THE BASIS OF COMPETITION IN THE MOBILE PHONE INDUSTRY IN KENYA

By

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DECLARATION

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

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D61/P/7961/2001

Date: _December 6, 2004______________________________

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

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Date: 27/01/05

DEDICATION

To my teachers, throughout the years of my formal education. What you have invested cannot be quantified. Thank you for your hard work, dedication and patience, all of which helped to inspire me to be the best of me; your efforts are sincerely appreciated.

And to my lovely and dear wife Susan, your support made it possible for me to soldier on and realize this fruitful goal in my life as a student.

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ABSTRACT

Following the liberalization of the economy in late twentieth century, where the government wanted to shift from state controlled economy to one where private sector plays a pivotal role, with the aim of increasing efficiency and at the same time increase revenue, the veil on Telcom sector was lifted, giving birth two sectors Telkom and Mobile phones. Consequently, the Government decided to issue two mobile phone licenses. Kenya Post and Telecommunication Corporation (KPTC), a monolithic state-owned telecom giant of mean repute sired a subsidiary named Safaricom Limited while the second license was issue to Celtel (Formally Kencell Communications).

The main motivation for this study on the basis of competition in the mobile phone industry in Kenya is the fact that the two dominant players in this industry have been engaged in fierce rivalry in their effort to outmaneuver each other in the market so as to control market share. This is compounded by the fact that the market penetration rate is only about seven per cent of the Kenyan population of eligible subscribers. Despite existence of large untapped market potential, these two companies have been involved in concerted competitive rivalries that are geared towards subscriber acquisition and customer loyalty. This has left one wondering why with all this large market potential, have these two companies been engaged if fierce rivalry and on what basis are they competing on in order to gain a leading market share.

Research methodology used was mainly through face-to-face interviews of target respondent and information gathered was validated using existing published data. Most respondents were asked to

provide information on topical issues as per the questionnaire and this helped in achieving the objectives of this study.

From the results of this study, it was clearly evident that these two companies have been applying various strategies as their basis of competition in an effort to win more subscribers and main long-term loyalty. Key among their basis of competition was seen to be cost of their products and services, advertising, customer care, network infrastructure, Supply Chain Management Policies, Corporate Social Responsibility and human resource, among others. These strategies were seen to have been key critical success factors on which these companies have been using as a basis of competition.

From the findings of this study, it is clearly evident that the two firms have managed to be successful thus far revolutionalising telecommunication industry in Kenya as compared to TKL. The future of their business will depend on how well they are able to adjust their strategic intents to the volatile environment that is technology based and with the licensing of a third operator, their basis of competition is going to be more intense.

It is therefore recommended that a further study be carried out so as to capture customer demand trends for service and how the third operator and licensing of Second National Operator (SNO) is going to influence and affect the existing basis of competition in this industry and also how the realization of East African Community is going to affect the Kenyan mobile telephony.

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CHAPTER ONE: INTRODUCTION

1.1 Background

In a growing industry, there is need to track shifts in the market so that a given company is able to strategize its operations to beat the competition. Evaluating the current situation, establishing whether the company strategies have been effective in the past and the paradigm shifts that are necessary to ensure that the company remains competitive, can do this.

The environment within which a firm operates is perhaps the largest determinant of the strategies it adopts. Porter (1980) observes that the essence of formulating competitive strategy is to relate an organization to its environment. Organizations are environment dependent. They must scan the environment in order to spot budding trends and conditions that could affect the industry and adapt to them (Thompson and Strickland, 1993). Failure to do this could lead to a serious strategic problem characterized by the maladjustment of the organization's output and the demands of the external environment (Ansoff, 1984).

The Kenya telecommunication sector was liberalized in the late 1990's when two mobile operators were licensed (Safaricom and Celtel). A third mobile operator has already been licensed and is expected to be operational by year 2004. The sector since then has grown rapidly with an estimated subscriber base of about two million customers. The oligopolistic state of the market has encouraged stiff competition among the companies as evidenced in the different strategies being employed to increase the number of subscribers. For example, the aggressive marketing and subsidies to customers like discounted airtime, fairly priced handsets and lines among others.

In order for organizations to achieve their goals and objectives, they have to constantly adjust to their environment. This environment is turbulent, constantly changing, and so it makes it imperative for organizations to continuously adapt their activities in order to survive. The success and, indeed, survival of every organization depends on how well it relates with its challenges and how it positions itself to the external environment. The managers therefore, have a major task of designing strategies that will ensure that the organization remains successful. Strategy is the heart of strategic management for its helps an organization to formulate and implement various tasks in its attempts to prosper. Strategy should help organizations to develop and maintain a competitive edge on the market- focusing on the customer needs and the competitors.

The mobile service providers in Kenya can benefit by managing strategically for competitive advantages. The mobile phone industry in Kenya is also affected by environmental changes. Understanding these changes facilitates the understanding of the behavior of firms in an industry. This study will look at the changes that have been taking place in the Kenyan mobile phone industry that is currently dominated by two firms and the impact of this dominance in light of a new entrant to this market.

1.2 The Kenyan Mobile Phone Industry

The mobile phone industry will be defined for the purposes of this study as the grouping of organizations that are involved in selling and marketing airtime. The industry is dominated by two large firms, that is, Safaricom and Celtel. However, a third operator has been licensed, thereby increasing competition. The mobile phone industry is relatively new in Kenya. The major factors of competition in this industry revolve around building subscriber base as opposed to retention of quality clientele. The existing players have been intensely advertising and positioning their brands in various ways. This has inevitably touched on various factors of competition such as cost/price, customer care, network availability and reliability, and social responsibility activities, among others.

In addition to the factors of competition mentioned, there are industry issues that have continued to stimulate or stifle growth in the industry. The mobile industry in Kenya is highly geared (license fee of Kshs 4billions) making the payback period among the highest yet it has to remain competitive despite facing many challenges. The players in the industry find themselves in a Kenyan environment that not only provides competition but also a myriad of economic, political, technological, legislative guidelines on existence of monopolies and other external environmental pressures.

For an organization to survive in a competitive environment, it is crucial to identify structural features determining the nature of competition in its industry. This would then focus the company efforts towards creating strategies that it can use to gain competitive edge. According to Porter (1980), structural analyzing by focusing today on competition well beyond existing rivals should reduce the need to debate on where to draw a line between established competitors and substitute products, between existing firms, suppliers and buyers.

Competition is currently not only between two mobile service providers. Recently, Telkom Kenya Limited (TKL) introduced the prepaid services as well as GSM technology where landlines are not required thus intensifying the competition in the industry. TKL has also been carrying campaigns to sensitize its customers on high mobile charges by bill comparisons. This has the effect of portlaying mobile charges as being very expensive. TKL also reduced its charges for international calls and this has intensified competition since Internet connectivity is monopolized by TKL.

Communication Commission of Kenya (CCK) as regulatory body has been setting network coverage rollout timetable to rural areas regardless of economic viability of such rollouts. This has also affected the competitiveness of existing players as they are bound by such agreements.

Existing players have been facing various challenges in their endeavor to actualize their roll-out plans. These challenges includes huge capital investment required for network roll-out, which require time to recoup; yet new entrant has been licensed, the dismal economic performance has taken toll on the cost of living leading to subscribers lowering their spending. This has lead to introduction of lower denomination cards like Kshs 100 to try stimulate spending, emerging VSAT (Very Small Aperture Terminals) Technology may lender the current technology obsolete before the existing players recoup their initial investments, political/legal issues where these companies have become target for government revenue through taxes. Government is using them as cash cows for example recently where excise duty was raised from 5% to 10% (GOK Budget June 2003) and trade rivalries has been the order of the day. Evidence of trade wars between existing service providers seen by reactive strategies where one player capitalizes on the mistake of the other leading to slogans like "Get connected or congested", yet the market potential is still very large.

Therefore, the players in the industry must remain proactive in order to survive. As a result of industry and competition factors, strategic initiatives are necessary that can ensure the survival of the mobile phones firms in Kenya. With the third mobile provider commencing operations in the year 2004, competition will dramatically increase threatening the survival of these mobile service providers.

1.3 Statement of the Problem

The mobile telecommunications industry in Kenya is facing many challenges. These include the stiff competition between the mobile service providers, Telkom Kenya Limited (TKL) role in the industry, Communication Commission of Kenya (CCK) as the regulatory agent, the consumers and the general economic environment in the country. The business environment has also drastically changed resulting into many companies going global and this has increased competition in the mobile phone industry.

When the sector was liberalized in year 2000 the existing players had a combined subscriber base of about 50,000 and currently, the combined subscriber based is estimated at 2,000,000 subscribers. This means that market penetration is at 6.3% (Based on total Kenyan population of about 32 million). This means that market potential is still large yet cut-throat competition is intensifying where the operators try to outmaneuver each other through cost reduction, product differentiation, bad publicity wars and market bluffs, among others.

The third operator is posing another threat to the existing players. Its license fee of Kshs 2billion is already an entry advantage as compared to Kshs 4billions paid each by Celtel and Safaricom at their time of entry. There is a possibility that the new operator may invest in VSAT technology, which is less expensive as compared to current base stations used by existing players. This will imply a cost advantage and this may pose a real threat to existing players. The third operator will have an advantage of an established market and may capture existing market share by offering free line connections. Further, the third operator will have the advantage in terms of existing infrastructure. For example, base stations already in place and they may only use the existing ones from existing players who used a lot of resources to rollout.

In such unfolding scenarios the question now remain: On what basis will the firms in the industry do to survive the cut-throat competition?

1.4. Objective of the Study

The objective of the study is to determine the basis of competition in the mobile phone industry in Kenya.

1.5 Importance of the Study

The findings of this study will be important to the following stakeholders:

The mobile service providers in Kenya. Industry members may find the results of the study important as input for strategy formulation to beat the competition.

It will contribute to the body of knowledge. Researchers and scholars may use the findings in other fields. Thus, increasing the body of knowledge

The policy makers in the sector. The Government can use the findings to determine the best way of regulating the industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept Of Strategy

Strategy is about winning (Hamael and Prahalad, 1989). Strategy defines the business of a company. Chandler (1962) considered strategy as a means of establishing the purpose of a company by specifying its long-term goals and objectives, action plans and resource allocation to achieve the set goals and objectives.

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

Johnson and Scholes (1999) defined strategy as "the direction and scope of an organization over the long term", which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of market and to fulfill stakeholder expectation.

Ansoff and McDonnell see strategy as being a set of decision-making rules for guidance of organizational behavior. Strategy is concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment (Grant, 1998).

Thompson and Stickland (2003) perceive company strategy as a combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organizational activities. Grant (1998) notes that the primary purpose of strategy is to guide management decisions towards superior performance through establishing competitive advantage.

2.2 Strategy and Competitiveness

The essence of formulating a competitive strategy is relating a company to its environment (Porter, 1998). Aosa (1992) notes that the actions of competitors have a direct influence on a firm's strategy. He states further that strategy will only make sense if the markets to which it relates are known. That the nature of the industry in which the company is operating needs to be understood. The structure of an industry and trends in that industry will help the current and future attractiveness of that industry.

Rapid technology change has created a new business environment where innovation has become a top competitive strategy. Barreca (1999) notes that the demand for high speed, reliable and intelligent data communication services are growing exponentially. To meet the ever-increasing consumer expectations, the mobile service providers must continuously add capacity and modernize their network.

Competition and deregulation within the telecommunication industry is very strong and still growing. Competition will prove beneficial: yet it is a contributing factor to the rapid decline in value of today's public network. As competition increases, old technologies are increasingly being replaced to maintain and grow market competitiveness, accelerating the pace of obsolescence. The emergence of new services that are outside the core strength of incumbent carriers will present a window of opportunity to new providers not encumbered with obsolete networks. (Barreca, 1999).

Porter (1980) notes that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal profitability. Hines (1996) argues that the essence of business is to create competitive advantage that comes in a number of ways such as low-cost production or market differentiation.

Collies et al (1998) identified three elements that collectively lead to competitive advantage that creates value and they have called these elements-the Corporate strategic Triangle: Resources (company assets, skills and capabilities); Strategic business units and other key segments of the company: Structure, systems and processes. They argued that these three sides of the triangle must be aligned to the company's vision, goals and objectives to produce competitive advantage that would lead to value creation.

2.3 Porter's Framework of analyzing Industry Competition

Porter's (1989) framework can be used to identify what the crucial structural features determining the basis of competition in a particular industry are. This would then focus company efforts towards strategy formulation (Porter, 1989).

2.3.1 Structural analysis of Industry

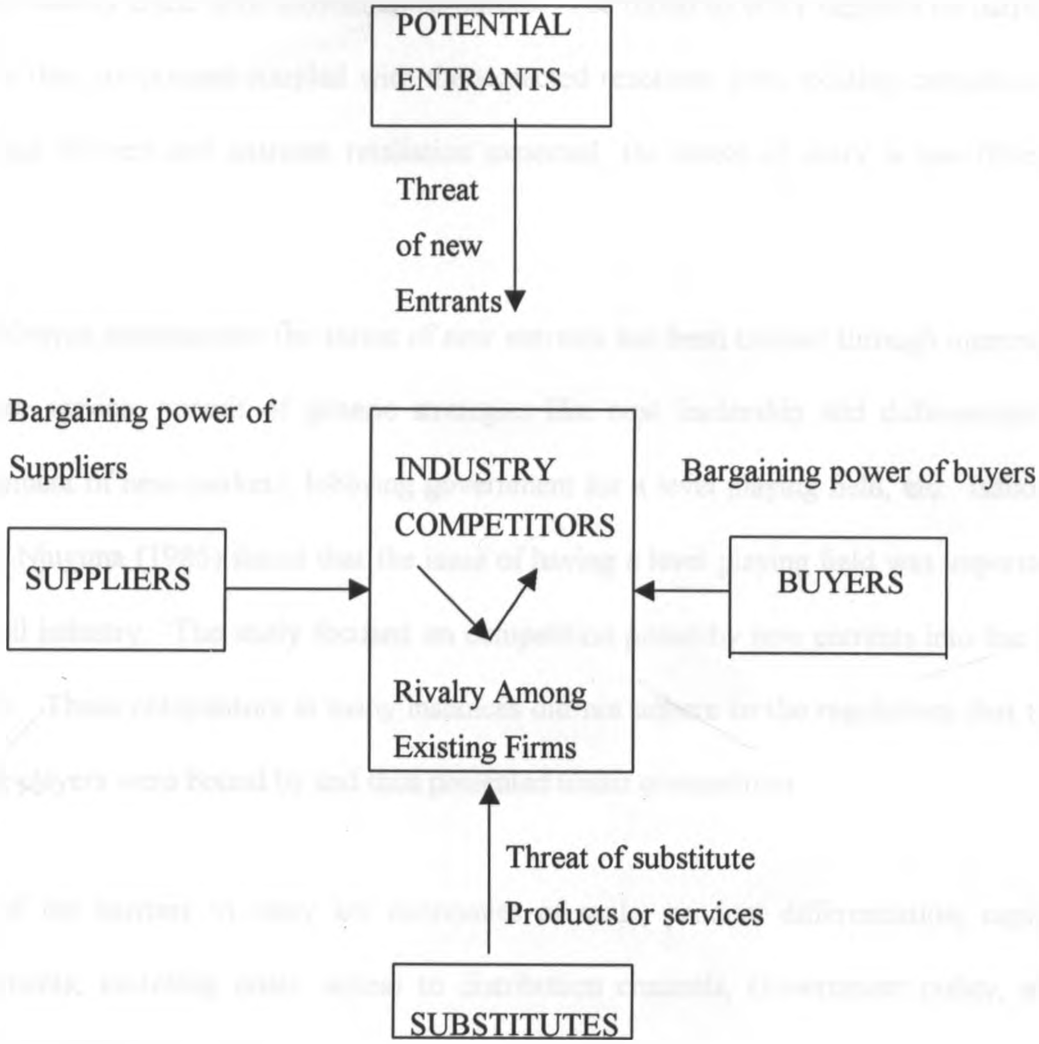
Porter's five forces are the key considerations in any attempt to analyze competitiveness within any given industry. According to porter (1980), structural analyzing by focusing today on competition well beyond existing rivals should reduce the need to debate on where to draw a line between established competitors and substitute products, between existing firms, suppliers and buyers.

Drawing these lines is a matter of degree that has little to do with the choice of strategy. Latent forces of competition will not be overlooked and the result of the analysis can still be useful to strategy formulation (Porter, 1980). It is for this reason that the mobile phone industry has been, for the purpose of this study, been confined specifically to the firms providing this service.

2.3.2 Forces Driving Industry Competition

According to Porter, competition in an industry serves on 5 basic competitive forces. Competition is as a result of competitive forces. Without these forces, an organization would become contented since the demand of its products is guaranteed. Hence, to study the competitive nature in an industry, ~~then~~ it would be useful to basically consider the factors that will contribute to competition in the specific industry. These forces include: potential entrants, suppliers, rivalry among existing firms, buyers and substitutes. Understanding these forces will be crucial in studying the basis of competitive in an industry.

These are reflected in the **Diagram 1** below:



Source: Porter M.E., Competitive Strategy, pg. 4 (New York: Free Press, 1980)

The forces can either be intense leading to low profit margins or mild allowing for handsome margins. Understanding sources of competitive pressure highlights the critical strength/weakness of a company and clarifies areas where strategic changes may yield greatest payoff. The five forces are discussed in greater detail below:

2.3.2.1 Threat of Entry

New entrants to an industry lead to additional capacity, the desire to gain market share and also usually come with substantial resources. The threat to entry depends on barriers to entry that are present coupled with the expected reactions from existing competitors. With high barriers and extreme retaliation expected, the threat of entry is low (Porter 1980).

In the Kenyan environment the threat of new entrants has been tackled through improved customer service, pursuit of generic strategies like cost leadership and differentiation, development of new markets, lobbying government for a level playing field, etc. Isaboke (2001), Njuguna (1986) found that the issue of having a level playing field was important in the oil industry. The study focused on competition posed by new entrants into the oil industry. These competitors in many instances did not adhere to the regulations that the existing players were bound by and thus presented unfair competition.

Some of the barriers to entry are economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, Government policy, and expected retaliation.

2.3.2.2 Intensity of rivalry among existing Competitors

Rivalry takes the form of jockeying for position using tactics like price competition, advertising battles, product introduction, increased customer service, etc. Rivalry arises where competitors see opportunities to improve their position.

Some of the factors that determine the intensity of rivalry do change in time. Industry maturity can for instance 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). This is likely to happen in the near future with the entry of the third mobile service provider in the country.

Intense rivalry can result from a number of factors among these being: First, numerous or equally balanced competitors where an industry is highly concentrated/dominated by one or few firms, the leader(s) can impose discipline as well as play a coordinative role in the industry through devices like price-leadership. Where firms are equally balanced in terms of size and resources (perceived), instability can be the result. Secondly, slow industry growth as firms fight for share. Thirdly, high fixed costs - firms may strive to utilize full capacity by increasing production. The resulting oversupply could result in pricing wars. Fourthly, lack of differentiation or switching costs. Fifth, capacity augmented in large increments. This serves to increase capacity leading to oversupply. Sixth, high strategic stakes - this occurs where a given business is of strategic importance leading to situation where a company is willing to spend "anything" to protect it. Finally, high exit barriers that may result for instance from the inability to put expensive machinery to any alternative use. There could also be tax credits that can only be recovered through continuing operations.

2.3.2.3 Pressure from Substitute Products

All firms compete with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices of firms in the industry.

The more attractive the prices offered by substitutes, the firmer the lid on the industry profits. According to Abdalla (2001), soft drinks prices, in supermarkets has been shifting downwards. This is attributable to the fact that Coca Cola and other soft drink producers, which have traditionally not placed much emphasis on the supermarket channel have now began to do so. This has offered greater choice to consumers.

2.3.2.4 Bargaining power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality, playing competitors against each other at the expense of the industry's profitability. The power of buyer groups depends on the characteristics of its market situation and on the relative importance of its purchase from the industry compared with other businesses. Buyer groups are powerful where they purchase large volumes relative to seller sales, products purchased represent a significant fraction of buyers' purchase (buyers become price sensitive), products are standard or undifferentiated and buyers pose a credible threat of backward integration.

2.3.2.5 Bargaining power of Suppliers

Suppliers can exert bargaining power over other participants in an industry by threatening to raise price or reduce quality of purchased goods/services. Powerful suppliers can squeeze profitability out of an industry. The conditions that make suppliers powerful tend to mirror those making buyers powerful. Suppliers can be powerful where the industry is dominated by few companies and is more concentrated than the industry it sells to, there are no substitute products for sale to the industry, the industry is not an important customer of the suppler group, the product is essential input to the buyer business and suppliers' products are different.

2.3.3. Micro Environment

2.3.3.1 Politics

The country is currently undergoing a political transition. It is expected that the economy will grow by 1% in the first year with the smooth transition that took place after the general election in December 2002. Mobile Service Providers expects to benefit from the resulting re-balancing of economic and political activity as a catalyst for higher demand for their products and services.

2.3.3.2 Legal/Regulatory

The Kenya Communications Act of 1998 provides for rights and obligations of licensees and service consumers. Communication Commission of Kenya (CCK) oversees the Act. The Act sets out principles on interconnection, public service obligations, and fair competition that are designed to ensure the protection of consumers and investors' interests. CCK current policy is based on the Telecommunications and Postal Sector Policy Statement, and its purpose is to increase tele-sensity through increased competition in the telecommunications sector and accelerated investment.

All tariff structures by telecommunications players have to be registered with the CCK. CCK is not involved in the tariff structure of the cellular licensees due to the fact that the industry is a duopoly and is therefore assumed to be in a position to self-regulate through competition.

CCK issues interconnection guidelines for operators in the industry. Operators therefore are required to provide interconnectivity when requested to do so. CCK does not play an active role in setting the interconnection fees between operators. This is regarded as a commercial issue to be determined by the respective parties.

As part of license conditions for operations of the two mobile operators, Safaricom's expansion targets are projected in terms of systems coverage while the national rollout for Celtel is rated as per subscriber numbers and payphone rollouts yearly. Terms and conditions of service provision to the prepaid subscriber base have been re-introduced to ensure that there is no ambiguity surrounding the obligations of both mobile service providers and its subscribers using the prepaid services.

Although Porter does not have Government as one of the five forces, he does mention that it can have a substitute impact on the nature of competition in an industry. In Kenya, "The restrictive trade practice, monopolies and Price Control Act", Cap 504 of the Laws of Kenya, deals with the issue of investing of too much economic power in entities. This factor can have a heavy impact on competition in an industry in countries where government intervention in market dynamics is heavy. This is the kind of situation that exists in Kenya. Examples of how the government can impact on competition include intervention through government legislation or direct involvement of government in business.

According to Section 23 (1) b of the Act, there may exist unwarranted concentration of economic power where "a person, by virtue of controlling two or more physical distinct units, which manufacture substantially similar products, supplies more than one-third of the value, at ex-factory prices, of the domestic market for the category of goods". The Act vests in the minister of Finance powers to order an investigation into any industry, which may have such concentration of economic power. According to section 24 (2) of the Act remedial action may include an order for disposal of one or more units in a group or a chain of manufacturers or distributors or suppliers of services controllers by the person.

2.3.4 Economics' different States of Competition

Since the Minister for Finance has powers to order for investigations in any industry for monopoly-like tendencies, it is important that this study considers the conditions that should exist for an organization to be termed a monopoly. This section will also consider the different types of competition that may exist in an industry.

2.3.4.1 Monopoly

A monopoly has been defined by economists as "...a market or industry in which only one firm produces a product for which there is no close substitutes" (Karl and Fair, 1989).

In order for a monopoly to be sustained, there must be some formidable barrier to entry. This relates to one of Porter's five forces that determine the extent of competition in an industry. Low entry barrier would mean that new entrants would gain easy access into the industry and end the monopoly.

2.3.4.2 Monopolistic Competition

Monopolistic competition is where many firms compete for essentially the same customers, but each firm produces a slightly different product. If the products are differentiated, brand loyalty may form that may allow them to enjoy the benefits of a monopoly. (Karl and Fair, 1989)

Entry of new sellers is possible in a monopolistically competitive market. In such a market, it is unlikely that any one firm satisfies more than 10% of market demand (Hyman, 1989). The mobile phone industry targets the same customers but each firm must create an impression of having a different product. Therefore, the mobile phone industry in Kenya is monopolistic and hence each must position itself in a way that it can remain competitive. Getting more and more subscribers and maintaining them will be the key in this industry. In addition, the preference of the mobile phones rather than any other form of communication will be vital in order for a firm to survive in a monopolistic competition.

2.3.4.3 Oligopolistic Competition

An Oligopoly is an industry in which there are only a small number of firms. Entry is usually possible but difficult as firms in oligopolies are usually large and thus a large initial investment is required to break in. (Karl and Fair, 1989)

2.3.4.4 Perfect Competition

Perfect competition is an ideal state in which relatively small firms produce nearly identical products. No single firm has any control over prices and none can affect the market price of its products or the price of input it buys. Products are homogeneous. (Karl and Fair 1989).

In conclusion therefore, mobile phone services have been the major source of growth in the Telecommunication sector since the liberalization of the sector in 2000. The Government has licensed a third mobile operator expected to start operations early next year. The industry is opening a new dimension of competition. Competition is not only between the two firms exercising their internal strengths but also comes through technology, regulation, government policy on revenue sourcing and other telephony firms. There are only two operating firms yet the rivalry is so intense you might think the market is almost exhausted, yet they have hardly covered 8% of the market potential in this country.

This brings to light the following:

The two firms need to do best what they do so that they can get competitive advantage over the rival in all aspects of the business as we have witnessed cost, differentiation and niche strategies being applied by both but their performance will determine who wins customers loyalty. That competition is not only between many firms but also even two firms can have a cutthroat competition.

Competition gives rise to conflict where the aim of the competing firms is not only to gain comparative advantage but also to displace rivals by using unprofessional means and offensive advertising slogans. Competition and deregulation within the telecommunication industry is very strong and still growing.

Technology may bring completely new dimension to the existing competition where network rollout may no more be physical thereby putting to jeopardy the capital investments already incurred by the two firms

A firm can only survive in the market place if it is able to implement strategies that make it competitive in the market place. Strategies are ways and means adopted by an organization so that it is able to meet it goals and objectives. In the mobile industry sector, the key competitive factors are the price and the network coverage and reliability.

Hence, the main threats in the sector are new entrants and regulatory agencies. The power of the sellers and buyers though important may not be major factors that may provide competitive edge in the mobile phone industry in Kenya. Therefore, Porters model becomes very relevant in understanding the nature of competition in the Kenya's mobile phone industry.

CHAPTER THREE: RESEARCH METHODOLOGY

This study was survey in nature as it seeks to understand the basis of competition in the mobile phones industry. This method was used as it would help in establishing facts on the ground. The survey method can be used when the objective is to gain insights into ideas and for clarification of concepts.

3.1 The Population

The population of the study consisted of the two mobile service providers- Safaricom and Celtel. Efforts were made to engage 10 key departmental managers involved in strategy formulation and execution at their respective areas. For each player, a sample of 10 units made of departmental managers and CEO who are involved in departmental strategy formulation and implementation was used for the study.

3.2 Data Collection

A semi-structured questionnaire was used via in-depth interviews to obtain the data required. This was delivered by personal visit and administered, where possible, through a one to one interview. In cases where this may not be possible, a questionnaire was left for collection at a later date. The questionnaire, which was semi-structured, made use of both open-ended type questions. The questionnaire attempted to obtain the key driving forces in the industry and was structured in relation to the each company's key strategic and operational departments.

3.4 Data Analysis

This was an in-depth study where content analysis was used to analyze the collected data. The analysis was to establish the basis of competition in mobile phone industry in Kenya. The reason for choosing this tool is that it does not restrict respondents on answers and has potential of collecting more detailed information.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter documents the findings of the study on the basis of competition in the Kenyan mobile phone industry. The data was collected mainly through interviews with representatives of senior management of key functional departments that are involved in strategy formulation and implementation. The interviewees also provided booklets, brochures, annual reports, internal magazines, website access and other related journal articles related to the subject of study.

The data collected was analyzed to capture the current issues relating to basis of competition that exists within the industry and strategic initiatives adopted by existing players so as to remain competitive. Collected data was collaborated by other sources of data including local press reports, Vodafone Global Reports, Central Bank of Kenya Business Publications, CCK Publications on the industry, various research papers done on the industry by Consumer Insights, IBM Business Consulting Services and Research International and studies done by other stakeholders in the industry. The study targeted the current duo mobile service providers in the country: Safaricom limited and Celtel.

4.2 Industry Profile

4.2.1 Historical Background

The CEOs from both companies were asked to give a brief overview of the history of mobile telephony industry in Kenya. The responses obtained from these discussions and collaborated with published information indicated that mobile industry started in 1992 with the analogue system commonly known as the Extended Total Access

Communication Systems (ETACS), which was commercially launched in 1993. By then the services were so expensive only affordable within the upper echelon of the society. The enactment of the Kenya Communications Act, 1998 led to the introduction of competition in the cellular mobile industry. The mobile telephony brought much hope to the Kenyan population that is ill-served by the Telkom Kenya (TKL) monopoly until the advent of mobile telephony large parts remained unsolved due to Telkom's slow network expansion, vandalism and natural catastrophes.

According to the interviewees, the situation as it were necessitated embracing of mobile telephony viewed as more convenient and easily attainable. The mobile phone industry has been until recently dominated by two large firms: Safaricom limited and Celtel Communications.

Published information and responses got from those interviewed indicate that Celtel was licensed to operate mobile phone services on January 28th, 2000. The company was awarded the license with Sameer Group of companies and Vivendi communications as the stakeholders. Sameer group of companies is a conglomeration of leading companies in Kenya that include firestone, Eveready, Sasini Tea and Coffee, Ryce motors Equatorial Bank, First American Bank of Kenya, Kenya Data network and EEL Computers. In May 2004, Celtel paid US$ 250 million to acquire the Vivendi stake (60 per cent) in Celtel. Celtel experience and presence in running profitable mobile phone networks in Africa is strength to be relied on by the cellular subscribers. Celtel is active in 13 countries in Africa and is the only mobile phone operator with presence in the three East African countries.

Celtel products and services are under the Celtel Brand. Celtel has the obligation to put up payphones as part of universal obligation. Celtel has GSM payphones and GSM commonly phones, popularly known as Simu Yetu. Celtel offers the following value added services: Celtel Directory enquiries, Celtel Conference calls, Celtel Infoline, Celtel Ms 247, Celtel Voice mail, Celtel Ms and access 3SO.

The government through Telkom Kenya owns about 60% of Safaricom while close to 40'% shares are owned by Vodafone Company of the United Kingdom. In the year 2003 Vodafone won the awards: The Best Consumer wireless application an Best Broadcast Vodafone has excellent operating performance with strong revenue profit and free cash flow. Vodafone also enjoys global procurement and price agreements. In 2002 Vodafone signed Ericsson as a global multimedia-messaging supplier (MMS). Siemens was also signed the same year as a global location enabling server supplier. The platform allows Vodafone to create location-enabled application. The company has interest in 26 countries across five continents. It is such wide range of experience and international connections that makes Vodafone instrumental with Safaricom's managerial functions.

4.2.2 The Industry's Governance

The respondents were asked to give an overview of the industry Governance that was also collaborated by CCK, which is the Governing body. The enactment of the communication Act (1998) created three entities. Telkom Kenya (the public telecommunication operator) postal corporation of Kenya (the public postal license) and Communication Commission of Kenya. The telecommunication sector falls under the Communication Commission of Kenya (CCK) docket in the ministry of information and communication. Despite the fact that the Kenya Communication Act 1990 outlaws any form of monopoly, the June 30, 2004 deadline for ending Telkom's monopoly was crossed without much hope for the full liberalization of the wireless technology.

The Communication Commission of Kenya (CCK) is responsible for developing and coordinating the policies and strategies with respect to development and operation of telecommunication services in Kenya. The Commission therefore, licenses telecommunication operators and service providers and monitors their performance on continuous basis to ensure that they discharge the obligations as stipulated in their licenses and in keeping with the provisions of the Kenya Communication Act 1998 and the Kenya Communication regulations 2001. The Commissions mandate in regard to the sector involves telecommunication licensing, telecommunication licensing enforcement-enforces all telecommunications license conditions and regulations that have been agreed upon, industry and consumer affairs-attends all enquiries and complaints from customers, universal service obligations – develops mechanism to ensure the availability of telecommunications services to all citizens throughout the country, tariff regulation develops pricing guidelines for service providers and market analysis. Reviews the sector on a continuous basis to ensure that competition is fostered and to guard against anti-competitive behavior by licensed operators.

The management of CCK is vested in a Board of Directors. The Act provides the possibility of alternative directors. The chairperson appointed by the president, the permanent secretary ministry of information and communications; permanent secretary in the ministry responsible for finance, permanent secretary in the ministry responsible for internal security; the permanent secretary in the ministry responsible for Information and Broadcasting, the Director general appointed by the minister and at least five other members appointed by the minister by the virtue of their experience in matters relating to postal, telecommunication, radio communications commerce or related consumer interest.

The board has the powers necessary for the performance of the functions of the commission including: management and control, and administration of the commission, receiving of gifts and grants, donations or endowments made to the commission, determination of the provision to be made for capital and recurrent expenditure and appointment of officers of the commission. The day-to-day management of the commission is however vested in the Director –General. The Director- general is an ex-official member of the board.

4.3 Industry Attractiveness

The Financial reports provided and based on various discussions held with respondents, it emerged that there was a general feeling that the industry is still very attractive and that its potential is huge. This was backed up by independent published data. According to the interviewees, out of the current Kenyan population of about 33 millions people, there are many millions of consumers among the 10 million Kenyans aged between 10 and 24 years that do not have a phone today.

Interviewees also pointed out that since inception, both Safaricom and Celtel have realized tremendous growth in subscriber base for the last three years that has seen cellular subscription of about 3.2 million with Safaricom having 2 million (as per published information) and Celtel estimated subscriber base at 1.2 million.

The two operators have not only covered most of the areas as required by their respective licenses but have also added new areas dictated by business consideration and industry growth. The market penetration is estimated at 7 % based on the total Kenyan population of about 33 million. The indication being that the market potential is still very large and this emerged as an important basis of competition. The table 1 below shows key markets facts that further explains the attractiveness on the Kenya telephony industry, whose potential is going to determine how existing and potential players are positioning their products and services so as to gain and a sustainable long term market share.

Table 1: Key Market Facts

Aspect\Years	2000	2001	2002	2003	2004
GDP per capital (US$)	314	311	322	326	329*
Population (Million)	30.2	30.8	31.4	32	32.6*
Inflation (%)	10.0	5.8	5.2	5	5*
Telecommunication Revenue (Kshs Million)	-	25,982	35,355	39,199	48,749*
Mobile Communications Revenue (Kshs Million)	-	3,182	11,355	13,999	22,989*
Cellular Subscribers (1000)	-	200	692	1,386	2,000*
Cellular Penetration (%)	0	13	4.14	5.63	6.69*
Mobile voice Revenue (Kshs Million)	-	2,676	11,038	18,992	25,426*
Mobile Message Revenue (Kshs Million)	-	0	179	712	1,137*

***Estimate**
Source: Communication Commission of Kenya (CCK), Year 2000 to Year 2004

Table 1 above shows that the industry has been growing very fast as indicated by the average increase in revenue, increase in subscribers, high penetration percentage, rapid increase in mobile voice revenue and mobile message revenue. In addition, the projected par capita increase augurs well for the industry. **Figure 2** represents the above information, below.

KEY FACTS OF THE MOBILE INDUSTRY

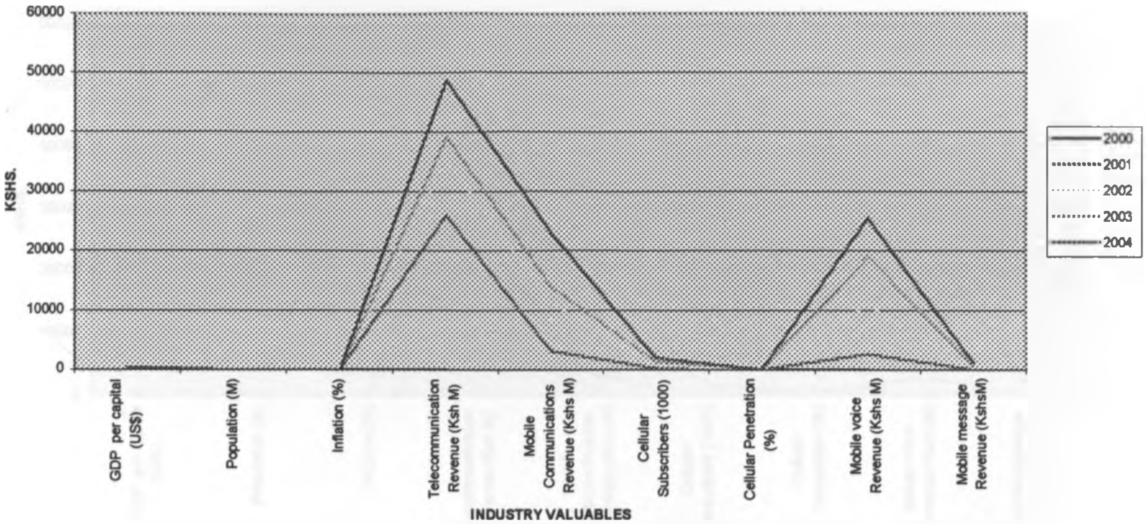


Figure 2 represents key facts in the mobile industry in Kenya.

Table 2: Subscriber Base

Company\Years	2001	2002	2003	2004
SAFARICOM	445,392	864,578	1,200,000	1,800,000*
CELTELL	355,000	626,089	800,000	1,200,000*

*Estimate

Source: Communication Commission of Kenya (CCK), Year 2001 to Year 2004

Table two above shows the increase in subscriber base from 2001 to 2004

KEY FACTS OF THE MOBILE INDUSTRY

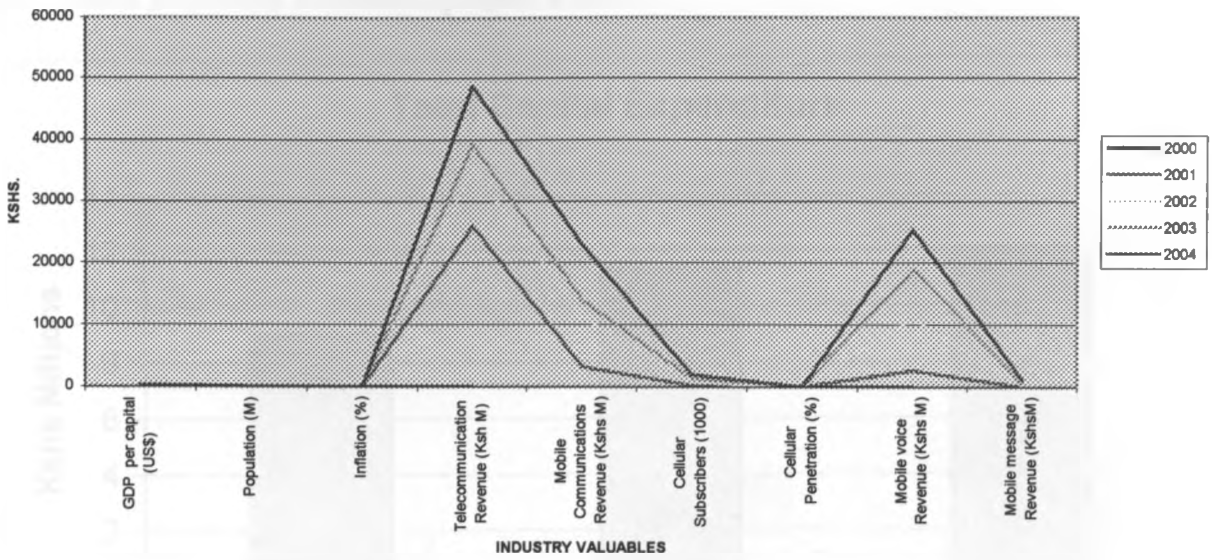


Figure 3 shows the increase in subscriber base for the last three years.

Safaricom is currently the market leader at an estimated 60% market share with Celtel having 40%. Safaricom with a turnover of 18.5 billion is one of the strongest companies in the country. Econet Wires, the third operator was licensed at a Kshs 2 billion license fee as opposed to Kshs 4 billion paid each by Celtel and Safaricom at their time of entry. In addition, Econet will have an advantage of established market. The two mobile companies in the country have been investing heavily in the expansion of network infrastructure. This is clearly indicated by table 3 below:

Table 3: Capital Expenditure

Expenditure\Years	2001	2002	2003
K.SHS (Billion) - Safaricom	5	6.3	6.7
K.SHS (Billion) - Celtel *	4	5.04	5.36
Total	9	11.34	12.06
Source: Daily nation 30th June 2001-03			
*** Unpublished**			

Table 3 above shows the heavy investment made by the two companies for the last three years. This is graphically illustrated by figure 4 below.

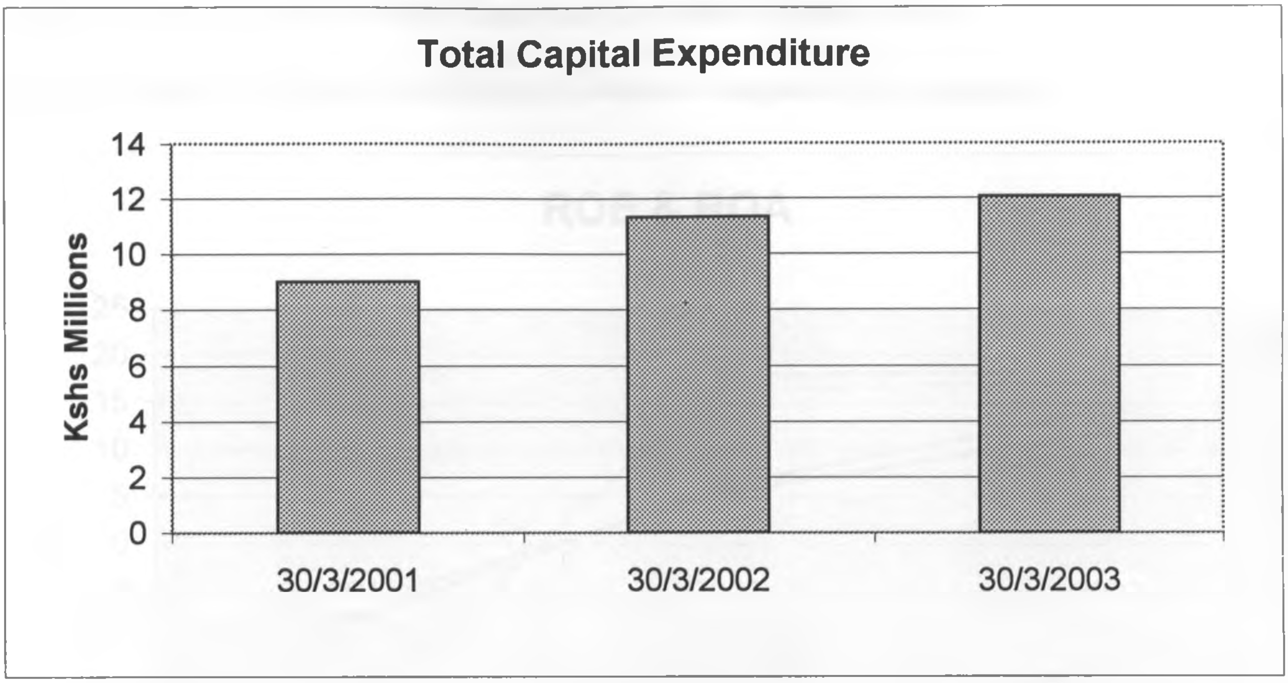


Figure 4 above shows the capital expenditures incurred by the two companies in the last three years.

Table 4: Return On Assets and Return On Equity

Aspect\Years	2001	2002	2003
ROA (%) - Safaricom	-8.10	6.16	14.28
ROE (%) - Safaricom	-18.67	17.85	18.50
ROA (%) – Celtel*	-6.5	5.5	11.85
ROE (%) – Celtel*	-16.45	16.25	17.25

Source: Daily Nation 31st March 2001-2003. * **Celtel** figures are unpublished, given verbally.

Table 4 above shows that the industry is growing very fast and therefore very attractive for investment. This is despite the fact that the Kenyan economy has been recording a sluggish growth rate. This is clearly illustrated graphically by figure 5 below:

Figure 5: Return on Equity and Return on Assets – Graphical Representation

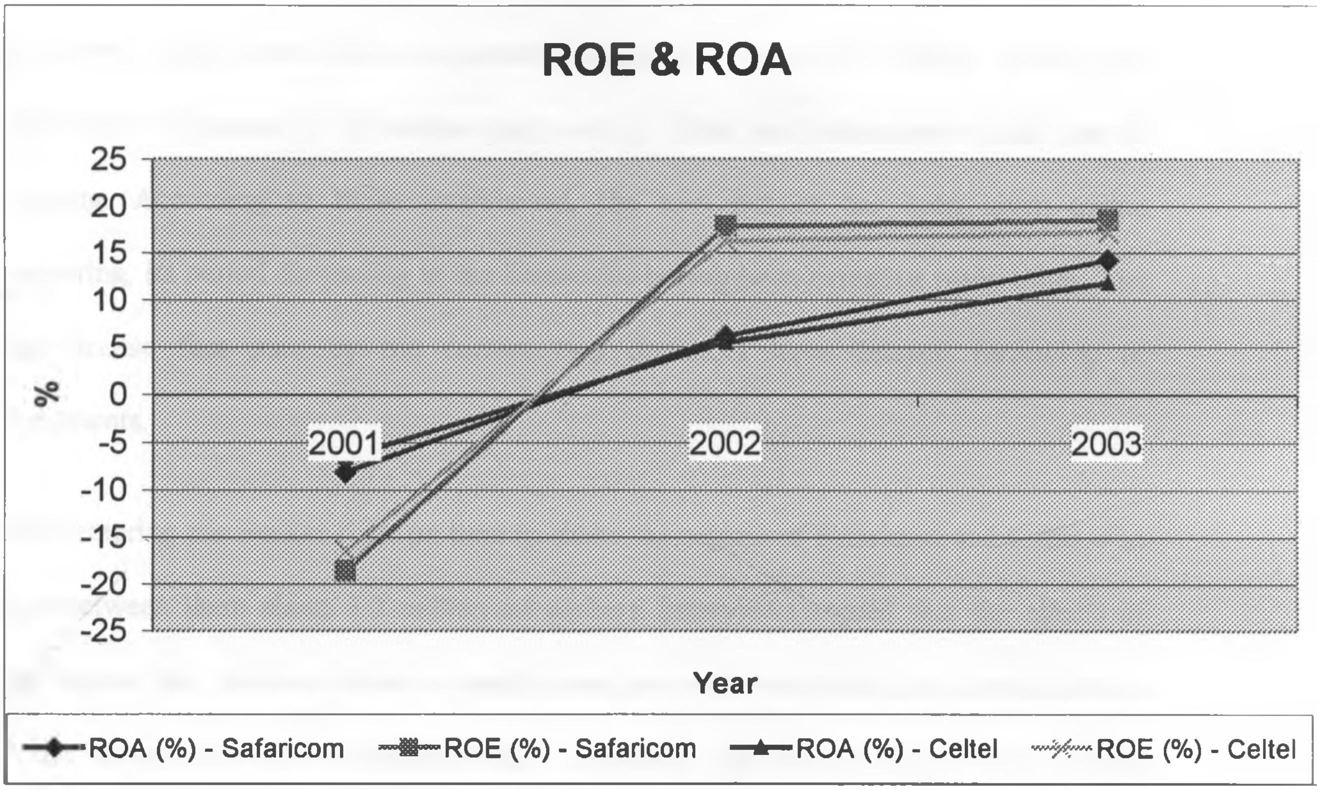


Figure 5 represents ROA and ROE from 2001 to 2003.

Figure 5 above shows that the industry is very attractive since the return on assets and the return in equity are above average considering the short time the mobile industry has been in existence in Kenya. ROA was computed by dividing total assets by net profit and this was expressed as a percentage, while ROE was arrived by dividing total shareholders equity by net profit and the figure expressed as a percentage. This is an illustration that the industry has a high growth potential and therefore very attractive forming the very core for competitive initiatives among existing and potential players.

4.4 Industry Competitiveness

4.4.1 Threats of New Entrants

The study established that the licensing of a third operator, Econet Wireless Kenya (EWK) is going to have an impact on the profitability of the existing operators. EWK) has recently been issued with an operating license at a cost of $27 million, which is far much lower compared to $55million paid each by Celtel and Safaricom at their time of licensing. According to those interviewed, the new entrant has been given undue pampering, its period for paying in the license fee having been extended many times. The high license fees paid by the current two operators have delayed recouping of investments.

EWK entering the market right on time to shake the regime of Safaricom and Celtel who have between them about 3.2 million subscribers. Interviews argued that the effects of high license fees, customs duties or stealth taxes have been restricting the desired take-up of the service and have constrained both teledensity and development. This is unlike EWK, whose fair price tagged to their license fees will eventually have a positive repercussion on their consumers by offering lower tariffs when they commence operations in they year 2005.

EWK is expected to start its network roll-out and will spend an initial amount of $75 million and the firm has already picked Swedish Telcom giant, Ericsson as its partner in the network roll-out plan. This is seen as a major threat to existing players since EWK has already entered the market at an advantageous position by paying lower license fee.

According to respondents, churn or the voluntary defection of customer is a critical problem expected to face the pre-paid subscriber dominating Kenya's mobile sector, in the wake of new competition. In the event that customers choose to defect to the new entrant, the existing mobile carriers will suffer financial repercussions. High churn rates, especially when they involve the prepaid segment and the most profitable and potentially high value customers, lead to reduced revenues, high acquisition costs and eventually eroding profitability. The new entrant is therefore expected to roll out attractive bargains to encourage churn from the already existing Celtel and Safaricom subscribers and this is going to determine the basis of new wave of competition as discussed in the next section of this report.

Safaricom targets to upgrade its network in late 2004 and early 2005, which would involve rolling out of high-speed mobile data. This through the use of devices such as mobile phones and digital Assistants (PDA) will access a wide range of new offerings such as multimedia messaging (MMS), location based services and mobile office application. Just recently, Safaricom signed an agreement with a Hong Kong-based firm (Huawei) for Kshs 1.2 billion IN (Intelligent Network) equipment supply. Safaricom is to embark on a Kshs 13 billion, three-phase network upgrading and expansion project going into 2005. With doubling of its network capacity, the expansion is meant to ease congestion that has been associated with Safaricom's network at some peak times. This initiative is to ensure Safaricom maintains its leading position in the wake of new entrant.

Re-positioning of Telkom in the telecommunication industry is significant. Telkom offers a wide range of communication products such as Tel card, public payphones, prepaid card, Jambo net internet backbone service providers, coin phones, and so on. Occasional users of telephone phones and card phones fixed wireless telephony business located in areas with rough terrain. To improve on its corporate image, Telkom has telemart customer premises that deal with new business and equipment supplies and individual installation. Also to care for the customers are Telkom care centers. This in addition to the cheap per minute call charges increases the competition in the industry. The selling of the 49% of Telkom will give a joint venture desired to enable the management have autonomy in dealing with matters pertaining to the company. This would enable the firm mechanize its network, re-engineer its processes and procedures, meet customer needs and demands and provide quality service.

Its expected that entrance of Econet Wireless and the liberalization of the fixed telephone services would make telecommunication industry more competitive. Econet's Wireless is a major threat to the current mobile phone duopoly. The threat is further cemented by the calls for full liberalization of the small operator terminals (V-SAT), which could give Econet the advantage of using the cheaper technology. In addition, the crack of Telkom monopoly by Second National Operator would promote competition eventually leading to the long awaited concessions, cutting prices and adding value to products would be realized.

The Internet providers are agitating for their independence from Jambo net. This would result to cheaper products that will challenge the existing scenario. For instance, Safaricom's GPRS card initially priced at 18,000/= has been drastically reduced and offered to corporate clients at attractive rates.

The above scenario shows that the competitive nature of this industry will determine the basis of competition among existing and potential players. A decision will have to be made on what will make one company better than the other in terms value proposition to target subscribers.

4.4.2 Rivalry among existing Firms

The respondents drawn mainly from marketing departments were asked to comment on existing wave of competition and rivalry that according to them exists within the industry in relation to their respective brands which they thought were helping to give them a competitive edge against onslaught from rivals. It emerged that rivalry was very active and was an important basis of competition and this was collaborated by the respective CEOs and other senior managers who were also target respondents.

Information provided revealed that Safaricom has the highest brand category segmented on purchasing power basis. Brands are launched based on calling habits and the rates that appeal to that segment. Due to its current fast growing subscriber base (standing at over 2 million), the company now has over 700 employees so as to keep up with this fast growing industry. Safaricom has also opened 8 Customer Care shops countrywide. The retail shops are located in Nairobi (Five in Nairobi), Mombasa, Kisumu and Nakuru. Plans are also underway to open more retail shops in other major towns within the country. The company also have a countrywide dealer network to handle distribution and selling of Safaricom services and products.

Product and service appreciation will only be effective through a unique understanding of the customer and how they would relate with the myriad technologies and applications that we have to offer them. The unique mobile experience arises largely from what customers gain and feel by using our services. The company has to ensure that their customers get the top-notch mobile experience that exceeds their expectations by carefully pruning the value added services that we offer to them. The company's range of products and services include SMS, Voicemail, Get-it 411, 191 Direct, various tariffs, 24 hour customer service, Roaming service (to our postpaid customers), ATM top-up, Vending machines, Emergency numbers (e.g. 911) Executive voicemail (for postpaid customers) and community phones (phone booths). More recently, the company launched SMS Sokoni, Get-it sports scores, Ongea 24/7 and Safaricom online. More is in the pipeline!

Safaricom considers both the lower and higher market by offering corporate and individual brand segments. Safaricom offers Jambo, Taifa and Tarrific brands to suit the varied consumers need. For example the interviewee indicated the latest Sema Tariff was targeting late callers mostly socialists while GPRS is targeting business that are not confined to the office and are willing to pay for mobility of their office. The peak and off-peak segment for calls and SMS has attracted many of the Celtel subscribers who have been shifting their loyalty and moving on the Better Option. Following this, Safaricom has been able to attract a lot of Celtel subs migrating due to the attractiveness of these tariffs.

Celtel on the other hand offers Celtel! Prepaid tariff plan. They incorporate the Celtel! Card, Celtel! Per second and Celtel! Family. The other tariff yes! Privilege is a post-paid package. Where Safaricom scores highly in regard to a peoples brand affordability its main weakness centers on poor reception. Celtel has been doing product diversification to gain entry into the market. Celtel puts emphasis on the quality of its network and 'lower tariffs'.

It has been evident overtime that rivalry is rife in the mobile telephony sector. The two mobile operators have been keen on jockeying for position using various tactics.
Most important attributes dictating the choice of mobile service provider (MSP) are affordability of scratch cards, price of calls, connection fee and coverage. Rivalry arises where competitors see opportunities to improve there position in this regard both Celtel and Safaricom are in the forefront positioning their response brands. Safaricom is commonly regarded as belonging to the common people as opposed to Celtel viewed as for elites. However, each brand is focused on offering endearing tariffs plans to the market. These led to massive drops for pre-paid telephony to other telecommunication networking. The prices for the Celtel! Card members to a national fixed line and Safaricom were reduced.

According to the CEOs and senior mangers of both firms, competition within the industry is strong and growing as new strategies are designed to outmaneuver each other. The two mobile companies take competition as of outmost importance. They try to outdo each other by implementing various strategies. For example, selling value added services and enrolment of new subscribers through sales of lines at reduced cost in addition they continue improving the networks infrastructure. Each try to increase the market share and retain the already existing subscribers.

The three forces that affect the telecommunication industry are technology, competition and demand for change. Rapid technology change creates a new business environment. As a result new competitive strategies must be formulated. Deregulation within the telecommunication sector is very strong and still growing. As competition increases, technologies are increasingly replaced to maintain and achieve growth.

The above captures well the scenario in the telecommunication industry in the country until the advent of mobile telephony. The fixed telephony performed poorly with perpetual cases of breakdowns and very slow expansion of the fixed networks due to laxity among the workers, insufficient funds from the government, vandalism and natural catastrophes. In 1999, Telkom Kenya had 8,397 payphones. By November 2003, they had installed 10, 025, which is an increase of only 1,628 payphones in four years. This represents 21% of the targets of 7,500 payphones as stipulated in their license. With the introduction of the mobile phone and the opening up of even interior remote markets the mobile subscription surpassed fixed lines. Eventually the focus shifted from Telkom Kenya (the fixed line provider) to Safaricom and Celtel. However, it is noted that it takes three years for the telephony to settle in terms of demands and supply of services. A keen observation of the Kenya market reveals an emergence of trends of demands and changes initially in the first year both operators (Safaricom and Celtel) focused on acquisition of subscribers through subsidized handsets, airtime charges and bonuses.

However, today the focus is on loyalty whereby the operators entice their customers through handset upgrades, signing of contracts on cheap tariffs, among others.

Celtel has put emphasis on superior quality of products and service that could threaten Safaricom's position. As mentioned earlier, innovative technology becomes key in ensuring loyalty and so avoid churning as well as increased company's market share.

Celtel introduced 350 Internet access (a joint venture with Swift Global) and payphones scores highly. Celtel is strategizing for expansion with Kshs 60 million set for spending in network development in the next three years and this is to ensure that the firm maintains its position in the wake of new entrant.

4.4.3 Bargaining power of Suppliers

Suppliers for core network equipments were seen to be very strategic to existing players in terms of offering reliable equipments at fair prices and manageable payment term. Due to their expensive nature, core network equipments like base stations, switches, Intelligent Network (IN) and the like are strategically sourced and procured from carefully selected and evaluated vendors.

The choice of suppliers for strategic core network equipments and other sales items and packaging materials was emphasized by those interviewed as critical to competitiveness of mobile carriers. Safaricom has entered into partnership relationship with some of its key but powerful suppliers like Siemens, who supplies most of its network equipments. Siemens has a strong bargaining power and has entered into global price negotiations with Vodafone Group and this agreement on global prices for core network equipments supplied by siemens is currently being used by Safaricom in its network roll out plan. Celtel has similar arrangements with Alcatel for its core network equipments and other strategic items like marketing packaging materials and sales items.

The above implied that for core network items, suppliers have substantial bargaining power since once a choice of equipment is made, it becomes extremely undesirable to change due to costs and set-up logistics involved and this emerged as a key basis of competition in this industry.

4.4.4 Bargaining power of Customers

The respondents drawn mainly from Sales functions from both firms were asked to comment on the bargaining power of customers and the following information was gathered:

As per one of the firm's CEO, the dismay economic performance has taken toll on the cost of living forcing subscribers to cut on their spending. In addition, the raising of excise duty in the mobile sector trickles down to subscribers making mobile telephony undesirable. As such it is observed that the key reason for not taking up a Mobile Service Phone is the handset price, connection fee and the maintenance. The operators try to out perform each other in offering affordable services and products. Celtel manages to capture many subscribers through handset offers. Celtel per second and Celtel family boasts the company's image.

At the last budget presentation, the government of Kenya reported that the economy had shrunk by 0.3 % with almost all sectors declining. The impact of the economy negative growth also reflected in the population low purchasing power, which complicates the basis of competition. The mobile phone operators are required to stimulate consumption of their products by the services while at the same time make profit. The subscriber consumption is further compromised by the briefcase sale of handsets and the high rate of theft of the handsets.

Safaricom too has cut down connection fees and offers affordable tariff. The connection fee was Kshs.2, 500/= and it is now Kshs.299/= only. This follows Celtel's reduction of its connection fees to Kshs.299/=. Also, Safaricom subscribers can replace lost sim cards at a fee of only 100/=. There is also an offer to replace lost phones with cheap ones through a joint venture between the two mobile companies. The company also offers cheap phone to activate spending. Safaricom gives affordable cheap cards of Kshs.100/=. Celtel recently followed suite by offering a lower denominated card of Kshs 75/- and Kshs 150/- respectively. We may very soon see a response from Safaricom to counter Celtel lower denomination virtual cards. Simu Ya Jamii by Safaricom and Simu Yetu by Celtel is geared towards meeting the needs of the low-income customers, which is in line with CCK requirements of rolling out cost effective tariffs.

4.4.5 Threats of Substitute Products and Services

Threats of substitute products and services though not very strong was seen to present and potentially growing. Even for fixed-line services, Telkom Kenya is seen as pulling its socks after having nearly ground to a halt for many years. Telkom Kenya has of recent been out to get operators for telecentres around the country. It has recognized that mobile telephony is in competition with it and has started introduction of various products like its pre-paid service, lowering of its fixed-lines call tariffs to compete with mobile telephony. Other threats are coming from Internet Service Providers (ISPs) who are offering competing and cheaper Internet services.

The use of VSAT technology is a major threat that may render existing base stations useless. If the new operator introduced VSAT as a strategy in its roll out plan, this would mean less investment in base stations and faster roll out speed. This emerged a major threat that will play a key role in defining basis of competition in the telephony industry.

4.5 Basis of Competition

Competition refers to situations where organizations are competing for resources and /or consumers. Competition is said to be healthy if growth and development is achieved. Competition turns into conflicts where survival is left to the fittest. Hence, business organizations must strategize if they have to remain competitive. Business organizations compete for scarce resources including customers in the market place. This calls for such organizations to clearly define and understand the basis on which they compete in the market place as this determines their failure and /or success.

Existing players in the Kenyan mobile telephony have been faced with increased competition amongst themselves and also from substitute products and services. This has been complicated by threat of entry into this market by a third mobile operator and re-positioning of Telkom Kenya who have now been offering competing services. The realization of potential loss of market share by both Safaricom and Celtel has led to the two firms going back to their strategic meeting boardrooms with the intention of defining and understanding existing and possibly new strategies that would make them not only survive onslaught by Telkom but also remain on the leading edge even when new entrant penetrate the market. This is why existing players have been able to clearly define the basis under which they compete so as to evaluate their strengths, weaknesses, opportunities and threats that their current market position offers to their immediate and long term survival.

Mobile industry in Kenya is dominated by two firms, who have been involved in fierce rivalry on market share acquisition and maintenance of subscriber loyalty over the long term. This suggests that the basis of competitors employed by these players` is very important especially when such firm formulates their competitive strategies. With the threat of new entrants and repositioning of Telkom Kenya, competition is bound to intensify and it is going to be very interesting how each player is going to strategize so as to remain competitive. Further liberalization of the Kenyan airwave will also increases competition a factor that has lead to existing players to evaluate their basis of competition.

The basis of competition that exists currently in the Kenyan mobile telephony was captured by asking the firms what key competitive basis they thought were critical to their successful sustainance of their market share position and as discussed in the next section of this report, it emerged that there are key critical basis of competition these firms have over the period of their operational existence employed, which have propelled them to their current market position. These basis of competition are discussed in the section that follows.

4.5.1 Cost of Products and Services

Cost of products and services offered to the market emerged as a key basis of competition in this industry. The respondents who were mainly company's CEOs and other senior managers across the departments in both firms were asked to comment on how the felt that cost of their goods and services impacted on their competitive position in the market. From the data collected, it emerged that offering cheaper but quality products and services was a key factor that determining the basis of competition in this industry. Majority of Kenyan subscribers it was noted are price sensitive and therefore pricing strategy employed by the two firms must appeal to this category of subscribers.

Safaricom has carried out a reduction in international tariffs. Prepaid tariffs for calling within east Africa have been reduced by about 11 per cent for both peak and off-peak hours while for COMESA countries they have been reduced by 23 per cent for peak hours and 32 per cent for off-peak hours. Tariffs for calling the rest of Africa, Europe the Mediterranean and North America have also been reduced by 26 and 29 per cent for peak and off-peak hours respectively. Prepaid calling to the rest of the world has been reduced by 46 and 48 per cent respectively.

Safaricom has been in forefront of introducing billing per second, which was later copied by Celtel when it became very popular with subscribers. The company has introduced various tariffs such as Taifa, Jambo, Tariffic and Sema offers a wide variety of choice to its subscribers. To reduce churning, the company reduced the cost of replacing a lost connector pack to Kshs 100/- while the cost of new connection came down from Kshs 2,500/- to Kshs 299/-. The company introduced a low denomination virtual top ups of Kshs 100/-, which has become very popular and has actually been seen as a welcome relief by majority of its 99 percent prepaid subscribers. Sometimes, new connections are offered a low price of Kshs 100/- so as to get more people connected.

Safaricom has also been carrying out subsidized promotion on regular basis that has seen the company offer cheaper but quality handsets such as siemens, Motorola and Sendo, among others. A case in point is the recent promotion for Sendo and Motorola C115, which has helped the company attract more subscribers leading its current subscriber base of slightly over 2 million. Other products and services offered include SMS, Voicemail, Get-It 411, 191 Direct, ATM to-up, vending machines Emergency numbers (e.g. 911), Executive voicemail (for postpaid customers), community phones (phone booths), SMS Sokoni, Safaricom online, Ongea 24/7 and Roaming service (for post paid customers), among others.

Celtel has on the other hand been very aggressive in trying to match and /or offer lowly priced products and services to counter the activities of its rival. Celtel's per second billing was a reactive strategy and also it recently introduced a Kshs 75/- lower denomination virtual top up so as to counter its rival's strategy.

Celtel has also been offering slightly lowly priced handsets such as Nokias, Alcatel and some ranges in the Motorola brand, among others. It also has tried to match its rival in the area of tariffs and other initiatives like Simu Yetu.

The above indicates that the two firms have realized that their marketing environment is price sensitive and how their products are services are priced determines the basis of their competitiveness.

4.5.2 Advertising

Interviewees who were drawn from Marketing and sales departments were challenged on how they thought advertising was a key success factor that defines the basis of competition in the Kenya's telephony industry. Information gathered below agreed with the fact that advertising has been a key component that has been defining the basis of competition among the existing players.

The two mobile companies communicate and position themselves in the market place. They normally communicate new network rollouts especially targeting the rural areas. They are also enhancing existing value added services as well as developing new ones. In addition, there is a lot of branding and identity creation by the two competitors for example, Safaricom use of 411/191 to ensure that customers keep on using her services and also sending appreciation messages after every new loading "thank you for staying with the better option". On the other hand, Celtel offers three free SMS's after every new loading.

Advertising is key in creating awareness and persuading customers to subscribe. Both Safaricom and Celtel have given this item the due importance in their market and sales departments. The main advertisement channels used by both operators are: newspapers, billboards, radio and television. The advertisement for both operators could be said to be relevant and captivating. However, it is observed that the adverts for either operator highlights its individual strengths that happen to be the competitors weakness and vice versa. For instance, Safaricom zeros on emotional attribute such as a "network that understands what I need" while Celtel puts up on functional attributes such as clarity and no congestion.

Celtel has been using comparative tactics to communicate its product to the market. For instance, Celtel key question "connected or congested" in billboards was very thoughtful. 'Connected' was done in pink; the company's colour while congested was in green.

Apart from heavily advertising in the newspapers, Celtel targets consumers through its town-to-town mobile fairs. These fairs not only offer discounted prices on mobile handsets but also consumer education on various areas of connections and communications over wide coverage of the population.

Safaricom on the other hand uses road shows and other adverting medias to not only connect new subs but also convert those from competition. This campaign has been very successful as witnessed by records of those migrating to Safaricom despite confession that their network does still require optimization.

4.5.3 Customer Care

The respondents manly from Customer management departments were asked to comment on issues relating to customer as a basis of competition in the industry and the following information was obtained:

The customer queries and complains are handled efficiently and effectively in both companies. The two companies provide accessible customer service toll free numbers. They also measure how efficient and effective the responses are. In addition, they carry out a lot of research so that they can get feedback from customers. They have also created Care Centers, which handles customer queries. The major challenge is the knowledge of new GSM services, which are necessary to be able to support the customers' questions.

There is need for the operators to cultivate a high degree of loyalty among the subscribers to avoid churning. The Customer Care Departments are on full alert to assist their customers in need. On average, customer care department in the two mobile companies are more than 50 percent of the total employees. This suggests that customer care is crucial for the survival of a company in the mobile phone sector. In addition, it shows the importance attached to this department by the two companies. Further, it indicates that a lot of awareness creation and persuasion is important for the company to remain competitive. Special call numbers are provided free of toll.

A modern customer care support center setting new standards has been established at the Celtel headquarters on Mombassa Road. Celtel has invested heavily in human resource team to ensure that all Celtel staff are experienced and knowledgeable towards customer care. 86 customers care representative work from 7 am to 9 pm in order to ensure service delivery of the best quality. Similarly, Safaricom organizes several seminars, conferences and offsite training and ream building sessions to keep the employees updated on the market situation, technology and new business strategies.

Safaricom has what they call Passion for Customer embedded in their vision and mission statement. This is where the company defines how they intend to lead the way in making the mobile the primary means of personal communications for every individual in Kenya. The company through this passion believe that their services can make a real difference to their customers. By making it easier for them to communicate with the communities that are important to them and by presenting our services in a way that is tailored to them will enrich their lives. Both firms have established modern shops, responsible call centers, online help and comprehensive after sale service. However, Safaricom approach is mass consumption of its products.

It emerged that both firms attach great value to their customers and this explains why their Customer Management function is equipped with highly trained Care Centre staff and has the highest number of staff in their respective companies. Handling of customers has therefore been a key strategic factor that defines the basis of competition in Kenya's cellular industry.

4.5.4 Network Infrastructure

The respondents who responded to this were from engineering, IT, Operations and maintenance and Implementation departments in both firms. The issue of network quality, coverage, operation and maintenance and roll-out is a major concern that according to the interviewees plays an important role as regards the basis of competition in the industry. When asked to comment of the above issues, interviewees explained that network infrastructure was an important key factor as far as competition in the industry is concerned.

Safaricom's technical departments have developed key performance indicators that is geared towards operating and maintaining the network in a healthy and usable state. For Safaricom, a key performance indicator (KPI) of 99.5% network availability must be met and this is measured on a weekly basis. Actual data indicate that Safaricom has been achieving an average KPI of 99.5% of network availability over time. The company needs to generate revenue and this can only be done via a healthy and usable network since subscribers needs an available network and this can only be achieved through the KPI weekly measurement.

On the other, Celtel also maintains measurable network performance KPIs at 100% level and deviations from this measure is reported and acted upon on weekly basis. Celtel network is comparatively more stable and also their network coverage is comparatively wider.

The competitiveness of these companies is improved by rolling out new products, which are supported by new technology. If the operations and maintenance of network infrastructure is not done effectively, then services will be interrupted and company performance seriously affected.

From the above, it emerged that network infrastructure is the core determinant of the basis of competition in this industry and most of marketing campaigns have been centered mainly on network quality and coverage.

4.5.5 Supply Chain Management Policies

Interviewees across the two companies stated that management of suppliers in terms of procurement, partnership development for key strategic items, use of countrywide dealer network and how company-warehousing functions are managed to meet subscriber demands is a key issue on that determines competitiveness. The policies on procurement, supplier base management, dealer network, warehousing and distribution of products for these firms was also seen as one of the main issue on the basis of competition in this industry.

Safaricom, due to its association with Vodafone enjoys Global Price negotiated by the group for major network equipments and this makes the company enjoy discounted rates.

As regards dealer networks, the company professionally contracts dealers with nationwide networks. Safaricom has also outsourced its warehousing services and this helps improve service delivery while at the same time this helps cut down operational cost.

Celtel also have a partnership relationship with its key suppliers and also it normally manages its own warehousing facility for its key strategic items to ensure that customer delivery schedules are met and controlled in-house. The explanation given here is because this is very core to its competitiveness and therefore such a service cannot be entrusted to a third party.

4.5.6 Corporate Social Responsibility

Interviewees were asked to comment of the extent to which they felt Corporate Social Responsibility (CSR) activities used by both firms has helped in defining basis of competition in the industry and the following information was obtained:

According to interviewees, CSR activities is about giving back to the community some of what the company have gained as a result of investing in and existing within the same community – the company seek to make positive contributions to communities around us in direct ways, both through financial support and through the company's own involvement.

Safaricom's CSR activities are spread over a budget of between Kshs. 40-45 million. There is a committee in the company that vets all applications that variously appeal for help. Recommendations from the committee have to ensure that all the following parameters are covered, that is, Culture, sports, education, environment & health. Some of the events and activities the company has sponsored include:

Culture: EAWS, Kenya Museum Society, Carnival of Arts, and Star Search, among others.

Sports: Mathare Youth, Kenya Basketball Federation, and Kenya Cricket Trust, among others.

Education: Computer for Schools Kenya, Starehe Boys Center, and Nairobi Language Institute, among others

Environment: Safaricom Marathon – Lewa, EAWS, and Nation Aberdare Forest Fund, among others.

Health: Kenya medical Association, GOAL Kenya, and Nanyuki District Hospital, among others.

With the company increasingly in the spotlight as one of the fastest growing firms in the region, the company has enviably found itself in the center of many activities aimed at promoting the welfare of the community whose loyalty to its services have seen it reach over 2 million subscribers in a period of less than 4 years.

On the hand Celtel as CSR activities are also geared into sensitizing the world around us of their presence and that they care for the community. For the company to be appreciated by the people they must address the peoples immediate needs. Philanthropy is key in expressing the company's social corporate responsibility. To this end, Celtel is also involved in various CSR activities, which include Celtel! Nairobi Hospice walk, AMREF flying toilet campaign for Kibera slums, June 5th world environmental day, and children voice-sponsored children's conference to celebrate the passing of the children bill.

Children's homes across the country have benefited from money and material donations from both companies. This therefore means that CSR is a key activity that defines basis of competition within Kenya's cellular industry. The main objective is to achieve long-term customer loyalty.

4.5.7 Human Resource

The issue of human resource emerged as one of the most critical factor that defines the basis of competition in this industry and after a lengthy discussion over this issue, the following information was obtained:

Safaricom has in its mission and vision embraced various values and belief system that defines how to treat and deal with their human resource. One of these values is the 'Passion for our People'. This means that it is Safaricom people who create, sustain and maintain the winning team. The company need the right people at all levels, the right culture and the right values to drive it. Building and communicating a vision and guiding principles that we can all identify with is what this passion is all about. It this passion that has guided the company in its career development programs that are meant to recruit and maintain the best human resource in its industry in terms of professionalism and motivation. Celtel on the other hand has a very intensive training program for its human resource especially those in customer management

The above clearly implies that human resource is by far the most critical factor that determines the competitiveness of these companies in terms of strategy formulation and implementation and maintaining a goal achievement oriented culture that has made these companies revolutionalise mobile telephone by industry in Kenya within a period of four years.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The basis of competition in the Kenyan mobile industry is crucial not only for survival of existing players and potential entrant(s) but also for long term sustainable and profitable existence of the industry players. Mobile phone industry in Kenya has over the period recorded impressive growth in terms of subscriber base for short period since existing players commenced operations.

The general public has been treated to concerted competitive initiatives by existing players in the form of adverse advertising messages against each competitor, introduction of new products and services, promotion initiatives in terms of air time and handsets, attractive offers for corporate clients and price ways, among others. This has left many wondering why such concerted competitive wars among only two firms inspite of there being huge market potential.

The result of this study has shown that existing players in the industry have been able to understand the price sensitivity of their target customers and have consequently been able to gradually define the basis competition and have actually been able to create a competitive edge that has made them achieve outstanding subscriber growth for the short period since inception. The study established the five main basis of competition that have been targeted and used by existing firms so as to remain on the edge. These includes:

The price sensitivity of their existing and potential customers created the need to wide variety of products and services that are appropriately priced to meet this demand. This has seen the two firms compete on products and services introduction that are priced to meet the affordability of this demand in terms products and services through promotions, free and /or lowered offers to those willing to churn, and lowering of calling tariffs, which have been differentiated to cater for various calling habits and tendencies among their respective subscribers. Introduction of various products and service that cater for all identified target markets, corporate social responsibility activities that are aimed at informing, educating and appealing to existing and potential subscribers, and various programs that are used to understand who the customers are and how to connect them and win their loyalty over the long term are part of the initiatives employed to improve subscribers life by getting to know what pricing level is fairly acceptable.

Introduction of cheaper products and services have also been used as a basis of competition. For example, Safaricom per second billing was a big milestone that appealed to majority of subscribers that is why Celtel was quick to imitate. Pricing has also been used as a basis of competition in this industry. Use of competitive tariffs by Safaricom with three peak times in the morning, lunch hour and in the evening has been one of the major success as far as competition is concerned. Celtel quickly copied and started tariff differentiation and competition has intensified. Introduction of the Kshs 100 virtual top up card by Safaricom was a major win, which has been copied recently by Celtel who have introduced a cheaper one at Kshs 75/-!

Customer Care services have also been used as a basis of competition. Safaricom introduced a 24-hour manned and toll free call centre to cater for consumer's needs. This was after the company realized that many consumers did not like the idea of buying a phone and then trying to figure it out by reading an operational manual.

Network coverage and quality has also been used, to a large extent as a basis of competition. Here, Celtel has been using network as a leading edge in appealing to consumers of its clarity and wide coverage. This is the main reason why most Safaricom subscribers decided to get a second line to avoid disappointment. Safaricom on other hand has taken the issue of network seriously, publicly empathized with affected subscribers and promised to improve on its network quality and coverage in the shortest time possible.

Both companies have also been involved in careful selection, training and retention of human resource and this has also been used as a basis of competition. Though not in records, most of the respondents from Celtel confessed that they would not mind to join the Better Option as they see Safaricom as the leader, where their is career growth and development.

The study established that in the digital era new telecommunication technology is rapidly replacing the cold. Telecommunication technologies are imprinted on almost all the other economic, educational and social sectors. In Kenya, the slow expansion of fixed networks definitely boosts the desirability of the wireless technology. In addition, the Ministry of Information and Communication is geared towards delivering telephone

The study established that despite the low penetration by the mobile service providers, there exists fierce battle for subscribers. Subsequently defining basis of competition becomes vital for the operators not only to survive but also to remain profitable over the long term. The operators must be able to adopt to the changing environment demands and more specifically the technological changes with the settling of the mobile telephony new trends of charges and demand by subscribers ought to be satisfied.

The environmental challenges, economic slump, increased competition; changes in government fiscal policy and ever changing telecommunication technologies all have a bearing on the mobile providers. These challenges demands aligning business and objective to ensure the companies achieve long-term goals effectively. The strategies that have been put in place to deal with these issues include:

Establishing appropriate marketing and customers care. Customers care desks in the operators outlets focus on personal relationship and boost the corporate images. The need for the operators to be proactive in well realized through media in advertisement and launching of products. In order to win new subscribers and cultivate loyalty among customers, the operators engage in active philanthropy to express their social responsibilities. The operators are so keen of adopting new technologies that will make the brands more appealing. The huge investments on network upgrading are a sign of better times to come for cellular subscribers.

The introduction of community phones providers for the lowest phone calls is meant to activate spending by the callers. It is worthy noting that the buyer chooses between different offering on the basis of which is perceived to deliver the most value. The customer gets benefits and assumes cost. The benefits include functional and emotional benefits. Celtel seems to capitalize more on functional benefits for instance clarity while Safaricom boast of caring for the common person emotions yet with the third entrant

Econet, the operators will need to be more aggressive and satisfy both the functional and emotional needs. The operators ought to price services in line with customer expectation.

The operators visualize the need to diversify their services by introducing various brand attributes. Safaricom has already introduced mobile service data that has become a major boost to mobile telephony.

5.2 Limitations

Some of the limitations encountered in carrying out this study included lack of full co-operation from Celtel respondents in provision of requested information. The writer observed that there was too much fear in most of Celtel respondents who were not sure of how much information to disclose. As a result most comparative data from Celtel was not forthcoming. Also, the industry is also new and there has been a lot of trade rivalry between the two players and therefore disclosure of any sensitive data was not forthcoming. The industry currently dominated by two competitors, limits the divulging of information so as to guard against pre-empting their strategies.

5.3 Recommendations

The study was conducted out at a time when mobile telephony in the country is not yet fully settled as such a clear cut of the customers trends demands for service and changes could be well captured in a subsequent study. Also the expected third mobile operator Econet is yet to start its operation, which should have significant bearing in the industry.

Owing to the fact that the mobile market is yet to be significantly penetrated, the study recommends collaboration approach in serving customers by the mobile operators. For instance, a joint venture in blocking the stolen telephone handsets would alleviate the problem of theft that hikes the cost of mobile telephony.

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APPENDIX 1: LETTER OF INTRODUCTION

October 2003

Dear Respondent,

MBA RESEARCH PROJECT

This questionnaire is designed to gather information on the **basis** of competition in the mobile phone industry in Kenya.

This study is being carried out for a management project paper as a requirement in partial fulfillment of the degree of master in Business Administration, University of Nairobi.

Your responses will be treated strictly confidential and in no instance will your name be mentioned in the report.

Your cooperation will be highly appreciated.

Yours Sincerely,

Daniel Ngobia

Jackson Maalu
MBA STUDENT SUPERVISOR

APPENDIX 2: QUESTIONAIRRE

A: Management Functions: Corporate Level **(Chief Executive Officer – CEO)**

1. Name of Organization (Optional)……………………………………………
2. Name of CEO (Optional)…………………………………………………
3. No. of direct reports………………………………………………………
4. No of years in the present job………………………………………………
5. Years of operation of the company…………………………………………
6. How many employees does your company have? ……………………………
7. What is the ownership of the company? ……………………………………
   Local majority share holding………………………………………………
   Foreign majority share holding……………………………………………
8. What level of competition does your firm face? Please state and explain, give specific examples……………………………………………………………
9. Does your role include market share acquisition? If yes, please explain the strategies you have employed in this regard……………………………
10. How do you view intensity of competition: High ( ), Low ( ). Please explain either of the two position giving reasons……………………………………
11. What role do you play in satisfying company stakeholders and how does this enhance company competitiveness?………………………………………
12. Does technology affect your company's competitiveness and is yes, what strategies have you employed to ensure that you remain a market leader. Please explain, giving reasons…………………………………………………

13. Do the following forces have any impact on your company's success?

	Yes	**No**
Existing competition	--	---
New competitors	--	---
Substitute products/Services	--	---
Suppliers	--	---
Customers	--	---

Government policy	--	- --

14. How much influence do you have over the following:

	No Influence	High Influence
Raw material costs	---	---
Cost of financing	---	---
Industry regulation	---	---
Price charged wholesalers	---	---
Price charged retailers	---	---
Price charged consumers	---	---
Where to source inputs	---	---

15. Rate the following factors as they relate to the mobile phone industry:

	Unimportant	Important
Profitability	---	----
Barriers to setting up networks	---	----
Barriers to selling company products	---	----
Growth potential	---	----
Switching networks to different use	---	----
Competitor retaliation to your company	---	----
Historical profitability	---	----

16. Do the following have any impact on your business?

	Yes	No
Land Telephone lines	----	----
Internet	----	---
Fax	----	----
Pager	----	----
Courier	----	----
Messengers	----	----

10 Do the following have any impact on your business?

	Yes	No
Economy	---	---
Politics	---	---
Transport system	---	---
Taxation rates	---	---
Taxation compliance	---	---
Electricity (supply & connection)	---	---
Communication Commission of Kenya	---	---
Telkom	---	---

11. Has your company done any of the following within the past three years?

	Yes	No
Increased the price of its core product	----	---
Reduced the price of its core product	----	---
Run a major sales promotion	----	----
Introduced a new range of products	----	----
Expanded its sales force	----	----
Expanded the coverage	----	----

12. a) Has your company developed any operational strategies?

Yes {) No { } If yes, what are they?............................

b) Have you changed strategies over time? Yes { } No { }

c) Do you intend to maintain these current strategies? Yes{ } No { }

d) How are these strategies developed? ....

e) Who are involved in the development of these strategies? ....

f) Do you have strategic plans? Yes { } No { }

g) Are they in written form? Yes{ } No { }

i) What problems, if any, have you faced in developing and documenting these strategies? (Please rank them starting with the most to the least important)

1) ....

2) ....

3) ....

4) ....

13. a) Do you find accounting data adequate for planning? Yes { } No { }

b) Does your company gather external information for planning?

Yes { } No { }

c) How do you collect information on the aspects of your external environment?

....

d) Who is in charge of this activity? ....

e) What do you do with the data once it has been gathered? ....

f) Please indicate the extent to which information on the following is considered in the planning process (by ticking the appropriate option):

General economic trends	Yes { }	No{ }
Political and legal developments	Yes { }	No{ }
Competitors	Yes { }	No{ }
Technological changes	Yes { }	No{ }
Social and cultural trends	Yes { }	No{ }
Population shifts and market trends	Yes { }	No{ }
Organization's internal resources	Yes { }	No{ }

g) Would you describe your environment as a turbulent one?

Yes { } No { } Please explain ....

14. a) Does your company regularly collect information about your competitors?

Yes { } No { }

b) If yes, what kind of information and how do you gather it? ....

c) Who is in charge of this activity and why? ....

d) Do you identify companies that try to compete with you and either succeed or fail? Yes { } No { } Please explain and describe the

Competition your company faces...

e) Who are your major competitor(s)? Why do you consider them your Competitors? ....

f) Which of the following does your company consider to be important in competition?

	Important	Unimportant
The goals of your competitors	---	---
Possible new entrants	---	---
Current strategies used by your competitors	---	---
The financial strength of your competitors	---	---
Competitors' marketing practices	---	---
Competitors' physical and human resources	---	---
Special treatment by the government	---	---
Access to government bodies	---	---
Organization's internal resources	---	---

g) Please indicate how important the following aspects of the sector are important to your Company.

	Important	Unimportant
Handling customer complaints	---	---
Winning customer loyalty	---	---
Suppliers of your goods and services	---	---
Governmental regulatory influences	---	---
Growth rate of the sector	---	---
Exit/Entry of companies into/out of the sector	---	---

New strategic focus in the sector	---	---
Clearly defining your markets	---	---
Setting objectives for the defined markets	---	---

14. a) Do you make assessment of all your resources?

Yes { } No { } Please explain.................................

b) Do you feel that you do better than your competitors? If yes, why? ....

c) What do you consider as your main strengths and weaknesses, if any (please rank them starting with the most important to the least important).

Strengths

1. ....

2. ....

3. ....

4. ....

5. ....

Weaknesses

1. ....

2. ....

3. ....

4. ....

5. ....

B. Marketing

a) Name of Head of Department (Optional)...

b) Does your Department offer line or staff functions?..

c) Is your Department involved in strategic formulation?......................................

d) If your answer to (c) above is yes, please state the frequency?...........................

e) Is your strategy formulation reactive or proactive?.........Please explain..

f) What does strategy formulation process involve and what are its key inputs?...

g) Please state and explain the major functions of the department............................

h) Please state and explain the major marketing strategies that relate to

- Subscriber growth...
- Market share..
- Value added services...
- Brands communication, advertising and public relations...................................
- Royalty programmes..
- Community and public relation initiatives...
- Competition...

i) For each of the following below please tick the appropriate one

	Yes	No
Competition is dominated by few	-----	-----
The market leader determines pricing	-----	-----
Unfair competition is rampant*	-----	-----
Reaction to our market moves is quick	-----	-----

*Briefly state what practices you find unfair...

j) Indicate below which methods your company has employed over the past three years to stay competitive?

	Yes	No
Increasing the networks	-----	-----
Pricing below the competition	-----	-----
Building a strong company name	-----	-----
Concentrating on the core business	-----	-----
Introducing new products/services	-----	-----
Modernizing the company facilities	-----	-----
Entering into joint ventures	-----	-----
Integration	-----	-----

Other ....

k) Does your role include market share acquisition? If yes, please explain how this is being done...

l) Is your department involved in demand creation? If yes, please explain the strategic options in this regard...

m) How do you view intensity of competition: High ( ), Low ( ). Please either either of these in regard to your perceived market share leadership...............................

n) What role does your department play in satisfying your company stakeholders? Please explain...

o) Does technology affect your departmental operational efficiency? If yes, please explain how this has impacted on overall company competitive position in the market...

C. Sales

a) Name of Head of Department (Optional)……………………………………………

b) Does your Department offer line or staff functions?………………………………..

c) Is your Department involved in strategic formulation?……………………………..

d) If your answer to (c) above is yes, please state the frequency?…………………….

e) Is your strategy formulation reactive or proactive?……….Please

explain…………………………………………………………………………………

f) What does strategy formulation process involve and what are its key

inputs?…………………………………………………………………………………

g) Please state and explain the major functions of the department………………………

h) Please state the sales strategies your company employs………………………………

i) Do you find the sales strategies effective? Yes ( ) No ( ). Please explain…………..

j) Does your department focus on market share acquisition? If yes, please explain how

this is being done…………………………………………………………………………

k) Is your department involved in demand creation? If yes, please explain what strategic

option you have employed in this regard…………………………………………………

l) How do you view intensity of competition: High ( ), Low ( ). Please explain how

either of these affects your company competitiveness in terms of market share

leadership………………………………………………………………………………

m) Does technology affect your operational efficiency and how does this affect overall

company effectiveness? Please explain………………………………………………

n) What role does your department play in satisfying company stakeholders? If yes,

please explain how in relation to company competitiveness?……………………

o) Please state how the following aspects relate to your company (tick where appropriate)

	Yes	No
Most sales through company outlets	----	----
Most sales through agents	---	----
Discounts to customers are a big cost	----	----
We give superior profit margins	----	----
Customers cannot do without our products	----	----

D. Customer Management

a) Name of Head of Department (Optional)..

b) Does your Department offer line or staff functions?.......................................

c) Is your Department involved in strategic formulation?.....................................

d) If your answer to (c) above is yes, please state the frequency?............................

e) Is your strategy formulation reactive or proactive? Please explain.

f) What does strategy formulation process involve and what are its key inputs?..

g) Please state and explain the major functions of the department...........................

h) Please state and explain the customer care strategies your company employs..

i) Do you find such strategies effective? Please explain...

j) How do you rate them compared to your competitors?..

k) Does your department focus on market share acquisition? If yes, please explain the strategies you have employed in this regard...

l) Is your department involved in demand creation? If yes, please explain.................

m) How do you view intensity of competition? High( ), Low( ). Please explain this in relation to your company perceived market share leadership..........................

n) What role does your department play in satisfying company stakeholders and how does this enhance overall competitiveness of your company..................................

o) Does technology affect your contribution to overall company competitiveness? If yes, explain……………………………………………………………………………………

E. Supply Chain

a) Name of Head of Department (Optional)..

b) Does your Department offer line or staff functions?...

c) Is your Department involved in strategic formulation?......................................

d) If your answer to (c) above is yes, please state the frequency?.............................

e) Is your strategy formulation reactive or proactive?..........Please explain...

f) What does strategy formulation process involve and what are its key inputs?...

g) Please state and explain the major functions of the department............................

h) Please state and explain the purchasing strategies employed in your company..

i) Please explain how you rate them compared to those of competitors.....................

j) Please explain the logistics in your company...

k) How do you compare them with your competitors? ....

l) Please tick the appropriate one that relates to your company

	Yes	**No**
Our key suppliers cannot do without us	----	----
There are very few suppliers for key inputs	----	----
There are no substitutes for our key inputs	----	----
Key suppliers are larger than we are	----	----

m) Does technology affects your operational competitiveness? If yes, please explain?...

n) What role does your department play in satisfying company stakeholders and how do your role contribute to overall company competitiveness?......................

o) Is your department involved in demand creation? If yes, please explain

....

F. Information Technology

a) Name of Head of Department (Optional)..

b) Does your Department offer line or staff functions?......................................

c) Is your Department involved in strategic formulation?....................................

d) If your answer to (c) above is yes, please state the frequency?...........................

e) Is your strategy formulation reactive or proactive?..........Please

explain...

f) What does strategy formulation process involve and what are its key

inputs?...

g) Please state and explain the major functions of the

department...

h) Is information technology a major issue in your company? If yes, explain why?

....

i) Please state and explain the major functions of the Information Technology

department in your organization?

....

j) Do you think information technology introduce competition in your industry? If yes,

please explain the role it plays in enhancing competitive nature.

....

k) Please state and explain the key strategic **initiatives** in your consideration that may

provide competitive edge in view of the emerging

technologies...

F. Implementation

a) Name of Head of Department (Optional)…………………………………………

b) Does your Department offer line or staff functions?………………………………

c) Is your Department involved in strategic formulation?……………………………

d) If your answer to (c) above is yes, please state the frequency?…………………………

e) Is your strategy formulation reactive or proactive?……….Please

explain…………………………………………………………………………

f) What does strategy formulation process involve and what are its key

inputs?…………………………………………………………………………

g) Please state and explain the major functions of the

department…………………………………………………………………………

h) What has been your network rollout strategy and how successful have you been?

…………………………………………………………………………………………

i) Please explain the challenges that your department

faces…………………………………………………………………………………

j) What role doers your department play in satisfying company stakeholders and how

does this enhance overall company competitiveness?………………………………

k) Does your department focus on market share acquisition? If yes, what strategies have

you employed in this regard?………………………………………………………

l) Does technology affect your departmental operational efficiency? If yes, please

explain impact on company ……………………………………………………

G. Operations and Maintenance

a) Name of Head of Department (Optional)..

b) Does your Department offer line or staff functions?..

c) Is your Department involved in strategic formulation?....................................

d) If your answer to (c) above is yes, please state the frequency?...........................

e) Is your strategy formulation reactive or proactive?.........Please

explain...

f) What does strategy formulation process involve and what are its key

inputs?...

g) Please state and explain the major functions of the department:

....

h) What has been your network availability strategy and how successful have you been?

....

i) Please explain the challenges that your department faces............................

j) Does your department focus on acquisition of market share? If yes, please explain

what strategies you have employed in this regard......................................

k) What role does your department play is satisfying company stakeholders? Please

explain how such a role influence overall competitiveness of your

company...

l) Does technology affects your departmental operations? If yes, please explain how this

affects company competitiveness?...

H. Finance

a) Name of Head of Department (Optional)..

b) Does your Department offer line or staff functions?...

c) Is your Department involved in strategic formulation?...

d) If your answer to (c) above is yes, please state the frequency?...............................

e) Is your strategy formulation reactive or proactive?.........Please

explain..

f) What does strategy formulation process involve and what are its key

inputs?..

g) Please state and explain the major functions of the department...........................

h) What is your business-planning horizon?

i) Is you planning affected by environmental factors like technology, economic

performance and legislation? Please give details..

j) Do you formulate financial forecasting or strategic forecasting? Please

explain...

k) Does your department focus on market share acquisition? If yes, what strategies have

you employed in this regard? Please explain...

l) What role does your department play in satisfying company stakeholders? Please

explain how this helps in making the company competitive.............................

m) Does technology affect your operational efficiency? If yes, please explain how and

what strategies you have employed in this regard...

I. Engineering

a) Name of Head of Department (Optional)……………………………………………

b) Does your Department offer line or staff functions?……………………………………..

c) Is your Department involved in strategic formulation?……………………………………..

d) If your answer to (c) above is yes, please state the frequency?………………………………..

e) Is your strategy formulation reactive or proactive?……….Please

explain…………………………………………………………………………………………..

f) What does strategy formulation process involve and what are its key

inputs?…………………………………………………………………………………………

g) Please state and explain the major functions of the department………………………….

h) What has been your strategy to avoid technological obsolescence? …………………..

i) Please explain the challenges that your department faces……………………………...

j) Does your department focus on acquisition of market share? If yes, what strategies

have you employed to achieve this? Please explain…………………………………….

k) What role does you department play in relation to company stakeholders? Please

explain…………………………………………………………………………………………

l) Does technology affects your operations? If yes, please explain this in relation to

competition……………………………………………………………………………

J: Human Resources

a) Name of Head of Department (Optional)---

b) Does your Department offer line or staff functions? --------------------------------------

c) Is your Department involved in strategic formulation? -----------------------------------

d) If your answer to (c) above is yes, please state the frequency? --------------------------

e) Is your strategy formulation reactive or proactive?..........Please explain...

f) What does strategy formulation process involve and what are its key inputs?...

g) Please state and explain the major functions of the department.

....

h) What strategic initiatives have you put in place with regard to procurement and maintenance of staff that will enable your company beat competition and remain the a market leader..

i) Do you have strategic training program for both existing and potential staff/employees? Please explain: ....

j) What role does your department play in satisfying your company stakeholders?...

k) Does technology affect your departmental operations? Yes ( ) No ( ). Please explain...

l) State your company's staff turnover (%)..

m) How does your staff turnover rate compare with industrial average? Please explain...

n) Does the turnover rate affect line or staff functions? Please explain.......................

Kindly confirm that you have answered all the questions.

THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONAIRRE.