

**COMPETITIVE STRATEGIES EMPLOYED BY
THE SUGAR MANUFACTURING FIRMS IN
KENYA**

BY

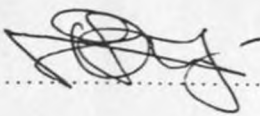
LOBADO, Z. OKOTH



A research project submitted in partial fulfillment of the requirements of the degree of Master of Business Administration, faculty of commerce, university of Nairobi.

DECLARATION

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

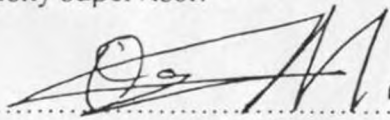
Signed 

Date 23/09/05

OBADO, Z. OKOTH

D61/7983/03

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

Signed 

Date 14/11/2005

DR. MARTIN OGUTU
Department of Business Administration
University of Nairobi

DEDICATION

To my wife Hellen for her understanding, support and encouragement.

My late parents Susana and Jeremiah for their vision.

The sugarcane farming fraternity in Sony zone for according me the opportunity to serve them at the Kenya Sugar Board.

ACKNOWLEDGEMENT

I am greatly indebted to my supervisor, Dr. Martin Ogutu for his patience in guiding me through this project. His wisdom and timely advice was a real source of inspiration.

I acknowledge the excellence and devotion of the entire staff of the MBA programme and pray that they will endeavor to keep the star rising and burning brighter. My former colleague at KSB, Dr. Owako, your encouragement and words of wisdom will forever endeavour in my heart

The invaluable support I received from my fellow MBA classmates should not go unmentioned. I cannot forget Adada, Machuki, Rasugu, Owino, Joan, Kitoto, Ann, Wangeci, just to mention but a few, for their concern and lively discussions. They really wanted all of us to succeed.

Lastly, I humbly thank God the almighty for making all these things possible and for the gift of life. In him I trust.

TABLE OF CONTENTS

	PAGE
Declaration.....	(ii)
Dedication.....	(iii)
Acknowledgements.....	(iv)
Acronyms.....	(viii)
Abstract	(ix)
List of tables.....	(xi)
 CHAPTER ONE: INTRODUCTION	
1.1 Background.....	2
1.2 The Sugar industry in Kenya.....	4
1.3 The Research problem	5
1.4 Objectives of the study.....	7
1.5 The scope of the study	7
1.6 Significance of the study	7
 CHAPTER TWO: LITERATURE REVIEW	
2.1 The concept of Strategy	8
2.2 Levels of Strategy	10
2.3 The Environment and its challenges	10
2.4 Competitive strategy.....	11

2.5 Porter's Genetic Competitive Strategies	14
2.6 Competitive Strategies and Challenges Facing Local Firms	20

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design	22
3.2 The Population.....	22
3.3 Data collection	22
3.4 Data Analysis	23

CHAPTER FOUR: RESEARCH RESULTS AND DATA ANALYSIS

4.1 Introduction	24
4.2 Firm Profiles	24
4.3 State of Competition	27
4.4 Strategy Formulation	28
4.5 Generic Competitive Strategies.....	29
4.6 Specific Firm's Strategies	32
4.7 Challenges and Constraints	33

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	36
5.2 Conclusion	37
5.3 Recommendation	37
5.4 Limitations.....	38

REFERENCES 39

APPENDICES.....42

Appendix 1: Letter to respondents

Appendix 2: Questionnaire

Appendix 3: List of firms

- PIA - Power Transmission
- WTU - Water Transport Corporation
- ECB - Council of Economic Experts
- Q&A - Department of Agriculture
- FCC - Kenya Power & Lighting Corporation
- BAFD - Bank Africa Development Fund
- USP - United Fruit & Vegetable Producers
- WFC - Industrial Finance and Development Corporation
- EUROA - Kenya Export Manufacturers Association
- VAC - Value Added Companies
- GCP - Greenhouse Production
- ABC - East Africa Agricultural
- AD - Agricultural Development
- EPHAF - Export Promotion Authority
- CCA - Council of Churches in Africa
- MAF - Ministry of Agriculture
- EDD - East African Development
- ETRA - East African Trade and Industry

ACRONYMS

- KSB- Kenya Sugar Board**
KRB- Kenya Roads Board
DRB- District Roads Board
TC/TS- Tonnes of Cane /Tonnes of Sugar
COMESA- Common Market for Eastern and Southern Africa
FTA- Free Trade Area
WTO- World Trade Organization
TCD- Tonnes of Cane per Day
GoK- Government of Kenya
KCFC- Kenya Credit Finance Corporation
EADB- East Africa Development Bank
IDB- Industrial Development Bank
ICDC- Industrial Credit and Development Corporation
KESMA- Kenya Sugar Manufacturer Association
VAT- Value Added Tax
GDP- Gross Domestic Product
EAC- East Africa Corporation
EU- European Union
KESREF – Kenya Sugar Research Foundation
MoA – Ministry of Agriculture
MoF – Ministry of Finance
KESGA – Kenya Sugarcane Growers Association
MT&I – Ministry of Trade and Industry

ABSTRACT

The major objectives of this study were to determine the competitive strategies employed by the sugar manufacturing firms in Kenya and to determine the challenges facing the attainment of these strategies. The turbulent environment in which businesses operate demand that the firms craft competitive strategies that are sustainable and assures them of their market position. Sugar manufacturing firms are faced with many challenges that must be urgently addressed. These challenges include low production capacities, poor technology, poor infrastructure, inadequate research, high input costs, indebtedness, lack of funding, and reliance on a single product.

Currently there are six (6) white Sugar-manufacturing firms in operation. These firms are Muhoroni Sugar Co. Ltd (in receivership), Chemelil Sugar Co. Ltd, Mumias Sugar Co. Ltd, Nzoia Sugar Co. Ltd, South Nyanza (SONY) Sugar Co. Ltd and west Kenya Sugar Co. Ltd. All these six firms formed the population of the study. Data for this study was obtained through personal interviews with the chief executive officers using a questionnaire comprising both open –ended and closed questions.

The findings of this study show that the sugar manufacturing firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the most widely practiced amongst the firms. Differentiation strategy mainly revolve around customers service, distribution networks, and branding. Focus strategy is also in use, though quantities sold to target customers are relatively low.

The study was limited only to the white sugar manufacturing firms currently in operation. Other institutions which have profound influence and effects such on the sugar industry like KESREF, KSB, MoA, MoF, MT&I, KESMA and KESGA were not given the attention they deserve. The study focused on the competitive strategies only while firms can also use other strategies such as cooperative strategies to improve their economic performance.

The study concludes that the sugar industry in Kenya needs serious and urgent reforms to address the highlighted challenges so as to favourably compete both regionally and globally and that further studies should not be limited to the Kenya sugar firms only but should cover other Sugar manufacturing firms in the COMESA region.

LIST OF TABLES

	Page
Table 1 a: Age and capacity of firms.....	26
1 b: Ownership structure and sugar recoveries %.....	26
1 c: Current number of employees.....	27
Table 2: The state of competition.....	27
Table 3: Ways of improving sales.....	30

CHAPTER ONE

INTRODUCTION

1.1 Background

Businesses all over the world are faced with the challenges posed by the ever changing and turbulent environment. The rate, direction and magnitude of this change must therefore be the concern of every top executive entrusted with the running of any firm. Open systems theory gives wider and clearer explanations as to why businesses must be environmentally sensitive for their growth and survival. The business-world is never static. Brown and Eisenhardt (1998 pp1) quote Michael Dell of Dell Computer Corporation as having observed that "the only constant in our business is that everything is changing. We have to take advantage of change and not let it take advantage of us. We have to be ahead of the game".

Being ahead of the game requires that firms employ competitive strategies that are sustainable and assures them of their market position. A firm without a superior strategy is like a lorry without an engine, and the mere existence of strategies *per se* is not a guarantee for success. Institutionalizing those strategies, allocation of adequate resources, visionary leadership, and good corporate culture, amongst others, are necessary ingredients for successful business strategies. We must also not be blinded that once a particular strategy has been chosen then it will work forever. The dynamic and turbulent nature of the environment demands that every move of the competitors is watched and high level of preparedness put foreword for possible eventualities. This is the essence of environment analysis, the process by which strategists monitor the environmental sectors to determine opportunities and threats to their firms (Jauch and Glueck, 1998).

To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide (Wheelen and Hunger, 1995).

The speed or response time to the environmental challenges has been identified (Pearce and Robinson, 1997) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It is thus imperative to quickly adjust and reformulate strategies so as not to be overtaken by events.

Phil Knight (CEO, Nike) in Brown and Eisenhardt (1998 pp 25) says, "I cannot say that we had a really smart strategy going forward. We had a strategy and when it didn't work, we went back and regrouped until finally we hit on something".

Business managers should evaluate and choose strategies that they think will make their business successful. Businesses become successful when they possess some advantage relative to their competitors (Pearce and Robinson, 1997). The core of success or failure of a business rests in the level of competition. It is competition that defines the appropriateness of a firm's activities that can contribute to its performance, such as innovation, a cohesive culture or good implementation.

Competitive strategy is the search for a favorable competitive position in the industry and aims at establishing a profitable and sustainable position against forces that determines industry competition. The three generic strategies are cost leadership, differentiation and focus (Porter, 1998).

The sugar industry is faced with a myriad of problems right from the world market where the playing field is not level for both net exporters and consumers to the domestic arena where we have weak institutions, poor policy, poor research and development, poor technology, narrow product base and suffer under high input costs. Virtually all major sugar producing countries have policies that protect their industries from competition by providing direct and indirect support in form of production and export subsidies, export credits, production quotas, use of state trading enterprises, import quality restrictions and high import tariffs. World sugar prices therefore bear little relation to the cost of production in most countries (KSB, 2004).

1.2 The sugar industry in Kenya

Historically, the Kenyan sugar industry is almost a century old now. The first white sugar mills were established at Miwani in Nyanza province and Ramisi in coast province in the years 1922 and 1927 respectively. Five additional sugar firms were later established by the government as follows: Muhoroni Sugar Company Limited (1966), Chemilil Sugar Company Limited (1968), Mumias Sugar Company Limited (1973), Nzoia Sugar Company (1978), and South Nyanza (Sony) Sugar Company Limited in 1979). West Kenya Sugar Company Limited (a private enterprise) came into being in 1981.

The initial objectives of the government in creating these ventures were to: attain self-sufficiency in sugar and sugar products, create employment, check on rural-urban migration, improve the socio-economic welfare of the rural community, and save on foreign exchange through import substitution.

To co-ordinate the efforts of the various players towards an efficient and effective sugar industry in Kenya, the government established the Kenya sugar Authority (KSA) under an order of the Agriculture Act Cap 318 through legal notice number 32 of 17th March 1973 and to give the sector more autonomy, the Kenya Sugar Board (KSB) was established in 2001 through an act of parliament, the sugar act, 2001. The board is mandated to: - regulate, develop, and promote the sugar industry; co-ordinate the activities of individuals and organization within the industry; and to facilitate equitable access to the benefits and resources of the industry by all interested parties, among other functions.

Sugar is the second largest contributor to the Agricultural sector GDP after Tea. It is a source of livelihood to some 6 million Kenyans (approximately 20% of the population). But the performance of the industry has not been at its best. The industry has relied much on protection applied by the government through both quantitative and tariff barriers.

The Kenyan sugar industry is considered a high cost producer unlike other regional producers like Malawi, Sudan and Egypt and leading world producers like Brazil and Australia. Cases of mismanagement, rampant corruption and political patronage have also been reported in the mass media about the industry. Urgent reforms are therefore required in the domestic industry to enable the country compete favourably both regionally and globally (KSB, Sugar Industry Strategic Plan, 2004)

Kenya is a signatory to the COMESA FTA and is thus bound by the provisions of the FTA protocol that allow duty and quota-free access of sugar from the COMESA FTA countries into the country. The COMESA moratorium expires by February, 2008 and the EAC protocols are soon becoming operational (Ministry of trade and industry, 2004).

There are also moves by the government to divest her interests in poorly performing state corporations and the sugar firms will not be exceptions. Mumias Sugar Company limited is already privatized. Sony and Chemelil sugar companies limited have already been earmarked for privatization.

Firms in the industry must therefore adjust themselves to these challenges and craft competitive strategies that will ensure their survival and profitability.

A firms strategy for achieving its objectives consists of those actions and approaches already taking place and anticipated to continue together with any new strategic actions about to be decided (Ellies & Williams, 1993).

1.3 The Research Problem

Sugar is a product that is consumed in its various forms by almost every household in Kenya. Sugar is used in the beverage industry, the pharmaceutical industry, the confectionary industry, and the distilling industry, just to mention but a few. There are other strategic uses of sugar which have not been fully explored in Kenya. But moves toward a wider product base are currently being considered.

Arising from the complexities and diversity of usage involved, there is need to strategically formulate and institute competitive measures that will ensure survival, growth and profitability for the sugar industry in Kenya. It is appreciated that competitive strategies in other sectors of the economy have been extensively studied (e.g. Ndubai 2003, Karanja 2002, Murage 2001, Abdullah 2000 and Kangoro 1998).

But most of these studies tended to have concentrated on the services sector more than the manufacturing and extraction sectors. Ndubai (2003) for example, researched on the “competitive strategies applied by the retail sector of the pharmaceutical industry in Kenya.” He found out that sector specific competitive strategies exist; and that they are formulated in an informal manner.

Findings from the previous studies can therefore not be generalized to fairly represent the other sectors that have not been studied. The uniqueness of each sector may necessitate a separate study.

Competitive strategies in the sugar industry have not been studied much and the only study the researcher came across was by Okunyanyi (1999). He looked at the reasons why sugar firms are failing to compete effectively within the liberalized trading environment in Kenya: - The case of Government-owned sugar firms. This study was not limited to the reasons for failure, but looked at the specific competitive strategies themselves. Substantially, the study differs from Okunyanyi’s in so far as ownership is concerned. The study considered both Government and privately owned white sugar mills as well as the jaggeries. It (the study) recognizes sugar production as a process that begins at the farm level and the symbiotic relationship between the farmer and the miller unlike the previous studies that were fixed at one point only. Timing element was of essence given that the industry was under the COMESA safe-guard measures that would expire by the year 2008.

In conclusion therefore, more research is needed in this sector which had hitherto, been given little attention. Its unique characteristics and challenges need to be highlighted in light of the environmental turbulence arising from liberalization. Hence the need to know the “competitive strategies employed by the sugar firms in Kenya” and “the challenges facing the attainment of these strategies”.

1.4 Objectives of the study

The objectives of the study were:

- i. To establish the competitive strategies employed by the sugar manufacturing firms in Kenya, and
- ii. To determine the challenges facing the application of these strategies.

1.5 The scope of the study.

The scope of the study was limited to identifying the competitive strategies applied by the six Kenyan sugar firms currently in operation and the challenges facing the application of these strategies. On a wider scope the same study could be extended to establishing the competitive strategies adopted by the jaggeries operating in Kenya.

1.6 Significance of the Study

The sugar industry is a source of livelihood to some 6 Million people (KSB, 2004). The study will therefore be of immense benefit to a significant proportion (about 20%) of the Kenyan National population. The study will be of benefit to the government in her planning and poverty eradication efforts.

Other strategic constituents that will find the study to be of value are: the private investors (those who would like to set up new ventures as well as those waiting for the government to privatize the state owned mills), the farmers, service providers, and consumers of sugar and sugar by-products. In the academic field, more insight will be gained in the industry, resulting in stimuli for more studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 The concept of strategy

The concept of strategy is believed to have originated from the ancient Greeks and that the word strategy comes from the Greek 'stratego', meaning to plan the destruction of ones enemies through the effective use of resources (Bracker, 1980 in Burnes, B. 1999)

Dent (1990) in Ellis and Williams (1993) also notes that the term strategy comes from the Greek 'strategos', meaning the *general* and suggests that organizational strategy relates to a "grand design", something of significance to the overall pattern of an organization's activities. This definition suggests that organizational strategies in their broadest sense provide a guide or sense of direction to the organization.

Ansoff, one of the pioneers of Business strategy quotes some unknown author as saying: "strategy is when you are out ammunition, but keeps right on firing so that the enemy won't know". This supports the literature that the concept was purely developed for the successful pursuit of victory in war and that the concept remained a military one until the nineteenth century when it began to be applied to the business world.

Chandler (1962) views the emergence of strategy in civilian organizational life to have resulted from an awareness of opportunities and needs- created by changing population, income and technology - to employ existing or expanding resources more profitably.

Strategy is a set of decision-making rules for guidance of organizational behavior (Ansoff and Mc Donnel, 1990). The implication of this view is that an organization is supposed to interact with the environment according to some predetermined pattern.

Strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization (Jauch and Gluech, 1998).

Johnson and Scholes (2002), view 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 and to fulfill stakeholders expectations.

According to Havel and Prahalad, (1989), the essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today, while Hax and Majluf (1991) view strategy as a fundamental framework through which an organization can assert its vital continuity, while at the same time, forcibly facilitating its adoption to changing environment. The essence of strategy thus becomes the purposeful management of change in every business in which the firm is engaged.

Various perceptions (of strategy) exist but writers have not come up with an agreed, all embracing definition of strategy and indeed one of the pioneers of business strategy (Ansoff, 1987) warned that strategy is an elusive and somewhat abstract concept that is still developing. Mitzberg et al(1988) support this view by proposing five interrelated definitions of strategy as follows:

They propose that strategy may be viewed as a *plan*; some consciously intended course of action which is created ahead of events, or as a *ploy*; a maneuver to outwit an opponent. It may also be viewed as a *pattern*; which means the consistent action of an organization over time after an event.

When strategy is used for achieving or maintaining competitive advantage in the market place that cannot be challenged by competitors, then it may be viewed as a *position*. Alternatively, strategy may be seen as a *perspective*; a somewhat abstract concept that exist primarily in people's mind.

The views of Johnson and Scholes (2002) seem to have captured the important facets about strategy. They opine that strategy is concerned with the long-term direction of an organization and that it involves the matching of resources and activities of an organization to the environment in which it operates. The latter is sometimes referred to as a *strategic fit*; a process of developing strategy by identifying opportunities in the business environment and adapting resources and competences to create opportunities or to capitalize on them. Besides posing options for major resource changes, the strategy of an organization is affected not only by the environmental forces and resources availability, but also by the environmental expectations of those who have power in and around the organization.

2.2 Levels of Strategy.

The decision-making hierarchy of a firm typically contains three levels (Pearce and Robinson, 1997). We have corporate, business and operational level strategies. Corporate level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization while business level strategy is about how to compete successfully in particular market. Operational level strategy is concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people.

2.3 Environment and its challenges

All organizations are open systems that influence and are influenced by environmental variables that are so turbulent and dynamic that their predictability poses the greatest challenge to businesses.

According to Pearce and Robinson (1997), a host of external factors influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. These factors which constitute the external environment can be divided into three interrelated subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment.

The remote environment

The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation (e.g. economic, social, political, technological, and ecological factors). The environment presents firms with opportunities, threats, and constraints but rarely does a single firm exert any meaningful reciprocal influence. But it is the industry environment that provides the bases for competition.

The operating environment

The operating environment, also called the competitive or task environment, comprises factors in the competitive situation that affects a firm's success in acquiring needed resources or in profitability, marketing its goods and services. Among the most important of these factors are the firm's competitive position, the composition of its customers, its reputation amongst suppliers and creditors and its ability to attract capable employees.

2.4 Competitive strategy

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of the strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff, 1985).

There are many roots to competitive advantage, but the most basic is to provide buyers with what they perceive to be of superior value – a good product at a low price, a superior product that is worth paying more for, or a best –value offering that represents an attractive combination of prices, features, quality, service, and other attributes buyers find attractive. (Thompson and Strickland, 2003)

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, a cohesive culture or good implementation.

Competitive strategy is thus the search for a favourable competitive position in an industry; the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter 1998).

Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry. There are two major types of competitive business strategies: cost leadership and product differentiation (Porter, 1980). Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Competitive business strategies are important strategic alternatives for many firms, but they are not the only business strategic alternatives (Barney, 1997)

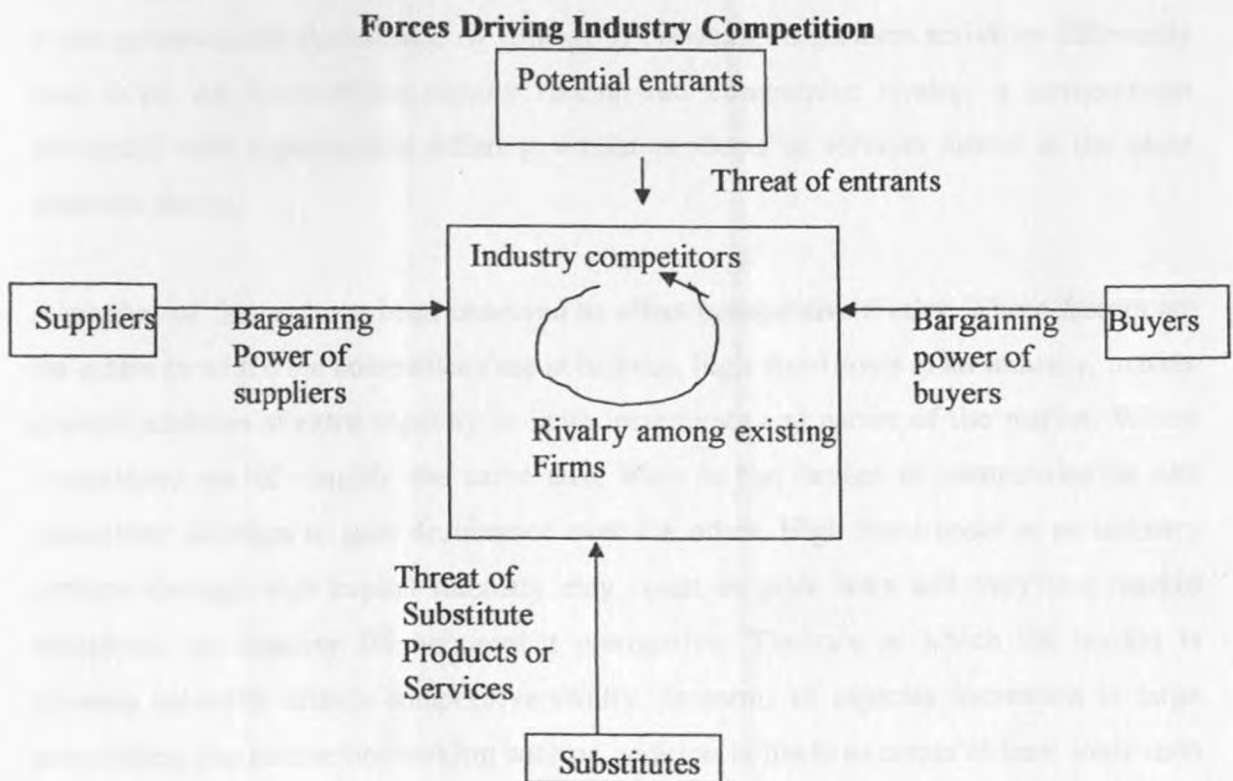
Competitive strategies should lead to competitive dominance, which in the words of Tang and Bauer (1995), is about sustained leadership and levels of undisputed excellence. They (Tang & Bauer) contend that competitive dominance is an attitude that begins with the realization that leadership position is no guarantee for long-term success, especially in the global market place. It begins with a strong conviction that leadership is temporary and a belief that smart and competent competitors are always fully prepared to dislodge the leader or to displace the incumbent.

Competitive dominance seeks to position the firm for future opportunities through quality initiatives and offerings that delight customers. It seeks to align, integrate and synchronize strategy and quality to achieve future leadership and to be able to sustain it.

The core of a company's competitive strategy consists of its internal initiatives to deliver superior value to customers. But it also includes offensive and defensive moves to counter the maneuvering of rivals, actions to shift resources around to improve the firms long-term competitive capabilities and market position and tactical efforts to respond to whatever market conditions prevail at the moment (Thompson & Strickland 2003).

Competition in an industry continually works to drive the rate of return on invested capital towards the competitive floor of return, on the return that would be earned by the economist's perfectly competitive industry. Competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors. The state of competition in an industry depends on five basic competitive forces. The five forces driving competition in an industry are the threat of new entrants, the bargaining power of buyers, bargaining power of suppliers, the threat of substitute products or services and rivalry among existing firms (Porter, 1998).

The diagram below is an illustration of the five forces framework.



Source: Porter M.E. (1998). *Competitive strategy*. The free Press, pp 4.

The five forces framework is useful only at the strategic business unit and must not be used as a snapshot in time. They must not only be described but must also be countered and overcome. Discontinuities in the environment normally affect these forces and the competitive behaviour may be very disruptive to these forces. Further, the five forces are not independent of each other. It is common for pressure from one direction to trigger off changes in another in a dynamic process of shifting some of the competition (Johnson and Scholes, 2002)

2.5 Porter's Generic Competitive Strategies

According to Porter, a company can outperform rivals only if it can establish a difference it can preserve; and the essence of strategy is choosing to perform activities differently than rivals do. Competition usually results into competitive rivalry; a phenomenon associated with organizations offering similar products or services aimed at the same customer group.

A number of factors have been observed to affect competitive rivalry. These factors are the extent to which the competitors are in balance, high fixed costs in an industry, market growth, addition of extra capacity in large increments and nature of the market. Where competitors are of roughly the same size, there is the danger of competition as one competitor attempts to gain dominance over the other. High fixed costs in an industry perhaps through high capital intensity may result in price wars and very low margin operations, as capacity fill becomes a prerogative. The rate at which the market is growing naturally affects competitive rivalry. In terms of capacity increment in large proportions, the competitor making such an addition is likely to create at least short-term overcapacity and increased competition, and in a commodity market where products or services are undifferentiated, there is little to stop customers switching between competitors. Thus differentiation is important (Johnson and Scholes 2002)

In coping with the five competitive forces there are three potential successful generic strategic approaches to outperforming firms in an industry: these are; overall cost leadership, Differentiation, and Focus. Sometimes a firm can successfully pursue more than one approach as its primary target.

Overall cost leadership

A firm that chooses a cost leadership strategy focuses on gaining advantages by reducing its economic costs below the cost of all its competitors. There is little doubt that cost differences can exist among firms, even when those firms are manufacturing very similar products. Policy choices about the kinds of products that firms in an industry choose to produce can also create important cost differences (Barney, 1997). Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development, service, sales force, advertising and so on. Having a low –cost position yields the firm above average returns in its industry despite the presence of strong competitive forces.

According to Pearce & Robinson (1997), strategists examining their businesses value chain for low-cost leadership advantages evaluate the sustainability of those advantages by benchmarking their business against key competitors and by considering the impact of any cost advantage on the five forces in their business environment. Through the skills and resources available in a firm, it (firm) must be able to accomplish one or more activities in its value chain activities such as procuring materials, processing them into products, marketing the products, and distributing the products or support activities, in a more cost-effective manner than that of competitors, or it must be able to reconfigure its value chain so as to achieve a cost advantage. Low cost activities that are sustainable and that provide one or more of these advantages relative to key industry forces should become the basis for the business competitive strategy. The requisite low – cost advantages should be capable of reducing the likelihood of pricing pressures from buyers, lessening the attractiveness of substitute products and push rivals into other areas thereby lessening price competition.

A cost leadership strategy can sometimes revolutionize an industry in which the historical bases of competition have been otherwise and competitors are ill prepared either perpetually or economically to take the steps necessary for cost minimization (porter 1998).

Differentiation

Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Product differentiation is always a matter of customer perception, but firms can take a variety of actions to influence these perceptions (Barney, 1997).

Differentiating the product or service offering of the firm is thus the act of creating something that is perceived industry-wide as being unique (Porter 1998). Approaches to differentiating can take many forms: design or brand image, technology, features, customer service, dealer network or other dimensions.

Differentiation if achieved is a viable strategy for earning above average returns in an industry because it creates a defensible position for coping with the five competitive forces *albeit* in a different way than cost leadership. Differentiation usually arises from one or more activities in the value chain that creates a unique value important to buyers (Pearce and Robinson, 2002).

Strategists examining their business value chain for differentiation advantages evaluate the sustainability of those advantages by benchmarking against key competitors and by considering the impact of any differentiation advantage on the five forces in their business competitive environment. Sustainable activities that offer one or more opportunities where rivalry is reduced when a business successfully differentiates itself or buyers are less sensitive to prices for effective differentiated products or brand loyalty is hard for new entrants to overcome, should become the basis for differentiation aspects of the business competitive strategy.

Thompson & Strickland (2003) argue that differentiation strategies tend to work best in market circumstance where there are many ways to differentiate the product or service and many buyers perceive the differences as having value. Buyers' needs and uses should be diverse and few rival firms should be following a similar differentiation approach. When the technological change and product innovation are fast paced and competition revolves around rapidly evolving product features, then differentiation strategies also work best.

Firms can differentiate their products by altering or modifying the product features, linking different functions within the firm, introducing the product at the right time, exploiting locational advantages, mixing products, linking with other firms and reputation (Porter, 1980).

Focus

Porter's final generic strategy is focus. Focusing on a particular buyer group, segment of the product line, or geographic market; as with differentiation may take many forms. Porter states further that although the low cost and differentiation strategies are aimed at achieving their objectives industry-wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind.

The strategy rests on the premises that a firm is thus able to serve its narrow strategic target more effectively or sufficiently than competitors who are competing more broadly. As a result the firm achieves either differentiation from better meeting the needs of the particular target or lower cost in serving this target or both.

The firm achieving focus may also potentially earn above-average returns for its industry. Its focus means that the firm either has a lower cost position with its strategic target, high differentiation or both.

The difference among the three generic strategies is illustrated here below.

Strategic advantage. UNIVERSITY OF NAIROBI
DOWEN KABETE I IRPA

Uniqueness
perceived by
the customer

Low cost position

Strategic target	Industry wide	Differentiation	Overall cost leadership
	Particular Segment only	FOCUS	

Source: Porter M.E (1998): Competitive strategy. The Free Press pp 39

Thompson & Strickland (2003) argue that a focus strategy based on either low cost or differentiation becomes increasingly attractive as more of the following conditions are met.

First, the target market niche is big enough to be profitable and offer good growth potential and industry leaders do not see that having a presence in the niche is crucial to their own success, a condition that reduces rivalry from competitors.

Secondly, it is costly or difficult to multi-segment competitors to put capabilities in place to meet the specialized needs of the target niche, and at the same time satisfy the expectation of their main stream customers.

Third, the industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource strengths and capabilities, and few, if any other rivals are attempting to specialize in the same target segment – a condition that reduces the risk of segment overcrowding.

Lastly, the focuser can compete effectively against challengers based on capabilities and resources it has to serve the target niche and the customer goodwill it may have build up. A firm that is not pursuing any particular strategy but it choosing between various aspects of the different strategies is said to be 'stuck' in the middle.

The challenges in competitive strategies.

No single competitive strategy is guaranteed to achieve success (Hunger and Wheelen, 1995) and the following risks associated with each Generic competitive strategy have been identified.

Risk of Leadership	Risk of Differentiation	Risk of Focus
<p>Cost leadership is not sustained.</p> <ul style="list-style-type: none"> • Competitors imitate • Technology changes • Other bases for cost leadership erode 	<p>Differentiation is not sustained</p> <ul style="list-style-type: none"> • Competitors imitate • Bases for differentiation become less important to the buyers. 	<p>The focus strategy is limited. The target market becomes structurally unattractive.</p> <ul style="list-style-type: none"> • Structure erode • Demand disappears
<p>Proximity in differentiation is lost</p>	<p>Cost proximity is lost.</p>	<p>Broadly targeted competitors overwhelm the segments:</p> <ul style="list-style-type: none"> • The segments differences from other segments narrow the advantages of a broad line increase.
<p>Cost focusers achieve even lower cost in segments.</p>	<p>Differentiation focusers achieve even greater differentiation in segments.</p>	<p>New focusers sub-segment the industry.</p>

Source: Hunger, J.D and Wheelen, T.L (1995) Strategic Management. 5^h Edition Addison-Wesley Publishing, New York, USA pp 189.

2.6 Competitive strategies and challenges facing local firms

Various studies have been done to determine the competitive strategies and challenges facing the Kenyan firms. But these studies have not been conclusive enough to warrant a generalization.

A brief highlight of some of these studies are hereby given to confirm that competitive strategies are unique and highly sensitive to environmental circumstances.

Kandie (2001) unpublished MBA research paper on the strategic responses by Telkom Kenya Limited (TKL) in a competitive environment found out that the challenges facing TKL were: Lack of finance, technology change, overstaffing and staff turnover, bureaucratic processes and procedures, poor attitudes and culture, and poor pension. On the strategic responses to cope with the competitive environment, it was noted that TKL response to the identified challenges have not been significant due to the unavailability of capital, caused by government freeze on credit pending the conclusion of the sale of the company and lack of managerial autonomy to make strategic decisions.

The study concludes that although the onset of liberalization has forced TKL to respond to the challenges emanating from its new environment, financial constraints and lack of managerial empowerment has considerably limited the company's capacity to respond.

Nyokabi (2001) unpublished MBA project paper on the "competitive strategies adopted by members of the Kenya independent petroleum dealers association (KIPEDA) found out that all the respondents of petroleum retail outlets owned by members of the KIPEDA have similarities among them in terms of attributes such as target customer groups, product, and service offerings, competitive strategies used, and competitive challenges experienced; an indication that they belong to the same strategic group; which is a group formed by firms that pursue a similar range of competitive strategies in response to the particular industry conditions facing them.

The study identifies the competitive challenges by the respondents as low customer confidence, negative publicity, stiff competition from established outlets, insufficient funds for advertising, having few outlets, increasing overhead costs, fluctuating petroleum prices and low sales. Overall the competitive strategies most utilized were identified as looking for reliable suppliers, using suppliers who deliver fast and serving all customers.

Karanja (2002) unpublished MBA project on “competitive strategies of real estate firms; The perspective of porter’s generic model,” found that the most popular type of competitive strategy employed by realtors was on the basis of differentiation. The service nature of the real estate industry leads to competition mainly based on giving a unique and distinct service over what other are providing.

The study further found out that the scope of operation used to gain competitive advantage that was most popular was a narrow focus. Rising level of inflation and interest rates which could be related to the level of income available for investment were identified as major challenges.

Those studies point out that the local firms apply competitive strategies and experience challenges which are unique and sector specific hence can not be generalized.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

To gain an in-depth understanding of the competitive strategies applied by the sugar firms in Kenya and the challenges facing the application of these strategies, a census was carried out in all the operating white sugar firms.

3.2 The Population

All the six white sugar manufacturing firms in operation as at July 2005 constituted the population of the study. All these firms are located in western part (Nyanza and Western provinces) of the country. These firms are SONY Sugar Company Limited, Muhoroni Sugar Company Limited, Chemelil Sugar Company Limited, Mumias Sugar Company Limited, Nzoia Sugar Company Limited and West Kenya Sugar Company Limited.

3.3 Data Collection

Primary data was collected through the use of semi-structured questionnaires administered on the chief executive officers to record responses relating to various variables on the sugar industry. The questionnaire was divided into several sub-heading. The first sub-heading was for gathering data about the general background of the firms. The second sub-heading looked at aspects of strategy formulation. The subsequent sub-headings looked at the competitive strategies themselves and the challenges facing the attainment of these strategies. The in-depth personal interviews were to allow the respondents to reveal the competitive strategies they apply, some of which may be unique to them.

3.4 Data Analysis

Before analysis commenced, the questionnaire was checked for completeness, entries checked for consistency and coding done. The data collected was both qualitative and quantitative and to be objective, systematic and free from any selective perception that could dilute reliability and validity, content analysis as well as descriptive statistics were used to analyze the data.

CHAPTER FOUR

RESEARCH RESULTS AND DATA ANALYSIS

4.1 Introduction

This chapter gives a description of the sugar firms (in Kenya) in terms of their age, size, number of employees, crushing capacity, and TC/TS ratio. It also highlights the ownership structure of the firms and the mode of strategy formulation.

The power and influence of various stakeholders are looked into and the level of competition in the industry analyzed. Locational advantages and disadvantages are considered as well as the strategies applied by the manufacturing sugar firms and the challenges facing the applications of those strategies.

4.2 Firm Profiles

4.2.1. Muhoroni Sugar Company Limited (situated in Nyando Sugar Belt of Nyanza province)

This factory was established in 1966 with a crushing capacity of 800 TCD.

The factory has undergone through three stages of expansion (from 800 TCD – 1200 TCD – 1800 TCD – 2400 TCD). The proposed expansion aims at reaching 3000 TCD.

The sugar recoveries rate currently average 8%. The ownership structure is as follows: GoK 82.78%, Uketa (Mehta group) 16.86%, 16 private and smallholders 0.36%.

4.2.2 Chemelil Sugar Company Limited (Situated in Nyando Sugar Belt of Nyanza Province).

This factory was commissioned in 1968 with a crushing capacity of 800 TCD. The current TCD is 3300 and there is a proposal to expand to 4200 TCD. Average sugar recoveries are 9%.

The ownership structure is as follows: GOK 97.11%, grindlays finance corporation 1.73%, Kenya shell limited 1.16%.

4.2.3 Mumias Sugar Company Limited. (Situated in Western Province).

This factory was established in 1973 with a crushing capacity of 1250 TCD. The current capacity is 8000 TCD. It is the only factory that is currently using the diffuser technology. This technology enables the factory to achieve sugar recoveries of 11%.

The ownership structure is as follows: G.O.K 38.04%, public 29.13%, CDC, 14.54%, KCFC 5%, Booker Tate 5%, EADB 2.65%, Kanouti Trustees 4.47%, Paul Wanderi Ndungu 0.26%, Phoenix E.A. 0.2%, Lions of Kenya 0.2%, Barclays of Kenya 0.19%.

4.2.4 Nzoia Sugar Company Limited (Situated in Western Province).

This factory was commissioned in 1978 with a crushing capacity of 2000 TCD. The capacity has since been expanded to 3300 TCD and the proposed expansion is 7000 TCD. The average sugar recovery for the factory is 9.5%.

The ownership structure is as follows: G.O.K. – 98.87%, IDB 0.94%, Fives Cail Babcock 0.19%.

4.2.5 South Nyanza (Sony) Sugar Company Limited (Situated in Nyanza Province)

This factory was established in 1979 with a crushing capacity of 2200 TCD. The current capacity is 3400 TCD and there is a proposal to expand to 8000 TCD. The sugar recoveries are 9.76%.

The ownership structure is as follows: GOK 98.8%, ICDC 0.7%, IDB 0.3%, Mehta group 0.2%.

4.2.6 West Kenya Sugar Company Limited (Situated In Western Province)

This factory is a private entity that started as a jaggery and was upgraded in 1981 to start processing white sugar. The initial capacity was 250 TCD but now it is 1320 TCD. The factory plans to expand to 2500 TCD. The factory employs both vacuum and open pan sulphitation technologies and attains recoveries of 8%.

4.2.7 Summary of firm profiles

At inception, most of the sugar manufacturing firms had a TC/TS of over 15 but now the average for the industry is a TC/TS of 10. The number of employees has nearly trebled for each factory from the time of commissioning to the present number. But a significant proportion of these employees are on short-term hire and their number keeps on fluctuating depending on the task at hand. The processing capacities have also gone up quite a lot and there are prospects for further expansion. All the sugar firms indicated that they do not have branches elsewhere.

Table 1 a: Age and capacity of firms.

Firm	Year established	TCD at inception	Current TCD	Proposed TCD
Muhoroni	1966	800	2400	3000
Chemilil	1968	800	3300	4200
Mumias	1973	1250	8000	10000
Nzioia	1978	2000	3300	7000
South Nyanza (Sony)	1979	2200	3400	8000
West Kenya	1981	250	1320	2500

Source: Research data.

Table 1 b: Ownership structure and sugar recoveries %

Firm	GoK	Public	Financial institutions	Private	Sugar recoveries(TC/TS)
Muhoroni	82.78			17.22	8
Chemilil	97.11		1.73		9
Mumias	38.04	29.13	32.35	0.48	11
Nzioia	98.87		0.94	0.19	9.5
South Nyanza (Sony)	98.8		1.0	0.2	9.76
West kenya				100	8

Source: Research data

Table 1 c: Current number of employees

UNIVERSITY OF NAIROBI
JWELI KABETE LIBRARY

Number of employees	Firm					
	Muhoroni	Chemelil	Mumias	Nzoia	Sony	West Kenya
Up to 500						400
500-1000	700					
1000-1500		1250		1300	1400	
over 2000			3400			

Source: research data

4.3 State Of Competition

33% of the sugar firms acknowledged that competition was stiff in the industry, while 50% of the firms indicated that competition was fairly stiff. The only firm that was not worried about domestic competition was Mumias sugar company limited. It accounts for over 60% of the domestic sugar production and is a low cost producer relative to the others. In the absence of the protection the industry is now enjoying, competition would have been very stiff with a lot of jockeying among the contestants.

Table 2: The state of competition.

State of competition	Number of respondents	Percentage (%)
Very stiff		
Stiff	2	33
Fairly stiff	3	50
Not sure		
Not stiff	1	17

Source: Research data.

The cost of processing sugar is high in Kenya compared to other producers from the COMESA region such as Sudan, Egypt, Malawi, and other leading world producers. Kenya is thus uncompetitive both regionally and globally. At the expiry of the COMESA moratorium, competition is likely to be very stiff. Unfortunately, the sugar firms in Kenya are not fully prepared to favourably compete with the cheap imports. All the six white sugar manufacturing sugar firms assert that they are still on the preparation platform.

With each firm trying to increase its crushing capacity and diversify, the domestic demand is likely to be oversupplied and this calls not only for domestic reform but for serious efforts towards regional and global competitiveness.

The current oil prices have diverted Brazil's attention from producing sugar cheaply into the global market to producing gasohol. Regionally, the demand for sugar is increasing with the stability being regained in Sudan. This leaves the other less efficient producers in the field but the cost of importing their sugar now into the Kenyan market would be higher and hence unattractive. Should this scenario change, then the competition would be very stiff for the Kenyan firms.

4.4 Strategy Formulation

All the respondents said they have both vision and mission statements that were formalized. These documents were developed through joint efforts of internal staff, directors, and other stakeholders under the guidance of consultants.

Strategy formulation in the sugar industry in Kenya is a relatively recent development triggered by liberalization that have integrated both regional and global markets.

The strategic plans developed have not been revised (amended) since all of them are recent events. The industry recognizes the government, farmers, customers, supplies and management, sequentially in terms of power and influence. Power and influence are critical parameters in the sound formulation and execution of strategies. It therefore becomes imperative to know and understand the environment fully in terms of these variables.

4.5 Generic Competitive Strategies

4.5.1 Cost Strategies

All the sugar firms under study indicated that their customers normally ask for price discounts and that the customers are very sensitive to price level changes. The factory customers normally buy sugar in large quantities (in tones) and distribute it to retailers in smaller units. When large quantities are brought at slightly different rates, then the total monetary consideration for the difference becomes very significant. Constant request for discounts reduce profitability. The respondents indicated that the onus of deciding on the prices to be charged to customers is not purely a particular firm's affair, and whereas it is partly put on the management of individual firms to ensure that their firms break -even, KESMA also plays a significant role in price discussions to shield and cushion its members against intra industry price wars. This action by KESMA then paints a picture of a market driven process.

The major cost elements in the industry are; the cost of sugarcane, conversion and overhead costs, and finance cost (for the highly indebted state – owned sugar firms)

For most sugar manufacturing firms, cost of cane is minimized by buying in bulk and also by growing sugarcane in the nuclear estates. Chemelil Sugar Co. Limited is even trying to do irrigation so that the maturity period is reduced, yield per hectare increased and generally reducing the cost of cane. Conversion costs are minimized through the proper maintenance of efficient plant and machinery with a high TC/TS ratio and proper utilization of factory time efficiency. Finance cost is minimized through prompt repayment and the re-scheduling of debts.

Table 3: Ways of improving sales.

Determining factor	Mean weight
Employing many staff	3.5
Operating many shifts	3.2
Operating at full capacity	4.4
Installing new equipment	4.4
Packaging the product	4.7
Receiving fresh cane	3.8
Offering price discounts	4.8
Selling to large customers	3.2
Building customer loyalty	3.6

Source: Research data

To determine the most important way of improving sales, the respondents were asked to allocate weights to different factors on a five point likert scale assigned weights from 1 to 5 (where 1 = Not important to 5 = Most important). The mean weight for each factor was calculated by multiplying each weight (x) by its frequency (f) to get the product (xf). The product for each factor was then divided by the total number of respondents (n) to obtain the mean weight. The results show that offering price discounts is the most important factor in improving the sales. All the respondents (100%) indicated that their customers were very sensitive to changes in the price of sugar.

4.5.2 Differentiation

All the respondents agreed that they strive to create unique images for their enterprises. This is a very important aspect for firms that trade in undifferentiated products. Each firm tries to produce what the customers can perceive to be the best in the market, a superior product that delivers more value to the customer.

Aspects of differentiation can be seen from the advertisements and publicity given to the products by the sugar firms. Sony sugar co. Ltd for example, says that "Sony Sugar is simply the sweetest". Packaging and branding clearly brings out the difference that glues customers to a particular product and brand.

The ways of serving the customers so that they become repeat customers is very critical for the sugar firms where the products are similar.

Differentiation in services revolve around making the product available in hygienic and convenient packets all the time and also being sensitive to customers' precious time, good public relations, hospitality and good terms of trade.

Differentiation is also achieved through the establishment of good distribution channels that ensures that stock-out costs are minimized. Mumias Sugar Co. Ltd for example, has unrivaled network of distributors all over the country and its products (in their various sizes and forms) are almost everywhere. Mumias Sugar Co. Ltd is also clearly differentiated in terms of the technology it uses in sugar processing.

Similar differentiation strategies are somewhat applied by all the sugar manufacturing firms. But since such strategies are easy to imitate and/or replicate, they cease to be competitive.

4.5.3 Focus

The use of focus strategy is still not very wide spread. The percentage that use focus strategy was only 33% and the remaining 67% were yet to operationalize the strategy. In terms of sales volume, the quantities sold to target customers are still very low and very few firms try to target particular niche markets. Firms that apply focus strategy target executive and leisure customers. Smaller sachets of 10g from Sony Sugar Co. Limited, for example, are on use in Kenya Airways Flights, government offices and some big hotels. Sony Sugar and Mumias Sugar Co. Ltd contend that their brands are tailored towards serving their target customers very well. Both Mumias and Sony normally earn a premium for their products. The only shortcoming is that the brands they sell are produced at higher costs that ultimately reduce the profit margin.

4.6 Specific Firm Strategies

4.6.1 Location

Sugar production is a process that starts at the farm level up to the factory level where final processing is done. Processing at the factory require bulk input of sugarcane from the sugarcane farms. Transportation of the raw material is a major cost object that accounts for nearly 30% of the total cost of production.

To minimize transport cost and hence overall production costs, the sugar factories are located in areas around which they can get adequate sugarcane supply. The radius within which a given factory can optimally operate so as to be adequately supplied with sugarcane is around 40km. Installing factories closer to one another usually result into competition for young cane that has low sugar recoveries. This is the problem in Muhoroni and Chemelil currently.

The factories are accessible by road and so major customers who normally buy in bulk are not worried about accessibility. The sugar roads leading to the sugarcane farms are there to ease cane transportation, but they are not adequate and their condition is not very good.

Other locational advantages cited were conducive climate, fertile soil, room for expansion, and availability of cheap and skilled labour. However, being far from major markets, inability to attract and retain qualified personnel, and costly road transport as opposed to rail transport, were cited as some locational disadvantages.

4.6.2 Communication.

The sugar firms use communication as a strategy of attracting and retaining customers. There is widespread use of radio, television, newspaper and professional journals in communicating to customers. The only limiting factor in the frequency and magnitude of the communication exercise is the budget set for it. Communication strategies in the sugar industry aim at building customers loyalty and patriotism. Slogans like "Buy Kenyan, Build Kenya" are common sugar industry features.

4.6.3 Service

Service is given by the sugar manufacturing firms both vertically forward and backwards. The backward linkages serve as strong foundation for the sustainability of cheap and adequate supplies. Farmers and farmer institutions are normally incorporated into the overall plan of the sugar firms and assistance given to them in form of fertilizer, and other related farm inputs. The quality and time of service are of essence in ensuring continuity, good corporate image and high productivity.

On the forward front, the customers for the final product are humanely treated so that they become repeat customers. The superiority of the product offered to them and good trade terms given makes them loyal to particular firms.

4.7 Challenges and Constraints

A number of factors were identified by the respondent as critical factors that inhibit the competitiveness of the sugar industry in Kenya. These factors are now discussed here below.

4.7.1 Low Production Capacities

With the exception of Mumias Sugar Company Limited, all the other sugar firms operate at uneconomical volumes that hardly cover their fixed overhead costs.

Compared to leading regional and world producers, the local sugar firms hardly cover their costs. Operating at low volumes result into diseconomies of scale, low profitability and ultimately uncompetitiveness. The sugar factories in Kenya operate within the range of 1,000-8,000 TCD. But still some of them can only utilize 50% of their installed capacity. Reasons giving rise to capacity under- utilization range from inadequate cane supply to unplanned stoppages.

The respondents were of the view that a TCD of over 7,000 would provide competitiveness.

4.7.2 Poor Technology

Most factories use the 'crusher' technology as opposed to the 'diffuser' technology which has slightly a higher TC/TS ratio. Most of the equipment is old and are expensive to maintain. It therefore becomes difficult to achieve high mill and factory time efficiencies with these kind of equipment.

4.7.3 Poor Infrastructure

The cost of transporting sugarcane from the farms to the factory account for nearly 30% of the total cost of producing sugar. Most of the roads used to feed the factories with sugarcane are in very poor state. The roads are very difficult to navigate through during the rainy days. The poor state of the road disadvantages both the farmer (whose cane delays before being transported for milling and also spills on the way) and the miller who ends up with low sugar recoveries. Cane transporters also tend to work less harder and normally fear using their tractors in these poor roads because of rampant breakdowns and high repair costs.

4.7.4 Inadequate Research

Due to inadequate research, Kenya has continued to rely on rain-fed sugarcane varieties which take almost two (2) years to mature. The varieties being bulked now have high fibre contents but low sucrose contents. This is in sharp contrast to the practices in countries like Sudan where cane is grown under irrigation and the maturity period is one (1) year. The cane varieties are also of low fibre content but high sucrose content. Research findings have not been adequately communicated down to the out grower institutions and the farmers so that they (farmers) could adopt the best practices.

4.7.5 High Input Costs

Sugar production is both capital and labour intensive. At the farm level, both labour and inputs are becoming too expensive. The effect of HIV/AIDS on the active workforce has been a large demand for labour from a small active and healthy workforce that naturally pushes the cost of labour upwards. External factors also push the cost of fuel, fertilizer and other input variables upwards. The farmers therefore must charge their sugarcane at a higher price in order to break-even.

At the factory level, the skilled labour must be fairly remunerated. The acquisition and maintenance of the requisite technological equipment are also costly.

4.7.6 Indebtedness and lack of funding for the firms

With the exception of Mumias and west Kenya sugar factories, all the other sugar firms are highly indebted. They cannot therefore readily access additional funding from credible lenders. The bureaucratic processes also inhibit these firms from accessing funds.

4.7.7 Reliance on a Single Product

The major product processed at our local sugar firms is sugar. But from sugar –cane a number of products can be obtained. Widening of the product base is undoubtedly one of the ways of making the sugar industry competitive.

4.7.8 Globalization

Most of the respondents opine that the expiry of the COMESA moratorium by the year 2008 and full compliance with WTO protocols pose serious challenges unless bold and urgent reforms are instituted. These measures revolve around expansion and diversification.

The escalating fuel prices may in the short – run work as a check against imports. For example, Brazil which is the leading world producer of sugar is now concentrating on the production of gasohol at the expense of sugar. Other low cost world producers are expected to land their sugar in Kenya at an inflated cost because of the long distances and high fuel prices.

4.7.9 Government Policies

There is total lack of clear – cut policies governing the sugar industry. Several stages of the sugar production process are unfavourably considered by the government.

Sugar should be classified as a basic food so as not to attract multiple taxation. VAT, for example, is levied at several stages and this is retrogressive to both the farmer and the miller.

Policies on investment do not favour potential investors and the high interest rates make funding for the industry very expensive. In as much as the government is desirous to privatize the state owned sugar firms, the bureaucratic chain still entangles the tempo.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

All the sugar manufacturing firms in Kenya are more than twenty (20) years old and are found on the western part of the country. Their combined production is still below the domestic demand but most of them are envisioning expansion not only to satisfy the domestic market, but for exporting the surplus to premium markets like the EU and other net sugar importing countries. In terms of employment, the sugar industry in Kenya employs directly and indirectly over 6 million people and in the agricultural sector sugar is the second highest income earner after tea.

Strategy formulation in the industry is a recent development triggered by liberalization effects. Various stakeholder groups who have power and influence in conjunction with consultants were involved in crafting strategies for the different firms. There have been no amendments to these documents. Currently, the state of competition is regarded to be stiff even though the industry is still enjoying protection from cheap imports. The state of competition is likely to be very stiff when the country will embrace full liberalization of the sugar industry by the year 2008. This therefore calls for urgent measures aimed at reforming the industry towards competitiveness. These reforms must address the specific challenges that have been strangling the industry like high cost of production, poor policy, inadequate research, poor technology, poor infrastructure, amongst others.

The study found out that all the firms employ cost leadership strategies in their value chain activities. They do this by eliminating non-essential activities and outsourcing as well as competitively procuring some input variables. Obtaining economies of scale through large volume operations and innovations along the value chain are aspirations which the sugar firms wish to achieve very soon. Differentiation strategies are also common features of the sugar industry. The branding of sugar, distribution networks and customer service are some of the ways in which the differentiation is done in the industry.

Focus strategies were also found to be in use though to a limited extent. The target customers are still few and the quantity demanded by them is very small. Even though the niche markets attract a premium price, other related costs reduce the overall profitability.

Other specific sugar manufacturing strategies include the location of the firm. Location determines the availability and adequate supply of sugarcane and human resources. Adequate infrastructural development is a prerequisite for the good development and prosperity of the sugar industry. The current state of infrastructure is poor and needs urgent attention.

5.2 Conclusion

Sugar manufacturing firms in Kenya have competitive strategies that are sustainable and assures them of their market position. These strategies are formulated through the joint efforts of stakeholders. The extent of application of these strategies are very similar in the industry as a whole. Most of the firms face similar challenges and expect very stiff competition when the sugar industry will be fully liberalized by the year 2008.

The sugar industry in Kenya therefore needs serious and urgent reforms so as to favourably compete both regionally and globally.

5.3 Recommendations

With the opening of the borders and Kenya being a signatory to various regional and international trade protocols, future studies on sugar should be carried out across borders to determine the competitive strategies applied by the sugar firms in different countries. The uniqueness of each country in terms of climate, natural resources, both human and capital development, just to mention but a few, may reveal the existence of country specific strategies on sugar that need to be known and understood. Jaggeries should also be ^{studied} started to determine their growth potential and the extent to which they pose threats to existing white sugar firms.

The study recommends that the operating capacities of the sugar firms be increased to 8000TCD and new equipment installed to reduce maintenance costs and attain high sugar recoveries. The product base should also be broadened so as to stop relying on a single product. Serious restructuring is also needed in the state – owned sugar firms so that they can attract private investment. Urgent infrastructural development is also required. Outgrowers institutions need to be strengthened and more research is needed to find ways of minimizing overall cost of production. The government should also put clear cut policies for the sugar industry to give it some form of protection more so that virtually all the major sugar producing countries have policies that protect their industries from competition by providing direct and indirect support in form of production and export subsidies, export credit, production quotas, use of state trading enterprises, import quality restrictions and high import tariffs.

The roads need reconstruction as a matter of urgency through the joint efforts of the KRB, KSB, DRB's, the various CESS committees and the individual firms. The balance sheets of all state owned sugar firms must be re-structured to attract new investment.

5.4 Limitations

The study focused on competitive strategies only. However there are other strategies that firms can use to improve their economic performance. We have for example, cooperative strategies where cooperating firms gain advantages through their collaborative efforts. Due to the busy schedule of the Chief Executive Officers of the firms and the fact that most of them are relatively new in their positions, data pertaining to inception periods could not be readily obtained.

REFERENCES

Ansoff, I. (1998) **Corporate Strategy**. Penguin Books.

Ansoff, I. and Mc Donnell, E. (1990) **Implanting strategic management**. 2nd edition
Prentice Hall

Aosa, E. (1992) **An Empirical Investigation of Aspects of strategy formulation and Implementation within large, Private Manufacturing Companies in Kenya**.
Unpublished PhD thesis.

Banerjee, B.P. (1999) **Corporate Strategies**; a comprehensive hand book based on the Indian experience. Oxford University press.

Barney, J.B. (1997) **Gaining and sustaining competitive advantage**. Addison-Wesley Publishing Company.

Brown, S.L and Eisenhardt, K.M (1998) **Competing on the edge: Strategy as Structured Chaos**. Havard Business School Press. Boston, Massachusetts

Burnes, B. (1999) **Managing change**; A strategic approach to organizational dynamics
4th Edition, Financial times – Pitman Publishing.

Chandler, A. (1962) **Strategy and Structure**.
Cambridge MIT Press.

Comonford, R. A. and Callagha, D. W. (1995) **Strategic Management: Text, Tools and cases for Business Policy**. Kent Publishing Company.

Hax, C.A. and Majluf, N.S. (1991) **The strategy concept and process A prognostic Approach**. Prentice Hall, N J USA.

Hunger, J. D. and Wheelen, T. L. (1995) **Strategic Management**. 5th Edition, Addison-Wesley Publishing, NY, USA.

Jauch, L. R. and Gluek, W. F. (1988) **Business Policy and Strategic Management**. 5th Edition, McGraw –Hill.

Johnson, G. and Scholes, K. (2002) **Exploring corporate strategy**. 6th Edition prentice-Hall, New Delhi.

Kandie, P. (2001) **The strategic responses by Telkom Kenya Limited in a competitive Environment**. Unpublished MBA project paper.

Karanja, P.W. (2002) **Competitive Strategies of Real Estate Firms. The Perspective Of Porter's Generic Strategies**. Unpublished MBA project Proposal.

Kenya sugar industry strategy 2004 – 2009

Ministry of agriculture 2004 on sugar.

Ndubai, N. (2003) **Competitive Strategies Applied By Retail Sector Of The Pharmaceutical Industry In Nairobi**. Unpublished MBA project paper.

Noel, C. et al (1998) **Corporate Strategic Planning**. Columbia University press.

Nyokabi, M. S. (2001) **Competitive strategies adopted by members of the Kenya Independent petroleum Dealers Association**. Unpublished MBA Project paper.

Okunyanyi, P. (1999) **Reasons why sugar firms are failing to complete effectively within the liberalized trading environment in Kenya in case of Government owned Sugar Firms**. Unpublished MBA Project Paper.

Pearce, J. A. and Robinson, R.B. (1997) **Strategic Management: Formulation, Implementation and control.** Irwin, Boston.

Porter, M. E. (1980) **Competitive Strategy.** The Free Press.

Porter, M.E. (1998) **Competitive Advantage.** The Free Press.

Porter, M. E. (1998) **Competitive Strategy: Techniques for Analyzing Industries and Competitors.** The Free Press.

Rothschild, W. E. (1989) **How to gain (and maintain) the competitive advantage in Business.** McGraw- Hill Book Company.

Tang, V. and Roy, B. (1995) **Competitive Dominance** Van Nostrand Reinhold.

Thompson, Jr A. A. and Strickland, A. J. (2003) **Strategic Management: Concepts and Cases.** 13th Edition, Tata Mc Graw Hill, New Delhi.



MINISTRY OF NATIONAL DEFENSE

ACTIVITIES CONFERENCE

1954-1955

APPEDICES

ORIGIN & SYSTEM

1954-1955

The following information is being furnished to you for your information and use in connection with the activities conference. It is being furnished to you as part of the information system which is being developed in the Department of Defense. The information is being furnished to you as part of the information system which is being developed in the Department of Defense. The information is being furnished to you as part of the information system which is being developed in the Department of Defense.



APPENDIX 1



UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAM - LOWER KABETE CAMPUS

Telephone: 4184160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE.....

TO WHOM IT MAY CONCERN

The bearer of this letter OBADO, Z. OKOTH

Registration No: 06117983

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

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

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

Thank you.


 B. A. OFFICE
 P. O. Box 30197
 NAIROBI
JACKSON MAALU
 CO-ORDINATOR, MBA PROGRAM
 UNIVERSITY COMMERCE

APPENDIX 2

QUESTIONNAIRE

To be completed by the Chief Executive Officer.

Name of firm _____

General Information

1. When was your firm established? _____

2. What was the size of your firm during its first year of operation in terms of:
 - i) Tonnes of Sugar produced? _____
 - ii) Number of employees? _____

3. What is your current size in terms of the parameters in 2 (i) and (ii) above?
 - i) Tonnes of Sugar / year currently is _____
 - ii) Present number of employees _____

4. Do you have branches elsewhere?

Yes ()

No ()

If YES, how many are they and how are they helpful to the firm?

No of branches _____

Importance of the branch(es) to the firm _____

5. Describe the ownership of your firm

6. What was your TC/TS at inception and now?

TC / TS at inception _____

TC / TS currently _____

Strategy formulation

7. Do you have a documented (written) vision and mission statements?

YES ()

NO ()

a) If YES, when were they developed? _____

b) Which of the following were involved in their development?

Internal staff ()

Consultants ()

Directors ()

Stakeholders ()

Others (specify) _____

8. Have there been amendments to your vision and mission statements?

YES () NO () N/A ()

If YES, when was the last amendment made and what reasons necessitated the amendments?

i) Year of latest amendments _____

ii) Reasons for amendments _____

9. Rank your stakeholders in terms of power and influence (beginning with the most powerful and most influential)

Power	Influence
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

10. How can you describe the level of competition in the industry now?

Very stiff ()

Stiff ()

Fairly stiff ()

Not stiff ()

Not sure ()

11. To what extent is your organization prepared to compete in a liberalized market (E.g. when the COMESA moratorium expires by the year 2008)?

Fully prepared () Still on preparation stages ()

Will soon start preparing () not prepared ()

Cost Leadership Strategies

12. What are your major cost elements?

13. How does your firm minimize the costs in (12) above so as to improve on profitability? _____

14. How would you rate the following as ways of improving your sales (with 1 = not important and 5 = very important)?

	1	2	3	4	5
Employing many staff					
Operating many shifts					
Operating at full capacity					
Installing new equipment					
Packaging the product (different sizes)					
Receiving fresh Cane					
Offering prize discounts					
Selling to large customers					
Building customer loyalty					
Other (specify)					

15. Do your customers normally ask for price discounts?

YES ()

NO ()

16. How sensitive are the customers to changes in the price of Sugar?

Very sensitive ()

Sensitive ()

Indifferent ()

17. Who normally decides on the prices to be charged to customers?

Management ()

Board of directors ()

Market driven ()

Government ()

KESMA ()

Others (specify) _____

Differentiation

18a. Do you try to create a unique image of your firm to your customers?

YES ()

NO ()

(b) If YES, what are the ways in which you do this?

Location

19. What are the advantages / disadvantages your firm derives by being located in this particular place?

Advantages

1.

2.

3.

4.

5.

Disadvantages

1.

2.

3.

4.

5.

Imported sugar and Jaggery

20a. Are there threats to your firm arising from unlimited entry of imported sugar and the mushrooming jaggeries?

YES ()

NO ()

b) If YES,

How can these threats be minimized?

Focus

21a. Are there categories of customers who rely on their need for sugar almost entirely on you?

YES ()

NO ()

b. If YES, how do you ensure that you retain their loyalty?

22. What are the ways in which you would go about acquiring a category of customers?

23. How do you inform people about your presence and services?

Challenges

24. What are some of the problems you encounter in running your firm?

1. _____
2. _____
3. _____
4. _____
5. _____

25. How could the problems enumerated above be minimized?

1. _____
2. _____
3. _____
4. _____
5. _____

26. Suggest ways of making the Sugar industry very competitive

Thank you

APPENDIX 3

LIST OF FIRMS

1. South Nyanza (Sony) sugar company Limited.
2. Chemilil Sugar Company Limited.
3. Muhoroni Sugar Company Limited
4. Mumias Sugar Company Limited.
5. Nzoia Sugar Company Ltd.
6. West Kenya Sugar Company Limited