has since been useful in determining business growth opportunities. It comprises two dimensions, namely products and markets. The 4-grid matrix prescribes four growth strategies, which are market penetration (sell more of the same product in current market), market development (sell more of the same product in new markets), product development (sell new products in current markets) and diversification (sell new products in new markets). Diversification can be horizontal, vertical or concentric. Although the model is old, it still remains strong in business strategy processes and business growth. It is also simple to understand and apply. The model does not offer any solution to the resource allocation problem but only identifies the general strategy employed by an organization. *Abell (1980)* has suggested that the Three Dimensional Business Definition is more superior to Ansoff's model. See diagram below.

Figure 1: Ansoff Matrix and the Product Life Cycle

Ansoff matrix

Markets	Products: Current	Products: New
Current	Market Penetration	Product Development
New	Market Development	Diversification



Credit: Jaap H.M. de Jonge (12manage)

2.6 Product Life Cycle (Levitt)

First released by Theodore Levitt in 1965 *(HBR, 1965:81-94)*. This model attempts to increase market share through increased cash flows. The idea is to identify the distinct stages in a product's life cycle affecting its sales so as to retain the products as cash cows for longer. Cash cows are strong products that have achieved a large market share in mature markets. At the introduction stage, there is focused and intense marketing to give the product an identity and promote maximum awareness. At the growth stage, there are increased sales and the emergence of competitors. Some repeat purchases begin. At maturity, competitors have begun leaving the market. Loyal customers remain. At decline, the drop in sales is explained by effects of competition, new trends and unfavorable economic conditions. See diagram above.

The model is strong as it relates each stage of a product's life to its market, which allows for resource allocation to take place. It is also strong in that products identified to be in the decline stage can be revitalized through product differentiation and market segmentation. However, one major setback for this model is that diagnosing the life cycle stage of a product may be difficult as stages sometimes overlap and features of one stage may be evident in another.

2.7 Arthur D. Little (ADL) Matrix

The ADL matrix from Arthur D. Little was based on the Product Life Cycle. It however uses the two dimensions of industry assessment and business strength assessment. Business strength is assessed as dominant, strong, favorable, tenable or weak. Industry is assessed by

life cycle stages of embryonic, growth, mature and aging. Thus, the matrix has 5 competitive positions by 4 life cycle stages. Dominant stage of competitive position is a protected or almost monopolistic market. Strong indicates ability of a player to follow strategy regardless of moves by the competition. Favorable indicates a fragmented market with no clear leader. A company has a niche at the tenable position. At the weak position, the business is too small to be profitable and there are critical weaknesses.

Figure 2: The ADL Matrix

ADL Matrix

Industry Life Cycle Stages

Competitive Position	Embryonic	Growth	Mature	Aging
Dominant	All out push for share. Hold position	Hold position and Share	Hold position. Grow with industry	Hold position
Strong	Try to improve position. All out push for share	Try to improve position. Push for share	Hold position. Grow with industry	Hold position or harvest
Favorable	Selective push for share & attempt to improve share	Selective push for share & attempt to improve share	Find niche and attempt to protect it	Harvest or phased out withdrawal
Tenable	Selectively push for position	Find niche and attempt to protect it	Find niche and hang on or phased out withdrawal	Phased out withdrawal or abandon
Weak	Up or out	Turnaround or abandon	Turnaround or phased out withdrawal	Abandon

Credit: Jaap H.M. de Jonge (12manage)

The matrix is strong in guiding resource allocation. However, just like the Product Life Cycle model, it suffers from the overlap of life cycle stages. Once the diagnosis of the life cycle stage is erroneous, the resource allocation decisions made will tend to be inaccurate.

2.8 The Boston Consulting Group (BCG) Matrix

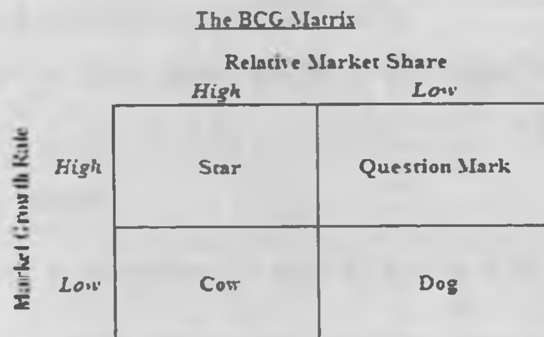
The Boston Consulting Group Matrix was introduced in the late 1960s to give corporations a ranking system for the value of their strategic business units. It uses relative market share and

industry growth rates in a four cell matrix as determinants of success *(Slatter, 1980)*. On the basis of this comparison, it categorises the business units into Stars, Dogs, Cash Cows and Question marks. It assists managers with the resource allocation problem by helping them determine when they should consider using profits from cash cow businesses to fund growth in other businesses.

Dogs are products with a low share in a low growth market and do not generate cash for the company but tend to absorb it. They should be discarded.

Cash cows are products with a high share of a slow growth market. They generate more cash than is invested in them and should therefore be retained in the portfolio.

Figure 3: The BCG Matrix



Credit: Jaap H.M. de Jonge (12manage)

Question marks are products with a small share of a high growth market. They consume resources and generate a little in return.

Stars are products with high share of high growth markets. They tend to generate high amounts of income and should be kept and built *(Kroll, 2004)*.

The matrix comprises of four quadrants on a grid with the vertical axis representing industry or market growth rate and the horizontal axis representing the product's relative market share. The product categories (above) will each then fall into a quadrant.

The major criticism of the BCG Matrix is its simplicity. It is poor for strategic purposes and should preferably be used for planning purposes. For instance, market growth is not the only indicator for attractiveness of a market, and market share is not the only critical success factor *(Stern & Stalk, 1998)*. However, the matrix remains relevant today as a company can use it for a quick look at their products' performance and sustainability and save both time and money. Also, *Kroll (2004)* found through research that almost all Boston Consulting Group's alternatives have been based on the BCG Matrix.

2.9 Porter's Five Forces Model

This model remains crucial in identifying the relevant factors in McKinsey model's industry attractiveness dimension, in particular the elements that relate to industry attractiveness. According to *Porter (1980)*, five forces exert competitive pressure in any industry. These he names as rivalry within the industry, the threat of substitute products, threat of new entrants, the bargaining power of buyers and the bargaining power of sellers. It has been observed however, that a sixth force exists, which is the government *(Grant, 2000; Wheelen & Hunger, 1990)*. They precluded the government as part of barriers to entry since the

government wields such strong and direct force within the industry that it deserves to be mentioned separately. These factors are discussed separately below.

New entrants in any industry/markets come with new innovations, cause fresh jostling for market share and create over capacity. If their entry is easy, then they pose a real threat to players in the market. *Porter (1980)* offers that barriers to entry are the obstacles that a firm must overcome to enter an industry/market. Low barriers are an opportunity to the new entrant *(Thompson, 1990)* but a threat to market players. *Grant (2001)* says that airlines can use the hub and spoke strategy as a barrier to entry. Examples of barriers include capital requirements, economies of scale, product differentiation, buyers' switching costs, access to distribution channels and government policy *(Porter, 1980)*.

Rivalry kicks in when there is heightened jostling for market share in the market. According to *Porter (1980)* common weapons used include price wars, advertising duels, product re-innovations and increased customer service. He further offers that rivalry can be as a result of high exit barriers, high strategic stakes and diverse competitors. *Keegan (1995)* observes that rivalry almost always results in industry-wide misery as they depress profits and lead to loss of growth.

Firms exist to sell products. It is threatening therefore, when a new innovation comes that can substitute their products. Other than the threat or rendering their products redundant, substitutes can limit the potential returns of an industry by placing a ceiling on the prices

firms in the market can profitably charge *(Porter, 1980). Thompson & Strickland (1989)* add that substitutes prevent price increases as their presence invites customers to compare quality, performance and price.

Porter observes that suppliers tend to be powerful when they are few and can exert bargaining power over players in the market by threatening to raise prices or reduce quality of goods and services. This results in increased cost of inputs for the buyers of the product or service. They (suppliers) effectively squeeze profits out of the market reducing its attractiveness.

Similar to suppliers, buyers of products in an industry can exert a downward pressure on product prices. They can also push for high quality of products at very unreasonable prices. *Pearce and Robinson (1997)* note that the power of buyers is higher when the volumes of their purchases are high giving them added importance. Such pressure makes an industry undesirable to a potential entrant.

Proponents of this force were *Wheelen and Hunger (1990)* and *Grant (2000)*. The government can influence the structure of an industry by issuing policies that limit the companies in one way or another and can also affect the growth of the industry. These directly affect the firms and where they are too many or harsh, the industry turns unattractive.

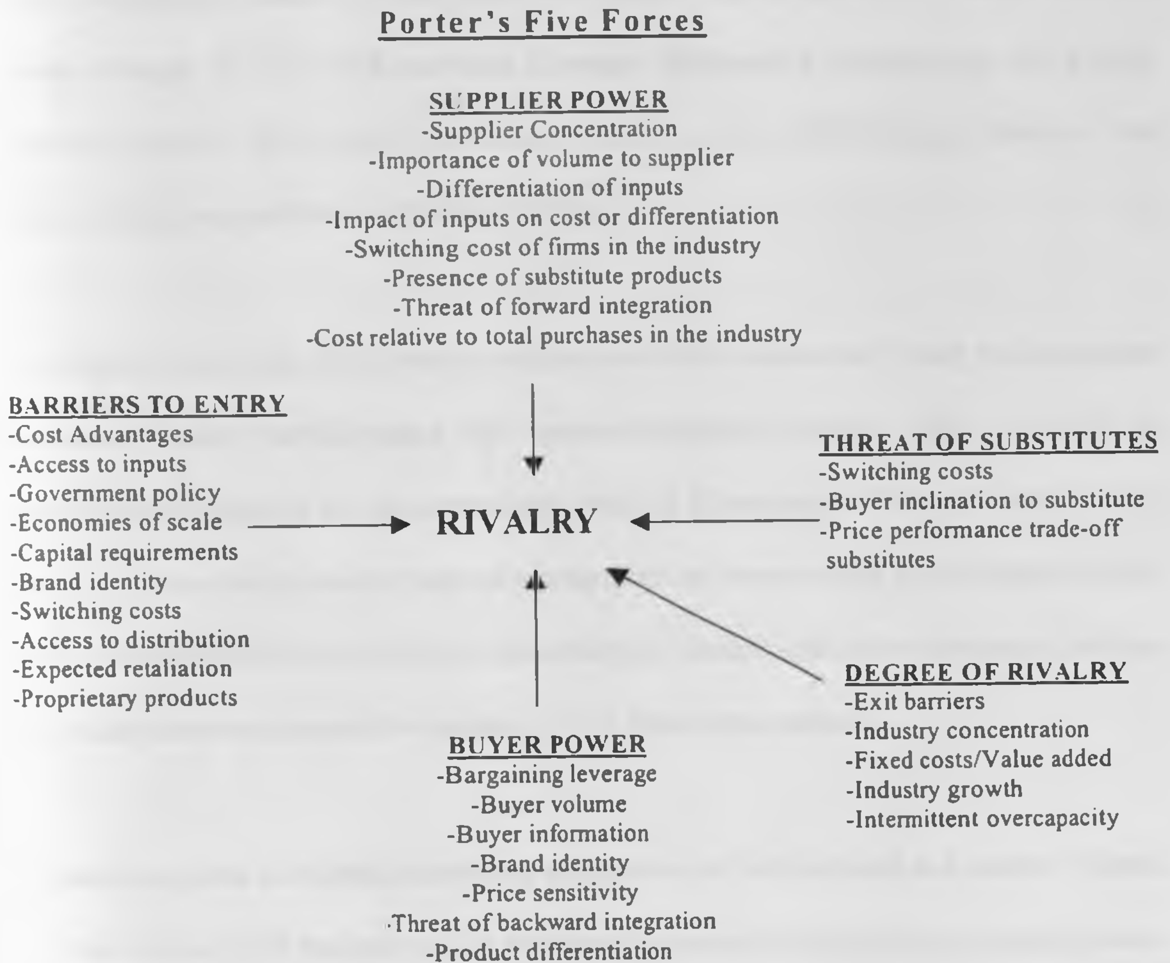
Boseman and Phatak (1989) allow that it is the changes in the characteristics of each of these factors that generate new opportunities and threats and a new set of key success factors. *Koch (1995)* observes that a good industry will have high returns on capital, clear barriers to entry, capacity at or below level of demand, reasonable market growth, little threat by substitutes and low bargaining power by both suppliers and buyers.

Porter's model is strong in that it is a powerful tool for competitive analysis at industry level. Also, it provides useful input for performing SWOT analysis. Its main limitation as far as resource allocation is concerned is that its diagnosis ends with reporting on the attractiveness of a market/industry. It does not go on to relate the business strength to the market, which would assist with resource allocation.

2.10 Other Models

Several models have been developed in recent times. These include The McDonald Directional Policy Matrix (McDonald DPM), STRATPORT and the Three Dimensional Business Definition among others. McDonald DPM was developed in the '90s and seeks to solve the problems of BCG's simplicity and GE-Matrix subjectivity. It focuses more on what the *customer* sees as attractive or competitive. STRATPORT (STRATegic PORTfolio planning) by Larreche and Srinivasan in 1981 can evaluate the profit and cash flow implications over time when a given portfolio strategy is followed. Prof. Derek F. Abbel's Three Dimensional Business Definition of 1980 seeks to improve Ansoff's model by using three dimensions as opposed to Ansoff's two.

Figure 4: Porter's Five Forces Model



2.11 The GE-McKinsey Matrix

In the late sixties and early seventies, General Electric had 43 SBUs. The profits they had made from their companies were disappointing, indicating flaws in GE's approach to investment decision-making. The BCG Matrix, which had just been developed by the Boston

Consulting Group became of interest to GE. GE however, objected to the two dimensional matrix, which only relied on market growth for market attractiveness and market share for business strength. In 1971, McKinsey and Company developed a portfolio tool with a wider dimension than the BCG matrix. It became known as the GE/McKinsey Matrix or the Industry Attractiveness-Business Strength Matrix.

The rationale behind the matrix was to evaluate each GE business unit along two composite dimensions: industry attractiveness and business strength *(Cooper, 1993)*. Criteria for assessing each dimension are then developed. *Abell & Hammond (1979)* say that the matrix is used to characterize product market alternatives in terms of the attractiveness of the market, growth rate of the market, and the ability to create a distinctive advantage, such as high market share and competitive leadership of a firm's own projects.

The matrix requires the identification and assessment of both external and internal factors. Once this is done, each business unit is positioned in terms of overall industry attractiveness and business strength on a nine-cell grid *(Hax & Majluf, 1983; Segev, 1995)*. The matrix comprises of nine cells and uses the competitive position of the company and industry attractiveness. Three categories are used to classify both attractiveness and strength. The resulting strategic options implied are to grow, to hold or to harvest the business unit.

The process of identifying the uncontrollable factors is followed by determining how much each factor contributes to the attractiveness of the industry to which the business belongs. As

Hax & Majluf (1983) have observed, this assessment is largely judgemental, which is one of the shortcomings of the model. Controllable factors are often evaluated by comparing them to those of the leading competitor in the business or market under consideration.

Once an overall assessment of industry attractiveness and business strength has been made, the current position of the business or product is established in one of the nine cells of the matrix. Indeed, this position so established is based on historical data, which offers little for the future. As *Seeger (1984)* observed, "the definition of competitive position and industry attractiveness is often based on historical information that may be irrelevant for the future. This could result in the corporation investing in businesses where competitive position cannot be maintained for reasons that are not apparent in backward scanning". Also, *Slater (1992)* concluded in his study that "portfolio planning techniques should be used very cautiously as reliance on historical information about businesses and markets, is likely to lead top management to overestimate or to miss opportunities". However, *Hax & Majluf (1983)* are of the view that "to assess what the future holds for the portfolio of the firm, first the trends that will take place for each of the external factors must be forecast. A composite of these trends indicates the *future* attractiveness of the industry (or market)".

The next step is to determine the strategic positioning for each unit or product for its future development. This involves making moves within each controllable factor to result in a desirable competitive position. Strategies must be formulated aimed at securing long-term

sustainable competitive advantage. The global strategy chosen has to be fitted to the actual internal capabilities of the firm.

Hax & Majluf (1983) slight the matrix for its multidimensional indicators, which they consider complex. A weighting process is unavoidable whether done explicitly or implicitly. They however say that the matrix is useful for diagnosis and strategic guidance of one's own firm (or product).

Figure 5: The GE/Mckinsey Matrix

BUSINESS STRENGTH	INDUSTRY ATTRACTIVENESS		
	HIGH	MEDIUM	LOW
HIGH	***Invest and Grow*** Seek dominance Maximise investment **(Leader)**	***Selective Growth*** Identify growth area Invest in growth **(Try Harder)**	***Selective Growth*** Maintain position Seek cash position **(Cash Generation)**
MEDIUM	***Selective Growth*** Identify weaknesses Build on strengths **(Growth)**	***Selectivity*** Specialise Invest selectively **(Proceed with Care)**	***Harvest/Divest*** Prue lines Minimize investment **(Phased Withdrawal)**
LOW	***Selectivity*** Specialise niche Seek acquisition **(Improve or Quit)**	***Harvest/Divest*** Specialise niche Consider exit **(Phased Withdrawal)**	***Harvest/Divest*** Attack rivals Time exit **(Withdrawal)**

Credit: Dr Makamsom (Hampton University School of Business)

Portfolio matrices in general, have been criticised for being overly simplistic representations of the complex influences on the resource allocation decision *(Seeger, 1984; Wensley, 1981)*. However, *Hax & Majluf (1991:194)* observe, "It is our experience that portfolio matrices can assist in bringing intelligent and appropriate communicational opportunities to the hard issue of portfolio management". This lends credence to their continued use.

The main strengths of the McKinsey matrix are that it has a wider array of factors that assess both market attractiveness and business strength as opposed to the BCG matrix, which only uses one factor to determine both dimensions. The matrix is a 3x3 matrix, which results in a 9-grid table. This allows for more sophistication than most other matrices.

Limitations of the McKinsey matrix are that the process of selecting and weighting factors is highly subjective, interactions between units are not considered and that the aggregation of the indicators is difficult.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter is about the research design, population, data collection techniques and data analysis techniques employed in this study.

3.2 Research Design

This study evaluated the applicability of the McKinsey Matrix as a tool for assessing market attractiveness for Kenya Airways. The study took the form of a case study where Kenya Airways' entire route system was assessed using the McKinsey Matrix. A case study approach was adopted as the McKinsey Matrix (and indeed other portfolio planning tools) is best applied to an organisation, an organisation's SBUs or at an organisation's product level. It is a tool that can be used by an organisation for resource allocation. If applied across a group of separate corporate entities, the results may not be relevant to any one of the corporate entities.

All the routes with Nairobi as the hub (operations starting and terminating in Nairobi) were selected and treated as business units. This means that sectors between Hong Kong and Bangkok or Bamako and Dakar, which do not begin or terminate in Nairobi, were left out. This is because the matrix can only accommodate industry statistics of one of the countries and not both.

3.3 Population

The population under study comprised of all Kenya Airways' routes and for each route, the respondents were country managers. They are stationed in the destinations to which the airline flies. In some cases, a manager may be in charge of more than one route. The country managers were 26 in number and in charge of the 33 routes selected for this study.

3.4 Data Collection

Data was collected using questionnaires. These were circulated and received back through email. The reason for this is that the majority of the respondents were country managers based outside the country. However, personal interviews were conducted in a few cases where the respondents were available. The questions were predominantly closed-ended with less than 5% of the total questions being open-ended.

Two different questionnaires were designed and circulated. The first one was aimed at getting weights for each dimensions' factors while the second one aimed at collecting scores for each route on each dimensions' factors. To eliminate biasness, the weighting and scoring were separated. The managers at the head office responded to the first questionnaire (weights) while the country managers scored their routes against the factors. The response rate of the first questionnaire was 87%. The second one achieved 88% meaning that out of a total of 33 routes sampled, 29 routes participated.

The first questionnaire comprised of two sections, namely market attractiveness and competitive strength sections. For each section, the respondents were expected to attach weights of importance to selected dimension factors. The second questionnaire comprised of three sections namely, route background, market attractiveness and company strength sections. Respondents were expected to score their market and business strength against the pre-determined dimension factors.

3.5 Data Analysis

Once both questionnaires were received back, they were checked to ensure completeness, consistency, accuracy and uniformity. They were then arranged in MS Excel to allow for coding and tabulation. The overall result was a set of weights and scores for each route, which were then used to compute each route's ranking. Using these rankings, the McKinsey Matrix was then plotted using MS Excel. Data coding and cross-tabulation was also carried out. Percentages, frequency distributions, tables, and charts were used to describe the resulting data. This section of the data analysis was done using the Statistical Package for Social Sciences (SPSS).

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter is about the detailed research findings from the application of the McKinsey Matrix to the Kenya Airways' routes and their discussion. Both tables and charts will be used to explain the findings.

4.2 General Information on Kenya Airways' Routes

Kenya Airways has a total of 37 destinations, four of them being domestic. The remaining 33 destinations are scattered across six regions as shown in the table below:

Table 4.1: Kenya Airways' Existing and New Destinations

Existing Destinations:

Region	No.	Destinations
Europe	3	London, Amsterdam and Istabul
Middle East & Asia	5	Dubai, Mumbai, Bangkok, Guangzhou & Hong Kong
Northern Africa	4	Cairo, Khartoum, Addis Ababa & Djibouti
Southern Africa	5	Johannesburg, Maputo, Lusaka, Harare & Lilongwe
West & Central Africa	10	Lubumbashi, Kinshasa, Douala, Yaounde, Lagos, Accra, Abidjan, Bamako, Dakar & Freetown
Eastern Africa	6	Entebbe, Dar es Salaam, Zanzibar, Seychelles, Kigali & Bujumbura
Domestic	4	Mombasa, Kisumu, Lamu & Malindi
Total	**37**	

New Destinations planned for October 2006:

Region	No.	Destinations
Europe	1	Paris
W&C Africa	2	Brazzaville & Cotonou
Total	**3**	

Source: Research Data

Intra-African routes other than Cairo, Dakar, Bamako and Freetown are generally considered to be short-haul routes. The rest are long-haul. As can be seen in Table 4.2 below, about twelve routes were launched within the last 5 years. This means that 41% of the routes studied were launched after the downturn in the aviation industry begun with the September 2001 terror attacks, and the subsequent rush by all airlines to open new routes.

Table 4.2: Aging of Kenya Airways' Routes

	Frequency	Percent
Less than 1 year	3	10.3
1 to 3 years	7	24.2
4 to 6 years	2	6.9
7 to 9 years	2	6.9
10 years & above	15	51.7
Total	29	100

Source: Research Data

Kenya Airways has operated for 10 years and above to 51.7% of the destinations that responded. 7 of the routes are about 3 years old and 3 routes are less than a year old.

Kenya Airways follows the "hub and spoke" strategy whereby it operates the intra-African flights to "feed" and "de-feed" the long-haul flights, using the Jomo Kenyatta International Airport (JKIA) in Nairobi as a hub. The intra-African points are the spokes.

Kenya Airways has 4 main categories of travellers, namely traders, leisure travellers, corporate officials and Government officials. Traders/merchants fly between West and Central Africa and the Middle East and Asia regions. These are regarded as high cargo

destinations. Leisure travellers transit via Nairobi to destinations such as Europe, the USA, Mozambique and South Africa among many others. Corporate and Government officials transit via the JKIA hub to key destinations such as Dakar, Entebbe, Accra, Addis Ababa, Lusaka and Johannesburg among others.

In order to serve its stable of routes effectively, Kenya Airways currently operates a fleet of 21 aircraft, 19 of them being Boeing manufactured and 2 SAAB manufactured (for domestic routes). The wide-body aircraft (with twin isles and more than 200 seats) have more than 10 tons of cargo capacity and are used on routes with high trader traffic and on long haul routes such as London, Amsterdam, the Middle and Far East. The narrow-body aircraft (with a single isle and with about 120 seats) mainly operate to intra-African destinations to "feed" and "de-feed" the wide-body aircraft on long-haul missions.

Kenya Airways plans to open new routes such as Paris, Brazzavile and Cotonou. It also plans to receive 4 new aircraft by March 2007, and to replace the current B767 fleet with at least 10 new and modern B787 aircraft. These are plans with huge resource allocation implications. The McKinsey Matrix has been used in this study to assess whether Kenya Airways is operating to markets attractive enough to justify such and similar resource allocations. The study has also assessed whether the Matrix can recommend reasonable resource allocation options for the airline for each of its routes.

4.2.1 Market Attractiveness

Before venturing into a market, it must be assessed for attractiveness. Market attractiveness refers to the factors that draw one to a market. It is its attractiveness that will determine whether resources in terms of investment should be allocated to it. For existing markets, attractiveness should have a bearing on how much resources are spent on strategies for developing a market. Factors for market attractiveness are external and hence, uncontrollable by the company. Market attractiveness is one of two dimensions of the McKinsey Matrix, which evaluates products or business units for resource allocation. This study used the matrix to assess Kenya Airways' routes. Kenya Airways routes were tested for attractiveness.

For Kenya Airways, this study used 14 factors to assess the attractiveness of destinations. Two questionnaires were sent out. The first one aimed at giving weights to factors of both dimensions of the McKinsey Matrix. It was sent to Head office managers who attached varied weights (on a scale of 3) to each factor as shown on Table 4.3 below. For independence, country managers separately scored their routes against each factor. Having the same respondent give weights to factors and then score their routes against those factors would have reduced independence of the two separate exercises and increased subjectivity. Market growth rate was the most important market attractiveness factor while technology was rated the lowest.

The Table 4.3 also summarizes the study findings on market attractiveness. These are the overall levels of each factor for all of Kenya Airways routes. These help to determine the

overall level of attractiveness for all the routes found in the last column. The final row of the table shows the overall market attractiveness of the airline. The overall score of 2.24 is on a scale of 3 indicating high attractiveness. Overall market attractiveness on the last column also indicates high attractiveness.

Table 4.3: Average Factor Weights and Overall Attractiveness

No.	Market Attractiveness Factors	Average Weight	Study Findings	Overall Kenya Airways Market Attractiveness
1	Market Growth Rate	2.79	High	High
2	Market Size	2.75	Moderate	High
3	Barriers to Entry/Exit	2.58	Low	Low
4	Competitor Rivalry/Wars	2.54	Low	High
5	Market Concentration	2.46	Very High	Low
6	Pricing/Fares	2.46	High	Very High
7	Characteristics of Customers	2.42	Moderate	Moderate
8	Economic Growth	2.33	High	High
9	Market Segmentation	2.29	Low	Very High
10	Product differentiation	2.25	Low	Very High
11	Bargaining Power of Suppliers	1.79	Moderate	Moderate
12	Bargaining Power of Airlines	1.67	Moderate	Moderate
13	Substitute Services	1.63	Low	Very High
14	Technology Development	1.46	Moderate	Moderate
	Overall	**2.24**		**High**

Source: Research Data

Below are detailed discussions of each factor used in the market attractiveness dimension. The discussions have presented the research findings, explained and interpreted them.

Market growth rate is the most important market attractiveness factor having received a weight of 2.79 on a scale of 3. This factor sought to assess the importance of the rate at which the number of passengers flying into a market is growing annually is to attractiveness.

Table 4.4: Kenya Airways Market Growth Rates

	Frequency	Percent
10-20%	7	24.2
5-10%	9	31
Less than 5%	11	37.9
Declining	2	6.9
Total	29	100

Source: Research Data

Table 4.4 above shows the percentage of Kenya Airways' routes that fall under different brackets of market growth rates. The table shows that 16 destinations are growing at rates of between 5% and 20%. Of these, 9 are growing at between 5% and 10%. 2 destinations are experiencing declining growth while 11 or 38% of the routes studied are growing at between 0% and 5%. This means that 55% of the routes studied can be said to be in attractive markets in terms of growth rate.

The market size factor assesses the importance of market size to market attractiveness. 16 or 57% of the routes that participated have market sizes of over 200,000 passengers and above. 8 of the routes or 28.6% have market sizes of about 20,000 passengers. 2 routes have 80,000 passengers while two others have 10,000 and 100,000 passengers respectively. This indicates that most of Kenya Airways routes have a market size of either 20,000 or over 200,000 passengers. A large market indicates the business potential of the routes. As such, Kenya Airways' routes can be said to be attractive due to their market size.

Barriers to entry and exit are the factors that can prevent an airline from entering or exiting a market. When these factors are high, it reduces the attractiveness of the market. Cut-throat

competition was found to be the highest barrier to entry followed by start-up costs. These are followed by economic regulations, bilateral air service agreements, fares, security of investment, safety of operations and customer loyalty, in that order. 9 routes were found to be moderately easy to enter, another 9 were easy to enter and 7 were very easy to enter. 19 or 70.4% of the routes have low exit barriers while 29.6% are a little difficult to exit. This indicates that barriers to entry and exit are quite low. When the respondents were asked whether in their opinion there will be more entrants soon, 27 or 93% said yes, which reduced the attractiveness of these destinations further as more competitors are likely to enter the markets.

The competitor rivalry or intensity factor sought to find out the importance of competitor rivalry or wars to market attractiveness. It was placed fourth. Very high rivalry is characterised by price wars, aggressive marketing, "bad-mouthing" and destruction of competitors' property among others. Table 4.5 below shows that 12 or 41% of the routes studied are operating in markets with a high level of competitor rivalry while 15 or 52% of the routes are operating under moderate levels of rivalry. Only 2 routes are experiencing very high rivalry. No destination is experiencing low or very low rivalry. Since intense rivalry makes markets unattractive, Kenya Airways seems to be operating in rather unattractive markets rivalry-wise.

Table 4.5: Levels of Competitor Rivalry on Kenya Airways Routes

	Frequency	Percent
Very High	2	7%
High	12	41%
Moderate	15	52%
Low	0	0%
Very Low	0	0%
Total	29	100%

Source: Research Data

Market concentration was rated 5th overall. Markets that are concentrated with competitors dilute profits, which make them unattractive. 10 or 34% of the routes are in destinations with a very high concentration of competitors. 8 or 28% are in highly concentrated markets and 7 or 24% in destinations of moderate concentration. 1 and 3 routes are in destinations of low and very low concentration respectively. This implies that in terms of market concentration, 62% of the routes that participated are not very attractive.

Rated sixth overall and given the same weight as market concentration, the pricing/fares factor sought to assess what impact fares have on market attractiveness. High fares are attractive and tend to lure airlines to destinations. 10 routes or 34% have moderately high fares while 9 or 31% and 8 or 28% have very high and high fares respectively. Only 2 routes have low fares. On the trend of prices/fares, most routes are either experiencing falling or stable prices. 12 routes or 43% of the 28 routes that responded to this question are experiencing falling fares while 10 or 36% have stable fares as shown in Table 4.6 below. This means that 60% of the routes are quite attractive due to very high and high fares.

However, the 43% routes with falling prices diluted this attractiveness giving this factor a comparatively low weight.

Table 4.6: The Trend of Fares in Kenya Airways' Routes

	Frequency	Percent
Stable	10	36%
Rising	6	21%
Falling	12	43%
Total	28	100%

Source: Research Data

Characteristics or Attributes of consumers such as bulk buying, price sensitivity, brand identification, customer information and bargaining leverage among others, are known to affect the attractiveness of a market. This factor, which was rated seventh in Table 4.3 above, sought to know the importance of customer attributes in assessment of market attractiveness.

Table 4.7: Kenya Airways' Customer Attributes

	Min. Score	Max. Score	Mean
Price sensitivity	1	3	1.59
Buying volumes	1	4	2.07
Brand identity	1	4	2.21
Buyer information	1	4	2.38
Bargaining leverage	1	5	2.72

Source: Research Data

Price sensitivity was found to be the most important attribute among Kenya Airways' customers with a mean score of 1.59, followed by buying volumes, brand identity, buyer information and bargaining leverage. A maximum score of 5 meant least important. This means that price is very important for Kenya Airways' success in most routes while buying

volumes and brand identity are of importance take a little less importance. The information that customers have about the airline operations does not really affect the airline's survival while the bargaining nature of customers least affects the business. Price sensitivity is high, meaning that a small drop in prices can result in customer shifts (which could work against the airline). This makes most markets moderately attractive. Thus, with high price sensitivity and the other attributes being moderate, most Kenya Airways markets are moderately attractive.

Economic growth and air travel are believed to be directly proportional. This factor sought to know the extent to which economic growth matters in market attractiveness to an airline.

Table 4.8: Economic Growth at Kenya Airways' Destinations

	Frequency	Percent
High	4	14%
Moderate	12	41%
Slow	6	21%
Stagnant	4	14%
Declining	3	10%
Total	29	100%

Source: Research Data

Table 4.8 above shows that 4 out of 29 routes studied or 14% are in markets enjoying a high economic growth rate. 12 destinations are of moderate economic growth while 6 are experiencing slow economic growth. 4 markets have stagnant economic growth while 3 are in markets with declining economic growth. This means that 65% of Kenya Airways' routes are in attractive markets with either high or moderate economic growth rates. The remaining

35% in slow, stagnant and declining markets is significant and has eroded the overall attractiveness of Kenya Airways markets in terms of economic growth. The overall market attractiveness with reference to economic growth is high.

The market segmentation factor was rated ninth overall. It sought to know how much importance airlines place on the ability of a market to be segmented, or if it already is segmented, then if it can be segmented further.

Chart 4.1: Segmented Markets

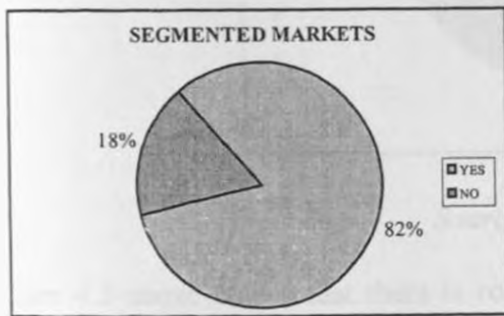
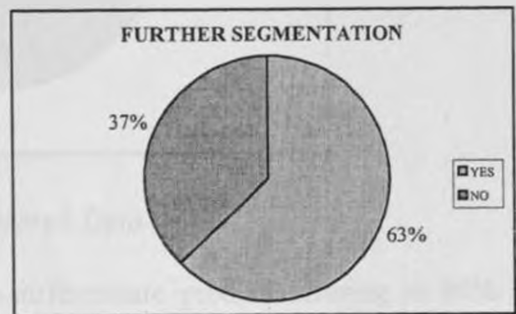


Chart 4.2: Further Segmentation

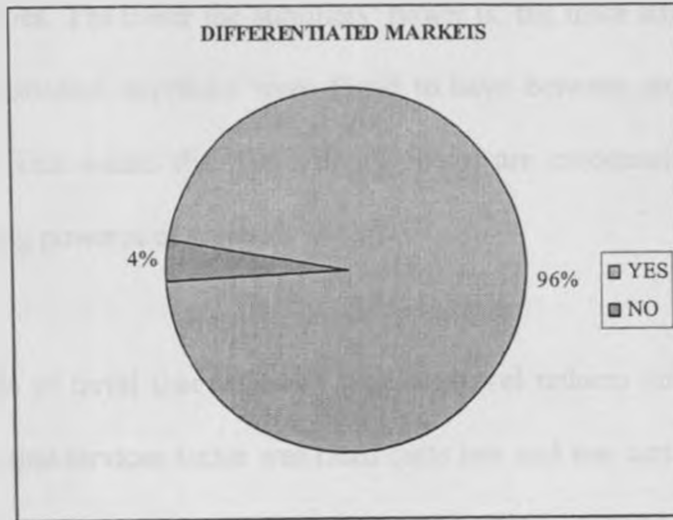


Source: Research Data

Chart 4.1 above shows that 82% of the respondents said that their routes are segmented. Chart 4.2 indicates that out of the 82% already segmented markets, 63% can be further segmented. This means that Kenya Airways has the opportunity to segment (both initial segmentation and further segmentation) about 70% of its markets. Segmentation is an attractive quality of a market as it can afford the airline the opportunity to identify and specialise on suitable market segment and reap maximum benefits. Kenya Airways routes are therefore very attractive due to high possibility of segmentation.

The product differentiation factor assessed how important the ability to differentiate one's product offering from the competition is to an airline.

Chart 4.3: Markets with Differentiated Products



Source: Research Data

Chart 4.3 above shows that there is room to differentiate product offering in 96% of the markets studied. When asked the extent to which this differentiation could be done on a scale of 1 (little) and 5 (A lot), the mean score was 3.59 indicating that there is quite a high chance to differentiate the current product offering. The airline can use product differentiation to "re-invent" products that are performing poorly in their markets. 96% of the markets present this opportunity meaning that most routes are very attractive in terms of product differentiation.

The factors for the bargaining power of airlines and suppliers were found to have low importance as far as market attractiveness is concerned. The factors sought to find out who in the market (airlines or suppliers) wields more power particularly when negotiating contracts

and setting prices of products. The bargaining power of suppliers received a slightly higher weight of 1.79 as opposed to airlines that received a weight of 1.67. This indicates that to the airline, bargaining power of suppliers affects market attractiveness more that bargaining power of airlines does. The lower the suppliers' power is, the more attractive the market. In 72% of the routes studied, suppliers were found to have between moderate and very low bargaining power. This means that the airline's routes are moderately attractive as far as suppliers' bargaining power is concerned.

Existence of modes of travel that seriously rival air travel reduces market attractiveness to airlines. The substitute services factor was rated quite low and was aimed at ascertaining just how important substitute products are in market attractiveness to airlines. The study found that in 80% of the routes that participated, there is little or no rivalry from alternative means of transport. 20% indicated that there existed alternative means of transport, which is mainly rail. This means that there is little or no threat to air travel in the destinations that Kenya Airways operates to, which makes most routes very attractive.

The technology and development factor was the least important for market attractiveness to the airline. It received a score of 1.46 on a scale of 3. This factor sought to know how important the use of Information Technology (IT) in the aviation world affects market attractiveness. These include electronic ticketing, in-flight entertainment gadgets on-board and others. 52% or 15 routes were found to be markets undergoing development of IT infrastructure while 7 or 24% had a high usage of and attached high importance to IT. The

remaining 7 have low usage of IT. Although there seems to be high and developing usage of IT in most of Kenya Airways' markets, it has little influence on the attractiveness of these markets.

In summary, the average attractiveness of all the markets that participated in this study stands at 2.24 on a scale of 3. This means that Kenya Airways is operating to highly attractive markets. This is corroborated by Table 4.9 below.

Table 4.9: Overall Attractiveness of Kenya Airways' Routes

	Frequency	Percent
Very attractive	4	14%
Attractive	11	38%
Moderate	12	41%
Little	1	3%
Total	28	97%

Source: Research Data

Table 4.9 above shows that 15 or 54% of the routes are either in attractive markets or very attractive markets. 4 markets are in very attractive markets and 11 in attractive markets. 12 markets or 43% are of moderate attractiveness and 1 of low attractiveness. The majority of routes (27 in total) fall in markets of between moderate and very high attractiveness.

4.2.2 Competitive/Business Strength

Competitive strength refers to the level of control that one has of a market. The higher the level of control, the higher the competitive strength is deemed to be. Competitive strength shows itself by way of high market shares, superior products, repeat customers and high levels of customer loyalty among many others. These factors of business strength are usually

internal to the firm and largely controllable. The McKinsey Matrix uses competitive strength as one of two dimensions in the model that assesses products or business units and assists with resource allocation. This section therefore tested the strength of Kenya Airways in its markets in an effort to evaluate them using the McKinsey Matrix.

This study used 12 factors for the competitive strength dimension of the McKinsey Matrix. For independence, head office managers weighted these factors on a scale 3 in the first of the two questionnaires sent out. The response rate for the first questionnaire was 87%.Country managers then scored their routes against each factor on the second questionnaire, which achieved a response rate of 91%. Reliability received the highest weight of 2.79 meaning that it was thought to be the most important factor of competitive strength to an airline. The lowest was marketing effort, which received a weight 2.08 on a scale of 3. Table 4.10 below shows all the factors used and their weights.

The study finding column in Table 4.10 gives a total market view of each factor as received from country managers' scores. The last column – overall business strength – draws inferences from the findings to give a level of competitive strength for each factor. The overall weight of 2.46 indicates that Kenya Airways' overall strength can be rated as strong.

Table 4.10: Average Factor Weights and Overall Business Strength

No.	Business Strength Factors	Average Weight	Study Findings	Overall Kenya Airways Business Strength
1	Reliability	2.79	High	High
2	Customer Loyalty	2.75	Moderate	Moderate
3	Frequency of Flights	2.75	Moderate	Moderate
4	Market Share	2.67	High	High
5	Distribution Strength	2.54	High	High
6	Customer Service	2.50	High	High
7	Partnerships	2.42	High	High
8	Loyalty Programmes	2.33	Low	Low
9	Market Segment Strength	2.25	High	High
10	Baggage Allowance	2.21	Moderate	Moderate
11	Customer Complaints	2.21	Moderate	Moderate
12	Marketing Effort	2.08	High	High
	Overall	**2.46**		**High**

Source: Research Data

Following below are discussions of each factor of business strength dimension of the McKinsey Matrix used in this study. For each one of them, the findings have been presented, explained and interpreted.

The reliability factor had the highest importance. It sought to rate the importance of on-time performance, cancellation of flights and delivery of passenger baggage among others to the competitive strength of an airline in a market. Findings show that 15 or 52% of the routes indicated Kenya Airways' reliability as being high, 2 or 7% rated it as very high and 7 or 24% as moderate. 3 or 10% described it as low. 2 routes rated the airline's reliability as very low. This means that Kenya Airways' has a high rating of reliability in 59% of its routes. Coupled with the routes that rated its reliability as moderate, about 83% of the routes recorded above average results for this factor. High reliability indicates a strong level of

business strength. As such, on reliability, Kenya Airways was rated as having high reliability on its routes.

Customer loyalty was the second most important factor of competitive strength. It tested the importance of having loyal and repeat customers as part of enhancing competitive strength. All the routes studied were found to have repeat customers. Only the level differed as shown on Table 4.11 below.

4.11: Levels of Customer Loyalty in Kenya Airways' Routes

Estimate of Repeat Customers (%)	Frequency	Percent
10	3	10%
15	4	14%
20	1	3%
30	7	24%
35	2	7%
40	4	14%
50	1	3%
60	3	10%
70	2	7%
80	2	7%
Total	29	100%

Source: Research Data

From Table 4.11 above, 3 routes or 10% of the routes studied have 10% of their total passengers being repeat customers. 4 routes have 15% repeat customers and 7 routes have 30%. 8 routes have levels of repeat customers ranging between 50 and over 80%. Another 13 routes have between 20 and 40% leaving 8 routes with below 15% repeat customers. Only a few routes have high or very high repeat customers meaning that the airline's repeat

customers range between low and moderate. This shows moderate business strength in terms of customer loyalty.

The frequency of flights as a factor sought to rate Kenya Airways in terms of the number of flights it has to its destinations. The more frequencies an airline has to a destination, the stronger it is bound to be in that market as it gives its passengers a wider choice of flying times. The study found that 5 routes or 17% of the routes studied rated very highly on flight frequencies, 4 routes rated high and the majority of routes – 11 or 38% - rated moderately on the factor. 6 and 3 routes rated low and very low on frequency of flights. This is shown in Table 4.12 below.

4.12: Frequency of Flights to Kenya Airways' Routes

	Frequency	Percent
Very High	5	17%
High	4	14%
Moderate	11	38%
Low	6	21%
Very Low	3	10%
Total	29	100%

Source: Research Data

From the findings above, it shows that most routes have moderate number of flight frequencies. This means that the airline's flight frequencies to its destinations are moderate as compared to its competitors in general. This gives the airline moderate strength on this factor.

The larger the share of the market an airline has compared to its competition, the stronger it is perceived to be. The market share factor sought to find out how Kenya Airways routes fared on market share compared to competition.

4.13: Kenya Airways Market Shares

	Frequency	Percent
Less than 10%	8	31%
About 20%	10	38%
About 50%	5	19%
About 75%	3	12%
Total	26	100%

Source: Research Data

The findings from Table 4.13 above are that 8 routes or 31% have market shares of less than 10%, 10 routes or 38% of the routes have about 20% while 5 routes have about 50% market share. Only 3 routes have market shares of about 75% and above. 18 routes have market shares of 20% and below while 8 routes or 31% have market shares of above 20%. This means that the majority of Kenya Airways enjoys an average market share of about 20%. This gives the airline high business strength seeing as market concentration was found to be very high. An average market share of about 20% in concentrated markets is good and shows good strength.

The distribution strength factor measured the importance that airlines attach to how spread their networks of travel agents are. In most cases, travel agents are the first interface between passengers and the airline, and the greater the network of agents, the larger the catchment

area for passengers. As shown on Table 4.14 below, the study found that the majority of Kenya Airways' routes - 13 routes out of 29 or 45% - have rated the airline's distribution network highly. Only one route scored very highly on distribution and 9 routes or 31% rated it as moderate. 4 routes scored distribution as low and 2 as very low.

Table 4.14: Level of Distribution at Kenya Airways' Destinations

	Frequency	Percent
Very High	1	3%
High	13	45%
Moderate	9	31%
Low	4	14%
Very Low	2	7%
Total	29	100%

Source: Research Data

On average, the distribution network of Kenya Airways is high. This means that the airline's distribution network is at par with the competition in most of its markets. This gives the airline good strength as far as distribution is concerned.

Customer service is what the customer experiences as the customer interacts with the airline. The better the experience, the higher customer loyalty grows. It may also result in loyalty shifts from the competition, which will boost the airline's strength in the market. This factor sought to know how important customer service is for competitive strength and how Kenya Airways ranks on this factor in its markets. The study found that only 1 route rated Kenya Airways' customer service as very high. 9 others or 31% rated it as high. 12 routes or 41% rated customer service as moderate. 6 routes rated it as low and one route as very low. With

34% of the routes being above average on customer service and 24% below average, the level of customer service on Kenya Airways' routes can be said to be high compared to competition. 41% of the routes are moderate meaning that there is an opportunity to improve customer service on these routes to a high level.

Partnerships are known to expand the network of airlines even to routes that they do not actually fly. The number and quality of partnerships can improve the competitive position of airlines. This factor aimed at establishing how much importance the airline attaches to partnerships in improving competitive strength. The study found that 19 or 65% of the routes studied actually have in place various forms of partnerships with other airlines in their markets. 7 routes or 24% do not have partnership agreements and 3 routes have partnership agreement negotiations on-going. This means that there is a small window of opportunity to forge partnership relations in 24% of the routes. Table 4.15 below shows the benefits of partnership agreements to the routes studied.

Table 4.15: Benefits of Partnership Agreements to Kenya Airways

	Frequency	Percent
Very much	6	23%
Quite a lot	9	35%
Moderate	3	12%
A little	2	8%
Not quite	6	23%
Total	26	100%

Source: Research Data

With 6 and 9 routes reporting that partnerships have been very beneficial and quite beneficial, 58% of the routes feel that partnerships are crucial and have indeed benefited the

airline. 31% of the routes have seen little benefit from partnership agreements. This means that the airline has the potential to reap the benefits of partnership agreements in 31% of its routes. The overall level of partnership on Kenya Airways routes is high compared to its competitors implying that the airline is quite strong in the market as far as airline partnerships are concerned.

Loyalty programs are programs designed to retain existing customers and to lure new ones to the airline. This factor assessed the level of importance the airline attaches to loyalty programs as a means of enhancing competitive strength. Stronger loyalty programs often result in loyalty enhancement and loyalty shifts from the competition, which in turn increases competitive strength. From the study, 3 routes or 10% rated the airline's loyalty programs very highly and 4 or 14% as high. Loyalty programs were rated as moderate in 5 routes or 17% of the route studied. The highest number of routes – 10 or 34% - rated loyalty programs as low while 7 routes or 24% rated the programs as very low. Therefore, 7 routes or 24% rated loyalty programs as above average while 17 or 58% rated it as below average. This means that Kenya Airways is not performing well in its markets on loyalty programs compared to its competitors. The result of this is a low overall score on loyalty programs.

The market segment growth factor sought to know the importance of an airline being a segment leader in enhancing competitive strength. Where an airline leads in a segment or segments of the market, then it is viewed as being strong competitively. Findings from the study are that 2 routes or 7.3% feel that they are leaders in the tourist traffic segment. 9

routes or 31.7% are leaders in trader traffic while 4 routes are leaders in leisure traffic. 10 routes or 34.1% are leaders in corporate traffic (NGOs, the UN, etc) while 5 others are leaders in government traffic. This means that Kenya Airways has good business strength as it is a market leader in at least one segment of traffic in all its routes.

Baggage allowance is used by airlines a strategy for luring passengers particularly in routes with merchants and high volumes of cargo. Thus, the airline with higher allowances has its competitive strength enhanced. The study found the overall strength of Kenya Airways on baggage allowance as being moderate as 11 routes or 38% reported baggage allowances higher or much higher than the competition while 10 routes or 25% rated baggage allowances as lower or much lower than competition. This means that the airline's baggage allowance is almost at par (moderate) with its competitors'.

Customer complaints serve to erode an airline's competitive strength as they may result in some customers leaving the airline for the competition once word goes out about its perceived poor performance. As Table 4.16 below indicates, most routes receive about 10 customer complaints per month. These are 12 routes accounting for 44.4% of the routes studied. Another 8 routes or 30% receive less than 5 complaints monthly. The highest number of complaints is received by 2 routes, which receive over 50 complaints monthly. 2 others receive about 30 complaints monthly while 3 routes receive about 20 complaints monthly.

Table 4.16: Number of Monthly Customer Complaints

	Frequency	Percent
Over 50	2	7%
About 30	2	7%
About 20	3	11%
About 10	12	44%
Less than 5	8	30%
Total	27	100%

Source: Research Data

This means that Kenya Airways has on average a manageable number of customer complaints of 10 per month. This level of complaints is not critical enough to erode competitive strength. The complaints received monthly of different types as shown in Table 4.17 below.

Table 4.17: Nature of Customer Complaints

	Frequency	Percent
Very serious	1	3%
Serious	7	24%
Reasonable	15	52%
A little serious	3	10%
Not serious	3	10%
Total	29	100%

Source: Research Data

From Table 4.17 above, very serious complaints are only received by one route. Serious complaints are received by 7 routes or 24% while 15 routes or 52% receive reasonable complaints. 3 routes receive complaints that are a little serious and another 3 receive complaints that are not serious. This implies that most customer complaints are reasonable and not serious. This means that the nature of customer complaints is unlikely to affect the airline's competitive strength negatively. However, the study revealed that in 19 routes or 65% of the routes studied, the customer complaints are mostly repeat complaints. This has

reduced competitive strength in that it appears that complaints are often not followed up and corrective action taken fast enough. Thus, the airline's competitive strength as far as customer complaints are concerned can be said to be moderate.

Marketing effort as a factor received the lowest weight of 2.08 on a scale of 3. It sought to know how important the amount of resources an airline employs to market itself is to its competitive strength. The findings of the study show that out of 29 routes, only one considers the airline's spend on marketing effort to be very high compared to competition. 13 routes or 45% feel that the airline's spend is high compared to competition whereas 7 think it is moderate. 8 routes or 28% think the resources are low compared to competition whereas no route thought that the airline's resources are very low compared to competition. This means that the airline spends higher resources than its competitors on marketing effort. This is likely to enhance it competitive strength to high.

Kenya Airways' overall competitive strength in its markets can be said to be high. Table 4.18 shows that 14 routes or 48.3% feel that the airline's strength is strong while 12 or 41.4% feel that it is fairly strong.

Table 4.18: Overall Competitive Strength

	Frequency	Percent
Strong	14	48%
Fairly strong	12	41%
Weak	2	7%
Very weak	1	3%
Total	29	100%

Source: Research Data

In summary of the McKinsey Matrix dimensions, the overall market attractiveness was found to be high and rated at 2.24 on a scale of 3. Overall competitive strength was also high and rated at 2.46 on a scale of 3. This therefore means that most of Kenya Airways routes will fall in or around the same cell on the McKinsey Matrix. The routes should cluster in or close to the "Growth/Penetrate" cell.

4.3 Findings from the McKinsey Matrix on Kenya Airways' Routes

This section gives the results of the study findings on the applicability of the McKinsey Matrix to Kenya Airways routes. The exact position that each Kenya Airways route falls in the matrix is given. There is also an explanation and interpretation of the implication of that position based on McKinsey strategic implications.

The McKinsey Matrix aims at using market attractiveness and the business strength of a unit of business of a company to determine where it falls on a nine-grid matrix. Each cell or grid has its own strategic implication which then applies to the business units that fall within it. These implications then guide a company on how best to allocate resources to each business units to achieve growth, maintain position and to specialize among others. The matrices that follow were plotted from data captured through the two questionnaires sent out with an overall response rate of 89%. They were plotted using MS-Excel and inferences drawn using the generic McKinsey strategic implications, which will also be discussed.

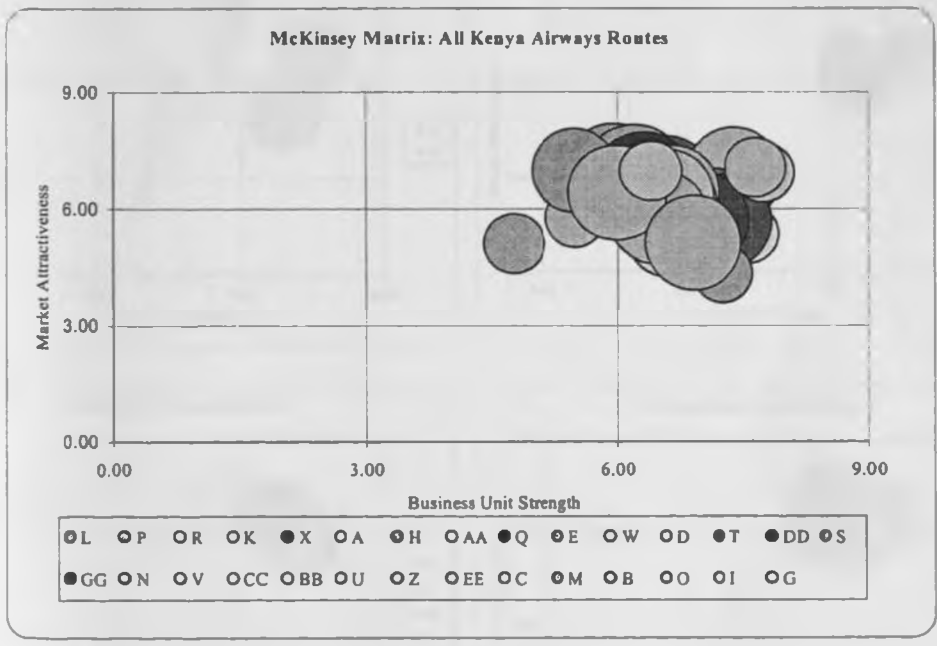
The route and region identities were kept confidential. The routes have been represented by alphabetical letters while the regions have been represented by Roman numerals.

As summarized in section 4.2.3 above, by looking at the overall market attractiveness and business strength of Kenya Airways, most routes were expected to cluster around the "Growth/Penetrate" cell of the McKinsey Matrix as shown in Chart 4.4 below. For all matrices that follow, the size of the bubble is proportional to its market size.

The following applies to each dimension:

Key: 0-3 represents "Low"; 3-6 represents "Medium"; 6-9 represents "High"

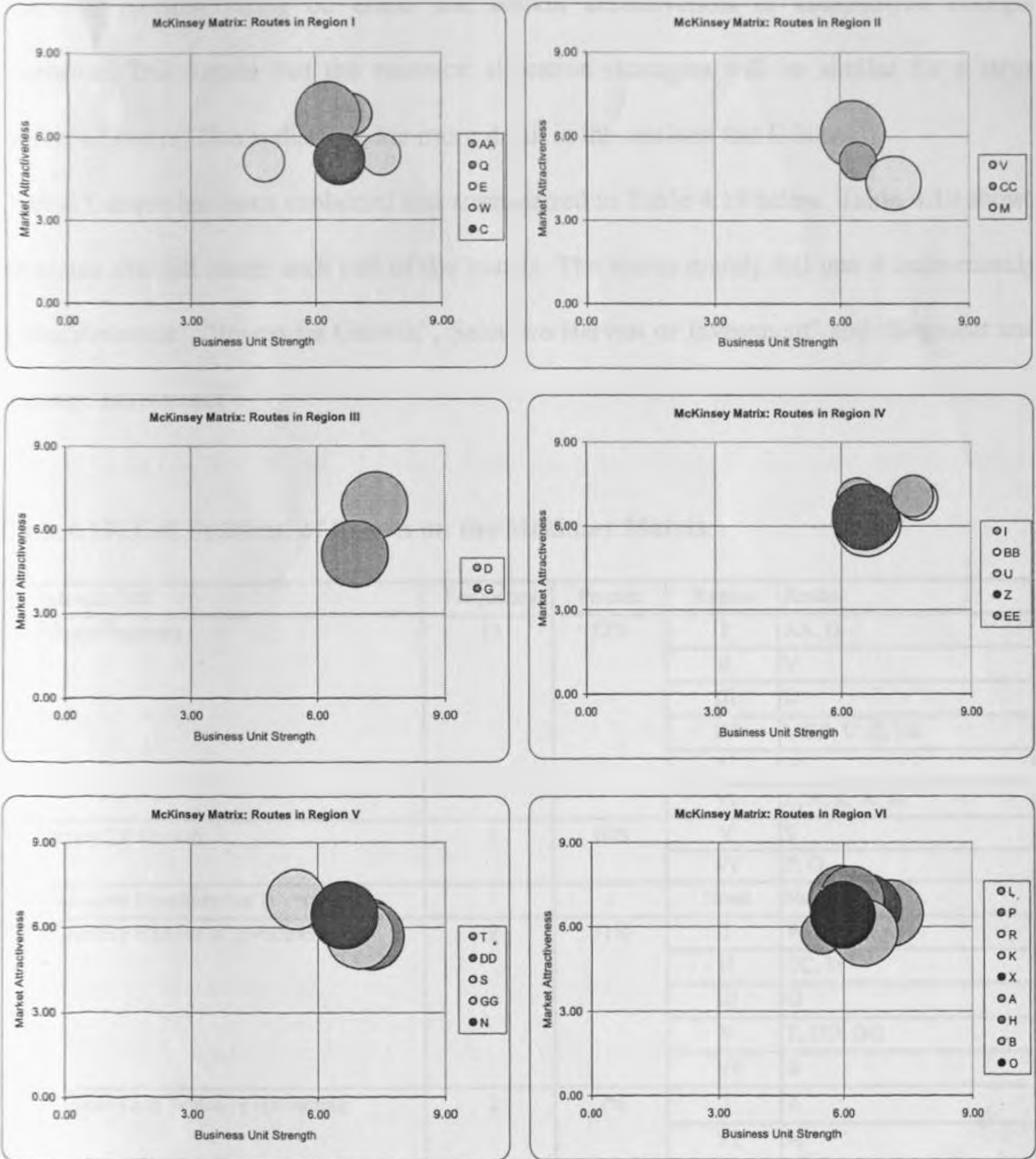
Chart 4.4: McKinsey Matrix for All Kenya Airways Routes



Source: Research Data

The matrix above representing all Kenya Airways routes is unclear due to overlap of routes. Chart 4.5 below shows McKinsey Matrices for each of the 6 regions of Kenya Airways.

Chart 4.5: McKinsey Matrices for Each Kenya Airways Region



Source: Research Data

The overall matrix (Chart 4.4) above shows that most Kenya Airways routes rate "High" on both McKinsey dimensions of market attractiveness and business strength. The many of them

therefore fall in the "Growth/Penetrate" cell. The other routes cluster around this cell. This depicts a medium rating on either the market attractiveness or competitive strength dimension. This means that the resource allocation strategies will be similar for a large number of routes. This is discussed in more detail in the sections that follow.

Chart 4.5 above has been explained and summarized in Table 4.19 below. Table 4.19 shows the routes that fall under each cell of the matrix. The routes mainly fell into 4 cells namely "Grow/Penetrate", "Invest for Growth", Selective Harvest or Investment" and "Segment and Selective Investment".

Table 4.19: Cell Positions of Routes on the Mckinsey Matrix

	Matrix Cell	Frequency	Percent	Region	Routes
1	Grow/Penetrate	15	52%	I	AA, Q
				II	V
				III	D
				IV	I, BB, U, Z, EE
				V	N
				VI	L, R, K, X, H
2	Invest for Growth	3	10%	V	S
				VI	P, O
3	Selective Investment or Divestment	-	-	None	None
4	Selective Harvest or Investment	9	31%	I	W,C
				II	CC, M
				III	G
				V	T, DD, GG
				VI	B
5	Segment and Selective Harvesting	2	7%	I	E
				VI	A
6	Controlled Harvest or Exit	-	-	None	None
7	Harvest for Cash Generation	-	-	None	None
8	Controlled Harvest	-	-	None	None
9	Rapid Exit or Attack Business	-	-	None	None

Following below are explanations of the research findings on Table 4.19 above as well as interpretations of the same.

4.3.1 Grow/Penetrate

These are routes that have high attractiveness and the airline has high business strength. On the matrix, they fall in the cell representing high market attractiveness and high competitive strength. The typical McKinsey Matrix recommendations for business units that fall in this cell should be to target the business units for investment and to provide them with financial and managerial support so as to maintain their strong position and to continue contributing to long term profitability. The overall strategies for these routes include seeking dominance, growth and maximising investment.

15 routes or 52% of the routes studied fall in this cell of the matrix. They are to be found in all the regions, but most of them fall in regions IV and VI. To seek dominance in these markets, the airline can explore the possibility of enhancing its competitive strength further by entering more partnership agreements and widening its network widening its network of distribution to entrench itself in the markets. The airline can also maximize investment by increasing flight frequencies to these routes to daily services or from daily to double-daily services to provide more convenience to its passengers and to stimulate fresh passenger traffic. It can also pay better agent commissions; spend more on community development, public relations, promotions and advertising. This may help in maintaining its strong position and profitability. This and operating larger aircraft can also work as a growth strategy.

4.3.2 Invest for Growth

Here, the airline is operating in routes with high attractiveness routes but the airline has medium business strength. This is one of the cells of the McKinsey Matrix that requires that business units be held and natured. The typical McKinsey Matrix recommendation for business units that fall in the cell of the matrix is to increase investment so as to improve their long term competitive position. The strategy should be to identify weaknesses in the markets, build strengths and to evaluate segmentation as a way of enhancing leadership.

Only 3 routes or 10% of the routes studied fall in this cell of the matrix. These are in regions V and VI. The airline needs to conduct a situation analysis in these markets by evaluating itself and its environment. It is only then that clear strategies will emerge for relating the airline's strengths with the market needs. Through an internal analysis, the airline strengths will come out clearly, and these it will build upon to improve its competitive strength. Through an external analysis, segments within the market will emerge. The airline can then focus on a few to enhance leadership. It can build strengths by improving its customer services to beat its competition. It can also improve the reliability of its operations.

4.3.3 Selective Harvest or Investment

These are routes where Kenya Airways has good business strength but the markets are losing attractiveness. On the matrix, these routes fall in the cell with high business strength but medium market attractiveness. This is one of the three desirable cells in the matrix where business units should be retained, grown and developed. Although they may be self-

supporting in cash flow terms, some of the routes may require some support. The stronger routes can be harvested for cash flows but care should be taken so as not to run them down prematurely. 9 routes or 31% of the routes studied fall into this cell.

The typical McKinsey Matrix recommendation for business units that fall in this cell is to identify growth segments, invest strongly and to maintain positions elsewhere. These segments are identifiable through external analyses of the markets followed by investments in the selected ones so as to enhance competitive position. The study found that the potential for segmentation is very high within the airline's portfolio of routes. Positions could be maintained in those markets where no further segmentation can be carried out. The airline can consider trying out market segments in which it has not competed before of to identify and focus on new market segments and seek segment leadership through focused customer service and reliability among others.

4.3.4 Segment and Selective Investment

The airline's strength is average in these routes and the markets are of average attractiveness. These are routes in the cell that has medium business strength and medium market attractiveness. Business units that fall on the diagonal strip of the matrix running down from the top left to bottom right should be treated with caution as they are weak routes that can either improve to a hold position or drop down to a divest position. 2 routes or 7% of the routes studied fall within this cell and can be found in region I and VI.

The McKinsey Matrix recommends segmentation for these routes. However, these routes ruled out further segmentation of their already segmented markets. The airline can consider then consider specializing in existing markets segments and pursuing targeted customer service and developing a differentiated product from the competition to give the airline a fresh lease of life. These can be explored to create profitable segments and to improve competitive position. The strategy can be to identify growth segments, specialise in them and to invest selectively in desired segments. Specialising here would mean protecting the investment by creating barriers to protect the selected segments from competition.

There were no routes that fell in any of the other 5 segments. The routes generally fell within 4 cells with only two routes requiring delicate care to build strength.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives a summary of the entire study, draws conclusions and goes on to make recommendations.

5.2 Summary

The main objective of this study was to see whether the McKinsey matrix is applicable in the airline industry. The aim was to attempt to apply to the route system of Kenya Airways, an airline in the third world, and to see if it would work or if modifications would be required. The reason behind this study was to see whether the matrix could help solve the resource allocation problems that airlines are currently experiencing in the face of growing competition. The matrix is known to have been applied to the strategic business units of General Electric Company. Questionnaires were sent separately to head office managers and to specific country managers. The overall response rate was 89%.

From the research findings, it was found that the matrix is indeed applicable within the context of Kenya Airways. The overall strategies that the matrix gives for each cell were also found to be applicable to Kenya Airways' operations. Only 2 routes out of the 29 that participated fell in the McKinsey Matrix cell that requires cautious handling as the routes are in a weak position. The rest of the routes fall in the 3 desirable cells that advise a hold and nurture strategy for business units. In all, the matrix advises that resource allocation to 27

routes should be geared towards maintaining or improving position while for the other two should be aimed at rejuvenating the airline in the market to save its product from extinction.

5.3 Conclusion

This study concludes that the GE/McKinsey Matrix can indeed be applied in the airline industry as a tool to assist with resource allocation decisions. The positions of the routes studied were plotted on the matrix and possible alternatives of resource allocation decisions highlighted for each one of them. This was done without altering the matrix to accommodate the circumstances of Kenya Airways. Extrapolating this further, the matrix can be used in similar fashion by other diversified companies or companies with different lines of products competing in different markets.

5.4 Limitations of the study

The limitations faced during the study include the following:

Not all managers responded to the questionnaires. But an overall response rate of 89% was found to be quite representative.

For confidentiality reasons, the identity of the actual Kenya Airways routes had to be concealed and so did the regions. Also, financial measures of performance and sensitive information had to be left out of the study.

The software used to plot the matrix (MS Excel) could not include the airline's market share on each bubble representing a route of Kenya Airways. Similarly, the direction that the route is expected to move in the future (usually represented by an arrow attached to a bubble) was also not possible to include.

5.5 Suggestions for further research

The researcher feels that the following areas may be candidates for further research:

The McKinsey Matrix could be studied further and modified into a system that frequently monitors the operational performance of the many routes of an airline. Once all parameters are fed into the system periodically, the system could generate a host of reasons as to why the position of a route has shifted in the matrix. This would then focus management attention on problem areas.

A study also needs to be conducted on whether the McKinsey Matrix can be applied to other areas such as products sold by local supermarket chains such as *Uchumi* with the aim of optimizing stocking decisions.

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QUESTIONNAIRE I: SENT TO HEAD OFFICE MANAGERS

Rating Factors of Dimensions

This section aims at attaching weights (importance) to various factors, which will be used to defin *attractiveness of the market* and the *strength of the airline in the market.*

Q1. For each of the factors listed below, please assign a weight by clicking on the appropriate box indicate how important it is when evaluating a market/route for attractiveness.

Weights
3 – Extremely important
2 – Important
1 – Not very important

Market Attractiveness Dimension				
No.	**Factor**	**Description**	**Weigl**	
			1	2
1	Market size	Number of passengers that fly into the market annually.	☐	☐
2	Market growth rate	The rate at which the number of passengers flying into the market is growing annually.	☐	☐
3	Economic growth	The rate at which the economy of the destination country is growing annually.	☐	☐
4	Competitive rivalry/wars	The nature of the moves, actions and counter-actions of existing airlines in the market to gain an advantage. It could be cutthroat, intense, moderate or weak.	☐	☐
5	Market concentration	The number of airlines in competition in that market.	☐	☐
6	Barriers to entry/exit	The existence and the number of factors that can prevent easy market entry or exit e.g. government laws, industry requirements, etc.	☐	☐
7	Substitute services	Existence of other modes of transport e.g. ground or water that can rival air travel.	☐	☐
8	Bargaining power of suppliers	A lot fewer suppliers than airlines. Suppliers have a better bargaining leverage e.g. when negotiating for landing and take-off slots, fuel, landing charges, etc.	☐	☐
9	Bargaining power of airlines	A lot more suppliers of services than airlines. Airlines have more power when negotiating charges and slots.	☐	☐
10	Characteristics of customers	Attributes such as price sensitivity, identifying with brands, buying in volumes, bargaining leverage, how informed customers are, etc.	☐	☐
11	Product differentiation	Ability to alter your product compared to your competition so as to capture a niche market.	☐	☐
12	Market segmentation	Existence of segments in the market or ability to segment the market e.g. traders, NGOs, religious groups, students, etc. for better focus.	☐	☐
13	Pricing/Fares	The average level of fares (high or low).	☐	☐
14	Technology development	Availability of e-ticketing, self-check in, advance check-in, plastic money use, etc.	☐	☐

Q2. For each of the factors listed below, please assign a weight by clicking on the appropriate box t
indicate how important it is when evaluating the competitive strength of an airline in a market/route

Weights

3 – Extremely important

2 – Important

1 – Not very important

Competitive/Business Strength				
No.	**Factor**	**Description**	**Weigh**	
			1	**2**
1	Market share	The company's sales compared to total airline sales.	☐	☐
2	Market segment strength	Whether the airline is a segment(s) leader.	☐	☐
3	Customer service	Passenger handling, resolution of problems, in-flight crew, etc.	☐	☐
4	Reliability	On-time performance, cancellation of flights, delivery of passenger baggage, etc.	☐	☐
5	Baggage allowance	Baggage allowance offered compared to competition.	☐	☐
6	Customer loyalty	Having repeat customers.	☐	☐
7	Loyalty programs	Programs designed to retain customers e.g. Flying Blue.	☐	☐
8	Customer complaints	The nature and frequency of customer complaints	☐	☐
9	Distribution strength	How spread the airline is through travel agents, global distribution system (GDS), etc.	☐	☐
10	Marketing effort	Amount of resources the airline puts into advertising and promotions.	☐	☐
11	Frequency of flights	The number of times the airlines flies into the market on either a daily or weekly basis.	☐	☐
12	Partnerships	Interline agreements the airline has with other airlines in the market e.g. SPAs (Special Prorate Agreements), codeshares, etc.	☐	☐
13	Type of aircraft	The passenger and cargo capacity, age, appearance and model of aircraft operated.	☐	☐

QUESTIONNAIRE II: SENT TO COUNTRY MANAGERS

To answer the choice questions, please click on the boxes to mark your answer. For the open-typ questions, please type your answer or comment in the boxed spaces provided.

A. Background Questions:

Q1. Which Kenya Airways route do you manage?

☐

Q2. For how long has Kenya Airways operated to that destination?

☐ Less that 1 year ☐ 1 to 3 years ☐ 4 to 6 years ☐ 7 to 9 years ☐ 10 years & abo

B. Market Attractiveness Questions:

Q3. What is the market size (traffic that flies internationally) at your destination? Approximately:

☐ 10,000 ☐ 20,000 ☐ 80,000 ☐ 100,000 ☐ Over 200,000

Q4. At what rate is the overall market (passenger numbers) growing annually?

☐ Over 20% ☐ 10-20% ☐ 5-10% ☐ 0-5% ☐ Below 0% (declining)

Q5. How many international airlines fly into your destination? ☐

Q6. How many of these airlines do you consider to be in direct competition? ☐

Q7. How many direct competitors that have entered your route in the last 3 years? ☐

Q8. Do you feel that there will be more entrants on your route soon? ☐ Yes ☐ No

Q9. Please rate the factors listed below on the extent to which they act as barriers to the entry of airlines in your market.

	Very Large	Large	Moderate	Low	Very Low
A. Air Service agreements	☐	☐	☐	☐	☐
B. Cut-throat competition	☐	☐	☐	☐	☐
C. Start-up costs	☐	☐	☐	☐	☐
D. Economic regulations	☐	☐	☐	☐	☐
E. Security	☐	☐	☐	☐	☐
F. Safety	☐	☐	☐	☐	☐

G. Fares	☐	☐	☐	☐	☐
H. Customer Loyalty	☐	☐	☐	☐	☐

Q10. On a scale of 1 to 5 (5 being "strongly agree" and 1 "strongly disagree"), do you think it is easy for an airline to enter your market? ☐

Q11. Is there an alternative mode of transport to air travel on your route? If so, please rate how it rivals air travel: ☐ Very strongly ☐ Strongly ☐ Moderately ☐ Little ☐ No effect

Q12. From your assessment, what is the level of competitor rivalry (wars) in your market?

☐ V. Strong ☐ Strong ☐ Moderate ☐ Low ☐ V. Low

Q13. From the listed strategies below, please rate the extent to which each is used by airlines in your market for competition:

	Always	Often	A little	Not Much	Never
A. Fares	☐	☐	☐	☐	☐
B. Baggage allowance	☐	☐	☐	☐	☐
C. Frequencies	☐	☐	☐	☐	☐
D. Customer Service	☐	☐	☐	☐	☐
E. In-flight entertainment	☐	☐	☐	☐	☐
F. Aircraft size	☐	☐	☐	☐	☐
G. Advertising	☐	☐	☐	☐	☐
H. Flight connectivity	☐	☐	☐	☐	☐

Other(s) ☐

Q14. In the space provided, please enter the letters (as in the list in Q13 above) of the strategies mostly employed by Kenya Airways in your market. Also include the "Other(s)" that you may have added.

☐

Q15. Do you think it is easy for an airline to exit your market? ☐ Yes ☐ No

Q16. Please give a 1 to 5 rating for each of the barriers listed below denoting the degree to which they can discourage an airline from exiting your market (5 being "Very high" and 1 being "Negligible"):

Network Value ☐ Others (and rate) ☐

Tied-up funds ☐

Set-up costs ☐

Q17. When negotiating with suppliers (catering, fuel, handling, security, airport), would you say they wield power over you (dictate terms to you)? ☐ Yes ☐ No

If so, then to what extent? ☐ Very much ☐ A lot ☐ Moderate ☐ Little ☐ None

Q18. When deciding on the strategies listed below, to what extent do your customer <u>preferences</u> (not numbers) influence each one?

	Very much	A lot	Moderately	Little	None
A. Fares	☐	☐	☐	☐	☐
B. Baggage allowances	☐	☐	☐	☐	☐
C. Aircraft type	☐	☐	☐	☐	☐
D. Technology (IFE, ticketing)	☐	☐	☐	☐	☐
E. Customer Service	☐	☐	☐	☐	☐

Q19. When making decisions affecting your customers (on fares, baggage allowances, aircraft type, technology, customer service, etc.), to what extent do each of the following aspects of your customers influence your decisions?

	Very much	A lot	Moderately	Little	None
A. Price sensitivity	☐	☐	☐	☐	☐
B. Brand identity	☐	☐	☐	☐	☐
C. Buying volumes	☐	☐	☐	☐	☐
D. Bargaining leverage	☐	☐	☐	☐	☐
E. Informed Buyers	☐	☐	☐	☐	☐

Q20. Is there room to differentiate your product from your competitors'? ☐ Yes ☐ No

Please rate the extent on a scale of 1 to 5 (1-"Little or none" and 5-"A lot") ☐

Q21. Can your market be segmented into focus groups? ☐ Yes ☐ No. If it already is segmented, do you believe it can be segmented further? ☐ Yes ☐ No

Q22. Are the pricing trends in the market rising, stable or falling? ☐

Q23. Please rate the economic growth in your country:

☐ High ☐ Moderate ☐ Slow ☐ Stagnant ☐ Declining

Q24. How is the IT infrastructure coverage and usage? ☐ High ☐ Developing ☐ Low

Q25. How would you rate the extent to which your market engages in the following types of travel?

	Very High	High	Moderate	Low	Very Low
A. Tourism	☐	☐	☐	☐	☐
B. Trade	☐	☐	☐	☐	☐
C. Leisure	☐	☐	☐	☐	☐
D. Corporate	☐	☐	☐	☐	☐
E. Government	☐	☐	☐	☐	☐

Q26. In your overall assessment, how would you describe the attractiveness of your market to airlines in general? ☐ Very attractive ☐ Attractive ☐ Moderate ☐ Little ☐ Unattractive

C. Business/Company Competitive Strength:

Q27. What share of the market does Kenya Airways command?

☐ Less than 10% ☐ About 20% ☐ About 50% ☐ About 75% ☐ Over 90%

Q28. Which of the following would you say is your strongest segment in the market?

☐ Tourists ☐ Traders ☐ Leisure (VFRs) ☐ Corporates ☐ Government

Q29. Compared to your competition, how would you rate Kenya Airways' performance on the following in your market?

	Much better	Better	At par	Almost at par	Trailing
A. Customer service *(e.g. handling complaints, emergencies, hotel accommodation, etc.)*	☐	☐	☐	☐	☐
B. Product quality *(e.g. meals, aircraft, timing, entertainment, crew, connectivity, etc.)*	☐	☐	☐	☐	☐
C. Reliability *(e.g. punctuality, flight cancellations, etc.)*	☐	☐	☐	☐	☐
D. Fares *(from customers' point of view)*	☐	☐	☐	☐	☐
E. Baggage allowance	☐	☐	☐	☐	☐

F. Delays with baggage	☐	☐	☐	☐	☐
G. Distribution strength *(e.g. GDS coverage, network of signed up travel agents, etc.)*	☐	☐	☐	☐	☐
H. Marketing effort	☐	☐	☐	☐	☐
I. Frequency of flights	☐	☐	☐	☐	☐
J. Loyalty Program	☐	☐	☐	☐	☐

Q30. Please rate the following in terms of their importance for your survival in your market:

	V. Critical	Critical	Important	Nice-to-have	Not Necessary
A. Customer service	☐	☐	☐	☐	☐
B. Product quality	☐	☐	☐	☐	☐
C. Reliability	☐	☐	☐	☐	☐
D. Fares	☐	☐	☐	☐	☐
E. Baggage allowance	☐	☐	☐	☐	☐
F. Baggage delivery	☐	☐	☐	☐	☐
G. Distribution strength	☐	☐	☐	☐	☐
H. Marketing effort	☐	☐	☐	☐	☐
I. Flight frequencies	☐	☐	☐	☐	☐
J. Loyalty program	☐	☐	☐	☐	☐

Q31. Are there any partnerships (alliances, SPAs, codeshares, etc.) that Kenya Airways has entered with carriers to/from your market? ☐ Yes ☐ No ☐ In progress

Q32. Have these agreements, if any, benefited your customers?

☐ Very much ☐ Quite a lot ☐ Moderate ☐ A little ☐ Not quite

Q33. Do (or would) these partnership agreements enhance Kenya Airways business strength in your market? ☐ Very much ☐ Quite a lot ☐ Moderate ☐ A little ☐ Not quite

Q34. How many customer complaints do you receive on a monthly basis?

☐ Over 50 ☐ About 30 ☐ About 20 ☐ About 10 ☐ Less than 5

Q35. Which of the following best describes the nature of the majority of your customer complaints?

☐ Very serious ☐ Serious ☐ Reasonable ☐ A little serious ☐ Not serious

Q36. Are most of them repeat complaints? ☐ Yes ☐ No

Q37. Do you have loyal/repeat customers? ☐ Yes ☐ No

Q38. Please give a percentage estimate of your repeat customers. ☐

Q39. In your assessment, what is the overall strength of the Kenya Airways brand in your market?

☐ Dominant ☐ Strong ☐ Fairly strong ☐ Weak ☐ Very weak

Q40. In what direction do you see Kenya Airways' strength in your market shifting in the next 5 years? ☐ Dominant ☐ Strong ☐ Fairly strong ☐ Weak ☐ Very weak