CHALLENGES OF APPLICATION OF PORTER'S GENERIC STRATEGIES IN THE TEA INDUSTRY IN KENYA: A CASE STUDY OF KETEPA LIMITED.

By:

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DECLARATION

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

Signed………………………… Date…25/10/06…………..

KENEI ZEDDY CHEPKIRUI

D/61/P/8483/03

This management research project has been submitted for examination with my approval as the university supervisor.

Signed………………………… Date 25/10/2006……………..

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DEDICATION

I wish to dedicate this project to my husband Kenei for the chance he gave me to explore my potential to the fullest and to my two lovely children Mike and Cindy.

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First and foremost I give all honor and glory to God for his grace that has been sufficient for me during the course of my entire program, and in particular during my research work for the cooperation I got which was so critical to the success of the project.

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ABBREVIATIONS USED

KTDA: Kenya Tea Development Agency

KTGA: Kenya Tea Growers Association

EATTA: East Africa Tea Trade Association

TBK: Tea Board of Kenya

TRFK: Tea Research Foundation of Kenya

ABSTRACT

All organizations are environment dependant; they depend on the environment for their inputs and outputs. Every firm should therefore have a competitive strategy which relates it to its environment and enables it to maintain a fit between itself and environment.Changes in the industry environment together with increasing competition has caused firms to change their competitive strategies in order to achieve profitability and maintain their survival in the market.

This research was thus aimed at investigating the challenges faced by firms in the application of Porter's generic strategies in the tea industry, a case of Ketepa Limited. Data collection instrument was an interview guide, which was administered to managers of sections in the organization responsible for strategy formulation and implementation of strategies at Ketepa Limited. From the population of 8 managers, 7 were interviewed. Data collected was first checked for consistency, coded and then analyzed to arrive at the various conclusions.

The study concluded that the major challenges faced to a great extent in the implementation of Porter's generic strategies in Ketepa Ltd includes; poor coordination among functions in R&D and marketing, competition from none branded products, changing tastes and preferences of consumers and rampant technological changes. Financial requirements and technical leadership were not of any challenge at all to the firm.

Other factors which posed as a challenge to the firm included; ability and skills of managers and owners, community and government regulations and the ability and skills of staff. The firm therefore applies strategies such as cost cutting and market focusing to a great extent to counteract these challenges. The firm also bases its competition on cost-leadership and differentiation strategies, and has had to change its competition tactics over the past five years to maintain an edge over its competitors and retain its position as market leader.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Organizations exist within an external environment which consists of all conditions and forces that affect its strategic options and define its competitive situation. A dynamic environment therefore means that firms have to compete more intensely (Pearce and Robinson, 1997).The way in which organizations interacts with the environment is therefore crucial for survival and growth. Hence organizations have to constantly align and re-align there strategies in order to remain competitive. Ansoff and McDonnell (1990) state that failure to effectively adapt the organization to its environment leads to a strategic problem thus threatening its existence.

The government of Kenya has made significant efforts in the implementation of economic reforms since the beginning of the 1990's.These was done in order to stabilize the economy and to enhance both external and domestic competitiveness (National Development paper 1997-2001, Republic of Kenya) These changes have had a major impact on all industries and especially the tea industry since it's among the major tea producers in the world and major foreign exchange earner in the country. The changing climatic patterns and narrowing margins between revenues and expenditures together with the increased liberalization in the Kenyan economy has led to increased turbulence in the business environment, thus forcing firms in the industry to resort to competitive strategies for their survival and growth.

The application of the competitive strategies in the industry may not be that simple. Newman et al (1989) therefore argues that firms in the industry may be faced with various competitive challenges which include structural and economic barriers in the industry. He further identifies three types of competitive challenges that may hinder a firm's ability to grasp new opportunities. These are financial requirements, regulatory issues imposed by government and the ability of the company owners and managers.

Competitive advantage therefore is at the heart of any strategy, and to achieve it a firm is required to make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it (Porter, 1980). He therefore defines competitive advantage as how a firm can gain sustainable cost advantage, how it can differentiate itself from competitors and how a firm can select a segment such that competitive advantage grows out of a focus strategy.

1.1.1 Tea Industry in Kenya

Tea production in Kenya commenced in 1903 when few bushes were planted in Limuru. By 1925 large-scale plantations were developing in Kericho then it spread to various parts of the country. Tea growing and manufacture is carried out by either the large-scale companies or small-scale holders under the umbrella body of KTDA. The tea act requires all tea growers to register with factories near them so that the factories file grower registration returns with the Tea Board of Kenya each year.

From the tea fields the shoots are manufactured in 83 factories spread across the tea growing districts. Once processed to yield black tea, it's disposed through various outlets like Mombasa auction, direct export and local sales. Bodies playing a significant role in tea industry in Kenya include:

KTDA (Kenya tea development Agency) -Handles crops from small scale holders

KTGA (Kenya Tea Growers Association)-For private tea growing manufacturing companies

EATTA (East African Tea Trade Association) - Handles the marketing concerns of the tea industry players at the Mombasa auction

TBK (Tea Board of Kenya) - Regulatory body

(TRFK) Tea research foundation of Kenya - Handles the research activities in tea growing and manufacturers

The tea industry in Kenya rests on four key success factors which have undergone significant changes. These are: Rainfall which is very crucial for tea production

Exchange rate, this implies that a stable exchange rate is important to the industry which is mainly export oriented. Production costs mainly in labour, power, packaging materials and fertilizer have been increasing drastically
Auction prices- in dollar terms have remained the same which implies that with a stable exchange rate which is strengthening, the tea manufacturing firms are faced with a situation where margin between revenues and expenditures is diminishing

Kenya being among the top five major producers of tea in the world, is the second largest exporter of black tea after Sri Lanka. Increasing globalization of industries has therefore subjected the tea industry in Kenya to a lot of competition. The industry has therefore been facing challenges in the recent years due to deforestation leading to reduced rainfall levels, wage inflation and high costs of operation due to poor infrastructure and increasing expenditure associated with supporting welfare needs of employees. Brooke Bond in-house magazine "BBC News stunning" (2000) increased competition has led to stagnation of prices in world tea market.

Liberalization of the economy and changes in the political legal environment has led to situations where organizations like Ketepa Limited were suddenly faced with increased competition from start-up companies. With such changes within the tea industry Ketepa Limited was forced to resort to competitive strategies to enable them maintain sustainable competitive advantage and retain their position in the industry as market leader. Ketepa resorted to the competitive strategies in order to keep pace with the changing environment, change by competitors and also due to change in customers' tastes and preferences.

1.1.2 Ketepa Ltd

The Kenya Tea Packers Limited (KETEPA) was established as a private company in September 1977 and became operational in January 1978. It was established because of an acute artificial shortage of tea in Kenya in 1975, 1976 and 1977. The company was required by law to serve the local market only. The law was changed in 1992 and the company exports packed tea to destinations around the world. The company is owned by the Tea Growers of Kenya through the Kenya Tea Development Agency (KTDA) which owns 70% of the shares while plantation sector under Kenya Tea Growers Association (KTGA) owns 30%.

Each factory in Kenya supplies 6% to 7% of their manufactured teas to Ketepa and rest of the tea is sold by them in bulk through Mombasa and London auctions or private treaties. Other major shareholders include Brooke Bond Kenya Limited, James Finlay, Williamson Tea and Eastern produce among others who together own 38 tea-processing factories and produce about 40% of the tea produced in Kenya. Its objective is to increase the returns of their shareholders by shortening the distribution chain through increased sales of high quality, hygienically packed value added tea in the local and export markets.

1.2 Research Problem

1.2.1 Background to the research problem

All organizations are environment serving; they depend on the environment for their inputs and outputs. Porter (1998) emphasizes that competition is at the core of the the success or failure of firms thus every competing firm should have a competitive strategy which will relate the firm to its environment The environment is very dynamic hence having a major impact on all industries within the country. The tea industry in Kenya has therefore not been spared from the impact of these changes. The tea industry has been facing various challenges in the recent years.Ketepa as an organization had enjoyed monopoly for so long its market share was nearly 100% but due to liberalization of the economy and with current changes in the political legal environment the firm has had to deal with stiff competition from start up companies and other existing firms. Though Ketepa still remains the biggest tea blending, packing and marketing company in Kenya today with a market share estimated at over 60%, its greatest challenge is to maintain and grow its sales and market share in a turbulent local and export environment. Its major competitors are Gold Crown Beverages Kenya Ltd, Melvin Marsh International and Unilever Kenya Ltd.

Firms in the industry have therefore been forced to respond to the changing competitive situation in the environment by applying Porter's generic strategies to ensure they maintain an edge over their competitors. However, this may not be that easy for the firms since Porter's generic strategies model is imported from a developed country and hence its applicability in the tea industry in Kenya might be difficult due to factors such as; poor infrastructure, lack of capital, competition from none branded products, changing customer tastes and preferences and technological changes. The model also works best in in a free market competitive situation; the Kenyan setting has not quite fitted the free market competitive setting since the government presence is heavily felt in the market. Therefore the model may need adaptation in the local setting for it to be applied successfully in the Kenyan firms.

Various studies have been carried out on the existence of competitive strategies in other industries example Karanja (2002) looked at competitive strategies in the real estates the perspective of Porter's generic model, Murage (2001) has looked at competitive strategies adopted by members of the Kenya Independent Petroleum Dealers Association and Gitonga (2003) has looked at the application of Porter's generic strategies framework in hospitality establishments in Nairobi. No study was found on competitive strategies on the tea industry in Kenya. The industry is unique in the sense that it is a manufacturing sector, while all other studies which have been done previously are centered on service sector industries thus the need to identify the challenges faced by firms in the manufacturing sector in trying to apply the generic strategies. The tea industry also produces one of the major export product in Kenya, it is therefore exposed to more challenges compared to the other industries .The study will therefore enable the tea industry to understand how best it could apply Porter's generic strategies and to also identify the major obstacles hindering the firms from using the three generic strategies to enable them withstand increased competition in the business environment and to outperform their rivals.

1.2.2 Statement of the Research Problem

From the foregoing discussion the study will therefore seek to address the following questions:

What are the major challenges faced in the tea industry in the implementation of Porter's generic strategies? What are the obstacles hindering the use of Porter's generic strategies in the tea industry?

1.3 Research Objectives

The objective of the study is:-

(i) To determine the challenges faced in implementing Porter's generic strategies

1.4 Importance of the study

The research is expected to be of value to various stakeholders. To the researcher, the study will provide a view of the competitive scope in the tea industry and be able to understand the challenges faced in the application of Porter's generic strategies and obstacles hindering the use of the strategies in Kenyan firms.

To the manufacturers and other players in the tea industry the study will provide them with information on the general state of competition in the industry and kind of strategies employed by other organizations in the industry to compete.

Finally, to the policy makers (Government Ministries and Parastatals) the study will enable them to be more pro-active and further give them ideas of the competitive strategies they need to invest in for the industry to be successful.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Strategic management plays a key role in any organization. It enables firms to position themselves commercially, provides direction for a firm in terms of vision, mission and objectives, guides a firm on effective resource allocation and provides a means through which organizations can adapt effectively to external change in the context of complex and chaotic business environments.(Bennet,1999) therefore argues that implementation of strategies is crucial especially in light of the increasing competition and complexity of today's world that can make it extremely difficult to assess and take advantage of opportunities open to a firm. Firms are in competition with each other when they sell identical products/services to the same group of customers.

Competitive strategies thus provide a framework for firms to respond to the various changes within the firms operating environment and also enables them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1998).This section looks at the concept of strategy, competition and its challenges, Concept of competitive strategies and Porter's generic strategies.

2.2 Concept of strategy

Strategy is concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment (Pearce and Robinson, 2001). Johnson and Scholes (2001) also define strategy as the process of matching the activities of an organization to the environment in which it operates. This process is known as search for a strategic fit. Strategic fit is achieving the correct positioning of the organization such that it is able to meet the needs of the markets and fulfill stakeholders' expectations. Thompson and Strickland (2003) argued that strategy is about winning. They perceived strategy as a combination of competitive moves and business approaches that managers employ to satisfy customers, compete successfully and achieve organizational vision and objectives.

Mintzberg (1997) viewed strategy as a plan, ploy pattern, position and perspective. As a plan, strategy consciously determines the intended course of action. As a ploy, strategy is seen as a manoueuver intended to outwit competitor. As a pattern, strategy is seen as a pattern emerging in a stream of actions. As a position, strategy is seen as a means of positioning a firm and its environment. As a perspective, strategy gives an organization an identity and a way of perspective.Ansoff (1965) views strategy as the "common thread" among an organizations activities and the market.

Strategy in an organization exists in three levels. Corporate level, Business level and Operational or functional level (Johnson and Scholes, 2002).Corporate level strategy is concerned with the overall purpose and scope of the organization. Business level strategy is concerned with competition with other businesses in the market and achievement of competitive advantage. Operational level strategy is concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, people and processes of a firm. Hence there is no single definition of strategy. Terms such as mission, vision or strategic intent and goals could mean strategy and thus define the scope and boundaries of an organization.
The concept of strategy thus defines the long-term direction of an organization and also states the types of actions, resources and strategic controls required to achieve objectives and goals of an organization.

2.3 Competition and its Challenges

Philip Kotler, 2001 argues that competition includes all the actual and potential rival offerings and substitutes that a buyer might consider. Competition determines the appropriateness of a firm's activities that can contribute to its performance. Competition is therefore all about value, creating it and capturing it. According to (Porter, 1998), state of competition in an industry depends on five basic forces. The collective strength of these forces determines the ultimate profit potential of an industry. These forces includes: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and services and rivalry among existing firms. Whilst these environmental forces influence the firm, the firm must seek to manage the environment (Thompson, 1997). In addition to these competitive forces there are other catalysts to this competition.

(Burnes, 2000) states that it has become an accepted view that for society at large the magnitude, speed, unpredictability and impact of change are greater than before. New products have come up at an increasing rate, local markets have become global, protected industries have been opened up to stiff competion. Competition is therefore not only local and global but there is a realignment of the forces at a very fast rate. Hence understanding these forces will be crucial in studying the basis of competition in an industry.

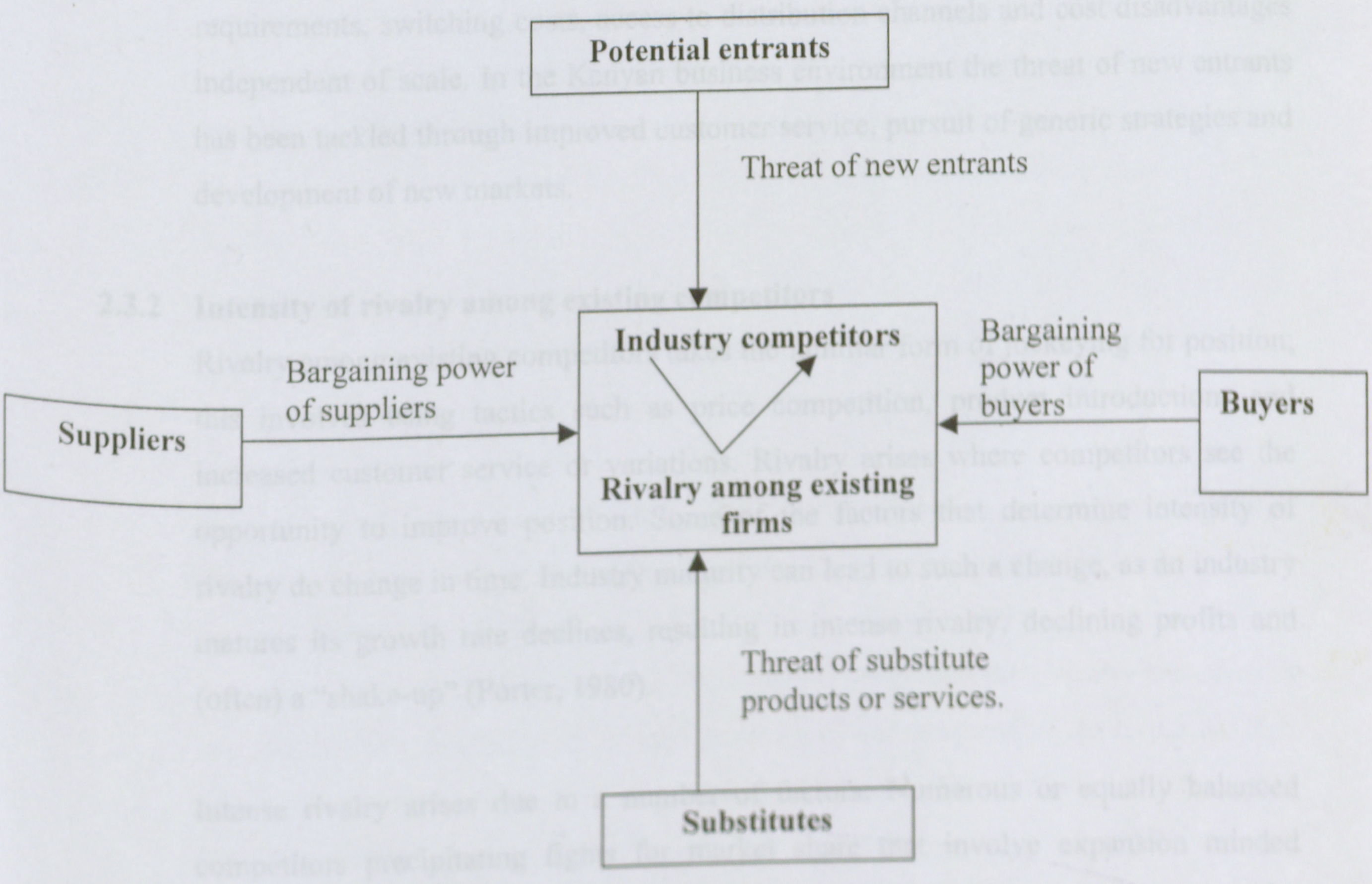

Figure 1: Forces driving industry competition

Source: Porter M.E (1988), Competitive Strategy: Techniques for analyzing industries and competitors, Free press.

The forces can either be intense leading to low profit margins or build allowing for high profit margins.

2.3.1 Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. The seriousness of the threat of entry depends on the barriers present, coupled with reaction from existing competitors that the entrant can expect. If barriers are high and a new comer can expect sharp retaliation from entrenched competitors, thus threat of entry is low.

Barriers to entry include: Economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and cost disadvantages independent of scale. In the Kenyan business environment the threat of new entrants has been tackled through improved customer service, pursuit of generic strategies and development of new markets.

2.3.2 Intensity of rivalry among existing competitors

Rivalry among existing competitors takes the familiar form of jockeying for position; this involves using tactics such as price competition, product introductions and increased customer service or variations. Rivalry arises where competitors see the opportunity to improve position. Some of the factors that determine intensity of rivalry do change in time. Industry maturity can lead to such a change, as an industry matures its growth rate declines, resulting in intense rivalry, declining profits and (often) a "shake-up" (Porter, 1980).

Intense rivalry arises due to a number of factors: Numerous or equally balanced competitors precipitating fights for market share that involve expansion minded members. Slow industry growth, which turns competition into a market game for firms seeking expansion. High fixed or storage costs, which create strong temptation to cut prices, lack of differentiation or switching cots. This locks in buyers and protects one combat from raids on its customers by another. Capacity animated in large increments where economies of scale dictate that capacity must be added in large increments. Diverse competitors in strategies, origins and personalities, they therefore have different ideas about how to compete thus running head on into each other in the process. High exit barriers, these are economic strategic and emotional factors that keep companies competing even though they may be earning low or even negative returns on investment.

2.3.3 Pressure from substitute products

Substitute products limit the potential returns of an industry by placing a ceiling on the prices firms in the industry and profitability charge. Substitute products that deserve the most attention are those that are: subject to trends improving their price performance trade off with industry's products or are produced by industries earning high profits. Substitutes hence come into play if some development increases competition in their industries and causes price reduction or performance improvement.

2.3.4 Bargaining power of buyers

Buyers compete with the industry by forcing down prices by bargaining for higher quality of more services and playing competitors against each other at the expense of industry profitability.

Buyers groups are powerful when they are concentrated or purchase in large volumes, products they purchase from industry are standard or undifferentiated, when they earn low profits, when they pose a credible threat of backward integration, when the industry's product does not save the buyer money, when the industry's product is unimportant to the quality of buyers' products or services and when buyer has full information hence buyer is in a greater position to ensure it receives the most favorable prices.

2.3.5 Bargaining power of suppliers

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

Suppliers can be powerful where industry is dominated by a few companies and is more concentrated than the industry it sells to, when its not obliged to contend with other substitute products for sale to the industry, when the product is unique or at least differentiated, when industry is not an important customer of the supplier group and when they pose a credible threat of forward integration. Conditions determining suppliers' power are not only subject to change but also often out of the firm's control. Hence to be able to cope effectively with the five competitive forces, firms must apply different competitive strategies to respond to the increased levels of environmental turbulence

2.4 concept of competitive strategies

A unique strategy contributes effectively to the competitiveness of business firms. (Ansoff, 1990) whereas goals represent the ends which the firm is seeking to attain, strategy is the means to these ends.

Porter (1980) states that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal of profitability. (Porter, 1985) argues that the essence of a strategy is to relate a firm to its environment. He further argued that the essence of any business is to create competitive advantage that could be gained in a number of ways such as low cost production or product differentiation.

According to Porter, developing competitive strategies is developing a broad formula for how a business is going to compete. The purpose therefore of competitive strategy is to establish a profitable and sustainable position against that forces that determine industry competition, outperforming rivals in an ethical manner and cultivating the loyalty of consumers. Formulation of competitive strategies thus entails carrying out a situational/internal analysis of a firm. This involves analyzing the firm's strengths and weaknesses, opportunities and threats. Porter (1980) identified the three generic strategies using the analysis. These are cost leadership, differentiation and focus. These three competitive strategies are thus essential to any organization in that it provides the firm with a guide on how to compete, stipulates the goals of an organization and states the policies needed to attain these goals.

2.5 Porter's Generic strategies

The aim of any firm should be to develop a distinctive competence that is greater than is than its competitors. The model therefore is a guide to firms on how they can create and sustain a competitive Advantage; it tries to link the strategy formulation process with the implementation. The concept of the three generic strategies is based on the premise that there are a number of ways in which competitive advantage can be achieved depending on the industry structure and availability of resources. Porter's generic strategies hence provide alternative routes to superior performance in an industry.

The three generic strategies allow organization to gain competitive advantage from three different bases. Firms can posses' two basic sources of competitive advantage, low cost or differentiation, Porter (1990). The two basic types of competitive advantage combined with the scope of activities which a firm seeks to achieve leads to the three generic strategies, which allows organizations to gain competitive advantage from three different bases for achieving sustainable competitive advantage or above average performance in an industry.

Fundamental basis for above average performance in any organization in the long run is sustainable competitive advantage. Sustainable competitive advantage is the process which allows for the maintenance of a firm's competitive position in the market. Winning business strategies are therefore grounded in sustainable competitive advantage (Thompson, 1998). Organizations should hence thrive to invest in creating sustainable competitive advantage, which is an effort that ensures the business survives against all its competitors over a long period.

Competitive Advantage

Competitive Focus		Lower cost	Differentiation
	Broad Focus	1. Cost leadership	2. Differentiation
	Narrow Focus	3A.Cost focus	3B. Differentiation

Figure 2: Porter's Generic Strategies

Source: Porter M.E (1988), Competitive Strategy: Techniques for analyzing industries and competitors," Free press.

For a firm to attain competitive advantage. It must make a choice about the type of competitive advantage it seeks to attain and scope within which it will attain it (Porter, 1990). Any firm that engages in each generic strategy but fails to achieve any is said to be stuck in the middle, this places the firm in a very poor position and even though it's successful, it would not survive if there was increased competitive pressure as it possesses no competitive advantage.

2.5.1 Cost leadership

A firm becomes a low-cost producer in its industry if it has a broad scope and serves many industry segments. Cost leadership is realized through gaining experience, pursuit of economies of scale, investing in large-scale production facilities and careful monitoring of overall costs of operation. A low–cost producer must find and exploit all sources of cost advantage. Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions and tight cost curve control and cost maximization in various functions (Porter, 1980).

The strategy benefits the firm in that it's able to withstand intensive price competition and buyers may appreciate the offer for lower prices (Thompson and

Strickland,1998)A cost leader can't ignore the bases of differentiation hence it must achieve parity in the bases of differentiation relative to its competitions to be an above-average performer. This allows the cost leader to translate its cost advantage into higher profits than competitors.

2.5.2 Challenges of using cost leadership

Greatest danger of cost leadership strategy is in competitors' ability to find ways of producing at a lower cost and beat the cost leader. Competitors have the ability to easily imitate the cost leader's methods. Inflation in costs that narrow the firm's ability to maintain enough of a price differential to offset competitors' brand images. A firm using this strategy has to therefore invest highly in modern equipment and be on the look out for any technological improvements in the industry for it to maintain its position as cost leader.

The other great risk is that the single-minded desire to reduce costs may cause loss of sight of changes in customer tastes. An organization while making decisions to reduce cost may affect demand for a product drastically due to the shifts in customer preferences (Karanja, 2002).

2.5.3 Differentiation

This strategy enables a firm to be unique in its industry along dimensions widely valued by buyers. The aim is to achieve higher market share than competitors by offering better products or services at same price (Johnson & Scholes, 2002). The uniqueness may be in form of customers' service; design brand image or technology (Porter, 1980) argues that means of differentiation are peculiar to each industry.

Differentiation strategies are not about pursuing uniqueness for the sake of being different but about understanding the product/service and the customer (Grant, 1998). A firm that can achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra costs incurred in being unique (Porter, 1980). It creates a defensible position for coping with the five competitive forces.

This strategy requires that a firm choose ways to differentiate itself different from its rivals. An organization therefore has to study buyers' needs and behavior in order to understand what they consider important with value and what they are willing to pay for it to be able to differentiate itself successfully. Hence sustainable differentiation requires that a firm performs a range of value activities uniquely to influence the purchase criteria (Porter, 1985) an industry can therefore have more than one differentiation strategy if it has a number of attributes widely valued by buyers.

2.5.4 Challenges of using differentiation strategy

Major problem with this strategy centers on company's long-term ability to maintain its perceived uniqueness in customers' eyes. Competitors easily move in to imitate and copy successfully differentiators and thus the uniqueness of the product is therefore eroded.

Another risk is when the cost differential between low cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty and the buyers sacrifice the differentiated product for large cost savings.

2.5.5 Focus

This strategy allows a firm to concentrate on developing its knowledge and competencies, since the business concentrates on a narrowly defined market (Pearce and Robinson). The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. Focus strategy has two variants: ***-Cost focus-*** This is where a firm seeks a cost advantage in its target segment. ***Differentiation focus-*** where a firm seeks differentiation in its target segment.

Both variants rest on differences between a focuser target segments and other segments in the industry. The target segments must have either buyers with unusual needs or else the production and delivery system must differ from that of other industry segments and that serves target segment best (Porter 1990).

The focuser can therefore achieve competitive advantage by concentrating on its segments exclusively. A focuser takes advantage of sub optimization in either direction by broadly –targeted competitors. The underperformance of competitors in meeting the needs of a particular segment opens the possibility for differentiation focus.

This strategy will not succeed if the focuser's segments aren't differentiated from other segments. A firm will hence be an above-average performer in its industry if it can achieve sustainable cost focus or differentiation focus in its segment and the segment is structurally attractive.

2.5.6 Challenges of using focus strategy

The focus strategy is imitated thus making the target segment to be structurally unattractive because of technological change or changes in customer preferences. A focuser is also vulnerable to attack by differentiators who can compete for the same segment by offering products that can satisfy the needs of the focusers customers. Differences in desired products and services between the strategic target and market as a whole may narrow, putting the focuser at a risk of losing clients. The focuser has to therefore constantly defend his segment.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers the research design, which was used to meet the objectives of the study. Included also are the population, sample size, data collection instruments and data analysis techniques.

3.1 Research Design

The research was conducted through a case study design. This is because data was collected from one study unit only that is. Ketepa Limited. This design allows for in depth exploration of issues and data collected was therefore of a qualitative nature. The research thus sought to establish the challenges faced by Ketepa in the application of Porter's generic strategies and factors hindering the firm from using these strategies.

3.2 Data Collection

The kind of data collected was primary data; this was by use of a semi structured interview guide that is the interview guide had both closed and open-ended questions. The interview guide was divided into three parts. The first part contained the respondent's profile and demographic aspects of the firm. Part II sought to establish the state of competition in the industry and the strategies used by the firm. Part III sought to identify the challenges faced by the firm in the application of Porter's generic strategies and the various applications by the firm to counteract these challenges. The respondents were managers responsible for strategy formulation and implementation at Ketepa Limited.

3.3 Data Analysis

Data was analyzed using content analysis. The method was preferred because it is an unobtrusive means of analyzing interactions and for its ease of reference and interpretation by the beneficiaries of the study. The method also guards against selective perception of the content, and has provision for the rigorous application of reliability and validity criteria and is amenable to computerization.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Preamble

This chapter outlines the data analysis carried out on qualitative data.

The objective of the study was to determine the challenges faced by Ketepa Ltd in implementations of Porter's generic strategies. Data was colleted by conducting personal interviews with managers from various functions at Ketepa Ltd. A total of seven managers in the organization were interviewed.

The data was mainly analyzed by content analysis, which sought an objective, systematic and qualitative description of a manifest content of the communication between the researcher and representatives of the organization under study, the findings are as provided below.

4.2 Qualitative findings

The findings reported were obtained through in-depth interviews conducted in the qualitative phase with senior managers by year and experience. All the managers interviewed were from Kericho the lowest manager to be interviewed had an experience of 2 years. The rest were between 6-18 years. The strategy formulation process of Ketepa Ltd is formal that is through meetings and elaborate documentation.

4.3 State of competition in the industry

4.3.1 Major competitors for Ketepa tea packaging

From the findings extent of responding to changes in the environment was found to be of great extent. State of competition in the tea packaging industry was found to be stiff. The major competitors of Ketepa in the tea packaging industry were: Kericho gold, Melvin Marsh International, Home cup, Sasini, James Finlay, Loose (packed) from KTDA, Kaisugu tea, Goldman, Kakuzi, Out of Africa, Gold crown beverages, Unilever and Golden brew.

4.3.2 Reasons for competition were

Respondents complained that they had to compete for the same customer. The fact that the market is flooded with cheap unblended tea hence they don't incur any costs for blending or packaging and the fact that market is price sensitive poses a major challenge to the firm since their competitors are able to offer lower prices. Lastly, they had an issue with the loose tea packed for export market, which they are striving to enter.

The firm has therefore been forced to Change its competition tactics over the past five years by; increased advertising, improved packaging, investing in modern machines to suit the packaging and improve spectrum of tea bags, Changes in terms of organizational culture and management by restructuring, Improved distribution channels, market segmentation which caters for every class of consumers and focusing on giving consumers quality products that are ISO certified

4.4 Competitive Strategy

The company resorts to competitive strategies for its operations, which are as a result of conscious decision by the firm and also due to demand from the consumers. Ketepa was found to mainly base its competition on cost-leadership and differentiation strategies.

Reasons for using conscious decision by the firm

The study found out that the stakeholders at Ketepa are keenly looking at the environment and anticipating customer requirements and responding to them before they complain. They make sure that they have quality products all over the country. Competitive Strategy was also found to be a demand from customers because customers are asking for improved packaging and better quality.

From the findings, using competitive strategies was a decision by Ketepa – mainly after studying activities within the business environment and realizing the need to develop a strategy to meet the challenges. The Company also wanted to stay ahead of the competition and accommodate needs of the consumer. By operating in a liberalized market, the company has to constantly do benchmark for their products against the competition. They also ensure that they become sensitive to the dynamics in the industry. This is achieved by carrying out market intelligence surveys. The products are also tailor made to suit the customers.

The company was also found to be consistently analyzing the market so that they can be able to respond appropriately to the demands of the customers.

Some of the factors that were put in to considerations before the adoptions of the competitive strategies highlighted by the respondents are Current position that is where the company is and what it wants to be in future, Changes in the environment (dynamism), competition in the market, product quality and range, resources both financial and human, technological changes, Survival (to remain the market leaders), Growth and expansion (to put in place technology that would enhance cost effective and efficient output), Personnel development – training needs, new blood , reclaiming lost market share.

Others are reconfirming Ketepa position as a market leader in the packaging industry, preparing Ketepa products to meet export market requirements, stable economy (purchasing power), Value addition, increasing shareholders returns, planning framework through meetings and brainstorming.

Restructuring, use of state of the art machines, and research and marketing were also suggested. There was also need of a balanced score card conception analysis to achieve the above objectives.

4.4.1 Extent of the challenge to the firm in operating effectively

From the findings challenges faced to a **great extent** includes Poor coordination among functions in R&D and marketing, Competition from none branded products, Changing tastes and preferences of consumers and Technological changes

Challenges faced to **a little extent** include poor supervision of labour/technical operations, Poor/costly distribution channels and Lack of good process engineering skills. Poor supervision of labour/technical operations was faced to **a very little extent**.

Challenges faced **not at all** are lack of capital investments and access to capital and Lack of good public image/technical leadership

4.5 Challenges faced by the firms in the application of competitive strategies

(a) Ability and skills of managers and owners	
Why it's a challenge	**Why its not a challenge**
Managers are not always in a position to integrate and deliver to their maximum capabilities Conflict of interest in terms of KTDA indulging in selling of loose teas at their premises and yet they own the company Contra packaging Corporate governance- composition of the brand	Management willing to adopt changes which are participative, expectative and supportive to change process.

(b)Community and government regulations	
Why it's a challenge	**Why its not a challenge**
Community would want to know the effect of such changes on brands Community demand – Corporate Social responsibility. Charged VAT makes product expensive hence not possible to achieve cost leadership effectively. Middle and lower market segment tend to be price sensitive and many may ignore quality if offered cheaper/poorer tea. Ketepa policy on quality is firm. Government regulations on VAT could reduce shelf price cost. Taxes by the government that affect greatly consumer affordability hence government regulation is sometimes a constraint to sales. The community would want to be given preference in terms of employment.	

(c)Ability and skills of staff	
Why it's a challenge	**Why its not a challenge**
There is need for continuous training and development to adapt to change. Not all staff have the qualifications that match up with their duties. Staff have been quick to adapt to changes and have been positive Not all staff would embrace change Job security employees always relate any change process to loss of job	

(d) Lack of resources/financial strength	
Why it's a challenge	**Why its not a challenge**
	Financially sound

4.5.1 Extent of counteracting the challenges

The most applied strategies that are applied to a 'very great extent 'tending to "great extent" includes cost cutting and market focusing. Staff training, strategic locations, process innovations, diversifications and lobbying are used to a great extent. Staff reduction is used to a little extent. New products and diversifications are applied to a very little extent.

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

This chapter addresses the research questions and objectives outlined in Chapter one. The section also covers conclusions, recommendations, and suggestions for further research and study limitations. The objective of the study was to determine the challenges faced by Ketepa Ltd in implementations of Porter's generic strategies. This study attempted to answer the questions: What are the major challenges faced in the tea industry in the implementation of porter's generic strategies. What are the obstacles hindering the use of Porter's generic strategies in the tea industry.

5.1 Summary, Discussions and Conclusions

The research had one major objective which was to determine the challenges faced in the application of Porter's generic strategies. The research hence concluded that extent of responding to changes in the environment was found to be of great extent. State of competition in the tea packaging industry was found to be stiff. Reasons for competition were found to be competing for the same customer, sale of loose tea and cheap unblended tea packed for export market which the company is striving to enter.

Ketepa Limited has resorted to competitive strategies for its operations. Research findings indicate that it uses both conscious decision and demand from the customers.

> "We operate in a liberalized market hence constantly do benchmark our products against our competitors to ensure we become sensitive to the dynamics in the industry. We carry out market intelligence surveys and we tailor make our products to suit them" is one of the reasons given as to why Ketepa Limited uses both conscious decisions and demand from the customers.

> "We are keen in looking at our environment and anticipate customer requirements and respond to them before they complain" are some of the reasons given by managers who opted for conscious decision by the firm as a way of competitive strategy

Among the factors that were put in to consideration before the adoptions of the competitive strategies includes current position of the firm that is where does the firm want to be, changes in the environment, competition in the market, product quality and range and resources both financial and human among others.

Poor coordination among functions in R&D and marketing, competition from none branded products, changing tastes and preferences of consumers and technological changes are some of the challenges facing most firms to a large extent and making them not operate effectively. Cost cutting and market focusing, are some of the strategies applied to a very great extent in Ketepa Limited to counteract these challenges.

From the foregoing discussion the following conclusion may be drawn regarding the challenges faced in the implementation of Porter's generic strategies, that although ability and skills of managers and owners was found to be a challenge in the sense that managers were not always in a position to integrate and deliver to their maximum capabilities, the management should be willing to adopt changes which are participative, expectative and supportive to change process.

Community and government regulations were found to be challenging because of taxation, corporate social responsibility demanded by the community and government regulations which are sometimes a constraint to sales. It is recommended that government to regulate VAT so that it reduces shelf cost thus making prices affordable to the consumers since the market is price sensitive.

Although not all staff would embrace change, it is recommended that there is need for continuous training and development of the staff and involvement of the staff in the strategy formulation process for them to adapt to change process.

5.2 Limitations of the study

Some difficulties were encountered in the process of carrying out the study. Information was not easily available due to the fact that the researcher was not an employee in any of the players in the tea industry. This contributed greatly to the researcher getting inadequate information regarding the industry as a whole. The study also cannot be generalized to all players in the industry since the study focused on Ketepa Limited. It therefore did not cover all the other players in the industry for instance, the blenders, marketers and brokers who are also prone to these challenges.

5.3 Recommendations for Further Research

Competitive strategies are important for the survival and growth of any organization. These strategies will relate a firm to its environment which is very complex and chaotic. It is therefore recommended that further research be carried out on the implementation of Porter's generic strategies and other competitive strategies for the other players in the tea industry, and also in the other industries in the country. The degree to which the level of education and level of control in a firm also influences the formulation and implementation of these strategies needs to be researched on.

5.4 Recommendations for Policy and Practice

As one looks at various challenges faced in the implementation of the various strategies, one needs to further research in order to see how investors, government, managers and all others charged with policy formulation can play their roles effectively to ensure they offer support and create an enabling environment for the policy implementers.

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APPENDICES

Appendix I: Letter of Introduction

August 2006

Dear Respondent

MBA RESEARCH PROJECT

This interview guide I designed to gather information on challenges of application of Porter's generic strategies in the tea industry in Kenya: Case study of Ketepa Limited. This study is being carried out for a management project paper as required in partial fulfillment of the degree of Master of Business Administration, University of Nairobi.

Your responses will be treated in strict confidence and in no instance will your name be mentioned in the report.

Your cooperation will be highly appreciated

Yours Faithfully

____________________	____________________
KENEI Z.C	DR.OGUTU
MBA STUDENT	PROJECT SUPERVISOR

Appendix II: Interview Guide

Part I

Respondent information.

1. Name of respondent ______________________

2. Position held in the organization ______________

3. years of experience in the organization ______________

Company Information.

4.

a) Do you have any other branches? (Tick where appropriate)

[ ] Yes [ ] No

b) If yes, please give actual number of branches and where they are located.

No. Of Branches__________ location________________

5. Does the firm have the following?

Vision statement	[ ] Yes	[ ] No
Mission statement	[ ] Yes	[ ] No
Core values	[ ] Yes	[ ] No

6. How is the strategy formulation process of the organization (Tick where appropriate).

[ ] Formal i.e. through meetings and elaborate documentation.

[ ] Informal i.e. responsibility of some individual and no elaborate documentation.

Part II: State of competition in the industry.

7. To what extent does your organization respond to changes in the environment ?

1).To a great extent [ ] 2) To moderate extent [ ] 3) Fair [ ]

4) A Little [ ] 5) Not at all [ ]

8. How would you rate the state of competition in the tea industry?

1) Very stiff [ ] 2) Stiff [ ] 3) Fairly stiff [ ] 4) Not stiff [ ]

5) Not sure [ ]

9. Who are your major competitors and why do you consider them your competition?

____

____

____

____

10. Would you say that your organization has changed its competition tactics over the past five years?

Yes [ ] No [ ]

11. Which criteria do the firm base its competition? (Tick where appropriate)

1. Cost-leadership- Serving many industry segments
2. Cost focus-seeking a cost advantage in its target segment
3. Differentiation- Providing a service that is unique/ different from others.
4. Differentiation focus-offering unique product/service to its target segment
5. More than one of the criteria's mentioned above

6. Others not included above (specify)

____

____

____

____

12. Has your organization resorted to any competitive strategies for its operations?

Yes [ ] No [ ]

13. Is using the competitive strategies a conscious decision by the firm or is it a demand from the customers?

____

____

____

____

14. What are some of the factors that were put into consideration before the adoption of the competitive strategies in 12 above?

____

____

____

____

____

Part III: Challenges faced by the firm in the application of generic strategies

15. The following are some of the issues identified as challenges in the implementation of competitive strategies. Please indicate by a tick the extent to each is a challenge to your firm in operating effectively. Please use the following scale.

1).Not at all 2).A very little extent

3).A little extent 4).Great extent 5).Very great extent

	1	2	3	4	5
1. Lack of capital investment & access to capital.	[ ]	[ ]	[ ]	[ ]	[ ]
2. Poor supervision of labor/technical operations	[ ]	[ ]	[ ]	[ ]	[ ]
3. Poor/costly distribution channels	[ ]	[ ]	[ ]	[ ]	[ ]
4. Lack of good process engineering skills	[ ]	[ ]	[ ]	[ ]	[ ]
5. Lack of good public image/technical leadership	[ ]	[ ]	[ ]	[ ]	[ ]
6. Poor coordination among functions in R&D and marketing	[ ]	[ ]	[ ]	[ ]	[ ]
7. Competition from none branded products	[ ]	[ ]	[ ]	[ ]	[ ]
8. Changing tastes&preferences of consumers	[ ]	[ ]	[ ]	[ ]	[ ]
9. Technological changes	[ ]	[ ]	[ ]	[ ]	[ ]
10. Lack of proper combination of policies directed at the particular strategic target	[ ]	[ ]	[ ]	[ ]	[ ]

16. Listed below are other challenges faced by firms in the implementation of competitive strategies.Tick where appropriate and explain how it is a challenge

1. Ability and skills of managers and owners Yes [ ] No [ ]

____

____

____

2. Community and government regulations Yes [ ] No [ ]

____

____

____

3. Ability and skills of staff Yes [ ] No [ ]

____

____

____

4. Lack of resources /Financial strength Yes [ ] No [ ]

____

____

____

17. To what extent do you apply each of the following to counteract the challenges indicated above? Use the scale in 15 above

	1	2	3	4	5
Cost cutting	[ ]	[ ]	[ ]	[ ]	[ ]
Process innovations	[ ]	[ ]	[ ]	[ ]	[ ]
Customer service	[ ]	[ ]	[ ]	[ ]	[ ]

Increased advertising	[ ]	[ ]	[ ]	[ ]	[ ]
Staff training	[ ]	[ ]	[ ]	[ ]	[ ]
Staff reduction	[ ]	[ ]	[ ]	[ ]	[ ]
New products	[ ]	[ ]	[ ]	[ ]	[ ]
Market focusing	[ ]	[ ]	[ ]	[ ]	[ ]
Market segmentation	[ ]	[ ]	[ ]	[ ]	[ ]
Strategic location	[ ]	[ ]	[ ]	[ ]	[ ]
PR	[ ]	[ ]	[ ]	[ ]	[ ]
Diversification	[ ]	[ ]	[ ]	[ ]	[ ]
Lobbying	[ ]	[ ]	[ ]	[ ]	[ ]

Thank you for your cooperation