STRATEGIES USED BY THE MAJOR OIL COMPANIES TO CREATE COMPETITIVE ADVANTAGE FOR TIIEIR SERV ICE STATIONS IN NAIROBI

BY

MWANGI, MARY YVAMBIJI

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

Sign:..Date: Z^..[1] f . r T . ^ l

Mwangi, M.W

Registration No. D61/P/8868/04

This project has been submitted for examination with my approval as university supervisor

Sign:.....^ p - f e r.................Dae: ... ^ / " A *

Jeremiah Kagwe

Supervisor

DEDICATION

This study is dedicated to my parents who saw the vision of education and sold it to me during my formative years.

To my children who sacrificed a lot during the period of the study

To my sisters and friends for the encouragement and moral support offered

ACKNOWLEDGEMENT

This research would not have been possible without the input of the following people to whom I am deeply indebted. First, I would like to express my sincere appreciation and special thanks to my university supervisor Mr. Jeremiah Kagwe who gave me focus and direction on how to go about the research.

I also acknowledge the staff in various oil companies and at the Petroleum Institute of Bast Africa for taking time out of their busy schedule to give me the information that I needed. Without your support, I would not have reached this far.

I also thank my family and friends who had to put up with me during the entire research period. I was not able to be with them all the time and their encouragement has finally seen me achieve my dream.

Finally, I thank the Almighty God for the life and strength He gave me. His protection has seen me through the turbulent times.

ABSTRACT

Organizations exist as open systems and hence they are in continuous interaction with the environment in which they operate. The environment in which the organizations operate is never static. All organizations lend themselves to this environment, which is highly dynamic, chaotic, and turbulent such that it is not possible to predict what will happen and/or when it will happen. Consequently, the ever-changing environment continually presents opportunities and challenges.

The oil industry in Kenya plays a significant role in the economic development of the country. It contributes 4% to the Gross domestic product (IEA, 2001). Like othc- firms the industry has been going through change. Liberalization of the sector in 1994 removed some of the barriers to entry and the industry has since then witnessed an increased number of new entrants (Murage. 2000). This has made competition become in the industry stiffer and hence the need to develop competitive strategics that will create competitive advantage for the firms for survival and prosperity.

The study was designed to determine the strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi. The study was carried out as a descriptive research. Semi-structured questionnaires were used to collect data from the five major oil companies, which formed the population of study. The questionnaires were administered to the Retail and Marketing managers of the oil companies through personal interviews. Two questionnaires were filled for each company. SPSS was used to generate data, which was analyzed using descriptive statistics.

Overall, the research revealed that the major oil companies use cost leadership and diversification as strategies to try and gain competitive advantage for their stations. The research also revealed that other strategies like differentiation, focus, market penetration, product development and market development have not been used a lot by the major oil companies Kenya.

TABLE OF CONTENTS

DECLARATION i
DEDICATION ii
ACKNOWLEDGEMENT iii
LIST OF TABLES vi
LIST OF FIGURES vii
LIST OF FIGURES vii
ABSTRACT viii
ABSTRACT viii

CHAPTER 1: INTRODUCTION 1
1.1 Background 1
1.1.1 Concept of Strategy 1
1.1.2 Competitive Strategies 2
1.1.3 Competitive Advantage 3
1.1.4 The Oil Industry in Kenya 4
1.1.5 Service Station Business jn Kenya 6
1.2 Statement of Problem 7
1.3 Objective of the study 9
1.4 Importance of the study 9

CHAPTER II: LITERATURE REVIEW 10
2.1 Introduction 10
2.2 Competitive Strategy 10
2.3 Models of Strategies 14
2.3.1 Porters Generic Model 14
2.3.2 Grand Strategies (Pearce and Robinson) 16
2.3.3 AnsofFs Business Unit Strategy Model 16
2.4 Competitive Advantage 17
2.5 Empirical Findings 21
2.6 Summary 22

CHAPTER 3: RESEARCH METHODOLOGY 24

3.1 Research Design 24

3.2 Population 24

3.3 Data collection Methods 24

3.4 Data Analysis 25

CHAPTER FOUR DATA ANALYSIS AND DISCUSSIONS 26

4.1 Introduction 26

4.2 Company profile 26

4.3 Strategic responses 30

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 39

5.1 *Introduction* 39

5.2 Summary of the Findings 39

5.3 Conclusions 41

5.4 Limitations 42

5.5 Recommendations 42

REFERENCES 43

APPENDICES 48

Appendix I: Questionnaire 48

Appendix 2: Market Shares of Oil Firms 55

Appendix 3: Introduction letter 56

LIST OF TABLES

Table 1: Time when the company started operations in Kenya ... 26

Table 2: Products the company sells in Kenya ... 26

Table 3: Markets served ... 27

Table 4: How many retail outlets in Kenya ... 27

Table 5: Retail outlets do you have in Nairobi ... 28

Table 6: Retail outlets put up in Nairobi after 2001 ... 28

Table 7: Competition in the companies ... 29

Table 8: Perception of strength of competition ... 29

Table 9: Perception of cause of competition ... 29

Table 10: Areas in which changes have been carried out to respond to competition in the last five years (from 2002) ... 31

Table 11: Importance of each strategic option to the company as a way of responding to competition ... 31

Table 12: Change in price ... 32

Table 13: Change in product service ... 33

Table 14: Change in distribution ... 34

Table 15: Change in promotion ... 34

Table 16: Change in research and development ... 35

Table 17: Change in personnel ... 36

Table 18: Change in processes ... 36

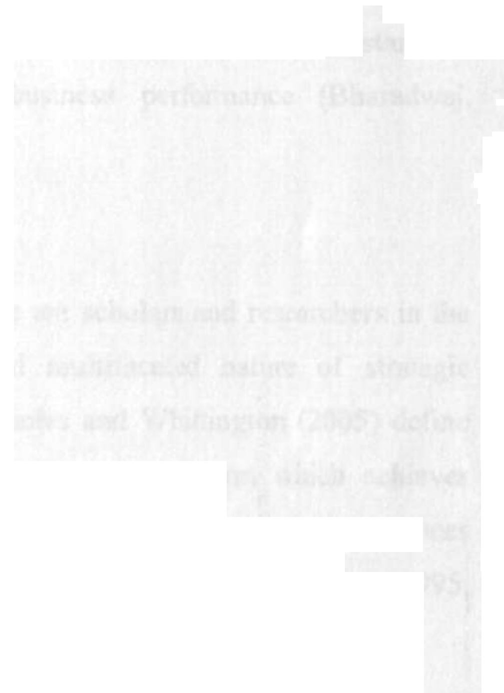
Table 19: Change in social responsibilities ... 37

Table 20: Change in Cost Structure ... 37

Table 21: Change in Differentiation ... 38

LIST OF FIGURES

Figure 1: Context in which competitive strategy is formulated....12
Figure 2: The AnsofT Growth Model....17



CHAPTER 1: INTRODUCTION

1.1 Hackground

Organizations exist as open systems and hence they are in continuous interaction with the environment in which they operate. The environment in which the organizations operate is never static. All organizations lend themselves to this environment, which is highly dynamic, chaotic, and turbulent such that it is not possible to predict what will happen and/or when it will happen. Consequently, the ever-changing environment continually presents opportunities and challenges. To ensure survival and success, firms need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of strategies that constantly match capabilities to environment requirements. Success therefore calls for proactive approach to business (Pearce and Robinson, 2003). These strategies arc referred to as competitive strategies. The purpose of competitive strategy is to achieve a sustainable competitive advantage (SCA) and thereby enhance business performance (Bharadwaj, Varadarajan and Fahy, 1993).

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1.1.1 Conccpt of Strategy

The term strategy can be defined in as many ways as there are scholars and researchers in the field. The many definitions reflect the complexity and multifacetcd nature of strategic phenomenon in organizations (Barney 1996). Johnson, Scholes and Whittington (2005) define strategy as "the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stockholders expectation"'. Strategy is about winning (Teece 1995, Grant 1998).

Strategy has also been defined as the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive whole (Mintzeberg, Quinn and Ghosal, 1999). Strategy is essential when rapid and discontinuous changes occur within the environment of the firm (Ansoff and McDonncll, 1990). This may be caused by saturation of transitional markets, technological discoveries inside or outside the firm and /or sudden influx of new competitors.

Without the benefits of a unifying strategy, chances are high that different parts of the organization will develop different contradictory and ineffective responses. The major tasks of managers is to assure success (and therefore) survival of companies they manage. Strategy is useful in helping managers tackle the potential problems that face management companies (Aosa, 1998). Strategy is a tool that offers significant help in coping with the turbulence within the environment. It's therefore important that managers pay serious attention to strategy as a tool.

1.1.2 Competitive Strategies

Firms if not all organizations are in competitions; competition for factor inputs, competition for customers and ultimately competition for revenue that cover the cost of their chosen manner of survival (Rumelt, Schcndel and Teece, 1994). Competition is therefore at the core of success or failure of firms. Competition determines the appropriateness of firm's activities that can contribute to its performances such as, innovation, a cohesive culture or good implementation. The organization exists in the context of a complex political, economic, social, technological, environmental and legal world (Johnson et al, 2005). The change in any of these variables will give rise to opportunities and others will exert threats'on the organization- or both.

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Competitive strategy has been described as, the search for a favorable competitive positioning in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1998). According to Porter, developing a competitive strategy is developing a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out these goals. He looks at competitive strategy as a combination of the ends (goals) for which the firm is striving and the means (policies) by which it's seeking to get there (Porter, 1990).

The purpose of competitive strategy is to achieve a sustainable competitive advantage and thereby enhance business performance (Bharadwaj, Varadarajan and Fahy 1993). Studies in the field of strategic Management have observed that} in most industries, some firms are more profitable than others, regardless of whether the average profitability of the industry is high or low. The superior performers conceivably possess something special and hard to imitate that

allows them to outperform their rivals. The unique skills and assets (resources) arc referred to as a source of competitive advantage which can result form implementing a value creating strategy not simultaneously being implemented by any current or potential competitors (Barney 1996); or through superior execution of the same strategy a^ competitors. Sustainability is achieved when the advantage resists erosion by competitor's behavior (Porter, 1985). In other words the skills and resources underlying a business competitive advantage must resist duplication by other firms (Barney, 1996)

Porter (1998) argues that every firm competing in an industry has a competitive strategy, whether explicitly, i.e. developed through formal planning or implicit, which evolves through various functional planning activities. He developed an analytical framework which can be used to develop competitive strategies. He focused on the analysis of the industry structure and competitors using the five forces model that determines the state or competition in an industry.

1.1.3 Competitive Advantage

Researchers generally distinguish between two sources of competitive advantage. These are unique resources (assets) and distinctive skills (capabilities) as per the study by Bharadwaj, Varadarajan and Fahy (1993). These two broad sets of sources enable a business to perform the various activities that compose its value chain either at lower cost or in a way that leads to differentiation. Competitive position advantage can broadly be constructed as cost leadership and differentiation advantages. They facilitate the attainment of competitive positional advantages in the form of, superior customer value through differentiated good/services and lower relative cost through cost leadership. Firm's specific skills and resources are also referred to as the "drivers" of cost and / or differentiation advantages (Porter, 1985)

According to Porter (1998), competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Fach of these activities can contribute to a firms relative costs position and create a basis for differentiation. A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage. Porter introduces the value chhin as the basic tool of for doing so. The

value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more chcaply or better than its competitors.

Barney (1991) lists four essential requirements for a resource or skill to be a source of sustainable competitive advantage. First it must be valuable, secondly, it must be rare among a firm's current and potential competitors, thirdly, it must be imperfectly imitable and fourthly, there must not be any strategically equivalent substitutes for this skill/resource. Advantages can come from competencies within the firm that can be manipulated within strategy to generate advantage for performance (Reed and Defillipi, 1990^. *

1.1.4 The Oil Industry in Kenya

The petroleum industry in Kenya was established in 1948 through the petroleum Act chapter 116 of the laws of Kenya. The sector falls under Kenya's Ministry of Energy. Kenya has no known oil reserves and relies entirely on the import of both crude and imported products. The Arabian Gulf remains the source of Kenya's qil and as a result, procurement for the same must be done through foreign exchange (GOK: Economic Survey 2005).!n total, petroleum accounts for 25% of the fuel needs, wood fuel 72% , electricity 2% and others 1%. The low usage of petroleum products is due to the heavy reliance on wood fuel by most rural people (GOK: Economic survey 2003).

The sector was liberalized in, October 1994. Before liberalization, the government was heavily involved in determining both the pricing and supply of petroleum products. This was done through a price setting committee which met regularly to review prices. Before liberalization, shortages were experienced for low margin products like Kerosene. The main concerns at the time of liberalization were to offer relief to consumers in respect of regularity of supply and ensure the stable and competitive pricing that a liberalized market is expected to provide (GOK: Economic Survey, 1998). The report from IEA notes that while shortages reduced in real terms, the prices of petroleum products have fallen as rapidly as supply changes were experienced. The two factors that influenced the outcome were market structure and barriers to entry that still

existed. One major effect of deregulation has been the saturation of the petroleum market and entry of many new competitors, meaning that, today, and an average motorist is exposed to many times the number of petrol stations than before (Koech, 2002)

The Kenyan oil industry is dominated by five major players. This includes: Caltex, whose parent company are Chevron and Texaco that merged recently; Total Kenya, a subsidiary of TotalFinaELF; Shell, who recently acquired B/P Kenya and is a subsidiary of Royal Dutch company Shell; Mobil now acquired by Oilibya of Libya and Kenol/Kobil who have the largest local shareholding, Kenol and Kobil arc managed Jointly (Economic survey, 2006) others players in the market are Petro(K) Ltd, Triton, National oil Corporation of Kenya (NOCK), Somken, Oilcom and a host of other small companies known as the "independents" within the oil industry fraternity.

The regional demand of petroleum products according PIEA 2006 report are as follows.

Nairobi/Mt. Kenya 60%

- Automotive
- Industries
- Agriculture
- Domestic

Western Region 30%

- Auto transport
- Agriculture

Coast Tourism 10%

- Automotive transport (haulage)
- Marine

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Market share numbers for the period between January and June 2007(Pctrolcum Insight July to September) show a remarkable shift in market shares among oil companies as compared to 2004 a strong indicator that competition is stiff. Leading arc Kenol/Kobil who have a combined market share of 23.78% followed by Shell/BP 21.04%, Total Kenya 17.94%, Chevron 15.26%,

Oilibya (Former Mobil) 7.33% and other new entrants and independents 18.04%. ITie market shares for the respective oil companies for 2004 (PIEA Oil Industry Report, (2006) were as follows; Total 20.7%, Shell/BP 18.7%, Kenol/Kobil 18.4%, Caltex 13.8%, Mobil 12.4% and others which include the independents and new entrants 16% (Refer to Appendix II).

1.1.5 Scrvice Station Business in Kenya

Since the petroleum sector was liberalized, a numbdf of new entrants joined the industry, which was previously controlled by a few major companies. Over the past few years, players in the oil industry have also been experiencing the challenge of, declining demand, changes in customer preference, political/legal and social changes (Wairachu, 2001). In addition, Ongaga (2006) identified changes in tax laws, need to play more roles in community activities and environmental, safety and quality driven concerns. Wairachu also noted that stiff competition has led to lower profit margins in the industry due to companies competing on price and discounts.

With increased competition, companies have been competing on price, perceived quality, customer service, product range, discounts, credit terms and station appearance among other things. According to Apungu (2003) companies have tried to differentiate themselves on service delivery, product quality/benefits, safety and sale of environmentally safe products. The retail sector has also witnessed the emergence of convenience store at the stations. Current brands in the market include All Seasons by Total, Star' Mart by Caltex, Express by BP, K-Mart by Kenol/Kobil, and Mobil Mart. Wainbugu (2005) in his study on the critical factors also identified other factors like hours of business and location.

Apungu (2003) also identified a major trend of strategic alliances between major oil marketers and other service providers. The major oil companies entered into alliances with major banks to provide Automated teller machines, Fast food chains, entertainment places, tyre service with Sameer Africa and Chemists among others; this is aimed at providing the retail customer with a wider range of services. The industry has also witnessed introduction of better quality fuels and lubricants. Motorists can now buy low Sulphur content diesel and unleaded gasoline. Market development strategies like fuel cards have also been introduced. Examples are Bon voyage card by Total, Star card by Caltex and BP/Shcll card which are customer oriented.

1.2 Statement of Problem

The oil industry in Kenya plays a significant role in the economic development of the country. It contributes 4% to the Gross domestic product (IEA, 2001). Like other firms the industry has been going through change. Liberalization of the sector in 1994 removed some of the barriers to entry and the industry has since then witnessed an increased number of new entrants (Murage, 2000). This has made competition become stiffer in the oil industry. Each player in the industry faces more external competition from the others as they strive to gamer a sizeable market share. Research has shown that when companies face competitive challenge they adopt strategic planning for survival and success (Aosa, 1992). Research has also shown that when companies face challenges, they adopt competitive strategies for survival and success (Porter, 1990). It's also evident that there is a relationship between the choice of strategy and organization efficiency (Ansoff, 1990).

The competitive terrain in the oil industry has also been affected by the recent changes in tax law, the new environmental Act, change in technology and customer preferences and proliferation of new entrants. Market,share numbers for the period between January and June 2007(Petroleum Insight July to September) show a remarkable shift in market shares among oil companies as compared to 2004 a strong indicator that competition is stiff. Leading are Kenol/Kobil who have a combined market share of 23.78% followed by Shcll/BP 21.04%, Total Kenya 17.94%, Chevron 15.26%, Oilibya (Former Mobil) 7.33% and other new entrants and independents 18.04%. The market shares for the respective oil companies for 2004 (PIEA Oil Industry Report, (2006) were as follows; Total 20.7%, Shell/BP 18.7%, Kcnol/Kobil 18.4%, Caltex 13.8%, Mobil 12.4% and others which include the independents and new entrants 16%. (Refer to Appendix II).

According to the report on the use of oil products by the Petroleum Institute of East Africa, Wachira (2007), the demand for oil products dropped by 10% to 1.6 million cubic metres in the first half of 2007 compared to a similar period in 2006. The report indicates that despite the increased registration of automobiles, petrol consumption has been on the decline over the last few years as driving habits have changed with motorists preferring to use cars on Fridays and

weekends. There has also been a shift from petrol cars to diesel sports utility vehicle and matatus due to lower diesel prices. A number of new entrants have also put up petrol stations in the Nairobi region in the last five years. This includes Engcn which has 4 stations; Oilcom 3 stations; Gulf 3 stations; Triton 4 stations? Petrol Oil 4 stations; NOCK 2 stations and other independent dealers 16 stations (PIEA, 2007).

To address the new developments, it imperative that the major players be more aggressive in their competitive endeavors , by developing competitive strategies, while those with competitive advantage step up their defensive strategies. Wamathu (1999) concluded that major moves by existing rival companies and entry of new competitors is a critical factor in defining the competitive posture in an industry. Me also noted that differentiation was setting in especially in lubricants and chemicals.

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A number of studies have been done in the area of competitive strategies adopted by firms in Kenya. In the motor industry, Kombo (1997) found that, due to the economic reforms in the country, firms had to make substantial adjustments in their variables in order to survive in the competitive environment. The firms introduced new techniques in product development, differentiated their products, segmented and targeted their customers more and improved service. Ngatia (2000) in a comparative study of service providers and customer perception summarizes several authors by concluding that there is consensus that the retailing strategy that creates competitive advantage is delivery of high quality service. In a study of competitive strategies applied by commercial banks, Gathogo (2000) concludes that the banks have adopted various competitive strategies which include delivery of quality service at competitive prices and appropriate location.

It's evident from these studies that firms in each respective industry adopt different competitive strategies which arc unique in each context. The purpose of this study was to determine the strategies used by the oil companies to build competitive advantage for their stations in Nairobi within the changed environment. Although a number of studies had been carried out in the past, none has been carried out none has studied the competitive strategies after the major changes that took place in the last five years. During the period that Chcpkwony (2001) and Isaboke (2001)

carried out their studies, the level of competition in the industry was lower Most of the new entrants joined the market after 2001 bringing their total market share to 18% (PIEA 2006) The phenomenon has led to intense competition based on price, product quality and customer service Companies have also resulted to unrelated diversification and market development (Ongaga 2006) With the demand for oil products in Kenya declining (Wachira, 2007) while on the other hand competition has been increasing, the key question that the research sought to answer was,

> *What are the competitive strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi?*

1.3 Objective of the study

The objective of the study was to determine the strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi

1.4 Importance of the study

The research is a further contribution to research work in the oil industry in Kenya It adds to the existing body of knowledge. The study will assist academician as a source of reference It will also assist managers in the oil industry by providing vital information for decision making Investors also stand to gain significantly from the findings which provide vital information for use in decision making.

CHAPTER II: LITERATURE REVIEW

2.1 Introduction

Competitive advantage is gained when a company moves into a position where it has an edge in coping with competitive forces and in attracting buyers. Many different positioning advantages exist like, making the highest quality product in the market, providing customer service that is superior to it's rivals, being the biggest and best known firm in the market, recognition as a low price seller, being the best geographical position, having a product that docs the best job in performing a particular function, making a product that is longer lasting and the most value for money. Whichever the positioning strategy is pursued, the essential outcome is to achieve competitive advantage (Thompson and Strickland, 1989).

Research has shown that in the face of competition, local firms have adopted various competitive strategies within their industry structure to build competitive advantage. This research project is set out to establish such strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi.

2.2 Competitive Strategy

Organizations exist as open systems and hence they are in continuous interaction with the environment in which they operate. The environment in which the organizations operate is never static. All organizations lend themselves to this environment which is highly dynamic, chaotic and turbulent such that it is not possible to predict what will happen and/or when it will happen. Consequently, the ever changing environment continually presents opportunities and challenges. To ensure survival and success, firms need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of strategies that constantly match capabilities to environment requirements. Success therefore calls for proactive approach to business (Pearce and Robinson, 2003). These strategies are referred to as competitive strategics.

One of the challenges emanating from a dynamic environment is increased competition. Competition is indeed a very complex phenomenon that is manifested not only in other industry players but also in form of customers, suppliers, potential entrants and substitute products. It is

therefore necessary for a firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond to the competitive forces (Porter, 1989). Porter further noted that the essence of formulating competitive strategies is relating a company to the environment. He observes that the intensity of competition in an industry is rooted in its underlying economic structure and goes well beyond the behavior of current competitors. Porter *(2004)* argued that competition *is at* the core of success or *failure* of firms Competition determines the appropriateness of a firms activities that can contnbute to its performance, such as innovations, a cohesive culture or a good implementation competitive strategy is the search for a favorable competitive positioning an industry the fundamentals arena in which competitive strategy aims to establish a profitable and sustainable position against forces that determine industry position

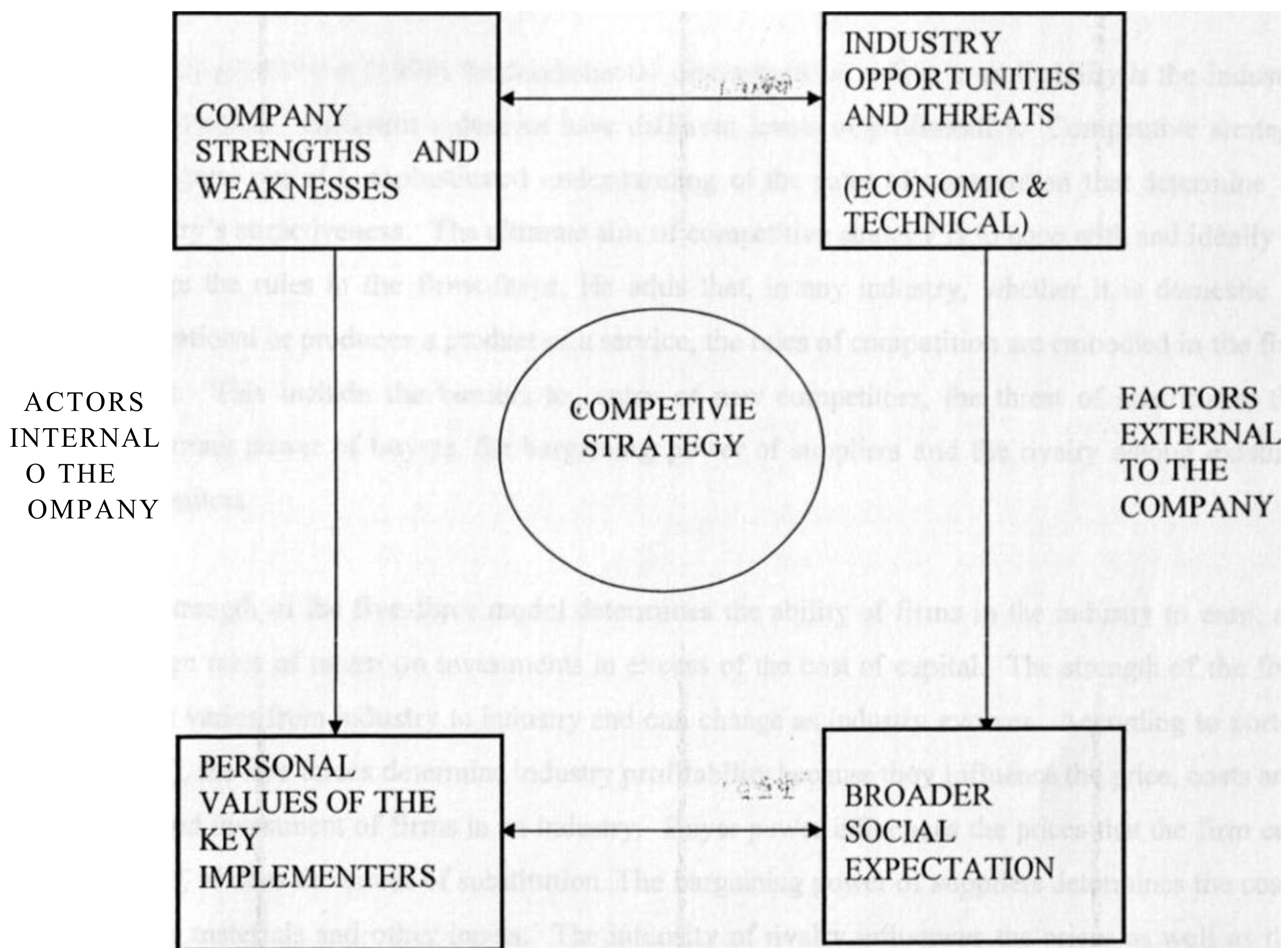
Due to the ever changing environment that is characterized by increased competition for the *limited* resources, market share and new competitive challenge, implementation of competitive strategies within organizations is very important Fundamental forces of change have been expenenced in the global business environment resulting in unprecedented competition Organizations responding to these changes have realized that their existing strategies and configuration may no longer serve them well (Ansoff and McDonnel, 1990) The Kenyan environment is no exception from the activities being experienced globally Organizations being environmental dependant, they have to constantly adapt their internal configurations to reflect the external realities and failure to do this may put the organization in jeopardy (Aosa, 1998)

There are two central questions underlying the choice of competitive strategy The first is the attractiveness of the industry for long tenn profitability and factors that determine it. The second is the determinants of relative competitive position within an industry In most industnes, some firms are much more profitable than others regardless of what the average profitability of the industry may be. Both industry attractiveness and competitive position can be shaped by a firm and *this is* what makes the choice *of* competitive strategy both challenging and exiting, while industry attractiveness is partly a reflection of factors over which a firm has little influence competitive strategy has considerable power to make an industry more or less attractive. At the same time a firm can clearly improve or erode its position within an industry through its choice

of strategy, then not only responds to the environment but also attempts to shape that environment in its favor.

Porter (1990) observed that at the broadest level, formulating competitive strategy involves consideration of four key factors that determine the limits that the company can successfully accomplish (Figure. 1).

Figure 1: Context in which competitive strategy is formulated



Adopted from: Porter,M.E (1980). *Competitive Strategy.* The Free Press; p.Vlll

I"he company's strengths and weaknesses are its profile of assets and skills relative to competitors including financial resources, technological posture, and brand identification. The personal values of an organization arc the motivation and needs of the key executives and other personnel who must implement the chosen strategy. Strengths and weaknesses combined with values determine the internal (to the company) limits to the competitive strategy a company can successfully adopt. The external limits arc determined by its industry and broader environment. Industry opportunities and threats define the competitive environment, with its attendant risks and potential rewards. Societal expectations reflect the impact on the company of such things as Government policy, social concerns evolving and many others.

According to Porter (1990) the fundamental determinant of a firm's profitability is the industry attractiveness. Different industries have different levels of profitability. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. The ultimate aim of competitive strategy is to cope with and ideally to change the rules in the firms favor. He adds that, in any industry, whether it is domestic or international or produces a product or a scrvice, the rules of competition are embodied in the five forces. This include the barriers to. entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among existing competitors.

The strength of the five-force model determines the ability of firms in the industry to earn, on average rates of return on investments in excess of the cost of capital. The strength of the five forces varies from industry to industry and can change as industry evolves. According to porter (1990), the five forces determine industry profitability because they influence the price, costs and required investment of firms in an industry. Buyer power influences the prices that the firm can charge, as does the threat of substitution. The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences the prices as well as the costs of competing in areas such as plant, product development, advertising and sales force. The threat of entry places a limit on prices and shapes the investment repaired to deter entrants.

The strength of each of the five forces is a function of industry structure, or the underlying economic and technical characteristics of an industry. Industry structure is relatively stable but can change over time as an industry evolves. Structural change shifts the overall and relative strength of the competitive forces and can thus positively or negatively influence the industry profitability. The industry trends influence the structure.

2.3 Models of Strategics

2.3.1 Porters Gcneric Model

According to Porter (2004) one of the two central questions in competitive strategy is a Finn's relative position within its industry. Positioning determines whether a Finn's profitability is above or below the industry average. A firm that can position itself well, may earn higher rates of return even though industry structure is unfavorable and the average profitability basis of above average performance in the long run is sustainable competitive advantage.

Porter notes that though a firm can have a myriad of strength and weaknesses via-a-vis its competitors, there are two basis of competitive advantage a firm can possess. This is low cost and differentiation. The significance of any strength or weakness a Finn possesses is ultimately a function of its impact or relative cost or differentiation. The significance of any strength or weakness a firm possesses is ultimately a function of its impact or relative cost or differentiation. They result from a firm's ability to cope with the five forces better than its rivals. The two basic types of competitive advantage when combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategics for achieving above average performance in an industry. This includes cost leadership, differentiation and focus. Firms can choose which of the three generic strategies to pursue based on their capabilities, size and the resource base.

Cost leadership strategy is when a firm set out to become the low - cost producer in its industry. The firm has a broad scope and serves many industry segments and may even operate in related industries the firms breadth is often important to its cost advantage. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology or preferential access to raw materials. If a Finn can achieve and sustain overall cost leadership, then it will be above average performance in its

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industry provided it can command prices at or near the industry average. The strategic logic of a cost leadership usually requires that a firm be the cost leader and not one of several firms vying for the position. When there is more than one cost leader, rivalry among them is usually fierce. The cost ceases to be a source of competitive advantage for the firms. Firms that chose a low cost strategy should always seek to be the only ones that can achieve lowest costs.

Differentiation strategy is when a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions itself to meet those needs. It's rewarded for its uniqueness with a premium price. The means of differentiation are peculiar to each industry (Porter, 1998). Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach and a broad range of other factors. Firms that can achieve and sustain differentiation will an average performer extra cost incurred in being unique. A differentiator therefore cannot ignore its cost position because its premium prices will be nullified by a marked inferior cost position.

Focus strategy is where a firm chooses a narrow competitive scope within an industry (Porter 1998). The focuser selects a segment or a group of segments in the industry and tailors its strategies towards serving them to the exclusion of others. By optimizing its strategy a focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy depend on differences between a focuscr's target segments and other segments in the industry.

According to porter, a firm that engages in each generic strategy but fails to achieve any of them is stuck in the middle. It possesses no compdtiji^e' advantage. Each generic strategy is a fundamental different approach to creating and sustaining competitive advantage. Usually, a firm must make a choice among them, or will become stuck in the middle. If a firm achieves cost leadership and differentiation simultaneously the reward is great because the benefits are additive.

2.3.2 Grand Strategies (Pearce and Robinson)

Grand strategies often called master strategies or business strategics provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed towards achieving long-term business objectives. Grand strategies indicate the time period over which long range objectives are to be achieved. Thus a grand strategy can be defined as a comprehensive general approach that guides a firm's major actions (Pearce and Robinson 2003).

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The fifteen principles and strategics are: concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification turnaround, divesture, liquidation, bankruptcy, joint venture, strategic alliances and consortia. Any one of these strategies serves as a basis for achieving the major long-term objectives of a single firm.

2.3.3 Ansoffs Business Unit Strategy Model

Intensive growth strategics are strategies that require intensive efforts to improve a firm's competitive position and include market penetration, market development, product development, and diversification. Ansoffs matrix is one of the most well know framework for deciding upon strategies for growth. The strategy is used by marketers who have objective for growth. Ansoffs matrix offers strategic choices to achieve the objective. There are four main categories for selection as detailed in figure 2. O <.

Market penetration seeks to increase market share for present products. This means increasing our revenue by, for example, promoting the product, repositioning the brand, and so on. However, the product is not altered. Product development entails introducing new products into current markets. Here new and innovative products offerings arc developed to replace existing ones. Such products are then marketed to our existing customers. This often happens with the auto markets where existing models arc updated or replaced and then marketed to existing customers.

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Figure 2: The Ansoff Growth Model

Markets / **Products**	Current	New
Current	Market Penetration	Product Development
New	Market Development	Diversification

Adopted from: Jobber, D.(2001). *Principle yahAtl Practice of Marketing,* McGraw Hill, Maidenhead, p. 260

Market development seeks new markets for current products. This means that the product remains the same, but it is marketed to a new audience. Exporting the product or, marketing it in a new region, is examples of market development. Diversification entails moving new products in new markets. There are two types of diversification, namely related and unrelated diversification. Related diversification means that a firm remains in a market or industry with which we are familiar. Unrelated diversification is where a firm has neither previous industry nor market experience.

2.4 Competitive Advantage

According to Reed and Defillippi (1990), the fundamental concept of competitive advantage can be traced back to Chamberlain (1939). The nexf'faajor development came when Hofer and Schendel (1978), described competitive advantage as 'the unique position an organization develops vis-a-vis its competitors through it pattern of resources deployments'. Day (1984) and Porter (1985) provided the next generation of conceptualization. They saw competitive advantage as the objective of strategy, the dependent variable. The rationale behind this is that

superior performance is correlated with competitive advantage and achieving competitive advantage will always result in higher performance. Both schools of thought arc used in existing research.

The actual term competitive advantage featured prominently when Michael Porter discussed the basic types of competitive strategies that firms can posses such as, low cost strategy, differentiation and focus. According to porter (1998), the goals of competitive strategy are focused towards gaining a sustainable competitive advantage, cultivating a clientele of loyal customers, and outperforming their rivals ethically and honorably. According to Porter (1998), competitive advantage provides the architecture for describing and assessing strategy, linking it to the company behavior and understanding the source competitive advantage. He notes that competitive advantage is the heart of a firm's performance in competitive markets. Competitive advantage is about how a firm can gain sustainable cost advantage, differentiate it from competitors, and choose a segment so that competitive advantage grows out of a focus strategy. He advices that competitive advantage grows fundamentally out of the value a firm is able to create for its buyers, it may take the form of prices lower than competitors for equivalent benefits or provision of unique benefits that more than offset a premium price.

According to Lynch (1997), competitive advantage involves every aspect of the way the organization competes in the market place. T his ih^fides prices, product range, manufacturing quality, service levels and so on. However, he observes that some of these competences can easily be imitated. For example, prices can be changed virtually overnight, lie notes that the real benefits come from advantages competitors cannot easily imitate and not those that give only temporary relief from the competitive battle. He notes that "to be sustainable, competitive advantage needs to be more deeply embedded in the organization". These are its resources, skills, culture and investment over time. The activities must be unique and different from competition. Since most businesses face competitors, the need for a sustainable advantage to help them compete is evident.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value creating strategy. When affirm implements a value creating strategy of which other

companies are unable to duplicate the benefits or find it too costly to imitate, this firm has a sustained or sustainable competitive advantage (simply called competitive advantage). A firm is assured of competitive advantage only after others effort to duplicate its strategy have ceased or failed. Even if a firm achieves a firm achieves competitive advantage, it normally can sustain it only for a certain period of time (Hitt, Ireland and Hoskinsson, 1997). They add that by achieving strategic competitiveness, and, successfully exploiting its competitive advantage, a firm is able to accomplish its primary objective of earning above average returns. According to Rothchild, positioning is a continuous process. Winners are those who never forget that they are in a continuing competitive game and that it is important to understand and monitor current competitors and also new or potential competitors (Rothchild, 1989).

Thompson and Strickland propose that firms should end offensive strategies, dodge head to head confrontations, concentrating instead on innovative product attributes, technological advances and early entry into less contested geographical markets. Pre-emptive strategies also create competitive advantage by catapulting the aggressors into a prime competitive position which rivals are prevented or discouraged from matching. The foremost purpose of defensive strategies is to protect competitive advantage and fortify the firm's competitive position

Hax and Majluf (1996) suggest that, unique competences, resources and capabilities are the source of competitive advantage. Resources could be both tangible and intangible. Resources are converted into capabilities when the firm develops the necessary organizational routines to use them effectively. For and advantage to form a basis of competitive advantage, it has to be sustainable. The conditions of uniqueness associated with the business must be preserved. This means that there should be no threats to either substitution or imitation. Grant (1998) advises that innovation which is internal to the organization not only creates competitive advantage but also provides a base to overturn the competitive advantagCS'of other firms.

Proponents of the resource based view argue that the resources of a firm must have the following attributes to hold the potential for sustainable competitive advantage. They must be valuable, scarce and difficult to imitate or substitute. According to Lynch (1997) the main reason for competitor analysis is to enable the organization to develop competitive advantages against them

especially advantages that can be sustained over time. Resource based theory (Barney, 1991) assumes that each organization is a collection of unique resources and capabilities that provides the basis for strategy and it's the primary source of returns. It attributes advantage in an industry to a firms control over bundles of unique material, human, organizational, and location resources and skills that enable unique value creating strategies. Rindova and Fombrun (1999) identified the resources as both materials and cognitive resources such as knowledge, culture, and reputation. Thus differences in firm's performances across time are driven primarily by organizations unique resources and capabilities rather than the industry structural characteristics.

Porter pioneered the thinking in the field of competitive strategy, the basis on which a business unit might achieve competitive advantage in its market. He proposed that there are three different generic strategies by which an organization could achieve competitive advantage. These were overall cost leadership, differentiation and focus. According to porter, different industries offer different competitive opportunities and as a result, successful strategies vary from one industry to another. He suggests that identifying which strategies can lead to competitive advantage may be done in three main steps. The first is industry definition. This involves the boundary of the industry, learning its rules of the game and identifying the other players. The second is identification of possible competitive moves. Competitive moves exploit the possible sources of competitive advantage in the industry. Their degree df effectiveness evolves with the industry life cycle and it's influenced by the moves of other competitors. Third is selecting among generic strategies.

According to Porter (1998), competitive advantage provides the architecture for describing and assessing strategy, linking it to the company behavior, and understanding the source competitive advantage. He notes that competitive advantage is the heart of a firm's performance in competitive markets. Porter (1985) acknowledges that firms throughout the world arc facing slower growth because of both global and local competition. He argues that competitive advantage is the heart of firms' performance in a competitive market. For the major oil companies, to realize an above average return, they need to continuously review and develop new competitive strategies and ensure that they remain a source of competitive advantage.

2.5 Empirical Findings

Past research on the petroleum sector in Kenya has indicated that, the sector has been facing intense competition due to new entrants that joined the sector after the industry was liberalized in 1994 (Chepkwony 2001, Isaboke 2001, Mwindi, 2003). Kocch (2002), in his investigation into the retail network planning among petroleum marketers in Kenya concludes that, most of the oil firms in Kenya use planning strategies in the retail channels. He however points out that majority of this firms which have foreign affiliation employ this strategies with a bias towards their origin. Wairachu (2000) established that oil firms in Kenya have had to adjust their marketing mix elements and seek new ways of operating in order to achieve their objectives and adapt to the turbulent environment that they find themselves in. Isaboke (2001) in his research on the strategic response by the major oil companies to the threat of new entrants, noted that in the past few years, the number of new entrants in to the oil industry has increased tremendously this has eaten into the market share of the major oil company's market share and profits of the major oil companies and hence the need to develop competitive strategies. Players in the industry have had to adjust their strategies regularly to try and align the firms to the environment.

Murage (2000) in her study on the competitive strategies used by the independent petroleum dealers indicates that they are using the strategy of posting lower prices, and offering a wide range of products and since their cost of investment is lower their returns are above average. The major oil companies on the other hand complain of poor standards by independents and lack of a level playing which deny them a fair return (Isaboke 2001). Wairachu (2000) noted that petroleum fuel (in form of premium, regular, diesel, and kerosene) is a commodity which cannot be easily differentiated. He added that companies should seek differentiation in other ways.

Past research in the U.S shows that environmental changes have affected oil companies globally (Olinger 1994). The global scene has witnessed mergers, acquisitions and divestures. In the oil and gas global industry, ExxonMobil, BP AMOCO, Total Fina Elf and ChevronTexaco have all merged. Locally, we have witnessed mergers and divestures by some of the major players. In Kenya Mobil recently sold all its interests to Oilibya while Shell acquired BP Kenya. Shell and Caltex also reduced their concentration in Western Kenya (Petroleum insight 2005). Some major companies in the recent past have also embarked on branding of the independent outlets, this

includc Kenol/Kobil, NOCK, Total. Triton and Oilcom which were in the past participating in commercial sales have also put up some stations in Nairobi. This led to more intense competition in the oil industry.

2.6 Summary

Over the past five years the oil industry environment has undergone tremendous change. Ongaga (2006) identified the introduction of the Open Tender System of purchasing Crude and refined products, the new environmental rules currently being enforced by the National Environmental Management Authority, change in import tax and excise duty laws and the proliferation of new entrants. As a result the competitive terrain in retail sector of the petroleum industry has been changing with companies adopting new strategies for survival and also to create a competitive advantage. The major oil companies have among other things resulted diversification to related and unrelated products and services. Recent developments in the service stations includes chemists, restaurants and fast food chains, pit stop service, branded tire canters, 24 hours car wash, sale of mobile phone lines and airtime, and Automatic Teller Machines.

It's evident from the data from PIEA that the competitive terrain has changed with the independents and other small oil companies now commanding a market share of 18% in 2006. The situation is aggravated by the fact that the demand for gasoline which is the highest margin products has been declining. To pre-empt further loss of sales and market share, major oil companies must adopt competitive strategies that will assist in building sustainable competitive advantage.

While a number of studies have been carried out in the oil industry, none has been carried within the prevailing environment. The research by Chepkwony (2001) on the strategic response of the oil industry in Kenya to the challenges of increased competition was carried out in a different context. With varying customer preference, and Nairobi contributing 60% of the total fuel sales in Kenya, it's important to establish the competitive strategies used by the oil companies in this market. The study by Isaboke (2001) addressed the response to new entrants, we cannot tell whether the strategies used were competitive strategies or for survival.

Given the aforesaid, the purpose of this study was to determine the strategies used by the major oil to build competitive advantage for their stations in Nairobi within the changed environment.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The research design will be survey method According to Cooper and Emory (1995) while using the survey method, the researcher questions the subject and collects their responses by personal or impersonal means, for example interview and where not possible self administered questionnaire They contend that survey method is more efficient and economical than observation In addition, the nature of the research calls for analysis of primary data There has not been any other research conducted in the field of competitive strategies in the oil industry within the same context to form a source of secondary data Other researches in the field of strategic management by Mwindi (2003), and Isaboke (2001) also used the same type of research design.

3.2 Population

The population of study was all the five major oil companies in Kenya that had a substantial market share of over 10% in 2004 as per table 1 in the appendix. These include; Total 20.07%; Shell/BP 18.7%; Caltex 13.8%; Kenol/Kobil 18.4% and Mobil (now acquired by Oilibya) 12.4%.

3.3 Data collcction Methods

Primary data was be used for the study The data collection instrument was a semi-structured questionnaire as shown in appendix I The questionnaire was divided into two sections, section 1 was on the general information about the company while section 2 contained questions on the competitive strategies adopted by the companies in the changing environment The questionnaire was used to guide the personal interview and where not possible it was self-administered Parasuraman (1986) contend that personal interviews have the potential of yielding the highest quality of data compare to other modes because supplementary information may be collected in the course of the interview. This concurs with Cooper and Emory (1995), who state that the greatest value of personal interview is the depth and detail of information that can be secured The same type of instrument was used in similar research done earlier by Chepkwony (2001), Isaboke (2001) and Murage (2000).

Data was obtained from two senior managers in each company who are either in charge of Strategy, Marketing or the Retail Department as per the structures in the different oil companies These arc the people who are in charge of the management and strategy for the service stations and are perceived to play a pivotal role in the oil industry corporate planning process. The questions for the questionnaires were based on the Porter's generic strategies and other strategies like diversification, market penetration, market development, product development, innovation and technological development among others identified in earlier studies such as Murage (2000), Isaboke (2001) and Wairachu (2000)

3.4 Data Analysis

The mode of data analysis was descriptive statistics. Percentages, ratios, means, modes and frequencies were derived using the SPSS data analysis program

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings from the data collected from the field based on the specific objectives. The *analysis is presented in* form *of tables,* frequencies, *mean, standard* deviation and percentages.

4.2 Company profile

Table I: Time when the company stalled operations in Kenya

Year	Frequency	*Percent*
1913	1	20.0
1936	1	20.0
1950	1	20.0
1984	1	20.0
2006	1	200
Tptal	5	100 0

Tablel shows the findings on when the companies (oil companies) started operations in Kenya All the responses were rated at 20% and they started their operations in Kenya in 1913, 1936, 1950, 1984 and 2006 respectively. From the study, the researcher can conclude that the majority of the organizations have been in operation for more than 50 years

Table 2: Products the company sells in Kenya

Products Sold	Yes	No
Fuels	5	0
Cooking gas	5	0
Engine + industrial oils	5	0
Non-Fuel products	5	0

The researcher requested the respondents to state the products their company sells in Kenya From the findings in Table 2 above, all the respondents indicated that their company sells fuels, cooking gas. engine oils and industrial oils and non- fuel products respectively.

Table 3: Markets served

	Frequency	Percent
[Domestic Market	1	20.0
(Domestic and foreign	4	80.0
Total	5	100.0

Table 2 above shows that the majority of the companies (80%) serve both domestic and foreign markets, while a small portion (20%) serve domestic markets

Table 4: How many retail outlets in Kenya

	Frequency	*Percent*
65	1	20.0
92	1	20.0
104	1	20.0
151	1	20.0
154	I	200
Total	5	100 0

The researcher also sought to know how many stations each company had Table 2 above shows that, the companies have 65, 92, 104, 151 and 154 stations respectively for the five oil companies.

Table 5: flow many retail outlets in Nairobi

Stations	Frequency	Percent
17	1	20.0
30	1	20.0
40	I	20.0
66	I	20.0
78	1	20.0
Total	5	100 0

Table 5 above shows the numbers of retail outlets that the companies have in Nairobi were 17, 30, 40, *66 and 78* respectively *for the* five *oil* companies.

Table 6: Retail outlets put up in Nairobi after 2001

Number	Frequency	Percent
1	1	20.0
4	1	20.0
5	I	20.0
8	2	40.0
Total	5	100.0

From the findings in Table 6, the number of stations put up in Nairobi after 2001 were 8, 5, 4, and I respectively for the five major oil companies

Table 7: Competition in the companies

	Frequency	Percent
Very Intense	6	60.0
Fai rly intense	4	40.0
Fotal	10	100 0

According to the research findings the majority (60%) said that the competition in their company was very intense, while 40% said that it was fairly intense

Table 8: Perception of strength of competition

•	Frequency	Percent
Yes	4	800
No	1	200
Total	5	100 0

The researcher sought to investigate whether the current competition faced by oil companies in Kenya was stronger that it was before *2001* From the findings *in* Table 8, majority ofthe respondents said that it was stronger (80%), while 20% said that the competition faced by oil companies in Kenya was not stronger that it was before 2001

Table 9: Perception of cause of competition

	Yes	No
Technology	60	40
Economic situation	40	60
Liberalization	40	60
Political legal factors	80	20

The respondents who said that the competition faced by oil companies in Kenya was stronger than it was before 2001 were requested by the researcher to give their suggestion on the reasons. The majority of respondents (80%) said the competition was caused by political legal factors, 60% said technology, 40% said economic situation and 40% said liberalization.

4.3 Strategic responses

The researcher sought to know whether there had been any change in the long term planning of companies in response to increased competition. From the findings, all the respondents said that there had been a change. From the above survey the researcher wanted to investigate the importance of the plans now in comparison with the period before liberalization. From the findings all the respondents, (100%) said the plans were more important now than they were in the period before liberalization.

The table below shows the areas in which changes to respond to competition in the last five years (from 2002) have been carried out. From the findings the majority of the respondents (100%) said that the changes had been taken in organization structure, customer satisfaction profile and strategic alliances. (80%) said changes had been carried out in technology, product/service ranges, staffing/recruitments, merges/acquisition. 60% said that changes had been carried out in corporate mission/vision and retrenchments while 40% noted changes in market segments served.

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Table 10: Areas in which changes have been carried out to respond to competition in the last five years (from 2002)

	Yes	No
Corporate mission/vision	60	40
Technology	80	20
Organization structure	100	0
Customer satisfaction profile	100	0
Product/service ranges	80	20
Market segments served	40	60
Staffing/recruitments	80	20
Strategic alliances	100	0
Merges/acquisition	80	20
Retrenchments	60	40

In the table II, the researcher sought to investigate the importance of strategic options in the above table to the company as a way of responding to competition.

Table 11: Importance of each strategic option to the company a* a way of responding to competition

	Not important	Fairly important	Moderately important	Important	Very important	Mean	Std dev
Differentiation	0	20	20	20	40	3 8	I 229
Market focus	20	0	20	20	40	3.6	1.578
Cost leadership	0	0	20	0	80	4.6	0843
Product development	20	0	20	20	40	3.6	1.578
Market development	0	20	20	20	40	3.8	1 229
Diversification	0	20	0	0	80	4.4	1 265
Acquisition/ mergers	0	20	20	20	40	3.8	1.229
Strategic alliances	0	0	40	20	40	4	0943

From the findings in the above table, the researcher found out that the majority of the respondents were in agreement that the strategic options were important to the company as a way of responding to competition as they all had a high mean score of 3 .6 and above. In the response scale of 1-5 this means that these were important strategies to the company. However, cost leadership was the most important strategic option as it had the highest mean score of4 6.

Table 12: Change in price

	Very much decreased	Moderately decreased	Not changed	Moderately increased	Very much increased	Mean	Std dev
Giving generous price discounts	25	25	0	50	0	2.75	1 389
Charging low prices to increase sales volume	0	0	25	50	25	4	0.756
Setting low pnees to enhance product volume	0	0	0	50	50	3.5	0.535
Setting high pnees to enhance product image	50	25	25	0	0	2	1.309
Giving credit facilities	75	0	0	25	0	1.75	1.389
Posting Competitive Prices	50	50	0	0	0	4.5	0.577

Table 11 shows areas where adjustments in price have been adopted in response to competition ' *in* the *last* five years. The findings in *the table* indicates *that* posting competitive prices has increased as it had the highest mean score of 4 5, followed by charging low prices to increase sales volume which had a mean score of 4 It was also noted that the majonty of the companies

had taken the option of setting low prices to enhance product volume as it also had a high mean score of 3.5.

However, very few companies were giving credit facilities and also very few were setting high priccs to enhance product image as the two had a mean score of 1.75 and 2 respectively, while giving generous pnee discounts in the majority of companies had not changed as it had a mean score of 2.75.

Table 13: Change in product service

	Very much decreased	Moderately decreased	Not changed	Moderately increased	Very much increasec	Mean	Std dev
Improvement in quality of existing products	0	20	0	40	40	4	1.155
Introduction of new products	20	40	0	40	0	3.4	1.265
Offering of after- sales service	40	0	60	0	0	3.8	1 033
Emphasis on product contamination checks	60	20	0	0	20	4	1.633

On the product service, the researcher found out that in the majority of the companies, improvement in quality of existing products, offering of after- sales service and emphasis on product contamination checks had increase in the majority of companies as they had a high mean of 4, 3.8 and 4 respectively, while introduction of new products had decreased in the majority of companies as it had a mean score of 3 4

Table 14: Change in distribution

	Very much decreased	Moderately decreased	Not changed	Moderately decreased	Very much increased
Use of various distribution channels	0	0	50	25	25
Opening of new stations at strategic areas	40	0	0	0	60
Use of resellers/ distributors	0	20	0	0	80

On the change in distribution, (80%) of that this has very much increased, while only (20%) said it had moderately increased. Opening of new outlets had also increased by 60%.

Table 15: Change in promotion

	Very much decreased	Moderately decreased	Not changed	Moderately increased	Very much increased	Mean	Std dev
Advertising expenditure	20	20	20	20	20	3	1.491
Emphasizing on suitability to local conditions in ads	0	0	40	20	40	4	0.943
Use of various advertising media	25	0	50	0	25	3	1.512

Table also shows adjustments in mode of promotion that have been adopted in response to competition in the companies in the last five years From the findings, it was clear that the majority of the companies had increased emphasis local conditions in ads as it had the highest

mean score of 4 and a standard deviation of 0 943 which means that there were no much vanations in the responses Advertising expenditure and use of various advertising media had a mean score of 3 and a standard deviation that was more than 1 that is, 1.491 and 1.512, which means that there was no consensus in the responses.

Table 16: Change in research and development

	Very much decreasec	Moderately decreased	Not changed	Moderately decreased	Very much increased	Mean	Std dev
Focus on certain market segments	0	0	0	40	60	4.6	0.516
Initiative to seeking new market	0	0	0	60	40	4.4	0.516
Initiative in seeking new market niches	0	0 i	40	20	40	4	0.943
Development o models to suit the needs of potential customers	0	0	0	60	40	4.4	0.516
Identify and target buyers of your products	0	0	20	60	20	4	0.667
Emphasis on relationship marketing	0	0	0	20	80	4 8	0.442

Table shows the findings on the adjustments on the research and development that have been adopted in response to competition From the table, the study revealed that all the respondents

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respondents were in agreement that there was increase in all the above variables in respect to research and development as they all had a high mean raging from 4-4.8.

Tabic 17: Change in personnel

	Very much decreased	Moderately decreased	Not changed	Moderately decreased	Very much increased	Mean	Std dev
Selection of qualified staff	0	0	0	0	100	5	0
Training and development	0	0	0	20	80	4.8	0.442
Retrenchment/ Rationalization	0	40	20	0	40	3.4	1.43

On the adjustments done to the personnel, the researcher found out that all the organizations had very much increased selecting qualified staff as it had a mean of 5, the majority of the companies had also increased training and development of their personnel, while in retrenchment/rationalization there were variations in responses as it had a standard deviation of 3.4.

Tabic 18: Change in processes

	Very much decreased	Moderately decreased	Not changcd	Moderately decreased	Very much increased	Mean	Std dev
Fast service delivery	0	0	0	20	80	4.8	0.442
Computerized records	0	0	0	20	80	4.8	0.442

On the processes, the study revealed that the majority of the companies had greatly improved in their delivery of services and the majority were also using computerized records. These were estimating at 80% in both cases. Only 20% had moderately decreased in both fast service

deliver)' and computerized records. This implies that most oil companies are very much relying on fast services delivery and computerized records.

Table 19: Change in social responsibility

Other period	Very much decreased	Moderately decreased	'Vt.! \ Not changed	Moderately decreased	Very much increased	Mean	Std dev
Events sponsorship	0	40	0	20	- 40	3.6	1.43
Donations to the needy	0	20	0	0	80	4.4	1.265
Environment, health and safety issues	0	0	20	0	80	4.6	0.843

The researcher was interested in knowing the adjustments oil companies had taken in form of social responsibility as a strategy to gain competitiveness. For events sponsorship, 40% of the companies had very much increased it while 40% had moderately decreased it. Majority of the companies very much increased donations to the needy. As for the environment, health and safety issues, majority (80%) had very much increased them while the rest had just moderately increases the issues. We can therefore conclude that majority of oil companies have very much increased their social responsibility in strategizing their competitiveness.

Table 20: Change in Cost Structure

	Very much decreased	Moderately decreased	Not changed	Moderately decreased	Very much increased	Mean	Std dev
Staff retrenchment/ rationalization	25	0	0	25	50	3.75	1.573
Automation	0	0	25 1>r.	i 25	50	4.25	0.88

The researcher used both staff retrenchment and rationalization as variables of cost structure. Half of the respondents had very much increased staff retrenchment/rationalization while a quarter had very much decreased the same. The rest had moderately increased staff retrenchment. Pertaining to the automation, half of the companies had very much increased it while half of the rest had only moderately increased the same. The rest had not changed automation at all. From the mean analysis, there is no change in staff retrenchment though the standard deviation is very high. There was a moderate increase in automation with a standard deviation of 0.88

Table 21: Change in Differentiation

Other period	Very much decreased	Moderately decreased	Not changed	Moderately decreased	Very much increased	Mean	Std dev
Branding	0	0	20	0	80	4.6	0.843
Improvement of customer service	80	20	0	0	0	1.2	0.422

Branding and improvement of customer services are the two variables that the researcher used to find the trend of differentiation in strategizing for competitiveness. 80% of the respondents had very much increased on branding while the minority of 20% has not changed in branding their products. On the other hand, majority had very much decreased on improvement of customer service and the rest had moderately decreased on the same. In conclusion, therefore, majority ol the oil companies have very much increased on branding as the method of differentiation as opposed to improvement of customer service where majority of the respondents had very much decreased on it.

CHAPTER FIVE: SUMMARY, CONCLUSIONS ANI) RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made. The analysis was based on the objectives of the study.

5.2 Summary of the Findings

The researcher investigated on the importance of some strategic options to the companies as a way of responding to competition and the most important strategies were found to be cost leadership, with a mean of 4.6, diversification with a mean of 4.4 and strategic alliances with a mean score of 4.

The researcher also sought to investigate on the adjustments adopted in response to competition in the last five years in oil companies. On the price, it was clear that there were moderate adjustments and the majority of the companies were posting competitive prices, charging low prices to increase sales volume, setting low prices to enhance product volume as they had a mean of 4.5,4 and 3.5 respectively.

On the adjustments to the products/service, the researcher found out that there was improvement in quality of existing products as it had a mean score of 4. On the distribution of products, it was clear that the majority of the companies were greatly using resellers shown by 80% and also the majority of them had opened new stations at strategic areas indicated by 60%. On promotion, the study revealed that the majority of the companies were emphasizing on suitability to local conditions in ads as it had a mean score of 4.

On research and development the researcher found out that the majority of the companies were greatly focusing on certain market segments, initiative to seeking new market, initiative in seeking new market niches, developing models to suit the needs of potential customers, developing models to suit the needs of potential customers, identifying and targeting buyers of their products and emphasizing on relationship marketing as they all had a mean raging from 4-

On the adjustment done to personnel, the researcher found out that all the companies were selecting of qualified staff as shown by 100% and also the majority of them were training and developing their personnel as shown by 80%.
On the processes, the study revealed that the majority of the companies had greatly improved in their delivery of services and the majority was also using computerized records both indicated by 80%.

On the corporate social responsibilities of the companies, the researcher found out that the companies had improved on their donations to the needy and also on environment, health and safety issues as they were both indicated by 80%. It was also clear that on the cost structure, the majority of the companies have greatly increased on the Staff retrenchment/ rationalization and Automation as shown by 50% each.

On the differentiation of the products, the study revealed that the majority of the companies had improved on the branding as shown by 80% of the respondents. This is especially in the lubricants segment where specialized brands have been introduced to serve various segments and introduction of new products and services by some companies to try and create a one stop shop concept.

The researcher also found out that the competition in the majority of these companies was very intense indicated by 60%, and the current competition faced by oil companies in Kenya was stronger that it was before 2001as shown by 80%- Where the researcher found the cause of this competition to be political legal factors shown by 80% and technology 60%. The study also revealed that there have been changes in the long-term planning in all the companies in response to increased competition.

The areas that the majority of the oil companies in Kenya had carried out changes to respond to competition in the last five years were organization structure, customer satisfaction profile and strategic alliances all shown by 100%, while others were technology, product/service ranges,

staffing/recruitments, merges/acquisition indicated by 80% and corporate mission/vision and retrenchments shown by 60%.

The researcher also found out that the majority of the companies started their operations before 1950 as shown by 60%, which was a clear indic'atioh that the majority of these companies were well versed with the strategies used by the major oil companies to create competitive advantage.

It was also found out that the majority of these oil companies sell fuel, cooking gas, engine and industrial oils and belle products in Kenya. It was also clear that the majority of these companies as shown by 80% served domestic and foreign markets. The study also revealed that the companies had 65, 92, 104. 151 and 154 retail outlets in Kenya as shown by 20% in each and they also had 17, 30, 40, 66 and 78 retail outlets in Nairobi, also rated at 20% each and of these retail outlets in Nairobi, the majority of the companies had put up 8 retail outlets in Nairobi after 2001.

5.3 Conclusions.

From the findings, it can be concluded that the majority of the companies have carried out changes in the organization structure, customed "satisfaction profile, strategic alliances, technology, product/service ranges, staffing/recruitments, merges/acquisition and pricing methods so as to respond to the very intense competition in the last five years. The strategics employed seem very similar within the sector without any major differences. The researcher concludes that the most preferred strategic options used by the oil companies as a way of responding to increased competition in the industry are cost leadership, and diversification.

According to Porter (1998), if a firm can achieve and sustain overall cost leadership, then it will realize above average performance in its industry provided it can command prices at or near the industry average. The strategic logic of a cost leadership usually requires that a firm be the cost leader and not one of several firms vying for the position. When there is more than one cost leader, rivalry among them is usually fierce. The cost ceases to be a source of competitive advantage for the firms. Finns that chose a low cost strategy should always seek to be the only ones that can achieve lowest costs.

Muindi (2003) in his study of the of the analysis of unrelated diversification by the major oil companies in Kenya concluded that there exists a positive association between services such as convenience shops, bars, tyre centres and other services and increased sales volume. This can explain the choice of the diversification strategy by majority of the companies.

The researcher concludes that, the strategies used by the major oil companies to create competitive advantage can easily be copied and any advantage gained can easily be eroded. All the firms strive to offer competitive prices despite the fact that, they have tried to differentiate through brand building based on quality of product and service. This differentiation however does not come with additional margins as should be the case. Superior performance can therefore only be gained if a firm has a cost advantage which can explain the choice of the cost leadership strategy. Firms in the sector need to seek unique ways of differentiating themselves in order to gain sustainable competitive advantage.

5.4 Limitations

The researcher found it difficult to get in-depth information from two managers in one of the companies. While they answered all the questions, they found it difficult to expound further on their choices for fear that the information might be used to the advantage of competition. The second limitation was that the managers were very busy and they kept postponing the meetings which extended the period of study.

5.5 Recommendations

The research mainly covered the strategies currently used by the major oil companies to create competitive advantage for their stations in Nairobi. The researcher suggests that future research should be carried on strategies are used by the oil companies. This will enhance the findings of this study .

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APPENDICES

Appendix I: Questionnaire

As one of the major oil companies in Kenya, your company has been selected to participate in the study of strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi

Please answer the following questions

SECTION 1

I. Year when the company started operations in Kenya

2. Please name the product your company sells in Kenya

3. Markets served (tick one)
   a) Domestic markets only
   b) Domestic and foreign
   c) Foreign markets only

4. a) How many retail outlets do you have in Kenya?
   b) How many retail outlets do you have in Nairobi?
   c) How many new stations were put up in Nairobi after 2001?

5. How would you describe the competition your company is currently facing (tick one)
   a) Very intense ( )
   b) Fairly intense ( )
   c) Negligible ( )

6. Is the current competition faced by your company stronger than it was before 2001?

Yes ( ) No ( )

If stronger, what do you think has led to this? (Tick as appropriate)

Technology ( )

Economic situation ( )

Liberalization ( )

Political legal factors ( )

Changes in customer needs/preference ( )

Others (please specify)

7. Rank the following goals in order of importance to your company before and after the liberalization of the oil sector in 1994. Begin with the most important as rank (1). Indicate the rank in the bracket provided against each.

Before liberalization		after liberalization	
Survival	( )	survival	( )
Growth	( )	growth	( )
Profitability	( )	profitability	( )
Public image	( )	public image	( )

SECTION 2

STRATEGIC RESPONSES

1. Has there been a change in the long term planning of your company in response to increased competition?

Yes ( ) No ( )

How important would you consider such plans to be now as compared to the period before liberalization: (Tick as appropriate)

More important ( )

Equally important ( )

Less important ( )

2. How often have the long term plan been prepared in your company before and after liberalization.

Before liberalization	after liberalization	
Semi-annually	Semi-annually	(
Annually	Annually	(
2-3 years	2-3 years	(
3-5 years	3-5 years	(
Never prepared	Never prepared	(
Other specify period	other specify period	( )

3. In which of the following areas have you carried out changes to respond to competition in the last five years (from 2002)? (Tick only those that you have changcd) for those that have changed indicate briefly the nature of change in the space provided against each

Corporate mission/vision ( )

Technology ( )

Organizational structure ( )

Customer satisfaction profile ( )_

Product/service ranges ( )

Market segments served ( )________________•

Staffing/recruitments ( )

Strategic alliances ( )

Merges/acquisitions ( )

Retrenchment ( ).

What other changes have you carried out within the last five years (list and describe briefly below)

List Brief description

4. Rate the importance of each of the following strategic options to your company as a way of responding to competition. Rate on the following 5-point scale, l=Not important at all, and 5= Very important. (Tick as appropriate)

	1	2	3	4	5
Differentiation	( )	( )	( )	( )	( )
Market focus	( )	( )	( )	( )	( )
Cost leadership	( )	( )	( )	( )	( )
Product development	( )	( )	( )	( )	( )
Market development	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
(Please specify)					
Acquisition/mergers	( )	( )	( )	( )	( )
(Please specify)			• eic'i		
Strategic alliances	( )	( )	( )	( )	( )
Others (please specify)	( )	( )	( )	( )	( )

5. For each of the following factor responses, please tick ( ) only one of the respective numbers to indicate (as per the key) what adjustments have been adopted in response to competition in the last five years.

1. - Very much increased
2. — Moderately increased
3. -Not changed
4. -Moderately decreased
5. —Very much decreased

A. PRICE	1	2	3	4	5
1. Giving generous price discounts	( )	( )	( )	( )	( )
2. Charging low prices to increase sales volume	( )	( )	( )	( )	( )
3. Setting low prices to enhance product volume	( )	( )	( )	( )	( )
4. Setting high prices to enhance product image	( )	( )	( )	( )	( )
5. Giving credit facilities	( )	( )	( )	( )	( )
Others (please specify)					
6.____________________	( ) . .i	( )	( )	( )	( )

B. PRODUCT SERVICE

1. Improvement in quality of existing products	( )	( )	( )	( )	( )
2. Introduction of new products	( )	( )	( )	( )	( )
3. Offering of after -sales service	( )	( )	( )	( )	( )
4. Emphasis on product contamination checks	( )	( )	( )	( )	( )
Others (Please specify)					
____________________	( )	( )	( )	( )	( )

C. DISTRIBUTION	1	2	2	3	5
1. Use of various distribution channels	( )	( )	( )	( )	( )
2. Opening of new stations at strategic areas	( )	( )	( )	( )	( )

3.	Use of Resellers/Distributors	( )	( )	( )	( )	( )
	Others (please specify)					
	______________________________	( )	( )	( )	( )	( )

D.	PROMOTION	1	2	3	4	5
1.	Advertising expenditure	( )	( )	( )	( )	( )
2-	Emphasizing on suitability to local conditions In ads	H	( )	( )	( )	( )
3.	Use of various advertising media	()	( )	( )	( )	( )
	Others (please specify)					
	______________________________	()	( )	( )	( )	( )

E.	RESEARCH AND DEVELOPMENT	i	2	3	4	5
1.	Focus on certain market segments	()	( )	( )	( )	( )
2.	Initiative to seeking new markets	(>	( )	( )	( )	( )
3.	Initiative in seeking new market niches	()	( )	( )	( )	( )
4.	Development of models to suit the needs of Potential customers	(>	( )	( )	( )	( )
5.	Identify and target buyers of your products	()	( )	( )	( )	( )
6.	Emphasis on relationship marketing	()	( )	( )	( )	( )
	Others (please specify)	: j				
		()	( )	( )	( )	( )

F.	PERSONNEL (STAFF)	1	2	3	4	5
1.	Selection of qualified staff	( )	( )	( )	( )	( )
2.	Training and development	( )	( )	( )	( )	( )
3.	Retrenchment/Rationalization	( )	( )	( )	( )	( )
	Others (please specify)					
	______________________________	( )	( )	( )	( )	( )

G. PROCESSES	1	2	3	4	5
1. Fast service delivery	( )	( )	( )	( )	( )
2. Computerized records	( )	( )	( )	( )	( )
Others (please specify)					
	()	( )	( )	( )	( )

H. SOCIAL RESPONSIBILITY	i	2	3	4	5
1. Events sponsorship	()	( )	(\	( )	( )
2. Donations to the needy	()	( )	( )	( )	( )
3. Environment, health and safety issues	()	( )	( )	( )	( )
Others (please specify)					
______________________	()	( )	( )	( )	( )

I. COST STRUCTURE	i	2	3	4	5
1. Staff retrenchment/rationalization	()	( )	( )	( )	( )
2. Automation	()	( )	( )	( )	( )
Others (please specify)					
______________________	()	( )	( )	( )	( )

J. DIFFERENTIATION	i	2	3	4	5
1. Branding	()	( )	( )	( )	( )
2. Improvement of customer service	()	( )	( )	( )	( )
Others please specify					
1. ______________________	()	( )	( )	( )	( )
2. ______________________	()	( )	( )	( )	( )

Appendix 2: Market Shares of Oil Firms

Market shares

	2004	2006
Total	20.7%	17.94%
Shell / BP	18.7%	21.04%
Kenol/ Kobil	18 4%	23.78%
Caltex	13.8%	15.26%
Mobil	12.4%	7.33%
Others	16.0%	18.7%

Nock	2.72%	2.30%
Triton	2.49%	0.67%
Petro	2.4%	1.35%
Metro	2.26%	1.57%
Gapco	-	1.85%
Bakri	-	1.85%
Others	613%	9.11%

Table 1: adapted from PIEA- Introduction to oil industry and Petroleum Insight July to September 2007

Appendix 3: Introduction letter

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

to A PROGRAM - LOWER KABETE CAMPUS

Telephone J I mi 60 Ext 201
Telegrams: "V«r»iiy". Nairobi
Telex: 22095 Vmily 1 '.

PO Box 30197
NliroW. Kenya

DATE.. J 13.1..QJ.

TO WHOM IT MAY CONCERN

The bearer of this letter. . . . . .M ^ . «J

Registration No: . Q 6 I I P J . Z % k ? j Q #

is a Master of Business Administration (MBA) student of the University of Nairobi.

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

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

i

Thank you.

^ ^ t e s S C o i - NAI' CX
J.T kMugf BUSINESS
CO-ORD)N^OR ,0^BA PROGRAM
NAIROBI