ENVIRONMENTAL CHANGES AND THEIR INFLUENCE ON INDUSTRY STRUCTURE:
A STUDY OF THE MOTOR ASSEMBLERS AND FRANCHISE HOLDERS IN KENYA.

By

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DECLARATION

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

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Dedication

I dedicate this project to my family including my parents who have made me the person that I am today. Thanks guys! Without your love and support, I would not be me. To my husband Wahome, thank you for taking me for me, I love you.

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LIST OF ABBREVIATIONS

AA (K)	Automobile Association of Kenya
AVA	Associated Vehicle Assemblers
CBU's	Complete Body Units
CG	Consultative Group Meeting
CKD's	Completely Knocked Down Kits
ESAF	Enhanced Structural Adjusment Facility
GM	General Motors Ltd.
IMF	International Monetary Fund
KMI	Kenya Motor Industry Association
KVM	Kenya Vehicle Manufacturers
SAC	Structural Adjustment Credit
SAPs	Structural Adjustment Programs

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ABSTRACT

There have been numerous environmental changes in the last 5 years in Kenya in terms of new technological breakthroughs, economic ups and downs, change in consumer behaviour as well as new laws and regulations.

This study intended to find out how these environmental changes have affected industry structure in terms of entry and exit of firms, change in business focus, staffing issues, ownership structure among other variables.

The Motor Industry in terms of new vehicles was selected for study as it was felt that there was limited information on structure in the industry. The industry comprises of both assemblers and franchise holders who also offer service and parts for the vehicles they sell.

The study found that the environmental changes that have greatly affected this industry are those pertaining to the economy. This is especially with regards to the reduction of consumer purchasing power due to poor economic growth as well as the currency fluctuations. This has led to firms tending to keep a narrow product range. Changes in technology especially product innovation has made technology a competitive factor as the pressure in on for the firm to introduce features that will capture the customer. There is also the need to keep the organisation updated on the latest automotive innovations available in the market.

Strategies adopted as a result of these changes in the environment include market segmentation and focus, low-cost strategy, strategic alliances and product differentiation.

The findings of the study should help guide firms in the Motor Industry on what structural changes are occurring and give guidance on how to best position themselves in light of changes in the environment.

Firms in other industries will also find the results of this study quite significant in understanding the changes in industry structure that occur as a result of environmental change and how these changes affect their competitiveness.

CHAPTER 1: INTRODUCTION

1.1 Background

According to Benedian (1980), firms are social entities that are goal directed and deliberately structured activity systems with identifiable boundaries. In this way, a firm as a system is bound in a variety of inter-relationships to the larger system that comprises of the external environment.

A firm as an open system must interact with the environment to survive. Daft (1986). It both consumes resources that it transforms into outputs and then exports the outputs to the consumers. Open systems can be enormously complex in that internal efficiency is just one issue and it is sometimes a minor issue. The organisation has to find and obtain needed resources, interpret and act on the environmental changes, dispose of outputs, control and coordinate internal activities in the face of environmental disturbances and uncertainties if it is to be effective. For firms to be effective, they should respond appropriately to changes that occur in their environment. Hofer & Schendel (1978)

The environment has been changing in Kenya due to the economic reforms that have been ongoing. The economic reforms are as a result of the Structural Adjustment Programs (SAP's), that started around 1985, which were recommended by the World Bank and IMF. Since 1996, however, the performance of the Kenyan Government in the implementation of structural adjustment policies has again been disappointing to the World Bank and IMF; they have seen, as in 1990-91, a slackening of reform efforts and failure to meet fully the Structural Adjustment Credit (SAC) and Enhanced Structural Adjustment Facility (ESAF) conditions. O'Brien & Ryan (1999) As a result the ESAF program was suspended in mid-1997, and was allowed to expire in February 1999, while the second phase of the SAC was cancelled in mid-1998.

The basic objectives of SAPs, as initially conceived, were to restore developing countries to macroeconomic stability following the disruptions of the 1970s, primarily the two oil shocks, and to revive economic growth through increased resource mobilization and improved efficiency of resource utilization. Efficiency gains would be achieved through greater reliance on market forces and on the private sector and, in most developing countries, by reducing the role of government in the economy. In the Kenyan context structural adjustment meant unbundling the pervasive control system and reducing the prominent role of government in the economy.

Kenya's Motor Sector has undergone major transformations since the advent of Structural adjustment Programmes (SAPs) that advocated for liberalisation, which replaced policies pursued earlier on, such as "Import Substitution". The sudden opening up of the Kenyan economy caught some players in the Motor Sector unprepared to face competition. (Institute of Economic Affairs, 2002) The poor performance of the economy has also reduced the purchasing power of the average Kenyan making the new vehicle less affordable making it harder for local franchise holders to do business.

The Kenya Motor Industry Association,(KMI) is the body that validates Motor vehicle and Accessories dealerships. To become a member, existing members must consent to your firm's entry and therefore you cannot be selling the same product or service. Cost of annual membership ranges from Shs 100,000 for the major companies to Shs. 20,000 for small companies.(KMI Charter) This body covers the formal new vehicle market as well as service and parts.

The informal motor sector comprises of second hand vehicle dealers who bring in both used and reconditioned vehicles. Their numbers are not clear although we know that this sector is growing and has recorded sales of over 10,000 units in 2000 compared to new vehicle sales of just over 8,000 units (Vehicle Clearance and Customs report, 2000)

According to AA(K) and KMI the formal motor industry is comprised of 4 general groups:

The Assemblers who are three in number namely General Motors, Kenya Vehicle Manufacturers and Associated Vehicle Assemblers. The latter two being contractual assemblers, Franchise holders who are licensed to import complete knocked down kits and contract assemblers to build them up - General Motors is the only franchise holder to engage in all four categories of business in the Motor Industry, local and foreign parts suppliers and finally the Service and repair sector.

1.2 Statement Of The Problem

Before liberalisation, motor vehicle franchise holders enjoyed a protective regime in that imports of assembled vehicles, CBU's, was prohibited. Local franchise holders were assured of a ready market for their vehicles. The liberalisation of the market in the mid-nineties led to an increase of new firms into the industry from 10 franchise holders in 1990 to 18 franchise holders by 1996. However, this number has since decreased to 13 as of 2002 (KMI, 2002) with firms who had initially entered the market following the euphoria of liberalisation leaving.

The market for new vehicles shrunk by over 50% from 11,588 units in 1995 to 6,326 units in 2001. This was accompanied by a sharp increase in the demand for cheap imported second hand vehicles that were both used and reconditioned evidenced by their share of the total vehicles sold in Kenya as of 2001 which was 60% compared to 43% in 1998. (Institute for Economic Affairs, 2002)

This has largely been caused by the economic hardships being felt by the Kenyan consumer (Central Bank, 2002) The economic growth rate has been falling from averages of 4.2% in 1994-96 to negative 0.2 by the year 2000. It is important to remember that with Kenya's past high rate of population growth—3.9 percent in the 1970s, 3.7 percent in the 1980s, and 2.8 percent in the 1990s, there has been very little improvement in per-capita incomes over the past 30 years; the annual growth in per-capita income, which had been a healthy 2.8 percent during 1964-70, averaged only 1.1 percent in the 1970s, 0.6 percent in the 1980s, and has been negative in the 1990s. In addition, with modest per-capita income growth over this entire period, the incidence of poverty has increased since 1980. (World Bank, 1994)

Another phenomena that has affected the motor industry is the change of ownership of existing companies. Lonhro Motors who were franchise holders for Toyota among others was forced into liquidation and the franchise holding reverted back to Toyota Japan. The new holding company is called Toyota East Africa. D.T Dobie also changed ownership with the founder of the company selling her shares to a French trading company called CFAO. The company is now part of a larger conglomerate of companies known as the PPR Group, which is listed on the French Exchange. There has also been the reallocation of franchise holdings in the motor industry shown by Audi franchise moving from CMC to Ryce Motors and Simba Colt Motors acquiring both the passenger cars and trucks franchise of Mitsubishi.

The Minister of Finance in his budget for the fiscal year 2002/2003 made certain fiscal proposals targeted at the motor industry. This included the reduction of import duty on Completely Knocked Down (CKD) kits from 3% to 0%, a ban on importation of motor vehicles older than 10 years and an imposition of an additional excise duty of 10% on smaller motor vehicles (with the exception of commercial vehicles, tractors, passenger motor vehicles and buses of a seating capacity of at least 26 passengers)(Institute of Economic Affairs, 2002) The Minister's budget for the fiscal year June 2003/June 2004 saw the removal of excise duty on locally assembled passenger cars, double cab pick-ups and minibuses. This was coupled by a reduction of 2% VAT for all vehicles FBU & CKD alike. (PriceWaterhouseCoopers, 2003)

There has also been a lot of product repositioning in the industry with players trying to overcome the second hand car phenomena by either cosmetic and/or technological improvements in the saloon car segment like Marshalls has done through their Peugeot franchise or placing more emphasis on commercial and 4x4 vehicles like D.T Dobie has done recently.

Arising from these issues, what are the strategies adopted by firms as a result of environmental changes and how these strategies have affected the structure of the motor industry.

1.3 Objectives

The objective of this study is:

To determine how changes in competitive strategies used by firms have affected the industry structure in terms of concentration, economies of scale and product differentiation.

1.4 Significance Of Study

The purpose of the study is to establish the effect of changes to the environment to the key players in the motor industry in terms of industry structure.

The findings of the study should help guide the firms in the industry on what structural changes are occurring and give guidance on how to best position themselves in light of these environmental changes.

Firms in other industries will also find the results of this study quite significant in understanding the changes in industry structure that occur as a result of environmental changes and how these changes affect their competitiveness.

Academically, the study is expected to contribute to the existing literature in the field and act as a stimulus for further research to refine and/or extend the present study.

CHAPTER 2: LITERATURE REVIEW

2.1 Effect Of The Environment On Firms and their Strategy

Changes in strategy have led to changes in the structure of the industry. Andrews (1987), described strategy as partly determined by identifying the opportunities and risks in ones environment. He further went on to describe the environment of a business organisation as the pattern of all the external conditions and influences that affect its life and development. They operate in a firm's industry, total business community, city, country and the world. They are technological, economic, physical, social and political. Change in the environment of business necessitates continuous monitoring of a company's definition of its business lest it falters, blurs or becomes obsolete.

According to Drucker (1954) firms are environment dependent and changes in the environment represent opportunities and threats to the firm.
Andrews (1987) argues that the identification of opportunities and risks require for firms to assess themselves in four areas: The essential economic, technical and structural characteristics of the industry in which the firm participates, whether the trends suggesting future change in economic and technical characteristics are apparent, the nature of competition both within the industry and across industries and finally the requirements for success in competition in the firm's industry – the key success factors

Also contributing to this argument were Pearce and Robinson (1991) who maintained that a host of external factors influence a firm's choice of direction and action and ultimately its organisational structure and internal processes. They argued that these factors which constitute the external environment fall into three categories; the remote environment, the industry environment and the operating environment.

They described the remote environment as comprising of factors that originate beyond and usually irrespective of any single firm's operating situation and are usually concerning economic, political, technological and ecological factors. Such an environment presents firms with opportunities, threats and constraints but a single firm rarely can exert any meaningful reciprocal influence.

The Industry environment as described by Porter, (1980) consists of potential entrants, inter-industry competition, buyers, suppliers and the threat of substitute products. According to Pearce and Robinson (1991), every industry has an underlying structure or set of fundamental economic and technical characteristics that give rise to these competitive forces.

The Operating environment comprises of the firms' competitive position, their customer profile, their suppliers and creditors and also their human resources ie. the nature of the labour market. Pearce and Robinson (1991)

Strategy according to Hax and Majluf (1996) is a firm's response to external opportunities and threats and internal strengths and weaknesses in order to achieve a sustainable competitive advantage. Competitive advantage results from a thorough understanding of the external and internal forces that impact the organisation. Strategy is needed in order for organisations to obtain a viable match between their external environment and their internal capabilities. Accordingly, the role of strategy is viewed by the firm as a process of continuously and actively adapting the organisation to meet the demands of a changing environment.

2.2 Industry Structure and Competitive Strategies

Pearce and Robinson (1991) described an industry as a collection of firms that offer similar products or services whereby similarity is defined as the fact that customers perceive the products or services to be substitutable for one another.

Porter (1980) on the other hand describes an industry as essentially a choice of where to draw the line between established competitors and substitute products, between established firms and potential entrants and between existing firms' suppliers and buyers

According to Porter (1980), competition in an industry continually works to drive down the rate of return on invested capital toward the competitive floor rate of return that would be earned by economists' 'perfect' competitive industry.

Porter (1980) argues that the underlying structure of an industry is reflected by the strength of his Five Forces model which describes the firm as facing buyers, suppliers, substitute products, potential entrants and rivalry from established players. The strength of each if the five competitive forces is a function of industry structure or the underlying economic and technical characteristics of an industry, Porter (1998). He however adds that in any particular industry, not all of the five forces will be equally important – every industry has its own unique structure.

The threat of new entrants in an industry can be responded to by firms already in that industry through various options. A firm can look to have economies of scale through savings that it achieves due to increased volume. This can be done through related diversification around common operations. Porter (1980). If a firm is able to find the use of one component that it manufactures it various different products then it removes the volume constraints from producing that component for only one product and the risks involved as well.

Economies of scale are also achieved through shareable activities such as ones sales force, distribution system and purchasing department. According to Porter (1980) the benefits of sharing are particularly potent if there are joint costs involved which means that while one is producing product A they have the capacity of producing product B. This is typified by firms that deal with aircrafts – their planes can carry both passengers and cargo and can enjoy economies that would otherwise be lost if they were only dealing with one line of business. Business units can also share in intangible assets such as brand names and know-how. The cost of creating an intangible asset is borne only once, then the asset is applied to other businesses.

Other avenues of reducing the threat of entry include product differentiation, having hefty capital requirements, making the switching costs from one product to a competing one very high for the consumer, making it very difficult for a new entrant to have access to efficient distribution channels as well as having government policy that limits or forecloses entry into industries using controls like licensing requirements and limits on access to raw material.

There have been critics of Porter's work as pointed out by Cole (1997). Critics point out the lack of reference to issues of the legality and ethics of the barriers to entry. Also in the representation of the five forces, there are no explicit references to other stakeholders in the firm's environment, especially the community at large and employees.

Pearce and Robinson (1991) on the other hand, give weight to four structural attributes of an industry that are enduring characteristics that give an industry its distinctive character. These are concentration, which refers to the number and size or distribution of firms competing within a market, economies of scale, product differentiation and barriers to entry or exit.

Ansoff (1998) defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market. In examining the concept of competitive strategies, different authors have approached the concept from different angles. However, studies in this area have been largely the work of Porter (1980) who defines competitive strategy as the art of relating a company to the economic environment within which it exists.

Porter (1980) argues that industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. He describes three generic competitive strategies used by firms. Overall cost leadership. This is usually through a set of functional policies. This strategy requires the aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions, tight cost and overhead control, avoidance of marginal cost accounts and cost minimisation in areas like

research and development, services, salesforce and advertising. This strategy yields the firm above returns in the industry despite the presence of strong competitive forces.
Differentiation which involves creating a product or service that is perceived industry wide a being unique. Differentiation is usually carried out through design or brand image, technological features, customer service, dealer networks etc. With differentiation, costs are not the primary strategic target.
Focus which entails focusing on a particular buyer group, segment of product line or geographic market. The focus strategy is built around serving a particular target very well. The strategy rests on the premise that a firm is able to serve its narrow strategic target more effectively.

Thompson & Strickland (1998) expand on Porters competitive strategies model so as to include other strategies. Low-cost leadership strategy which would be appealing to a broad spectrum of customers based on being the overall low-cost provider of a product or service. Another competitive strategy would be through the use of broad differentiation whereby a firm seeks to differentiate the company's product offering from the rivals' in ways that will appeal to a broad spectrum of buyers. Using the best-cost provider strategy is another option which gives customers more value for money by combining an emphasis on low-cost with an emphasis on upscale differentiation. The aim is to have the best (lowest) costs and prices relative to producers of products with comparable quality and features. A focused or niche strategy based on lower costs thus concentrating on a narrow buyer segment is based on out competing rivals by serving niche customers at a lower cost. On the other hand, a focused or niche strategy based on differentiation is based on out competing rivals by offering niche customers a customised product or service that meets their tastes and requirements better than a rivals' offerings.

Changes in industry structure therefore have an influence on the type of strategy adopted by firms in an industry. As Porter (1980) asserts, that the essence of formulating competitive strategy comes about from relating the company to its environment and the key aspect of a firm's environment is the industry in which it competes. He adds that the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favour.

Porter (1998), cautions that firms, through the strategies that they adopt, can influence the industry structure. If a firm can shape structure, it can fundamentally change an industry's attractiveness for better or for worse. He says that firms, by applying short sighted strategies, can destroy the industry structure and profitability of the industry. For example, the introduction of generic products by a firm in an industry may enhance the price sensitivity if buyers, trigger price competition among established players and erode high advertising barriers that have kept out new entrants.

An effective competitive strategy according to Porter (1980) involves the use of various aspects of industry structure.

The use of positioning whereby the structure of the industry is taken as given and the firms' strengths and weaknesses are matched to it.

"Influencing the Balance" whereby structural analysis is used to identify the key factors driving competition in a particular industry and thus the places where strategic action to influence the balance will yield the greatest payoff.

Industry evolution is also important strategically because evolution brings with it changes in the structural sources of competition. A firm can therefore exploit this change in formulating competitive strategy.

Industry and competitive conditions change because forces are in motion that create incentives or pressures for change. Thompson & Strickland (2003) describe as 'driving forces' the dominant and ones that have the biggest influence in what kind of changes will take place in the industry's structure and competitive environment. They urge for sound analysis of an industry's driving forces as a prerequisite to sound strategy making. Without keen awareness of what external factors will produce the biggest potential changes, a firm would be very lost.

2.3 Global Motor Industry

The global automotive market has similarly been experiencing various environmental changes, which have forced the adoption of different survival tactics that have changed the global industry structure.

These changes started off with the emergence of Japanese auto makers as world leaders in the 1970's and 1980's (West and Burns, 2000) Their leadership was especially in terms of production practices. Previously, the world automotive market was synonymous with the American car market which was dominated by three players – Ford Motor Company, General Motors Ltd. and The Chrysler Corporation (Gilmour, 1988). According to the then executive vice-president - International Automotive Operations of Ford Motor Company Mr. Allan Gilmour, the Japanese had learned how to manufacture small, high-quality, fuel-efficient products at a relatively low cost, which with the high cost of fuel drove most consumers towards these makes.

Other changes experienced include a new era of economic interdependence across countries coupled with increased trade liberalisation (Cummins, 2000). Issues of climate, pollution and the environment have proved challenging to automakers. There also have been numerous technological advances made including more recently, the development of fuel cell technology that will attract consumers through cost savings of higher-efficiency in cars (Fowler, 2002).

In order to cope with these changes, manufacturers are adapting a variety of strategies including strategies designed to increase sales such as niche marketing, new product development and price-cutting, to ones designed to reduce supply such as rationalisation, plant closures and mergers (Das,1999)

Mergers and acquisitions have profoundly changed the global motor industry sector. They have profoundly changed the structure of the industry. Among these mergers include that of Daimler-Benz and Chrysler in the late nineties. The merger, which has suffered some criticism in the way that it was undertaken, was expected to yield savings of $1.4 billion in year one and $3 billion in the next five years through combined buying and logistics efficiencies, sales distribution synergies and joint product development. (Russell, 1998).

Renault purchased 36.8 percent of Nissan in March 1999 and the two companies have been working to find ways to put the two companies together (Gold et al, 2001). Carlos Ghosn, a former Michelin and Renault executive best known for his cost-cutting skills, was appointed to head the ailing Nissan Motor Company in June 1999 where he faced numerous challenges especially with the differences in businesses culture.

Ford has also successfully acquired Jaguar Volvo and Land Rover, brands which fit nicely with their strategy of earning maximum margins from highly desirable vehicles with their own brand recognition. (Harbour, 2000)

General Motors on the other hand had opted to link with competitors, where opportunities can deliver the most value. Such deals include an agreement with Honda to supply each other with powertrains and joint development with Toyota of hybrid engine and fuel cell technology. (Harbour, 2000)

These strategic changes have profoundly changed the global motor industry structure. Changes include rationalisation of production of vehicles; Honda manufactures its CRV model in the UK and some of its Civic models are manufactured in Brazil and sold in North America, Daimler Chrysler's PT Cruiser is sourced out of Mexico and the Mercedes C-class (right hand drive) is sourced out of South Africa (Krizner, 2003).

2.4 Kenya Motor Industry Sector

The liberalisation of the Motor industry that started in 1992 had meant that individuals were able to bring in vehicles, which are not over 6 years old into the country. These cars are worth less than the new vehicles and hence attract less duty, which means that at the end of the day, they cost the consumer less. This has led to a relatively large increase in second-hand car imports e.g. in 1998, 15,718 used and reconditioned cars were imported compared to 10,069 units sold by KMI members. (Executive Magazine, March 2000). The lower overheads that used and reconditioned car industry enjoys have meant that existing Motor companies have had to change their way of doing business. The policy makers have also been accused on a number of occasions by both sub-sectors of not providing a level playing field.(Institute of Economic Affairs, 2002)

As mentioned earlier, a major change in the environment that has affected the Local motor industry are the economic difficulties that Kenya has been undergoing. This has led to a diminished consumer purchasing power and therefore, an increase in the number of second hand vehicles sold. It is argued that these second hand car dealers actually take out more out of the economy than they put in. (Bennet, 2002) The properly invested companies, especially those who add most productive value through assembly and manufacture put more into the economy as well over half the "price" of their products comprises of tax, wages and in-market spend.

The Finance Bill, 2002 on the Motor Sector contained various proposals as outlined in Table 2.1

Table 2.1 Proposals of the Finance Bill for the fiscal year June 2002-June 2003

Proposal	**Rationale**
New Vehicles	
Import duty on CKD reduced from 3% to 0%	To encourage local assembly of motor vehicles To encourage the local manufacturers of motor spares
Imposed an additional excise duty of 10% on smaller vehicles (with the exception of commercial vehicles, tractors, passenger motor vehicles and buses of a seating capacity of at least 26 passengers)	To widen the tax base and bridge government's revenue gap
Second Hand Vehicles	
♦ Ban on importation of motor vehicles older	♦ To check the high cost of running and

than 10 years. ♦ Set minimum surcharge for vehicles between 5 and 8 years at 20% of the value or Kshs 30,000, whichever is higher ♦ Set a minimum surcharge for second-hand motor vehicles 8 years and above at 20% of the value or Kshs. 60,000, whichever is higher	maintenance of very old second hand vehicles ♦ To protect the environment from the pollutants emanating from the very old second hand vehicles.

Source: Institute of Economic Affairs, 2002

The impact of this bill for local assemblers was that the zero rating of their vehicles reduced costs. However, merchandisers of saloon cars including importers of new cars would face reduced demand following the new excise duty of 10% (Bennet, 2002). This measure was however revised by the budget for the fiscal year 2003/2004 whereby the duty for locally assembled vehicles was scrapped (Kenya Gazette Supplement N. 51). The beneficiaries of the fiscal measures were the manufacturers of commercial vehicles such as General Motors who immediately announced a reduction of prices and $1 million worth of new investment.

According to Bennet (2002), the budget did nothing to incentivise local content. This is because if local production of passenger vehicles stops, the original equipment market for all components for those models will be lost. Component manufacturers pay between 5% and 15% duty on their raw materials. The budget was significantly less positive for other assemblers whose production included minibuses, double cabins and passenger cars, which have had their duty, trebled.

Firms are therefore dependant on their environment as it greatly influences the strategies, which they implement for the success of their businesses. Changes in the environment affect the strategies adopted by individual firms and these changes have an effect on the industry structure.

CHAPTER 3: RESEARCH METHODS

3.1 Study Design

The mode of research design used in this study was the survey method. Survey research is the systematic gathering of information from respondents for the purpose of understanding and/or predicting some aspect of the behaviour of the population of interest (Tull & Hawkins, 2002). It may involve the studying of a fairly large population through the use of a representative sample. It can be very costly as it involves among other costs, the training and paying of data collectors. A researcher must always demonstrate that the sample is representative of the population otherwise the results of the survey will be worthless.

3.2 Population

The population comprises of all franchise holders and the assemblers in the motor industry. According to the Kenya Motor Industry membership list, there are 14 franchise holders in Kenya. The franchise holders also provide service and parts facilities. It should be noted that General Motors is the only firm in the industry that carries out all four categories of business in th motor industry. The study also comprised of the other two assemblers namely Kenya Vehicle Manufacturers and Associated Vehicle Assemblers. This population is representative of the formal motor industry.

Since this population is small, the census study design is justified as this approach ensures that data is collected from all units in the population therefore enhancing confidence in the findings and conclusions.

A census study is appropriate whenever the population of interest is small and population units markedly different. Parasuraman (1986) observes that a census study is feasible from the standpoint of cost, time and accuracy.

3.3 Data Collection Method

The study deals mainly with primary data collected using open & close-ended questionnaires. These were administered through personal interviews of CEO's in the different companies. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and quantity of data compared to other methods.

3.4 Data Analysis

The use of descriptive statistics through tables, mean scores and percentages was used to analyse the data collected.

Mean scores were calculated to indicate what changes in the environment had affected the firm's business policy and what effect these changes have had on the strategies employed as well as on the industry structure.

The mean scores were ranked on a 5 point Likert scale with 1 taken to mean the lowest level and 5 the highest level

CHAPTER 4: RESEARCH FINDINGS & DISCUSSIONS

4.1 Introduction

This section deals with the data analysis, findings and discussions on the research findings. The data is summarised in the form of percentage tables and mean scores. The data was coded so as to enable the responses to be grouped into categories. Correlation analysis was used to evaluate the positioning parameters of the nature of company ownership and the choice of strategy by the firm. The data was analysed using the Statistical Package for Social Sciences (SPSS).

The questionnaire was administered to the 15 firms in the industry through the personal interview method. Respondents were CEO's or senior managers who had been in their present position for at least 5 years. This ensured that they understood the issues presented in the survey. Out of the 15 firms targeted in the survey, we received results from 9 firms, a response rate of 60%.

The questionnaire was divided into three sections. The first section was aimed at establishing the size, type of ownership and key success factors of the industry. The second section dealt with finding out the impact of various environmental changes on their business policies. The third section looked at the effect those changes had on various areas of their businesses.

4.2 General Industry Conditions

This section was looking at the general information about the industry so as to get an overall picture of the companies that formed the motor industry. Various aspects including the number of years the firm has been in operation, number of employees, number of branches and product lines that a firm has, was looked into. The information was gleaned by using open-ended questions which were tabulated and percentages worked out.

88.8% of the firms had been in operation for over 30 years in Kenya with 44.4% of them being in operation for over 50 years. This is a long serving industry. 66.7% of the respondents declined to give information on the company turnover level with turnover ranging from 400million to over 3 billion for those who responded. This gave a general indication of the size of the firms involved.

Table 4.1: Present Nature of Firms' Ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**local**	5	55.6	55.6	55.6
	foreign	3	33.3	33.3	88.9
	both	1	11.1	11.1	100.0
	Total	9	100.0	100.0	

Source: Research Findings

In terms of ownership, as shown by Table 4.1 above, 55.5% of the respondent firms were locally owned while 33.3% were foreign owned. 11.1% had joint ownership structure.

With regards to the products/services offered, 33.3% of the respondents offer vehicle assembly, 88.9% sell new vehicles, and all respondents offer after sales service and parts. 11.1% of the respondents also sell power products and motoring accessories.

Concerning the staff complement, the vehicle assembly departments have, on average, the largest number of employees in the companies polled ranging from 200 to 270 employees. 33.3% of the respondents have over 100 employees in the service department while in the admin departments, numbers range from 1-88 employees. New vehicle sales departments also vary with the number of employees ranging from 3 for the smaller firms to 50 in the bigger firms.

88.9% of respondents have outlets or branches in Mombasa, 66.7% in Kisumu and 55.6% in Nakuru. 33.3% have outlets in Eldoret and Kitale. Other outlets mentioned include

Nyeri, Meru, Nanyuki, Kisii, Thika, Malindi, Lokichoggio, Kericho and Kakamega. This shows that the industry values country wide coverage in an effort to be available and reach their customers. 66.7% of the respondents have between 1 & 5 product lines in their product portfolio. This reflects the range of products that players in the industry have in their stable.

Table 4.2: Key Success Factors

Key Success Factor	Frequency	Percentage
Customer Satisfaction	4	44.4%
Good reliable product	4	44.4%
Pricing	3	33.3%
Marketing	2	22.2%
Solid Financial Base	2	22.2%
Other	3	33.3%

Source – Research Findings n = 9

As shown in Table 4.2, when asked to independently list down what the respondents thought were the key success factors in the industry 44.4% listed customer service and a good /reliable product. 33.3% of the respondents listed pricing while marketing and a solid financial base was listed by 22.2%. Other mentions included support from the mother company, dealer support and a trained workforce.

When prompted to explain what challenges they have encountered when trying to achieve these key success factors, industry regulations and a poor economy received the highest rating at 33.3% each. Other mentions included legal requirements (22.2%) lack of investors, second hand trade, high interest rates and lack of government support and incentives.

Thus in the motor industry, the key success factors revolve around the customer i.e. having a product that is reliable and keeping the customer satisfied.

4.3 Impact of Environmental changes on Business policy

This section was seeking to find out the impact that different environmental changes have had on business policy in the motor industry. Various environmental factors were listed and respondents were asked to indicate their rating on a 5 point Likert scale with 1 taken to mean the lowest level and 5 the highest level.

Table 4.3: Economic Changes

	Mean	Std. Deviation
Currency fluctuation	4.3333	.7071
Economic growth rate	4.3333	1.0000
Consumer buying power	4.4444	.8819
Financial institutions lending policies	3.6667	1.4142
Uncertainty/business risk	4.0000	1.3229

Source: Research Findings n=9

As shown in table 4.3, economic changes were rated very highly in general with means ranging from 3.7 to 4.4. The highest rating factor was consumer buying power while the lowest rating factor was the financial institutions lending policies

Table 4.4: Effect of Economic Factors

	Frequency	Percentage
Need to keep a narrow product range due to poor economic conditions	3	38%
Poor economy has affected buying power	2	25%
Economic conditions determine pricing	1	13%
Forward covers on currency	1	13%
Low volumes and margins due to poor economy that cannot support cost of additional new technology	1	13%
Total		100%

Source: Research Findings n=9

When asked to explain how the economic factors affected their business policy in terms of choice of product range, organizational structure, automation/ mechanization and their relationships with external publics as shown in table 4.4, 33% of the respondents said that they found a need to keep a narrow product range due to poor economic conditions. 22% said that the poor economy had affected the consumer buying power. Other comments made include the fact that the economic conditions determine pricing and affect forward covers on currency. Also mentioned was the fact that they are having low volumes and margins due to the poor economy as they are unable to support the cost of additional new technology.

Table 4.5: Political / Legal Changes

	Mean	Std. Deviation
Govt taxation policy	3.7778	1.6415
Govt regulation on vehicle importation	3.2222	2.0480
Ownership/investor policy	2.5556	1.5899

Source: Research Findings n = 9

The impact of political/ legal changes was not rated very highly as shown in Table 4.5 with means ranging from 2.6 to 3.8. The highest rating factor was government taxation policy while the lowest rating factor was the ownership/ investor Policy

Table 4.6: Effect of Political/ Legal factors

	Frequency	Percentage
Taxation ie excise duty has led to high prices for vehicles therefore making them unaffordable	4	40%
Second hand trade has affected the market for passenger vehicles	2	20%
Duty structure on commercial vehicles has influenced the industry to go into local assembly.	1	10%
Acceptance of auto transmission	1	10%
Business scope is governed by parent company	1	10%
Vehicle benefit taxation structure changes have seen company car policies change therefore allowing wider individual; preference decision. Personal selling effort is therefore redirected accordingly.	1	10%
Total		100%

Source: Research Findings n = 9

When asked to explain how the political /legal factors affected their business policy in terms of choice of product range, organizational structure, automation/ mechanization and their relationships with external publics, 40% of the respondents said that taxation – excise duty in particular, had led to high prices for vehicles therefore making them unaffordable. This is as shown in Table 4.6 above. 20% of the respondents said that the second hand trade had affected the market for passenger vehicles.

Other comments made in terms of automation include the fact that the duty structure on commercial vehicles has influenced the industry to go into local production and there was an issue with the acceptance of automatic transmission in vehicles. In terms of organisation structure it was mentioned that the business scope was governed by the parent company. Also mentioned was the fact that a change in vehicle benefit taxation for customers has seen company car policies change therefore allowing wider individual preference decisions. This has seen personal selling activities redirected accordingly.

Table 4.7: Social Changes

	Mean	Std. Deviation
Change in consumer use and buying habits	4.0000	1.0000
Customer perceptions of new products	3.5556	1.1304
Competition form second hand dealers	4.2222	1.3944
Type of buyers: more private individuals	4.3333	.7071
Type of buyers: more corporate buyers	3.8889	1.4530
Type of buyers: more NGOs and Government parastatals	3.4444	1.4240

Source: Research Findings n = 9

The impact of social changes was rated highly with means ranging from 3.4 to 4.3 as shown by Table 4.7 above. The highest rating factor was type of buyers: more private individuals while the lowest rating factor was the type of buyers: more non-governmental organisations and government parastatals.

Table 4.8: Effect of Social Factors

	Frequency	Percentage
Product range has to be tailored to suit customer needs.	4	50%
With introduction of lease hire more Corporates are purchasing vehicles	1	12.5%
Set up of tender department to cater for special groups of customers eg United Nations	1	12.5%
Second hand vehicles have made vehicles cheap	1	12.5%
Increased customer awareness and access to information is putting pressure on the industry to undertake model revolution rapidly	1	12.5%
Total		100%

Source: Research Findings n = 9

When asked to explain how the social factors affected their business policy in terms of choice of product range, organizational structure, automation/ mechanization and their relationships with external publics, 50% of the respondents said that the product range had to be tailored to suit the consumers' needs. Other comments include the fact that the introduction of lease hire had led to more corporates buying vehicles.

With regards to organizational structure, there has been the need to set up of tender departments to cater for special groups of customers like the UN. Also in terms of product range, increased customer awareness and access to information is putting pressure on the industry to undertake model revolution rapidly.

Table 4.9: Technological Changes

	Mean	Std. Deviation
Product innovation	4.5556	1.0138
New model introduction rate	4.1111	.9280
Diffusion of technical know how	4.2222	.9718

Source: Research Findings n = 9

The impact of technological changes was rated very highly with means ranging from 4.1 to 4.6. (Table 4.9) The highest rating factor was product innovation while the lowest rating factor was the new model introduction rate.

When asked to explain how the technological factors affected their business policy in terms of choice of product range, organizational structure, automation/ mechanization and their relationships with external publics, 40% of the respondents said that with regards to product range, technology has become a competitive factor with the introduction of new features, which also determine the customers' choice. There is also a need to continuously monitor the competition so as to recommend innovative products. Technological improvements have led to the development of superior products.

In terms of automation/ mechanization, product innovation & technology has created the need for training in electro –mechanics according to 20% of the respondents. With regards to organizational structure, there has been the establishment of platform and problem diagnostic international phone lines in 60% of the respondents firms.
The effect on the relationships with the external publics, technology has been the introduction of websites for customers and dealers as well as the development of environmentally friendly engines for European makes in line with EU standards.

Other environmental changes that have affected their business policies include: Internal and external regulations e.g. ISO 9001 certification etc, Competition and the fact that there has been a shift of major manufacturing focus to South Africa which has slowed the pace of local component manufacture and therefore rendered local assembly unsustainable especially for passenger vehicles.

From the above findings it is clear that in terms of environmental changes that have affected business policy in the motor industry, changes in the economy as well as technological changes seem to receive the highest ratings. A poor economy has meant that the consumer buying power has been reduced and the firms have had to narrow their product range. Technological changes especially in terms of product innovation has led to increased competition especially in ensuring that the customer receives the very latest in terms of technological innovations. This once again ties in with the key success factors espoused by the respondents – Customer satisfaction and a good & reliable product.

Respondents were then asked to identify from a list and give an explanation of how, the strategies that they have employed as a result of these changes in the environment and the results are shown in Table 4.10.

Table 4.10: Strategies employed as a result of Environmental Changes

Strategy	Explanation	Frequency	Percentage
Market segmentation and focus	• Focus on 4WD cars • Increase in advertising • Focus on different markets • Strengthening market share • Introduction of new product range • Focus on niche markets • Value added programmes	7	24%
Low cost strategy	• Introduction of financial packages • Low pricing • Source cheap vehicles • Maximizing on resources • Price reduction • Reduction of production costs	6	20%
Product differentiation	• Introduce new unique specifications in our cars • Minimize product lines • Adopt vehicles to suit customer needs • Introduction of second hand vehicles • Differentiate from competition	6	20%
Strategic alliances	• Used cars • From a global perspective from parent company	6	20%
Innovation		3	10%
Product development	• Continuous product changes • Introducing competitive products • Introduce new products or variants	1	3%
Joint ventures	• Enlist several franchise	1	3%
TOTAL			100%

Source: Research Findings n = 9

Market segmentation and focus received the highest mention and respondents described the various ways that this was done in their organisation which included through a focus on 4 x 4 vehicles. This market segment has been seen to be growing from 936units sold in 2000 to 1,333 units sold in 2004 (KMI reports). An increase in advertising has also been seen especially in the local daily newspapers. There has been a focus on different markets, introduction of a new product range, focus on niche markets such as the NGO & UN sector and having value added programs that incorporate the after sales aspect of the business or by having mobile service units that go out to customers who are unable to bring in the vehicles if there is a breakdown.

The next most popular strategy was the low costs. This had been through the introduction of financing packages whereby the motor companies had negotiated with various finance houses for competitive interest rates so as to enable their customers afford to buy a new vehicle. Low pricing through negotiations with the factories and sourcing of cheap vehicles is another way that firms have tried to lower costs. Maximizing on resources that are available to the organisation through for example the rationalisation of services whereby a firm had a marketing department for service department, spare parts department and sales of new vehicles, this function has now been centralised hence reducing costs. The reduction of production costs by sourcing cheaper inputs for the assembly of vehicles is another way that firms in the industry have gone about reducing costs. Forming strategic alliances received a similar rating to the low cost strategy and respondents described one way of going about this as by getting into the used cars business and also through their parent company on a global perspective.

Product differentiation also received a rating of 20% as shown in table 4.10. This is through Introduction of new unique specifications in vehicles sold like safety items which were previously extra coming as standard specifications for vehicles. Firms have also looked at minimizing product lines so as to be able to pay more attention to profitable lines. Adapting vehicles that suit their customer needs and the introduction of second hand vehicles are other ways that firms have used in trying to differentiate themselves from the competition. Other strategies mentioned include product development, through continuous product changes and introducing new competitive products; innovation, having joint ventures and divesting.

4.4 Effect of Environmental changes on Firms' business aspects

This section of the questionnaire enquired into the effect of environmental changes on different aspects of their business. Various aspects of a firms business were listed and respondents were asked to indicate their rating on a 5 point Likert scale with 1 taken to mean the lowest level and 5 the highest level.

Table 4.11: Effect of Environmental Changes on Product

	Mean	Std. Deviation
Change in core product focus	2.5556	1.2360
Introduction of new features	4.2222	.9718
Increased range of products to choose from	4.0000	1.2247

Source: Research Findings n = 9

The impact on product for the firm was rated highly with means ranging from 2.6 to 4.2. The highest rating factor was the introduction of new features while the lowest rating factor was change in core product focus. This shows that change in the way the product is presented either through the introduction of new features or through having a wider range of products to chose from has had a high impact on the way that firms do business. They have had to ensure that they keep up with the latest changes in the market so as to be ahead in the business.

Table 4.12: Effect of Environmental Changes on Marketing Policies

	Mean	Std. Deviation
Market segmentation	4.0000	.8660
Developing products to suit customers	4.4444	.7265
Introduction of customer incentives	4.4444	.7265
Advertising budget allocation	4.2222	1.0929

Source: Research Findings n = 9

The impact marketing policies was rated very highly with means ranging from 4.0 to 4.4. The highest rating factor was developing products to suit customers' needs and introduction of customer incentives while the lowest rating factor was market segmentation. This shows that the way firms go about developing their marketing strategies has gone through quite a change in the last five years. Firms have had to focus more on the customer and getting their attention. This has been done through developing products that suit customers, introduction of customer incentives and putting more focus on advertising among others.

Table 4.13: Effect of Environmental Changes on Distribution

	Mean	Std. Deviation
Number of outlets	2.6667	1.1180
Dealer networks	3.6667	1.1180

Source: Research Findings n = 9

The impact distribution was rated low with means of 2.7 for the factor number of outlets and 3.7 for the factor dealer networks. According to the respondents, environmental changes have had a mediocre effect on the chosen lines of distribution for their products and services. The effect on the number of outlets needed for customers does not seem to be that great and this may be because a great number of customers are located in urban areas where firms are already located.

Table 4.14: Effect of Environmental Changes on Finance

	Mean	Std. Deviation
Extension of credit	4.4444	.5270
Discounting levels allowed	4.0000	1.3229
Increase in profit margins	2.0000	1.8708
Decrease in profit margins	2.8889	2.2608
Availability of financing facilities	4.5556	.5270

Source: Research Findings n = 9

The impact finance was rated highly with means averaging 4. The highest rating factor was availability of financing facilities while the lowest rating factor was increase in profit margins. The environmental changes have had quite an impact on the finance aspect of firms business in this industry. Interestingly though, the effect on the firms' profit margins was said to be low by most of the respondents. They did not register an increase or a decrease in profit margins. However the changes in the environment have had a great impact on the provision of credit and financing facilities to customers so as to enable them afford to purchase a firm's products.

Table 4.15: Effect of Environmental Changes on Cost Structure

	Mean	Std. Deviation
Substitute domestic for imported materials	2.8000	.8367
Substitute imported for domestic material	3.8571	.6901
Staff retrenchment	2.5556	1.3333
Outsourcing of non core functions	2.3333	1.5000
Increased efficiency in operations	4.4444	.7265
Rationalization of functions	4.1111	1.0541
Increase in capital investment	3.6667	1.1180
Technological investments	4.1111	.6009

Source: Research Findings n = 9

The impact on cost structure received a mixed rating with very high means for factors such as increased efficiency in operations, which received a mean of 4.4 and low means for factors such as outsourcing of non-core functions, which received a mean of 2.3. The environment has had a very high impact on the way that firms look at increasing efficiency in their operations which may include through rationalising functions within the organisation. They have also had to look at the technological investments made for the firm so as to be more effective in the industry.

Changes in the environment have significantly affected the marketing policies adopted by firms. This is through market segmentation, development of products to suit customers' needs, the introduction of customer incentives as well as budget allocation for advertising. The product that the firm sells also has been affected with firms keen on the introduction of new features and having a wider range for their customers. The extension of credit, the availing of financing facilities as well as the discounting levels allowed have been influenced by changes in the environment. When it comes to a firm's cost structure, firms have had to look at increasing their efficiency levels of operation, the rationalisation of functions as well as making technological investments.

When asked to comment on how specific aspects of their business had changed in the last 5 years; 33.3% said that their turnover levels had increased while 44.4% said they had decreased. Again 33.3% reported that their staff numbers had increased while 44.4% said that their numbers had decreased. With regards to the number of model lines sold, 55.6% of the respondents said that the number of models sold had increased while 11.1% said that they had decreased. As for the core product focus of the firm, 44.4% said that this had changed while 33.3 reported that this had not changed. The ownership structure of the firms in this industry has remained the same for 66.7% of the respondents while 11.1% reported that this had changed over the last 5 years.

4.5 Nature of Company Ownership and Choice of Strategy

An analysis was carried out to find out if the nature of ownership had any influence over the choice of strategy adapted by an organization. The companies were grouped appropriately in to two independent groups in terms of ownership i.e. local and foreign so as to compute the t-test analysis. Table 4.16 below shows the calculated means of the choice of strategy defined by nature of ownership. The means are not significantly different meaning that the nature of ownership does not determine choice of strategy by the companies.

Table 4.16: Nature of Ownership and Choice of strategy

	Nature of ownership	N	Mean	Std. Deviation	Std. Error Mean
Low cost strategy	Local	6	1.5000	.5477	.2236
	Foreign	3	1.0000	.0000	.0000
Product differentiation	Local	6	1.5000	.5477	.2236
	Foreign	3	1.3333	.5774	.3333
Market segmentation and focus	Local	6	1.3333	.5164	.2108
	Foreign	3	1.0000	.0000	.0000
Innovation	Local	6	3.3333	3.7771	1.5420
	Foreign	3	1.6667	.5774	.3333
Horizontal integration	Local	6	2.0000	.0000(a)	.0000
	Foreign	3	2.0000	.0000(a)	.0000
Vertical integration	Local	6	2.0000	.0000(a)	.0000
	Foreign	3	2.0000	.0000(a)	.0000
Product development	Local	6	1.6667	.5164	.2108
	Foreign	3	1.6667	.5774	.3333
Divestiture	Local	6	1.8333	.4082	.1667
	Foreign	3	2.0000	.0000	.0000
Liquidation	Local	6	2.0000	.0000(a)	.0000
	Foreign	3	2.0000	.0000(a)	.0000

Joint venture	Local	6	1.8333	.4082	.1667
	Foreign	3	2.0000	.0000	.0000
Strategic alliances	Local	6	1.1667	.4082	.1667
	Foreign	3	1.6667	.5774	.3333

Source: Research Findings n = 9

However, when it comes to Innovation as a strategy, there seems to be a significant difference in the means for locally owned firms compared with foreign owned firms. This would be an area of interest for future study.

CHAPTER 5: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The objective of this study was to determine how firms' competitive strategies due to environmental changes have affected the structure of the motor industry in terms of concentration, economies of scale and product differentiation.

The environmental changes that have greatly affected this industry are those pertaining to the economy. This is especially with regards to the reduction of consumer purchasing power due to poor economic growth as well as currency fluctuation. This has led to firms tending to keep a narrow product range.

Changes in technology especially product innovation has made technology a competitive factor as the pressure for the firm to introduce features that will capture the customer are needed. There is also the need to keep the organisation updated on the latest automotive innovations available in the market.

Strategies adapted as a result of these changes in the environment include market segmentation & focus (77.8%) through aspects such as focusing on 4 wheel drive vehicles, increasing advertising, focusing on niche markets, introducing value added programs as well as new products. As put forward by Lynch (2000), the key advantage of market segmentation as a strategy is the ability to dominate a sector of the market and then target benefits that will sustain this position. Firms in this industry have seen the benefit of this hence the majority of the firms prefer to focus on particular market sectors.

Firms have also taken up low cost strategy (66.7%) through the introduction of finance packages, low pricing of their products and services, sourcing of cheaper vehicles and the reduction of production costs.

They have also taken up strategic alliances (66.7%) via various avenues such as getting into the used cars business and through their parent company by most of the firms. Product differention has also been adopted (55.6%) by way of introduction of new/unique specifications in vehicles sold, minimising their product lines, introducing vehicles that suit the customer's needs as well as introducing second-hand vehicles.

The adaptation of these strategies by firms in the industry has led the firms to focus more on customer service and having a good reliable product.
They endeavour to do this by focusing more on their marketing activities in terms of developing products to suit the customer needs, introduction of customer incentives, advertising and market segmentation. Product-wise they look at introducing new features. To help ease the customers' economic hardship, they have introduced the extension of credit facilities, made financing easily available and increased their discounting levels.

5.2 Recommendations

i. The Kenya Motor Industry Association, KMI, should be utilised more by industry members as an organ for lobbying the government. This would be in order to influence the industry regulations faced which was mentioned as one of the greatest challenge encountered (33.3%) when trying to achieve the key success factors of the motor industry.

ii. Industry members would also be encouraged to use research companies to carry out formal research on the motor industry as the information received would be more balanced and accurate. It was found through the study that there is a general reluctance by key decision makers in the organisations to use external research experts in the carrying out of research on the market preferring to use historical data and dip-stick research using their sales peoples' experiences on the ground.

5.3 Suggestions for future research

i. With the strict implementation of the 8 year law on the importation of second hand vehicles, it would be interesting to find out the effect this has had on the new vehicle market and what strategies the used vehicle dealers are adopting to cope with changes in the market.

ii. Another area of interest would be to investigate motor vehicle firms' choice of strategy given other factors such as the nature of company ownership given one of the findings that showed that innovation as a strategy seems to be a significantly different for locally owned firms compared with foreign owned firms

5.4 Limitations of the Study

i. The study focused on a broad area of strategic variables. Due to time constraints it as not possible to exhaust all aspects of these strategic variables hence relevant aspects may have been left out.

ii. If all the firms targeted had responded to the study, results of the study could be treated as definitive. However due to having a secretive culture and lack of time on the part of a few respondents this was not possible.

APPENDICES

TABLE 1.1:
STAGES IN KENYA'S STRUCTURAL ADJUSTMENT PROGRAM

PERIOD	DESCRIPTION
1980-83	Loss of fiscal discipline followed by successful, but possibly too abrupt, macro/fiscal stabilization; fiscal control restored by FY 1983; start of flexible monetary and exchange rate policy; beginning attempts at trade liberalization but limited success because not well coordinated with macro policies; little progress in cereals market liberalization.
1984-85	Hiatus in reform efforts and in donor balance of payments support.
1986-91	Government SP#1 of 1986 defines policy objectives. Period of *sectoral* adjustment programs in agriculture, industry, trade, finance with renewed donor support; slow but steady progress in domestic price decontrol and trade liberalization—further elimination of QRs, tariff reform; more active management of financial sector; some initial steps in cereals market liberalization; but decay in fiscal discipline.
1991-93	Slowing of reform effort; reversals of cereals market liberalization but continued progress in domestic price decontrol, tariff rationalization plus introduction of ad hoc measures for limited liberalization of foreign exchange market. But weak overall reform efforts, growing political problems and donor concerns over governance and corruption lead to suspension of balance of payments support from November 1991 to mid-1993.
1993-95	Resumption of reform effort, particularly trade and exchange rate policy; complete liberalization of foreign exchange market, end to import licensing, further tariff reform; completion of domestic price decontrol; only limited progress in reform/privatization of state-owned enterprises, civil service reform. Resumption of donor balance of payments support from mid-1993.
1996-98	Again, slowing of reform effort. Government maintains liberalized trade and exchange regime, interest rates, decontrol of domestic prices; fiscal and monetary policy are reasonably well managed, but structural problems in budget, state enterprise sector, civil service, agricultural sector institutions not adequately dealt with. Result is suspension of new IMF ESAF in July 1997, cancellation of WB SAC in June 1998.

Source: O'Brein and Ryan, 1999

List of Motor Vehicle Franchise Holders in Kenya

1. Amazon Motors
2. Auto Prestige Motors Ltd.
3. Car & General (K) Ltd
4. CMC – Kenya
5. D.T Dobie (K) Ltd.
6. General Motors (K) Ltd.
7. Hyundai Motors Kenya Ltd.
8. Marshalls E.A Ltd.
9. Mashariki Motors Ltd.
10. Ryce Motors Ltd.
11. Simba Colt Motors (K) Ltd.
12. Subaru Kenya
13. Toyota East Africa Ltd.

Source: Kenya Motor Industry, 2003.

QUESTIONNAIRE

This questionnaire consists of three sections. Please answer all questions as accurately as possible. Your assistance is greatly appreciated

SECTION ONE

1. How many years have you been operating in Kenya? ____________________

2. What was your company turnover in 2002? ____________________

3. What is the present nature of ownership

   Local [ ] Foreign [ ] Other (please specify) ____________________

   ____

4. What facilities do you offer?

   Assembly [ ] New Vehicles [ ] Service [ ] Parts [ ]

   Other (please specify) [ ] ____________________

   ____

5. How many employees do you have in the following departments:

   Vehicle Assembly__________

   New vehicle sales__________

   Parts department__________

   Service department__________

   Administration & Finance__________

   Other (please specify)______________________________

   ____

6. Do you have any other outlets/branches?

   Yes__________ No______

   b) If yes, where are they located

   Mombasa [ ] Kisumu [ ] Nyeri [ ] Eldoret [ ]

   Nakuru [ ] Kitale [ ] Other [ ] ____________________

7. How many brand/product lines do you have? ____________________

8. What do you consider as success factors in this industry?

____

____

____

____

b) What challenges have you encountered in meeting these requirements?

Legal requirements ☐

Industry regulations ☐

Lack of investors ☐

High employee turnover rate ☐

Other (please explain) ____________________

____

SECTION TWO

9. What impact have the following changes in the environment had on your business policy?

(1) Very high **(2)** Fairly high **(3)** Not Sure **(4)** Low **(5)** Very low

	1	2	3	4	5
<u>Economic</u>					
Currency fluctuations	( )	( )	( )	( )	( )
Economic growth rate	( )	( )	( )	( )	( )
Consumer buying power	( )	( )	( )	( )	( )
Financial institutions lending policies	( )	( )	( )	( )	( )
Uncertainty / Business risk	( )	( )	( )	( )	( )

Please explain how the above economic factors have affected your business policy in terms of choice of product range, organisational structure, automation/mechanisation and relationships with external publics

____

____

____

____

<u>Political / Legal</u>					
Govt. taxation policy	( )	( )	( )	( )	( )
Govt. regulations on vehicle importation	( )	( )	( )	( )	( )
Ownership/ Investor policy	( )	( )	( )	( )	( )

Please explain how the above political/legal factors have affected your business policy in terms of choice of product range, organisational structure, automation/mechanisation and relationships with external publics

____

____

Social

Change in consumer use & buying habits	( )	( )	( )	( )	( )
Customer perceptions of new products	( )	( )	( )	( )	( )
Competition from second hand dealers	( )	( )	( )	( )	( )
Type of buyers					
More private individuals	( )	( )	( )	( )	( )
More corporate buyers	( )	( )	( )	( )	( )
More NGO's and Govt. Parastatals	( )	( )	( )	( )	( )

Please explain how the above social factors have affected your business policy in terms of choice of product range, organisational structure, automation/mechanisation and relationships with external publics

Technological

Product Innovation	( )	( )	( )	( )	( )
New model introduction rate	( )	( )	( )	( )	( )
Diffusion of technical know-how	( )	( )	( )	( )	( )

Please explain how the above technological factors have affected your business policy in terms of choice of product range, organisational structure, automation/mechanisation and relationships with external publics

b) Are there any other environmental changes that have affected your business? Please explain. ____

____

____

____

10. Which of the following strategies have you had to employ as a result of the changes in the environment

		HOW?
Low Cost strategy	☐	______________
Product differentiation	☐	______________
Market segmentation and focus	☐	______________
Innovation	☐	______________
Horizontal integration	☐	______________
Vertical integration	☐	______________
Product development	☐	______________
Divestiture	☐	______________
Liquidation	☐	______________
Joint Ventures	☐	______________
Strategic Alliances	☐	______________

SECTION THREE

11. What effect have the environmental changes had in the following areas of your business?

(1) Very high **(2)** Fairly high **(3)** Not Sure **(4)** Low **(5)** Very low

	1	**2**	**3**	**4**	**5**
Product					
Change in core product focus	( )	( )	( )	( )	( )
Introduction of new features	( )	( )	( )	( )	( )
Increased range of product to choose from	( )	( )	( )	( )	( )
Marketing Policies					
Market segmentation	( )	( )	( )	( )	( )
Developing products to suit customers needs	( )	( )	( )	( )	( )
Introduction of customer incentives	( )	( )	( )	( )	( )
Advertising budget allocation	( )	( )	( )	( )	( )
Distribution					
Number of outlets	( )	( )	( )	( )	( )
Dealer network	( )	( )	( )	( )	( )
Finance					
Extension of credit facilities	( )	( )	( )	( )	( )
Discounting levels allowed	( )	( )	( )	( )	( )
Levels of profit margins available					
Increase in profit margins	( )	( )	( )	( )	( )
Decrease in profit margins	( )	( )	( )	( )	( )
Availability of financing facilities	( )	( )	( )	( )	( )

	1	2	3	4	5
Cost Structure					
Change of input sourcing					
Substitute domestic for imported material	( )	( )	( )	( )	( )
Substitute imported for domestic material	( )	( )	( )	( )	( )
Staff retrenchment	( )	( )	( )	( )	( )
Outsourcing of non-core functions	( )	( )	( )	( )	( )
Increased efficiency in operations	( )	( )	( )	( )	( )
Rationalisation of functions	( )	( )	( )	( )	( )
Increase in capital investment	( )	( )	( )	( )	( )
Technological investments	( )	( )	( )	( )	( )

12. How have the following aspects of your business changed in the last 5 years?

Turnover level____

____

Number of staff employed______________________________________

____

Number of model lines sold ____________________________________

____

Core product focus ____

____

Ownership structure____

____

Thank you for taking the time to complete this questionnaire
Please feel free to give any comments that you wish to be included in this study that you feel are relevant to the subject.

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