COMPETITIVE STRATEGIES ADOPTED BY COFFEE ROASTERS AND PACKERS IN KENYA

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DECLARATION

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

Signed.................................. Date. 14/11/08 ....

Mulandi. E. Mbithe

D61/P/8900/2005

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

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DEDICATION

To my family, I thank you for your invaluable support during the duration of my study. I dedicate this study to you.

God Bless you abundantly.

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My thanks go to the staff at the School of Business, University of Nairobi for being supportive during the duration of my study.

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God be with you always.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Roasting and packing of coffee in Kenya has recently witnessed dramatic changes that have affected the state of competition. This study sought to determine the competitive strategies adopted by coffee roasters and packers in Kenya, and to establish the challenges faced by them in initiating competitive advantages and applying strategies so formulated. The study targeted the registered coffee roasters and packers in Kenya. Response was received from 14 out of the targeted 23 companies thus constituting a response rate of 61%.

The data was collected with the help of a semi-structured questionnaire. The data was then analyzed by use of statistical spreadsheets and presented in the form of percentages, frequencies, mean and standard deviation tables.

The local roasters and packers for coffee have adopted in general the five generic strategies, namely, cost leadership, differentiation, best-cost provider, cost focus and differentiation focus. However, it is notable that 50% of the firms have been inclined to use best-cost provider strategies. These work best where the customer makes product differentiation the norm and is sensitive to price and value. There is however, deliberate attempt to segment the market into specific offering, and thus focus strategy is apparent with the players who have curved a niche for themselves.

Overall, most coffee roasters and packers in Kenya have performed well. The success in sale of roasted coffee has been achieved due to development of strategies that meet the market requirements. Key challenges faced by the firms were identified as financial requirements, keeping abreast of changing consumer tastes and preferences, barriers to enter and exit the industry, ability and skills of shareholders, ability and skills of staff, marketing of the product, and competition from non-branded firms. Government intervention and erratic provision of utilities were also mentioned as key challenge areas. These challenges have been resolved in differing extents in attempts to stay abreast in the competitive market.

CHAPTER ONE: INTRODUCTION

1.1 Background

Since the introduction of liberalization in Kenya in the early 1990s, firms in almost all sectors of the economy are faced with competition. This liberalization has led to stiff competition in many sectors of the economy and thus made firms to change their strategies in order to survive. Kenya, like many African countries, relies heavily on commodity production and exports for employment and foreign exchange earnings. Fifty to ninety percent of export earnings are from agricultural commodities either raw materials, primary commodities, semi-processed and agro-industrial products. Changes in consumer demand are also necessitating arrangements that allow more personalized relationships between buyers and producers such as in horticulture and coffee. This study addresses the coffee sector.

1.1.1 Competitive Strategies

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholders' expectations.
Strategy is likely to be concerned with the long-term direction of an organization. It can be seen as the search for strategic fit with the business environment. Strategic decisions are normally about trying to achieve some advantage for the organization over competition (Johnson, Scholes & Whittington, 2005).

The state of competition in an industry depends on five basic competitive forces. They are: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors. These five forces influence a firm's prices, costs, and required investments, which are the constituents of return on investment (Porter, 1980).In coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry. These are overall cost leadership, differentiation and focus. The generic strategies are approaches to outperforming competitors in the industry; in some industries structures will mean that all firms can earn high returns, whereas in others, success with one of the generic strategies may be necessary just to obtain acceptable returns in an absolute sense (Porter, 1985).

Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. Development of competitor profiles enables a firm to more accurately forecast both its short- and long-term growth and its profit potentials. The criterion used in constructing a competitor's profile is largely determined by situational factors. The process of developing such a profile is considered helpful to a firm in defining its perception of its competitive position. Comparing the firm's profile with those of its competitors can aid its managers in identifying factors that might make the competitors vulnerable to the strategies the firm might choose to implement (Pearce & Robinson, 2006).

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors (Porter, 1985).

1.1.2 History of Coffee

Walk into a coffeehouse or café, almost any in the world, and you can see the same thing: a line leading up to the counter and one or two dexterous baristas (professional coffee barmen/women) smiling and taking orders for specialty coffee drinks. The steam from the espresso machine evaporates into the air. The sound and smell from a shot extraction envelopes the line eagerly anticipating. And then you get your cup of coffee, that dark, mysterious brew that magically awakens senses and fuels the day. But what happens before the cup is handed to you by the trusted barista? What happens before it gets to the coffee house or café? (Indian Coffee Monthly Magazine, April 2006).

The history of coffee has been recorded as far back as the tenth century. During that time, coffee remained largely confined to Ethiopia where its native beans were first cultivated. Ethiopian highlanders first cultivated the coffee bean. However, the Arabs begun expanding their trade horizons, and the beans moved into northern

Africa and were mass-cultivated. From there, the beans entered the Indian and European markets, and the popularity of the beverage spread.

There are several legendary accounts of the origin of the drink itself. One account involves the Yemenite Sufi mystic Shaikh ash-Shadhili. When traveling in Ethiopia, the legend goes, he observed goats of unusual vitality, and, upon trying the berries that the goats had been eating, experienced the same vitality. A similar myth attributes the discovery of coffee to an Ethiopian goat herder named Kaldi and the Legend of Dancing Goats. The first written record of coffee, made from roasted coffee beans, comes from Arabian scholars who wrote that it was useful in prolonging their working hours. The Arab innovation of making a brew from roasted beans spread first among the Egyptians and Turks and later on found its way around the world.

1.1.3 The global coffee economy

Coffee is undoubtedly one of the most important agricultural commodities in the world trade. In early 1990s, earnings by the 52 coffee producing countries were some US $ 10-12 billion with retail sales value, mainly in industrialized countries, of about US $ 30 billion. This made coffee the second most traded commodity after petroleum. With over 500 billion cups consumed every year, coffee is one of the world's most popular beverages, comprising about a third of tap water consumption. It is important to note that the coffee sold at retail is a different economic product than wholesale coffee traded as a commodity. Coffee that is processed, roasted and freeze-dried is more valuable than green coffee (Karanja & Nyoro, 2002).

The global coffee trade is also characterized by high market concentration of roasters and traders. For example, Nestle and Philip Morris are reported to control close to 50 per cent of the world market share for roasted and instant coffee. The top five holding companies affiliated with brands of roasted and instant coffees (Nestle, Philip Morris, Sara Lee, Procter & Gamble, and Tchibo) control around 70 per cent of the business (Coffee Price Crisis Response, 2002).

Two types of coffee bean are grown in the world: Arabica and robusta. Robusta beans have a higher yield per tree, contain more caffeine, and tend to be used for instant coffee. Arabica beans tend to dominate the roasted coffee market. Arabica beans are usually more expensive than the robusta varieties (KPCU, 2008). Roasters tend to concentrate on controlling marketing and branding while relying on supplies from a network of traders. Some roasters obtain their coffee from a mixture of sources thus enhancing competition among traders. Furthermore, roasters increasingly prefer using coffee from suppliers that can guarantee a reliable minimum amount of supply. They have also developed vertical cooperation with traders for particular coffee origins or estates so as to ensure reliable supplies of specialty coffee. An additional element of the roasters' market power is the availability of roasting technology that gives them more flexibility in creating blends to achieve a particular flavor (Coffee Price Crisis Response, 2002). As a result, they have greater freedom and control in determining the types and sources of coffee they buy.

1.1.4 Coffee Roasters and Packers in Kenya

Coffee contains several compounds which are known to affect human body chemistry. Coffee contains caffeine, which acts as a stimulant. For this reason, it is often consumed in the morning and during working hours. Students preparing for examinations with late-night "cram sessions" frequently use coffee to keep themselves awake. Many office workers take a "coffee break" when their energy is diminished (Wikipedia, 2008). Latest research findings have concluded that coffee contains anti oxidants that play a key role in reducing colorectal cancers, reducing gallstones, reducing possibility of liver cirrhosis, reducing asthmatic conditions and helps stimulate the central nervous system among many other health benefits (KPCU, 2008).

Historically, coffee has been an important commodity in Kenya because of its contribution to foreign exchange earnings, farm incomes and employment opportunities. Prior to 1988, coffee was Kenya's leading foreign exchange earner and currently ranks fourth after tourism, tea and horticulture, accounting for 10% of the total export earnings in the year 2000 and 6% in 2001 (Karanja & Nyoro, 2002).

Coffee was introduced in Kenya by the missionaries' way back in 1900. During the initial years, the crop was only grown by white settler farmers. It was not until mid 1930s when restricted smallholder coffee production was allowed in Kisii and Meru districts on experimental basis. Smallholder production was expanded in 1950s in line with recommendations contained in the Swynnerton plan (Colony and Protectorate, 1954).

The coffee sector in Kenya is regulated by the Coffee Board of Kenya which also issues licenses for different categories of stakeholders in the industry including dealers, millers, roasters, packers and warehouse licenses, among others. According to the Tea and Coffee Report of 2005, the Coffee Board of Kenya had issued Roaster and Packers licenses to 19 companies for the 2004-2005 periods.

Most Kenyan coffee is of the Arabica variety, grown on rich volcanic soils in the highlands of Kenya. Robusta is also grown but accounts for less than 1% of the country's production. Coffee farming is mainly done by small-scale farmers organized into co-operative societies who account for 60% while 40% is done by large scale farmers at plantation level. The coffee industry in Kenya is enormous, though consumption due to exports remains small compared to tea and other hot drinks. Almost 99 per cent of Kenyan coffee is exported and the domestic market only consumes less than 1 per cent of the total coffee produced in Kenya (Coffee Board of Kenya Report, 2004).

With the present global oversupply the coffee market is now a buyers market to the advantage of roasters who are now calling the shots in the industry. The current consumption trends allow more flexibility in developing blending formulas, making roasters less vulnerable to shortages of particular types of coffee. The development of new techniques in steam-cleaning Robusta coffees allows roasters to improve its quality and to substitute some of the most expensive Arabica with premium-grade Robusta.

There is therefore a need to investigate the strategies adopted in the competitive coffee sector by roasters and packers and the effects competition has brought to the industry.

1.2 The Research Problem

Coffee consumption per capita is still very low in most producer countries, varying between 2.6kg in Nicaragua and 1.5kg in Ethiopia to 0.007kg in Tanzania and 0.01kg in Kenya (Anon, 2001). This is considerably low compared to the levels in developed countries where consumption per capita can reach 10kg. This is despite the liberalization of coffee markets in most of the producer countries, which could have been expected to promote local demand. Low income per capita and the tea-drinking habits in former English colonies have been some of the factors behind the low local consumption. A case in point is the Kenyan situation where the perception of coffee as an elite drink has lingered on despite the low coffee prices.

Kenya's agricultural based economy has in the resent past been faced with challenges related to the stability of its agricultural produce and products. These challenges have helped shape investments in agriculture, returns to these investments and ultimately the country's economic growth. In increasing local coffee consumption which is useful in enhancing local processing capacity to be utilized for value addition, this means that the roasters and packers have shifted away from their traditional supply-driven strategies and policies to a more demand-driven sector. The rules in the market place have changed and become very dynamic. Consumer preferences are increasingly more complex than they were in the past. They are also more important players in the market, getting what they want, from any supplier who is able to meet their requirements for timeliness, quality and other attractive attributes. Trends in coffee consumption are already showing signs that coffee production will be similar to that of wine, surrounded by mystic and marketing gimmicks.

A number of studies have been done on competitive strategies. Sophia (2007), Ogolla (2005) did studies on the insurance industry; Njoroge (2006), Ongaga (2006) are among those that studied the petroleum industry; Oyugi (2007) studied the education sector; Theuri (2003) studied the hospitality industry; Omondi (2006) did a project on the airline industry; and, Olunga (2007) did a project on the Information Communication & Technology (ICT) industry. Other industries that have been researched upon include banking, transport, small and medium enterprises, health, tobacco, sugar and non-governmental organizations. It is evident from these studies that firms in each respective industry adopt different competitive strategies which are unique in each context.

Although research has been done on the coffee industry in Kenya, none seems focused on strategies that have been adopted by coffee roasters and packers in Kenya. Kinoti (2001) did a case study of coffee dealers in Nairobi on factors that influence their organizational buying behavior while Njiru (2003) looked at the credit risk management by coffee cooperatives in Embu District. Njenga (2004) conducted a research on whether the demerger of coffee marketing societies have created or eroded owners' wealth in parts of Central Kenya.

The study was conducted to find out the strategies the coffee roasters and packers have adopted in the increasingly competitive environment and the challenges they experience in applying these strategies by answering the following questions:

1. What competitive strategies have coffee roasters and packers in Kenya adopted to cope with increasing competition in the coffee sector in Kenya?
2. What challenges do these coffee roasters and packers experience in applying the competitive strategies?

1.3 The Research Objectives

(i) To establish competitive strategies adopted by roasters and packers in Kenya in order to cope with increased competition in the coffee sector in Kenya.

(ii) To determine the challenges faced by the roasters and packers in applying the competitive strategies.

1.4 Importance of the Study

The licensed roasters and packers in Kenya will find this study essential as it will provide them with the information on the general state of competition and the strategies which other players are using to compete in the industry.

Potential investors will find the study useful as it will provide information on some of the critical challenges they will face hence prepare adequately to face them. They will therefore be more informed while looking at the industry's attractiveness as well as give them an idea of the competitive strategies they will need to adopt in order to be successful.

Scholars will find it important as the study will increase to the body of knowledge in this area. This will stimulate further research in the industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

A strategy is an action a company takes to attain one or more of its goals. The concept of strategy is believed to have originated from the ancient Greeks and the word strategy comes from the Greek word "stratego", meaning to plan the destruction of ones enemies through the effective use of resources (Bracker, 1980 in Burnes, 1999).

Chandler (1962) defines strategy as the establishment of the long term goals and objectives of an organization including the taking of actions and allocation of resources for achieving these goals. Due to scarcity of resources, the strategy that is chosen should be one that optimizes these resources in the pursuit of the organizational goals and objectives. He 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.

Quinn (1980) identifies strategy as a plan that puts together an organization's major goals, policies and action sequences. A well formulated strategy enables an organization marshal and allocates its resources in a unique way on the basis of its relative internal competences and limitations, expected changes in the environment and contingent actions by competitors.

According to Pearce and Robinson (2006), by strategy, managers mean their large-scale future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company's game plan. Although that plan does not precisely detail all future deployments (of people, finances, and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete.

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 & Gluech, 1998).

A company's strategy is management's action plan for running the business and conducting operations. The crafting of a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and pleasing customers, competing successfully, conducting operations, and improving the company's financial and market performance. Thus a company's strategy is all about how- how management intends to grow the business, how it will build a loyal clientele and out compete rivals, how each functional piece of the business (research & development, supply chain activities, production, sales & marketing, distribution, finance, and human resources) will be operated, how performance will be hosted (Thompson, Strickland & Gamble, 2007).

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resource and competences with the aim of fulfilling stakeholder expectations (Johnson et al, 2005). Strategic decisions are normally about trying to achieve some advantage for the organization over competition. This involves providing better value than competitors to customers through offering better prices or quality.

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. Ansoff (1965) warned that strategy is an elusive and somewhat abstract concept that is still developing. Mintzberg, Quinn and Ghoshal (1998) support this view by proposing five interrelated definitions of strategy. These are plan, ploy, pattern, position and perspective. Strategy as a plan is some consciously intended course of action which is created ahead of events. As a ploy, strategy is a maneuver to outwit an opponent; as a pattern, strategy concerns a 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 exists primarily in people's minds.

Johnson, Scholes and Whittington (2005) summarize the characteristics of strategic decisions in their definition of strategy and also highlight on some of the consequences. Strategic decisions are likely to be complex in nature; may also have to be made in situations of uncertainty about the future; are likely to affect operational decisions; likely to demand an integrated approach to managing the organization; require managers to sustain relationships and networks outside the organization, and lastly the strategic decisions usually involve change in organizations which may prove difficult because of the heritage of resources and culture. In essence, strategy can be seen as the search for strategic fit with the business environment.

2.1.1 Levels of Strategy

According to Pearce and Robinson (2006), the decision-making hierarchy of a firm typically contains three levels. These are corporate level, business level and functional level. Corporate level comprises a board of directors and the chief executive and administrative officers. They are responsible for the firm's financial performance and achievement of non-financial goals, such as enhancing the firm's image and fulfilling its social responsibilities. Business level is composed of business and corporate managers. They translate corporate level decisions into concrete objectives and strategies for individual business divisions. At the bottom is functional level which involves managers of functional areas who implement the firm's strategic plans.

2.1.2 Environment and its challenges

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 categories- remote, industry and operating environments. The remote environment comprises factors originating beyond a firm's operating situation- economic, social, political, technological and ecological factors. Industry environment has factors including the competitive forces directly influencing a firm's prospects. The operating environment comprises factors that influence a firm's immediate competitive situation- competitive position, customer profiles, suppliers, creditors and the labor market. These set of factors provide many of the challenges that a particular firm faces in its attempts to attract or acquire needed resources and to profitably market its goods and services (Pearce & Robinson, 2006).

2.2 Competition

Competition has intensified dramatically over the last decades, in virtually all parts of the world. It was not so long ago that competition was all but absent in many countries, and in many industries. Markets were protected, and dominant market positions were the rule. Even where competitors were present rivalry was anything but intense. Stifling government intervention blunted competition, as did outright cartels.

Competition is a dynamic process through which industry structure itself changes through evolution and transformation. The essence of competition, then, is a dynamic process in which equilibrium is never reached and in the course of which industry structure are continually reformed (Grant, 1998).

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 innovations, a cohesive culture, or good implementation (Porter, 1985). Competition is most intense when there are many direct competitors and when industry growth is slow. Sometimes competition is high because the rivals have very different "personalities" and strategies. They are dramatically different ideas about how to compete and constantly find themselves in new battles with one another (Bateman & Zeithaml, 1990).

In the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry (Porter, 1979).

The state of competition in an industry depends on five basic forces. These are threat of new entrants, bargaining power of buyers, threat of substitute products or services, bargaining power of suppliers and rivalry among existing firms (Porter, 1980). However, Andrew Grove, the former CEO of Intel, and a part-time teacher at

Stanford's Graduate School of Business, has argued that Porter's five forces model ignores a sixth force- the power, vigor, and competence of complementors (Hill & Jones, 2001). Complementors are companies that sell complements to the enterprise's own product offerings. The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long run return or invested capital.

The corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these competitive forces or can influence them in its favor. The collective strength of the forces may be painfully apparent to all the antagonists; but to cope with them, the strategist must delve below the surface and analyze the sources of each. For example, what makes the industry vulnerable to entry? What determines the bargaining power of suppliers? Knowledge of the underlying sources of competitive pressure provides the groundwork for a strategic agenda of action (Porter, 1979).

2.2.1 Industry Concept of Competition

According to Philip Kotler (2004), an industry is a group of firms that offer a product or class of products that are close substitutes for one another. "Industries are classified according to number of sellers; degree of product differentiation; presence or absence of entry, mobility, and exit barriers; cost structure; degree of vertical integration; and degree of globalization".

With the number of sellers and degree of differentiation, one needs to specify on the number of sellers and if the product is homogeneous or highly differentiated. Kotler (2004) defines four industry structures as pure monopoly, oligopoly, monopolistic and pure competition. Entry barriers include high capital requirements; economies of scale; patents and licensing requirements; scarce locations, raw materials, or distributors; and reputation requirements. Mobility barriers are in force when a firm tries to enter more attractive market segments. Exit barriers (Hurrian, 1980 in Kotler, 2004) include legal or moral obligations to customers, creditors, and employees; government restrictions; low asset salvage value due to overspecialization or obsolescence; lack of alternative opportunities; high vertical integration; and emotional barriers.

Under cost structure, each industry has a certain cost burden that shapes much of its strategic conduct. Firms strive to reduce their largest costs (Kotler, 2004).In degree of vertical integration, most firms find it in their advantage to integrate forward or backward. Vertical integration often lowers costs, and the company gains a larger share of the value-added stream. In addition, vertically integrated firms can manipulate prices and costs in different parts of the value chain to earn profits where taxes are lowest. There can be disadvantages, such as high costs in certain parts of the value chain and a lack of flexibility. Companies are increasingly questioning how vertical they should be. Many are outsourcing more activities, especially those that can be done better and more cheaply by specialist firms (Kotler, 2004).

With degree of globalization, some industries are highly local; others are global. Companies in global industries need to compete on global basis if they are to achieve economies of scale and keep up with the latest advances in technology (Porter, 1985).

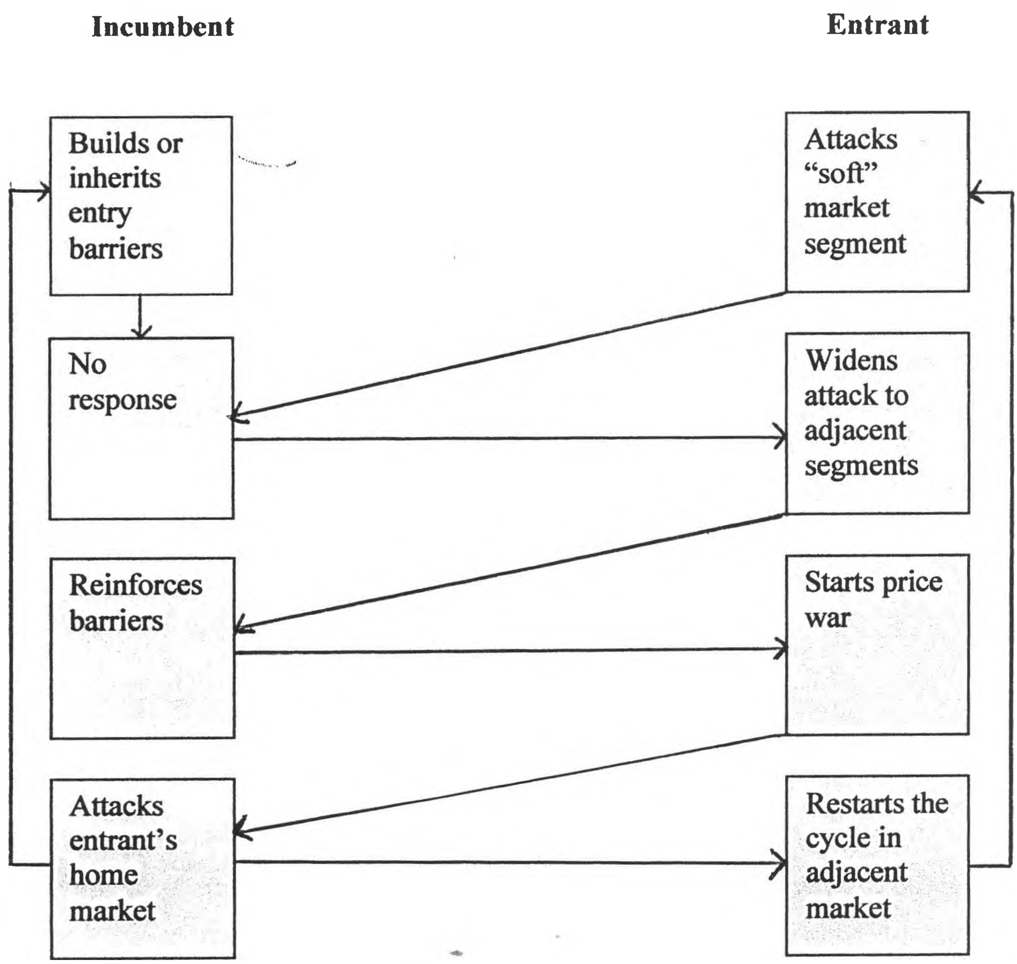
2.2.2 Market Concept of Competition

Besides the industry approach, Kotler (2004) suggests competitors as companies that satisfy the same customer need. For example, a manufacturer of word processing software normally sees its competition as other word processing software manufacturers. From a customer-need point of view, however, a customer who buys a word processing package really wants 'writing ability'. This need can be satisfied by pencils, pens, typewriters, and so on. The market concept of competition reveals a broader set of actual and potential competitors, stimulating more long-run strategic market planning. Rayport and Jaworski (in Kotler, 2004 pg 247) suggest profiling a company's direct and indirect competitors by mapping the buyer's steps in obtaining and using the product.

2.3 Challenges of Competition

The competitive advantage of an organization may be eroded because the competitive forces may change and/or competitors manage to overcome adverse forces. This process of erosion may be speeded up by changes in the macro-environment such as new technologies, globalization or deregulation. The advantage may be temporary- though the speed at which erosion occurs will differ between sectors and over time. Organizations may then respond to this erosion of their competitive position, creating what has been called a cycle of competition (as shown in Figure 1). Empirically, the intensity of competition varies gradually along the five competitive forces (Thompson et al, 2007).

Figure 1: Cycles of competition



Source: Adapted from R.A. D'Aveni with Robert Gunther, Hypercompetitive Rivalries: Competing in a Highly Dynamic Environment, Copyright 1994, Free Press, 1995, page 115

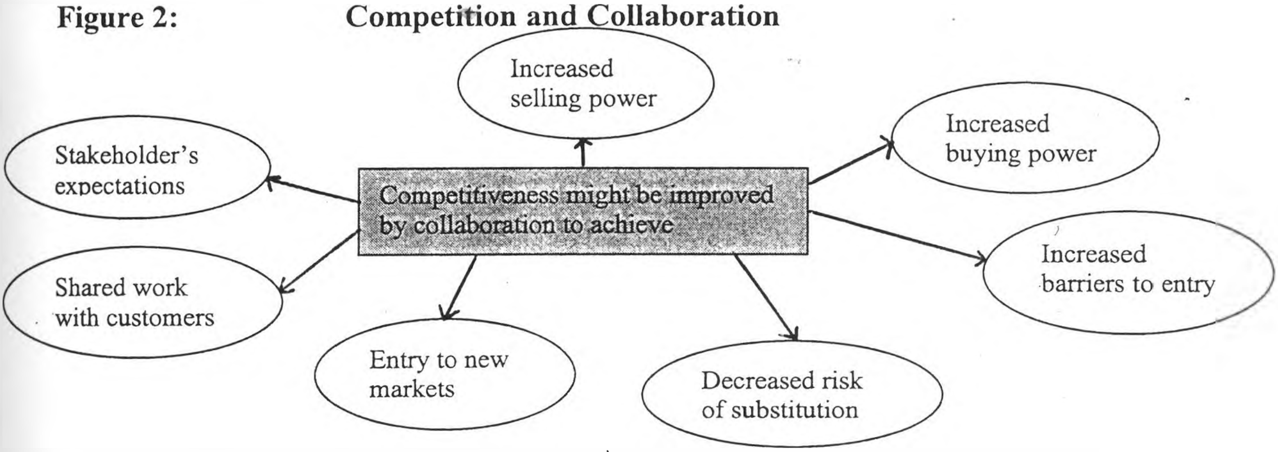
From figure 1, it is important to understand the speed at which these cycles of competition might move. If the process is relatively slow then there may be significant periods of time when competition in an industry settles down to a well-established pattern. On the other hand, where the speed of the cycle is very high, this is referred to as hyper competition. Hyper competition occurs where the frequency, boldness and aggressiveness of dynamic movements by competitors accelerate to create a condition of constant disequilibrium and change (D'Aveni, 1995 in Johnson et al, 2005). Whereas competition in slower-moving environments is primarily concerned with building and sustaining competitive advantages that are difficult to imitate, hyper-competitive environments require organizations to acknowledge that advantages will be temporary. Competition may also be about disrupting the status quo so that no one is able to sustain long-term advantage on any given basis (Johnson et al, 2005).

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors (Porter, 1985).

2.4 Competition and Collaboration

Collaboration between organizations may be a crucial ingredient in achieving advantages or avoiding competition. Also, organizations simultaneously may compete in some markets and collaborate in others. In general, collaboration between potential competitors or between buyers and sellers is likely to be advantageous when the combined costs of purchase and buying transactions (such as negotiating and contracting) are lower through collaboration than the cost of operating alone. Such collaboration also helps build switching costs (Johnson et al, 2005). This can be illustrated as contained in figure 2;

Figure 2: Competition and Collaboration



Source: Exploring Corporate Strategy:Text and Cases. 7th Edition (Johnson,Scholes & Whittington, 2005)

Collaboration to increase selling power means that component manufacturers might build close links with customers. Crucially collaboration is used by the buyer to ensure high levels of product quality in an industry where product failure usually has catastrophic consequences. Collaboration to increase buying power means that many organizations are now able to tie suppliers into their enterprise resource planning (ERP) system (Johnson et al, 2005).

Faced with the threatened entry or substitute products, organizations in an industry may collaborate to invest in research and development or marketing. This is collaboration to build barriers to entry or avoid substitution. Organizations seeking to develop beyond their traditional boundaries (for example, geographical expansion) may need to collaborate with others to gain entry into new arenas. The only way of gaining local market knowledge may be to collaborate with local operators (Johnson et al, 2005).

An important trend in the public services is a move towards more co-production with clients, for example self-assessment of income tax. The motives may be varied but include cost efficiency, quality/reliability improvement or increased "ownership/responsibility" from the clients. E-commerce allows more organizations to take this approach on board. In the public sector collaboration may be required in order to gain more leverage from public investment, to raise the overall standards of the sector or to address social issues that cross several professional fields (such as drugs or community safety). One key difference from the private sector is that sharing of knowledge and dissemination of best practice is regarded as a duty (or at least set out as a requirement). This can be difficult for managers in the era of a market-driven public sector judging their performance through benchmarking. Collaborating with competitors is not as easy as it sounds (Johnson et al, 2005).

2.5 Competitive Strategies

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 innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1985).

Competitive strategy is concerned with the basis on which a business unit might achieve competitive advantage in its market. Porter (1985) pioneered thinking in this field when he proposed that there were three different "generic" strategies by which an organization could achieve competitive advantage. Over the following 20 years there was much debate as to exactly what each of these categories meant (Johnson et al, 2005).

There are countless variations in the competitive strategies that companies employ, mainly because each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment. The custom-tailored nature of each company's strategy makes the chances remote that any two companies- even companies in the same industry- will employ strategies that are exactly alike in every detail (Thompson et al, 2007).

2.5.1 Porter's Generic Competitive Strategies

The fundamental basis of above-average performance of a firm in an industry in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess as presented in figure 3: low cost or differentiation. Cost advantage and differentiation in turn stem from industry structure. They result from a firm's ability to cope with the five forces better than its rivals. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus (Porter, 1985).

Figure 3: **Competitive Advantage**

1. Cost Leadership (Broad)	3. Differentiation (Broad)
3A. Cost Focus (Narrow)	3B. Differentiation Focus (Narrow)

Lower cost Differentiation

Three Generic Strategies

Source: Competitive Advantage: Creating and Sustaining Superior Performance (Porter, 1985)

In cost leadership, a firm sets out to become the low-cost producer in its industry. To achieve the status of low cost producer, a firm must find and exploit all sources of cost advantage. Typically, low-cost producers sell a standard product and place emphasis on reaping scale or absolute cost advantages. Having a low-cost position yields a firm above average returns in its industry, despite the presence of strong competitive forces. Its cost position gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have lost their profits through rivalry (Van de ven & Jeurissen, 2005 as adapted from Porter, 1985).

A firm differentiates itself from its competitors if it is unique in something that is widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet these. If a firm pursues forms of uniqueness that buyers do not value, it may be different from its competitors but not differentiated. The best way to learn whether a product is truly differentiated is to see if it is rewarded for its uniqueness with a premium price (Porter, 1985).

The focus strategy rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. This can be a particular buyer group, a segment of the product line, or a specific market region. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly.

The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice- if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it (Porter, 1985).

2.5.2 The Five Generic Competitive Strategies (Thompson et al, 2007)

The biggest and most important differences among competitive strategies boil down to, one, whether a company's market target is broad or narrow, and two, whether the

company is pursuing a competitive advantage linked to low costs or product differentiation. Five distinct competitive strategy approaches stand out:
A low-cost provider strategy enhances on striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under prizing rivals. Low-cost provider strategies work particularly well when the products of rival sellers are virtually identical or very weakly differentiated and supplies are readily available from eager sellers, when there are few ways to achieve product differentiation that have value to buyers, when many buyers are price sensitive and shop the market for the lowest price, and when buyer switching costs are low.

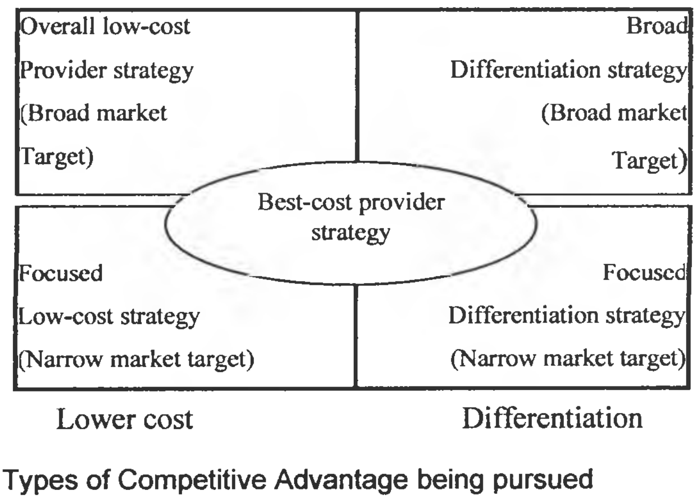
A broad differentiation strategy aids in seeking to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers. Differentiation strategies work best in markets with diverse buyer preferences where there are big windows of opportunity to strongly differentiate a company's product offering from those of rival brands, in situations where few other rivals are pursuing a similar differentiation approach, and in circumstances where companies are racing to bring out the most appealing next-generation product.

A best-cost provider strategy is best in giving customers more value for their money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes. A best-cost provider strategy works best in markets where buyer diversity makes product differentiation the norm and where many buyers are also sensitive to price and value.

A focused (or market niche) strategy based on low costs leads to concentrating on a narrow buyer segment and out competing rivals by having lower costs than rivals and thus being able to serve niche members at a lower price. A focused (or market niche) strategy based on differentiation also leads to concentrating on a narrow buyer segment and out competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products. A focused strategy based on either low cost or differentiation becomes increasingly attractive when the target market niche is big enough to be profitable and offers good growth potential, when it is costly or difficult for multi-segment competitors to put capabilities in place to meet the specialized needs of the target market niche and at the same time satisfy the expectations of their main stream customers, when there are one or more niches that present a good match with a focuser's resource strengths and capabilities, and when few other rivals are attempting to specialize in the same target segment, as shown in figure 4:

Figure 4: Types of competitive advantage being pursued

The five generic competitive strategies: each stakes out a different market position



Source: This is an expanded version of a three-strategy classification discussed in Porter (1985)

One of the big dangers in crafting a competitive strategy is that managers, torn between the pros and cons of the various generic strategies, will opt for *stuck-in-the-middle strategies* (Porter, 1985) that represent compromises between lower costs and greater differentiation and between broad and narrow market appeal. Compromise or middle-ground strategies rarely produce sustainable competitive advantage or a distinctive competitive position; a well-executed best-cost producer strategy is the only compromise between low cost and differentiation that succeeds. Having a competitive edge over rivals is the single most dependable contributor to above-average company profitability. Hence, only if a company makes a strong and unwavering commitment to one of the five generic competitive strategies does it stand much chance of achieving sustainable competitive advantage that such strategies can deliver, if properly executed (Thompson et al, 2007).

While each of the generic strategies enables a firm to maximize certain competitive advantages, each one also exposes the firm to a number of competitive risks. For example, a low-cost leader fears a new low-cost technology that is being developed by a competitor; a differentiating firm fears imitators; and a focused firm fears invasion by a firm that largely targets customers (Pearce & Robinson, 2006).

2.5.3 The Value Disciplines

International management consultants Michael Treacy and Fred Wiersema propose an alternative approach to generic strategy that they call the value disciplines (Pearce & Robinson, 2006 as drawn from Harvard Business Review, 71(1):84-94, 1993). They believe the strategies must center on delivering superior customer value through one of three value disciplines: operational excellence, customer intimacy, or product leadership.

Operational excellence refers to providing customers with convenient and reliable products or services at competitive prices. A company that follows this strategy attempts to lead its industry in price and convenience by pursuing a focus on lean and efficient operations. Companies that employ operational excellence work to minimize costs by reducing overhead, eliminating intermediate production steps, reducing transaction costs, and optimizing business processes across functional and organizational boundaries. Firms that implement the strategy of operational excellence typically restructure their delivery processes to focus on efficiency and reliability, and use state-of-the-art information systems that emphasize integration and low-cost transactions (Pearce & Robinson, 2006).

Customer intimacy involves offerings tailored to match the demands of identified niches. Companies that implement a strategy of customer intimacy continually tailor and shape products and services to fit an increasingly refined definition of the customer. They combine detailed customer knowledge with operational flexibility. Customer-intimate companies are willing to spend money now to build customer loyalty for the long term, considering each customer's lifetime value to the company, not the profit of any single transaction. Consequently, employees in customer-intimate companies go to great lengths to ensure customer satisfaction with low regard for initial cost (Pearce & Robinson, 2006).

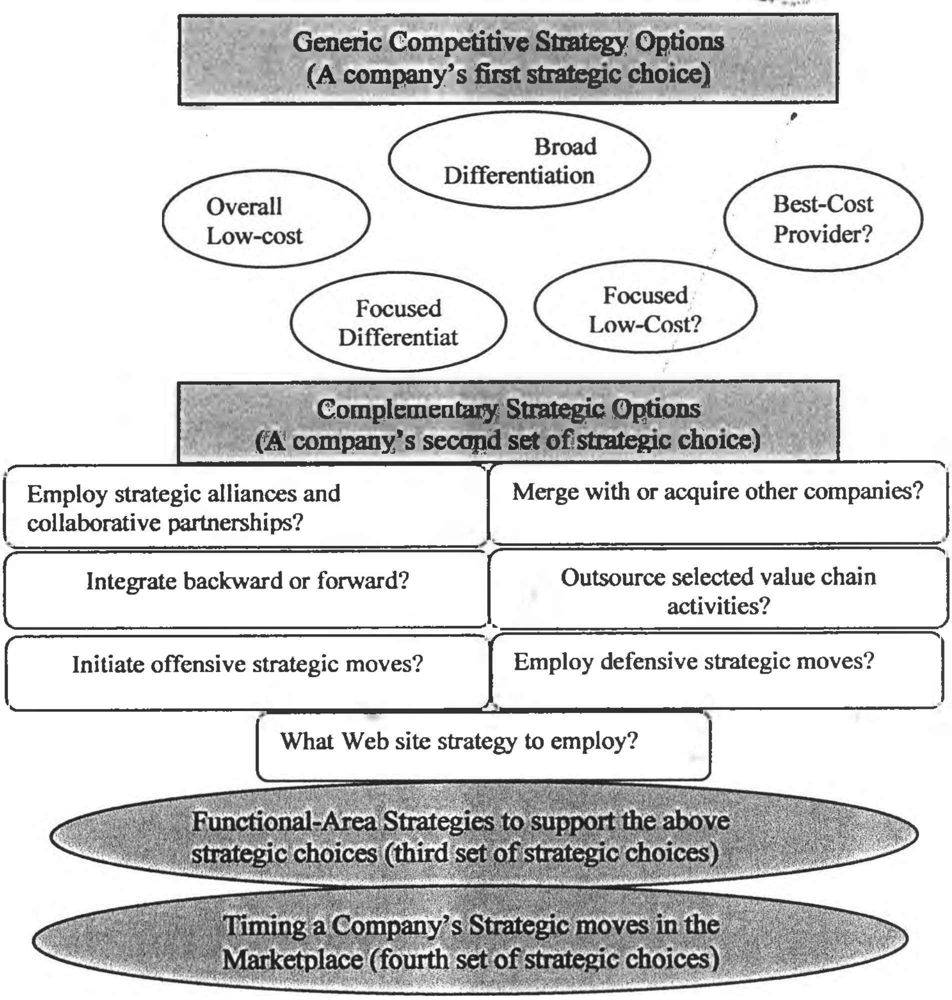
Product leadership, the third discipline, involves offering customers leading-edge products and services that make rivals' goods obsolete. Companies that pursue this discipline strive to produce a continuous stream of state-of-the-art products and services. Three challenges must be met to attain that goal. Creativity is the first challenge. Creativity is recognizing and embracing ideas usually originating outside the company. Second, innovative companies must commercialize ideas quickly.

Thus, their business and management processes need to be engineered for speed. Product leaders relentlessly pursue new solutions to problems. Finally, firms utilizing this discipline prefer to release their own improvements rather than wait for competitors to enter. Consequently, product leaders do not stop for self-congratulation; they focus on continual improvement (Pearce & Robinson, 2006).

2.5.4 Complementary Strategic Options

Once a company has selected which of the five basic competitive strategies to employ in its quest for competitive advantage, then it must decide whether to supplement its choice of a basic competitive approach. Thompson, Strickland and Gamble (2007) have outlined seven such options as contained in figure 5; collaborative strategies (alliances and partnerships), mergers and acquisitions strategies, vertical integration strategies, outsourcing strategies, offensive strategies, defensive strategies and, web site strategies.

Figure 5: A Company's Menu of Strategy Options



Source: Crafting and Executing Strategy:Text and Readings (Thompson, Strickland & Gamble, 2007)

Many companies are using strategic alliances and collaborative partnerships to help them in the race to build a global market presence or be a leader in the industries of the future. Strategic alliances are an attractive, flexible, and often cost-effective means by which companies can gain access to missing technology, expertise, and business capabilities (Thompson et al, 2007).

Mergers and acquisitions are another attractive strategic option for strengthening a firm's competitiveness. When the operations of two companies are combined via merger or acquisition, the new company's competitiveness can be enhanced in any way of several ways- lower costs; stronger technological skills; more or better competitive capabilities; a more attractive lineup of products and services; wider geographic coverage; and/or greater financial resources with which to invest in Research and Development, add capacity, or expand into new areas (Thompson et al, 2007).

Vertically integrating forward or backward makes strategic sense only if it strengthens a company's position via either cost reduction or creation of a differentiation-based advantage. Otherwise, the drawbacks of vertical integration (increased investment, greater business risk, increased vulnerability to technological changes, and less flexibility in making product changes) are likely to outweigh any advantage (Thompson et al, 2007).

Outsourcing pieces of the value chain formerly performed in-house can enhance a company's competitiveness whenever an activity: can be performed better or more cheaply by outside specialists; is not crucial to the firm's ability to achieve sustainable competitive advantage and will not hollow out its core competencies, capabilities, or technical know-how; reduces the company's risk exposure to changing technology or changing buyer preferences; streamlines company operations in ways that improve organizational flexibility, cut cycle time, speed decision making, and reduce coordination costs; or allows a company to concentrate on its core business and do what it does best (Thompson et al, 2007).

One of the most pertinent strategic issues that companies face is how to use the internet in positioning the company in the marketplace- whether to use the internet as only a means of disseminating product information (with traditional distribution channel partners making all sales to end users), as a secondary or minor channel, as one of several important distribution channels, as the company's primary distribution channel, or as the company's exclusive channel for accessing customers (Thompson et al, 2007).

Companies have a number of offensive strategy options for improving their market positions and trying to secure a competitive advantage: offering an equal or better product at a lower price, leapfrogging competitors by being first to adopt next-generation technologies or the first to introduce next-generation products, pursuing sustained product innovation, attacking competitors weaknesses, going after less contested or unoccupied market territory, using hit-and-run tactics to steal sales away from unsuspecting rivals, and launching preemptive strikes. A special kind of offensive, blue ocean strategy, seeks to gain a dramatic and durable competitive advantage by abandoning efforts to beat out competitors in existing markets and, instead, inventing a new industry or distinctive market segment that renders existing competitors largely irrelevant and allows a company to create and capture altogether new demand (Johnson et al, 2005).

Defensive strategies to protect a company's position usually take the form of making moves that put obstacles in the path of would-be challengers and fortify the company's present position while undertaking actions to dissuade rivals from even trying to attack (Thompson et al, 2007).

Once all the higher-level strategic choices have been made, company managers can turn to the task of crafting functional and operating-level strategies to flesh out the details of the company's overall business and competitive strategy. In many respects, the nature of functional strategies is dictated by the choice of competitive strategy. For example, a manufacturer employing a low-cost provider strategy needs an R&D and product design strategy that emphasizes cheap-to-incorporate features and facilitates economical assembly and a production strategy that stresses capture of scale economies and actions to achieve low-cost manufacture and a low-budget marketing strategy. A business pursuing a high-end differentiation strategy needs a production strategy geared to top-notch quality and a marketing strategy aimed at touting differentiating features and using advertising and a trusted brand name to "pull" sales through the chosen distribution channels. A company using a focused differentiation strategy needs a marketing strategy that stresses growing the niche (Pearce & Robinson, 2006).

The timing of strategic moves also has relevance in the quest for competitive advantage. Company managers are obligated to carefully consider the advantages or disadvantages that attach to being a first-mover versus a fast-follower versus a late-mover. What makes being a first-mover strategically important is not being the first company to do something but rather being the first competitor to put together the precise combination of features, customer value, and sound revenue/cost/profit economics that gives it an edge over rivals in the battle for market leadership. There are instances when there are advantages to being an adept follower rather than a first-mover, for instance when rapid market evolution (due to fast-paced changes in both technology or buyer needs and expectations) gives fast-followers and maybe even cautious late-movers the opening to leapfrog a first-mover's products with more attractive next-version products. Companies that are habitual late-movers regardless of the circumstances hope that buyers will be slow to gravitate to the products of first-movers, giving them time to catch up. Counting on all first-movers to stumble or otherwise be easily overtaken is usually a bad bet that puts a late-mover's competitive position at risk (Thompson et al, 2007).

2.5.5 Grand Strategies

Grand strategies, often called master or business strategies provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed towards achieving long-term business objectives. A grand strategy is thus defined as a comprehensive general approach that guides a firm's major actions (Pearce & Robinson, 2006).

Pearce and Robinson (2006) have outlined fifteen principal grand strategies which are: concentrated growth; market development; product development; innovation; horizontal integration; vertical integration; concentric diversification; conglomerate diversification; turnaround; divestiture; liquidation; bankruptcy; joint venture; strategic alliances, and consortia.

Concentrated growth is a strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The main rationale for this approach, also referred to as market penetration or concentration strategy, is that the firm thoroughly develops and exploits its expertise in a delimited competitive arena.

Market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Frequently, changes in media selection, promotional appeal, and distribution are used to initiate this approach. Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. This strategy often is adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation or brand name. The idea is to attract satisfied customers it new products as a result of their positive experience with the firm's initial offering.

Innovation strategy has its underlying rationale as to create a new product life cycle and thereby make similar existing products obsolete. Thus, this strategy differs from the product development strategy of extending an existing product's life cycle. Few innovative ideas prove profitable because the research, development, and pre-marketing costs of converting a promising idea into a profitable product are extremely high.

Horizontal integration strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets. Vertical integration strategy is when a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products).

Concentric diversification involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products. With this grand strategy, the selected new businesses possess a high degree of compatibility with the firm's current businesses. The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk. Thus, the acquiring firm searches for new businesses whose products, markets, distribution channels, technologies, and resource requirements are similar to but not identical with its own, whose acquisition results in synergies but not complete interdependence.

Conglomerate diversification strategy is used when a particularly large firm plans to acquire a business because it represents the most promising investment opportunity available. Unlike concentric diversification, conglomerate diversification gives little concern to creating product market synergy with existing businesses. The principal difference between the two types of diversification is that concentric diversification emphasizes some commonality in markets, products, or technology, whereas conglomerate diversification is based principally on profit considerations.

Turnaround strategy is involved when the strategic managers believe that a firm with declining profits can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. Turnaround responses among successful firms typically include two stages of strategic activities: retrenchment and the recovery response. Retrenchment consists of cost-cutting and asset-reducing activities. Recovery is achieved when economic measures indicate that the firm has regained its predownturn levels of performance.

A divestiture strategy involves the sale of a firm or a major component of a firm. The reasons for divestiture vary. They often arise because of partial mismatches between the acquired firm and the parent corporation, occasioning a spin-off. A second reason is corporate financial needs in a bid to optimize the cost of capital. A third, less frequent reason is government antitrust action when a firm is believed to monopolize or unfairly dominate a particular market. Liquidation as a grand strategy is employed when a firm is sold in parts, only occasionally as a whole- but for its tangible asset value and not as a going concern. Faced with bankruptcy, the liquidating firm usually tries to develop a planned and orderly system that will result in the greatest possible return and cash conversion as the firm slowly relinquishes its market share.

Bankruptcy strategy could be in the form of liquidation bankruptcy or reorganization bankruptcy. Liquidation bankruptcy involves a complete distribution of a firm's assets to creditors, most of whom receive a small fraction of the amount they are owed. Reorganization bankruptcy involves choosing a strategy to recapture a firm's viability. The appeal of a reorganization bankruptcy is based on the company's ability to convince creditors that it can succeed in the market place by implementing a new strategic plan and that when the plan produces profits, the firm will be able to repay its creditors, perhaps in full.

Joint ventures are commercial companies created and operated for the benefit of the co-owners. In recent years, it has become increasingly appealing for domestic firms to join foreign firms by means of this form. The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners. Strategic alliances are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. For example, one partner provides manufacturing capabilities while a second partner provides marketing expertise.

Consortia are defined as large interlocking relationships between businesses of an industry. In Japan such consortia are known as keiretsus, in South Korea as chaebols. A Japanese keirtsu is an undertaking involving up to 50 different firms that are joined around a large trading company or bank and are coordinated through interlocking directories and stock exchanges. It is designed to use industry coordination to minimize risks of competition, in part through cost sharing and increased economies of scale. A South Korean chaebol resembles a consortium or keiretsu except that they are typically financed through government banking groups and largely are run by professional managers trained by participating firms expressly for the job.

2.6 Challenges of Competitive Strategies

Besides market and supply factors, three other considerations throw light on the ability of the enterprise to put the strategy into action (Newman, Logan & Hegarty, 1989). These are financial strength of the company, community and government relations and the ability and values of company executives.

Adequate capital is required for every type of expansion, and if a firm is to maintain its position it ought to have sufficient financial strength to withstand aggression by competitors for choice markets. On community and government relations, it must be noted that companies differ in their ability to work with governments. While it is important to be regarded as a good 'corporate citizen', good community and government relations lead simply to a permissive situation, but in crisis situations the very right to continue operating may be at stake (Phatak, 1989 as adapted by Theuri, 2003).

The ability and values on company executives are important in putting strategy into action. Executives turn potential sales into actual sales, keep costs in line and face unanticipated problems. Executives may be so entrenched to the current strategy such that they are unable to change, which reduces strategic options. Within the management group there should be individuals with qualities essential to the planning, direction and control of the enterprise (Newman et al, 1989).

2.7 Success Criteria of the Strategies chosen

Success criteria are used to assess the likely success of a strategic option. There are three main success criteria:

Suitability is concerned with whether a strategy addresses the circumstances in which an organization is operating-the strategic position. It requires a broad assessment of the extent to which new strategies would fit with the future trends and changes in the environment, exploit the strategic capability of an organization and meet the expectations of stakeholders. Suitability can be thought of as the rationale of a strategy and whether it "makes sense" in relation to the strategic position of an organization (Johnson et al, 2005).

Acceptability is concerned with the expected performance outcomes of a strategy. These can be of three broad types: return, risk and stakeholder reactions. Returns are the benefits which stakeholders are expected to receive from a strategy. Risk concerns the probability and consequences of the failure of a strategy. Stakeholder mapping identifies stakeholder expectations and power and helps in understanding political priorities, thus can be useful in understanding the likely reactions of stakeholders to new strategies, the ability to manage these reactions, and hence the acceptability of a new strategy (Johnson et al, 2005).

Feasibility is concerned with whether an organization has the resources and competences to deliver a strategy. Approaches such as financial feasibility and resource deployment can be used to understand feasibility. Feasibility is also informed by implementation of a strategy. So strategies may need to be reshaped as implementation proceeds (Johnson et al, 2005).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research was a census survey. The survey was chosen due to the need to have a comprehensive coverage of the strategies used in the industry as well as the challenges encountered in implementing the strategies.

3.2 Population

The population consists of all licensed coffee roasters and packers in Kenya. According to the Coffee Board of Kenya, as at December 2006, there were 23 registered coffee roasters and packers (see appendix I). It has been observed (Cooper & Schindler, 2006) that census study is feasible when the population is small and variable. In a census survey, all the elements of the population are studied which enhances the confidence of the research findings.

3.3 Data Collection

Primary data was collected by using a semi-structured questionnaire (see appendix III). The questionnaire was divided into 3 sections; section A collected data on the organizational demographics, section B gathered data on competitive strategies used and section C addressed the challenges of the competitive strategies adopted and the extent of the resolution. The respondents were the Chief Executive Officers or General Managers in each company that deals with coffee roasting and packing. This gave a defined approach to the strategies used at all levels of strategy in the organizations. The questionnaire was administered by "drop and pick" method. This is a variation of the mail questionnaire. A letter of introduction was attached to the questionnaires to enhance the response rate (see appendix II).

3.4 Data Analysis

Content analysis was done as the data collected was mainly qualitative in nature. Content analysis measures the semantic content or the what aspect of a message, especially in response to open-ended questions. Its breadth makes it a flexible and wide-ranging tool that may be used as a stand-alone methodology or as a problem-specific technique (Cooper & Schindler, 2006).

The content analysis followed a systematic process of coding and drawing inferences from the data. It started by determining which units of data were to be analyzed. Themantic units were the basis for coding texts into mutually exclusive categories in the search for meaning as they were topics contained within (and across) texts- they represented higher-level abstractions inferred from the text and its context. The analytical use of content analysis was influenced by decisions made prior to data collection. Content analysis guards against selective perception of the content, provides for the rigorous application of reliability and validity criteria, and is amenable to computerization (Cooper & Schindler, 2006).

Descriptive statistical measures were used to depict the objectives of the study. To achieve the first objective of establishing the competitive strategies adopted by the coffee roasters and packers in Kenya, frequencies and percentages were used to describe the organizations' demographics as per the respondents, as well as mean scores and standard deviation in line with the strategies chosen. To achieve the second objective, mean scores and standard deviation were also used to point out the challenges that these firms encounter when implementing the chosen strategies. After arranging and coding, the analyzed data was presented in tabular form for ease of interpretation and reporting.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents findings and discussions of the study. The aim of this study was to establish the strategies the coffee roasters and packers in Kenya have adopted in the increasingly competitive environment and the challenges they experience in applying these strategies.

The method of data collection was through a semi-structured questionnaire, developed in line with the study objectives and thus divided into three sections. The first section presents the demographic aspects of the organizations dealing with coffee roasting and packing. The second section focuses on the strategies employed by the coffee roasters and packers to gain competitive advantage in the industry. Lastly, section three solicits data on the challenges encountered by the coffee roasters and packers in applying the competitive strategies chosen and to what extent these challenges have been resolved. The questionnaire was administered through drop and pick method.

For each competitive strategy or challenge variable question, respondents indicated the extent to which the variable was practiced or encountered as a challenge using a five-point likert scale ranging "very great extent" "5", "great extent" "4", "moderate extent" "3", "a little extent" "2", "not used at all" "1". The higher the score, the higher the rating and thus the greater the use of the strategy. This also implies the greater the challenge or the resolution of the challenge identified.

This study achieved a response rate of 61% with 14 out of the targeted 23 coffee roasters and packers responding. This was an adequate response rate to base conclusions on. Similar studies, Omondi (2006) and Theuri (2003), based conclusions on about 70% response rate.

4.2 Organizations' Demographics

This section mainly analyzes some key characteristics. Its aim was to establish certain similarities like years of operation, number of branches, ownership of the entities, staff numbers and availability of strategic plans.

4.2.1 Years of Operation

The number of years these firms have been operating in the market is important in order to establish the period they have operated and if there is any relation to the strategies they have adopted.

Table 4.2.1 Years of Operation

Range of Years of Operation	Frequency	Percentage
1-5	3	21%
6-10	7	50%
Over 10	4	29%
Total respondents	14	100%

Source: Research Data

From the table 4.2.1, the mode range of years of operation is between 5 and 10. Thus 50% of the firms fall within that range. Only four firms have been operating for more than 10 years. This implies that within the past 10 years, there have been improvements in the sale and consumption of coffee locally, thus the presence of the five generic strategies.

4.2.2 Branch Network

This analysis was necessary in order to establish the market potential in the industry.

Table 4.2.2 Number of branches

Range of No. of branches	Frequency	Percentage
1-5	3	21%
6-10	10	72%
Over 10	1	7%
Total respondents	14	100%

Source: Research Data

The findings in table 4.2.2 were that 21% of the firms have between one and five branches, 72% have between six and ten branches and 7% have over ten branches, indicating that there is a potential for expansion in the industry. On the other hand, some firms have not taken the opportunity to expand and this could be because of their period of operating in the industry.

4.2.3 Nature of ownership

Establishing the ownership of the firms was in order to determine the mode of entry into the industry adopted by these firms.

Table 4.2.3 Nature of ownership

Ownership	Frequency	Percentage
Kenyan-owned	12	86%
Foreign owned	0	0
Other (Kenyan & Foreign)	2	14%
Total respondents	14	100%

Source: Research Data

The findings from table 4.2.3 above indicate that Kenyan investors locally own 86% of the outlets and 14% are a mix of both local and foreign investors. This is an indication that Kenyans are viewing the coffee sector as a viable economic tool within the local setting. This is in line with the changes that the sector has been undergoing, thus encouraging in local consumption of coffee.

4.2.4 Staffing

Increase in staff numbers signifies growth as well as increase in customer needs hence calling for an improved product and service delivery. Table 4.2.4 below highlights the findings.

Table 4.2.4 Staff numbers in firms

No. of staff	No. of firms	Percentage
0-25	2	14%
26-50	2	14%
51-75	2	14%
76-100	3	21%
Over 100	5	37%
Total respondents	14	100%

Source: Research Data

From the findings in table 4.2.4, five firms have over 100 employees, representing 37% of the total number of respondents having a large work force. The findings indicate that the number of staff currently employed is medium, signaling growth in the industry or increased workload because of increasing demands from customers.

4.2.5 Use of strategic plans

All the firms that responded acknowledged the presence of strategic plans within their respective organizations. This indicates the increasing awareness of firms in the use of strategic plans for future growth.

4.3 Competition and strategies used in the industry

The first objective of the study was to find out the competitive strategies adopted by coffee roasters and packers in Kenya. This section gives a summary of respondents' ratings of the extent to which they use a given competitive strategy. The results presented in this section provide answers to the first objective of the study. For every strategy that has been rated, the results are presented as mean scores of respondents that indicated they used that strategy from "a very great extent" "5" to "not used at all" "1". A higher mean score indicates greater use of a given competitive strategy in the industry.

4.3.1 State of competition in the industry

The table below summarizes the respondents' views of the state of competition in the industry.

Table 4.3.1 Respondents' views on the state of competition in the industry

Competition is:	Frequency	Percentage
Extremely stiff	2	14%
Very stiff	7	50%
Moderately stiff	5	36%
A little stiff	0	-
Not stiff at all	0	-
Total respondents	14	100%

Source: Research Data

There is an intense and unprecedented competition in the industry. In table 4.3.1, 50% of the respondents support the observation above that there is very stiff competition in the industry. 14% of the respondents indicate the competition as extremely stiff whereas 36% indicate competition in the industry as moderately stiff.

The respondents gave various reasons as to why they felt the competition was stiff. These included mushrooming outlets; the customers' perception of quality, pricing and consistency of products provided by the respective firms; entrance of new players in the field yet coffee consumption is still limited; and, brand loyalty by customers.

4.3.2 Perception by the firms of the markets they serve

The study attempted to establish the respondents' views of the perception of the customers they serve. The scores are as follows:

Table 4.3.2 Perception of the markets served

Variable	Frequency	Percentage
Up market	2	14%
Middle & up market	2	14%
Mass market	9	64%
Low end market	1	8%
Total respondents	14	100%

Source: Research Data

The findings are that 64% of the respondents perceive the outlets' markets as mainly mass. This is especially for those respondents practicing more than one strategy as each strategy has been designed for a different target market. 14% of respondents indicated that the perception of their customers' market was mainly up market, affluent consumers whose purchasing power is above average. Another 14% indicated that their market was middle and up market. These are valid for the firms practicing differentiation strategy.

4.3.3 Importance of competitive strategy goals in the business

Competitive strategy goals are an indication of the overall definition of how a business is going to compete. These goals are survival in the market, growth (gain in market share), profitability, product development, market development and diversification. In order to determine the importance of goals pursued by firms in a competitive industry, respondents were asked to rank the importance of these goals to their outlets, on a five point likert scale ranging from extremely important (5) to not important (1).

Table 4.3.3 Importance of the goals of competitive strategy to respondents

Goal	Mean	Std Dev.	Importance of goal
Survival in the market	1.786	1.578	A little important
Growth (gain market share)	2.643	1.277	Moderately Important
Profitability	2	1.414	A little important
Product development	2.071	0.997	A little important
Market development	3	0.877	Moderately important
Diversification	3.143	0.949	Moderately important

Source: Research Data

The respondents mentioned growth (gain market share), market development and diversification as moderately important as far as competitive strategic goals are concerned. They attributed this to the state of competition in the industry, as previously observed, is very stiff. Product development, profitability and survival in the market seem to be of little importance as variables in the market for now.

4.3.4 Summary of the generic strategies used by the firms

There are three generic strategies open to a firm to choose from. These are cost leadership, differentiation and focus. However, this study looks at the five generic competitive strategies (Thompson et al, 2007) as adopted from the three generic ones (Porter, 1985). These include cost leadership, differentiation, best-cost provider, cost focus and differentiation focus. It was necessary to establish the importance each of the respondents placed on these options. Tables 4.3.4 to 4.3.8 present the findings.

Table 4.3.4 Summary of generic strategies

Strategy	Frequency	Percentage
Cost leadership	4	20%
Differentiation	3	15%
Best-cost provider	7	35%
Cost focus	3	15%
Differentiation focus	3	15%
Total strategies	20	100%

The coffee roasters and packers surveyed were a total of fourteen; however, six of them had adopted more than one strategy therefore bringing the total number of strategies to twenty.

Mean scores of respondents that indicated they used that strategy from "a very great extent" "5" to "not used at all" "1" are presented in the following tables:

Table 4.3.5 Cost Leadership

Variable	Mean	Std Dev.
Keeping prices lower than competition	3.071	0.829
Keeping prices same as competition	2.429	0.756
Keeping overheads lower than others	3.286	1.541
Keeping overheads same as industry	2.857	0.663
Use of latest technology	3	0.961
Business process rationalization & staff reduction	4.29	1.44
Branding	2.643	0.929
Packaging & labeling	2.333	1.155
Market Communication	4	1.414
Location of firm & interior décor	3.2	1.789
Staffing & customer service	1.5	1
Social responsibility	1.333	0.578

Source: Research Data

Table 4.3.5 shows that these firms place greater emphasis on staff reduction (mean of 4.29) and business process rationalization (mean of 4.29) as a basis of being a cost leader. To a great extent, market communication plays a crucial role in the achievement of the firms' objectives. Keeping prices lower than competitors, keeping overheads lower than others do, keeping overheads same as industry, branding, location of outlets and décor, and use of latest technology are strategies that are used to a moderate extent. Keeping prices the same as competition is a strategy used to a little extent. Strategies not used at all include quality staffing and customer service, and social responsibility.

Table 4.3.6 Differentiation

Variable	Mean	Std Dev
Staffing & superior customer service	4.083	0.515
Products not offered by competitors	2.7	1.9
New products/services	2.57	0.65
Home/office deliveries	2.9	0.7
Use of latest technology	2.86	0.77
Branding	3.111	1.453
More strategic locations	2.429	0.938
Marketing research expenditure to identify customer needs	2.286	0.825
Packaging & labeling	4.222	0.972
Market Communication	3.75	0.754
Location of outlet & interior décor	4.2	0.676
Social responsibility	3.33	0.5

Source: Research Data

From the findings in table 4.3.6, firms practicing differentiation have used to a great extent strategies like packaging and labeling, market communication, location of outlets and interior décor, and staffing and superior customer service in response to changes in the market. To a moderate extent, strategies like delivering value to customers' products not offered by competitors, providing new products or services, use of latest technology, personal deliveries, branding, and social responsibility are used.

Table 4.3.7 Best-cost provider

Variable	Mean	Std Dev.
Using the lowest selling prices	2.79	0.58
Good-to-excellent product attributes	2.57	1.16
Lower cost of roasting & packing	3.286	0.914
Offering high quality product/service	2.143	1.167
Attractive customer service at low cost	3.071	0.267
Branding	3	1
Packaging & labeling	3.333	0.577
Market Communication	2.75	0.957
Location of firm & interior décor	2	0
Staffing & customer service	1.5	0.577
Social responsibility	3	1

Source: Research Data

The findings indicate that the higher number of respondents use best-cost provider strategy. This works best where the customer makes product differentiation the norm and is sensitive to price and value. Thus, the best-cost provider positions itself near the middle of the market with either a medium-quality product at a below-average price or a high-quality product at an average or slightly higher price. Most strategies are used to a moderate extent, except offering high quality products or services, location of outlet and interior décor, and staffing and customer service being used to a little extent.

Table 4.3.8 Cost focus

Variable	Mean	Std Dev.
Market segmentation	2.36	0.84
Providing lower costs than rivals	3.714	0.825
Serve niche market at lower price	3.071	0.829

Source: Research Data

From the findings in table 4.3.8, some of the respondents practicing cost leadership strategy have gone a step further by limiting their customer base to a well-defined buyer segment. The focused low-cost strategy provider just meets the needs of buyers in a narrow market segment. To a great extent, providing lower costs than rivals is a strategy whereas serving the niche market at lower price is used to a moderate extent. The cost focus strategy is used because the target market niche is big enough to be profitable and offers good growth potential.

Table 4.3.9 Differentiation focus

Variable	Mean	Std Dev.
Market segmentation	2.43	0.76
Offer niche market customized attributes better than rivals	2.786	0.975

Source: Research Data

Table 4.3.9 summarizes findings of the few respondents practicing focused differentiation strategy. As opposed to a broad differentiation strategy aimed at many buyer groups and market segments, a focused strategy aims to appeal to the unique preferences and needs of a narrow, well-defined group of buyers. Successful use of a focused differentiation strategy depends on the existence of a buyer segment that is looking for special product attributes (mean of 2.786) and on a firm's ability to stand apart from rivals competing in the same target market niche. The differentiation focus strategy is ideal as there is more room for the firms involved to avoid each other while competing for the same customers.

4.3.5 Other Strategies

Once a company has settled on which generic strategy to employ, attention turns to what other strategic actions it can take to complement its choice of a basic competitive strategy. These strategies are summarized as per the three main generic strategies used by respondents from tables 4.3.10 to 4.3.12.

Table 4.3.10 Other strategies- Cost leadership

Variable	Mean	Std Dev.
Concentrated growth	1.5	0.577
Innovation	2	0.816
Joint ventures	3.5	0.577
Strategic alliances	3.25	0.957
Consortium	3.5	0.577
Liquidation	4.25	0.958
Divestiture	2	0.816
Outsourcing	2	0.816
Website (internet marketing)	1.5	0.577

Source: Research Data

The findings above indicate that other strategies practiced by firms undertaking cost leadership include liquidation, joint ventures and consortium to a great extent. On a moderate extent, strategic alliances are a strategy used by these firms. To a little extent, concentrated growth, innovation, divestiture, outsourcing and use of website (internet marketing) are used.

Table 4.3.11 Other strategies- Differentiation

Variable	Mean	Std Dev.
Concentrated growth	3	1
Innovation	3.333	0.577
Joint ventures	2	1
Strategic alliances	3	1
Consortium	2	1
Liquidation	1.333	0.577
Divestiture	1.333	0.577
Outsourcing	1.677	1.155
Website (internet marketing)	2.333	1.155

Source: Research Data

Moderately, firms practicing differentiation use concentrated growth, innovation and strategic alliances as other strategies (average mean of 3). To a little extent, joint venture, consortium, outsourcing and website (internet marketing) are used as strategies. Strategies not used at all include liquidation and divestiture.

Table 4.3.12 Other strategies- Best-cost provider

Variable	Mean	Std Dev.
Concentrated growth	3.429	0.535
Innovation	2.143	0.69
Joint ventures	3	0.577
Strategic alliances	3.43	0.535
Consortium	3.571	0.535
Liquidation	3.143	0.69
Divestiture	2.714	0.951
Outsourcing	2.571	0.976
Website (internet marketing)	3.429	0.535

Source: Research Data

Best-cost providers use consortium as another strategy to a great extent (mean of 3.571). This is because the firms aim to minimize risks of competition through cost-sharing and increased economies of scale. The other identified strategies are used to a moderate extent except for innovation, which is used to a little extent.

4.4 Challenges of the strategies adopted and the extent of resolution

The second objective of this study was to find out the challenges faced by the coffee roasters and packers in applying the strategies identified and the extent to which these challenges have been resolved.

The study identified certain challenges that the respondents were asked to rate on a likert scale so as to establish the extent to which these challenges hindered the application of the strategies as well as the extent to which they have been resolved. The rating is from "very great extent" "5" to "not used at all" "1". This is summarized, again as per the three main generic strategies, from tables 4.4.1 to 4.4.3.

Table 4.4.1 Identified competitive challenges and the extent of resolution-Cost leadership

Variable	Mean of challenge	Mean of resolution
Financial requirements	2	2.25
Changing customer preferences	2	2.75
Ability & skills of shareholders	4.25	2.5
Ability & skills of staff	4	3.5
Barriers to enter & exit industry	2	2
Marketing of product	4.5	4.5
Competition from non-branded firms	1.75	2
Government intervention	4.5	4.5
Erratic provision of utilities	4	4.25
Substitutes (other beverages)	3.25	3

Source: Research Data

The firms using cost leadership strategy have identified to a very great extent challenges like marketing of products and government intervention inherent to competition. However, these challenges have also been resolved to a great extent. To a great extent, ability and skills of shareholders, ability and skills of staff as well as erratic provision of utilities were viewed as challenges. These have also been resolved to a great extent except for ability and skills of shareholders which have been resolved to a moderate extent. Moderately, substitutes (other beverages) were seen as challenges and have been resolved to a moderate extent. Financial requirements, changing customer preferences, barriers to enter and exit the industry, and competition from non-branded firms were identified as challenging to a little extent. The challenges have been resolved to a little extent.

Table 4.4.2 Identified Competitive challenges and the extent of resolution-Differentiation

Variable	Mean of challenge	Mean of resolution
Financial requirements	4.33	3.33
Changing customer preferences	4.33	3
Ability & skills of shareholders	2	2
Ability & skills of staff	2.67	2.33
Barriers to enter & exit industry	3.33	3.67
Marketing of product	4	3.33
Competition from non-branded firms	2.33	1.33
Government intervention	4.33	2.33
Erratic provision of utilities	3.67	2.67
Substitutes (other beverages)	3.67	2.33

Source: Research Data

Overall, firms using differentiation strategy agreed that the major challenges bedeviling them to a great extent include financial requirements, changing customer preferences, marketing of the products, government intervention, erratic provision of utilities, and substitutes (an average mean of 4). These challenges have been resolved to a moderate extent. Moderately, ability and skills of staff, and barriers to enter and exit the industry challenge them. In resolving the challenges, moderate steps have been achieved. Ability and skills of shareholders and competition from non-branded firms are challenges to a little extent. Their resolutions have also been to a little extent.

Table 4.4.3 Identified Competitive challenges and the extent of resolution- Best-cost provider

Variable	Mean of challenge	Mean of resolution
Financial requirements	2.286	3.571
Changing customer preferences	3	3
Ability & skills of shareholders	3.714	3.143
Ability & skills of staff	1.714	3.714
Barriers to enter & exit industry	2	3.571
Marketing of product	2.571	2.286
Competition from non-branded firms	1.571	3.571
Government intervention	1.857	1.571
Erratic provision of utilities	2.571	2
Substitutes (other beverages)	2.857	3.714

Source: Research Data

Firms using best-cost provider viewed the major challenge in applying their chosen strategies, to a great extent, as the ability and skills of shareholders. The reason could be that there is existence of principal-agent problems. The shareholders may want management to increase the value of the firm, but the management may have their own objectives thus resulting in a conflict of interest.This challenge has been resolved to a moderate extent. Moderately, changing customer preferences, marketing of products erratic provision of utilities and substitutes challenge them. Moderate steps have been achieved in resolving them. Financial requirements, ability and skills of staff, barriers to enter and exit the industry, competition from non-branded firms and government intervention are challenging to a little extent since these have been resolved to a great extent, except for government intervention which has been resolved to a little extent.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

This chapter contains a summary of the results from the study, limitations of the study, recommendations for further research, and implications for policy and practice.

5.1 Summary, Discussions and Conclusions

The first objective of this study was to get an insight into the competitive strategies adopted by coffee roasters and packers in Kenya. The second objective was to determine the challenges facing the coffee roasters and packers in applying the competitive strategies as well as the extent to which these challenges have been resolved.

Fourteen coffee roasters and packers completed and returned the questionnaire, representing a 61% response rate. The study found that the coffee roasters and packers in Kenya use a combination of cost leadership strategy, differentiation strategy, best-cost provider strategy, cost focus and differentiation focus strategies. Six of the firms use more than one strategy thus resulting in twenty strategies. The respondents have indicated that it is possible to have generic strategies coexisting. This is because the firms pursue different customers for broad or focused markets. The firms practicing cost leadership have gone a step further and limited their customer base to a well-defined buyer segment hence cost focus. This is also evident with those firms practicing differentiation strategy, which have also limited their customer base hence differentiation focus.

It was also observed that majority of the firms operate branches, suggesting that there is potential for market expansion. With regard to ownership, it was observed that 86% of these firms are Kenyan-owned. This indicates the seriousness that Kenyans have in investing in their country. 58% of the firms have more than seventy-five employees hence creating job opportunities for deserving Kenyans. 50% of the respondents observed that there was very stiff competition and 14% suggested the competition being extremely stiff. Contributing factors were the presence of well-established players in the industry, mushrooming outlets and customer loyalty.

Emphasis has been placed on factors in coffee roasting and packing, for instance packing and labeling, design and layout of coffee outlets, personality of staff as well as other techniques to accentuate the brands of Kenyan coffee. Packaging of coffee to maintain its freshness is essential to deliver a good experience and appropriate labels reinforce this experience. Majority of the respondents have brands that separate identification of the markets they target. Each brand thus undergoes different quality control and separate distribution channels.

With regard to the generic strategies used by the firms, they put greater emphasis on cost-cutting measures to offer attractive prices, as observed from the 35% of respondents who have adopted a best-cost provider strategy. 15% of the firms resorted to differentiation as a strategy to stand out from the other players and to enhance their image in the market. As earlier observed, some firms have segmented their markets and focus their offerings to specific targets of the market. 15% of the firms have pursued cost focus strategy. Similarly, 15% of the firms also practice differentiation focus strategy as they have developed some market niches in order to provide convenience to their customers. 20% of the firms have adopted a cost leadership strategy, as they are able to reconfigure their processes to reduce costs and then pass over the benefit to their customers.

Other strategies that have been adopted by the firms include concentrated growth, innovation, joint ventures, strategic alliances, consortium, liquidation, divestiture, outsourcing and website (internet marketing) at varying extents. The major challenges identified by the respondents practicing cost leadership were ability and skills of shareholders, ability and skills of staff, marketing of product, government intervention and erratic provision of utilities. These have however been resolved to a moderate extent. Major challenges experienced by firms that have adopted differentiation strategy include financial requirements, changing customer preferences and government intervention. These have also been resolved moderately. Best-cost providers have outlined their major challenge as ability and skills of staff. The other challenges are not as challenging as these have been resolved to a great extent.

5.2 Limitations of the Study

The results of this study are drawn from the responses of only 14 firms out of the 23 targeted. The results may have been different if the total number of firms targeted had participated. Some respondents were uncooperative, fearing that their trade secrets would fall into the hands of their competitors and were therefore not willing to participate in the study.

Time was a major constraint given that the preferred data collection method was personal interviews with the respondents, mostly the Chief Executive Officers or General Managers. However, because of their busy schedules, some of them were not available, hence a "drop and pick" method was used to administer the questionnaires. Geographical scope was also a limitation as it was not possible to obtain data from the coffee roasters and packers based outside Nairobi. This would have proved expensive and time-consuming.

5.3 Suggestions for further research

Future studies should attempt to link the performance of the coffee roasters and packers with the strategies they have adopted. Such a study would enable researchers determine how certain strategies impact on the overall existence of a firm. A comparative study on the competitive strategies adopted by firms in the beverage industry can help enlighten researchers on the most popular strategies used within the sector. Other researches can be conducted on strategies used by different categories of stakeholders in the coffee industry including agents, dealers, millers and warehouses.

5.4 Implications for policy and practice

Analysis of the strategies adopted by the coffee roasters and packers in Kenya has revealed a number of important features of the sub-sector. This analysis also leads to several policy implications. The Kenyan coffee sector in general has had to adjust itself and remain competitively relevant, economically sustainable and commercially profitable in the face of very rapid market and policy changes. At both the local and international market place, the consumers are becoming concerned, and more careful about product quality, traceability and precise origin - attributable uniqueness of products. With this emerging market trend, the players in the industry have to continuously adjust accordingly by adopting strategies that place them competitively in satisfying the consumer.

Government intervention in the coffee sector needs to be controlled so that the players in the industry can become more independent in encouraging local consumption of the otherwise highly exported product. This is because Kenya's coffee sector is very much dependent on developments in the international coffee market.

For most of the policies and strategies to be effective, the right regulatory and enabling environment has to be present. This has been lacking in the past. The Coffee Board of Kenya has been too much involved with coffee marketing thereby paying little attention to regulatory matters. This should change so that a restrictive policy can be implemented to ensure all registered coffee roasters and packers are only licensed after meeting the stipulated measures. This will help in the growth of the present and future players.

Kenya has the added advantage of having a well-developed tourism sector that can be used as a ready market for Kenyan coffee locally. Thus, strategies that are more comprehensive can be looked into in order to promote domestic coffee consumption. Increasing local coffee consumption will also enhance local processing capacity that can be utilized for value-addition. Eventually, the country should be able to export roasted coffee products mainly in the COMESA (Common Markets of Eastern and Southern Africa) region.

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APPENDICES

Appendix I: Roasters & Packers license holders, 2006-2007 period

Name of Company

1. KPCU Coffee Exporters
2. Malaika Coffee & Tea
3. C. Dorman Ltd
4. Nairobi Java House
5. Bico Ltd
6. Stevkam Enterprises
7. Gold Coffee
8. Raki Investment
9. Cejo Investment
10. Excellent Roaster & Grinders Ltd
11. Juja Coffee Exporters Ltd
12. Kenya Nut Co.
13. Kwacha Ltd
14. M.A. Pandit & Co. Ltd
15. Mombasa Packers Ltd
16. Mwangi Coffee Exporters
17. Shigog Investment Ltd
18. United Food Products
19. Moka Coffee & Tea Agencies
20. Gibsons Coffee Ltd
21. R.H Devani Ltd
22. African Roast Coffee Ltd
23. Aristocrats Coffee & Tea Exporters Ltd (for Sasini Tea & Coffee Ltd)

Source: Coffee Board of Kenya, February 2007

Appendix II: Letter of Introduction

July 2008

Dear respondent,

MBA RESEARCH PROJECT

As part of the requirement for the degree of Master of Business Administration (MBA) of the University of Nairobi, the undersigned, who is a student in the School of Business at the university, is required to undertake a management research paper. She intends to conduct a study on the coffee industry in Kenya.

This questionnaire is designed to gather information on the competitive strategies adopted by coffee roasters and packers in Kenya. Your responses will be treated in strict confidence and in no circumstances will your name(s) be mentioned in the report. Further confidentiality will be ensured through the necessary coding of the survey findings.

Your co-operation will be highly appreciated.

Sincerely,

MULANDI, E.M	**DR M. OGUTU**
MBA Student	**Supervisor**

Appendix III: Questionnaire

The questionnaire is divided into three parts: section A, B and C.

Kindly answer the questions in each section. Your answers will remain anonymous and strictly confidential and in no instance will your name(s) be mentioned in the report.

SECTION A: ORGANIZATION'S DEMOGRAPHICS

1. Title of respondent:____
2. Name of organization & location:________________________________
3. Does the organization have a strategic plan__________________________
4. How many years have you been operating in the Kenyan market____________
5. Please indicate the nature of ownership of your firm (tick appropriately)

   Local ( ) Foreign ( ) Foreign owned, locally run ( )

   Others (please specify) ____________________________________
6. How many employees do you currently have?_________________________
7. Do you have any branches? Yes ( ) No ( )

   If yes, please give the actual number and their location

   ____________________ ____________________

   ____________________ ____________________

   ____________________ ____________________

   ____________________ ____________________

SECTION B: COMPETITION AND STRATEGIES USED IN THE INDUSTRY

8. In your opinion, indicate how you view your current prices as per industry standards

   Very high ( ) High ( ) Fair ( ) Low ( ) Very low ( )
9. In your opinion, how important is it to brand your products and services?

   Extremely important ( ) Very important ( ) Moderately important ( ) A little important ( ) Not important at all ( )

10. How do you perceive of the market you serve?

Up market ( ) Mass market ( ) Middle &Up market ( ) Low end market ( )

Others (please specify)____

____

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

Extremely stiff ( ) Very stiff ( ) Moderately Stiff ( ) A little stiff ( ) Not stiff at all ( )

12. What reasons would you give for your answer in Question (11) above?

____

____

____

13. How important are the following goals in your business? Please rate them in order of their importance using the following scale:

5. Extremely important 4. Very important 3.Moderately important

2. A little important 1. Not important

	1	2	3	4	5
Survival in the market	( )	( )	( )	( )	( )
Growth (gain market share)	( )	( )	( )	( )	( )
Profitability	( )	( )	( )	( )	( )
Product development	( )	( )	( )	( )	( )
Market development	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )

Others (please specify) ____

14. To what extent do you use each of the following strategic options in response to changes in the market? Please indicate using the following scale:

5. Very great extent 4. Great extent 3.Moderate extent 2.A little extent

1. Not used at all

	1	2	3	4	5
<u>Cost leadership</u>					
Keeping prices lower than competition	( )	( )	( )	( )	( )
Keeping prices same as competition	( )	( )	( )	( )	( )
Keeping overheads lower than others	( )	( )	( )	( )	( )
Keeping overheads same as industry	( )	( )	( )	( )	( )
Use of latest technology (i.e. automation of operations)	( )	( )	( )	( )	( )
Business process rationalization	( )	( )	( )	( )	( )

Staff reduction	( )	( )	( )	( )	( )

<u>Differentiation</u>

Provide superior customer service in market	( )	( )	( )	( )	( )
Offering products not offered by competitors	( )	( )	( )	( )	( )
Availing new products/service in market	( )	( )	( )	( )	( )
Making home & office deliveries	( )	( )	( )	( )	( )
Use of latest technology	( )	( )	( )	( )	( )
Branding of product	( )	( )	( )	( )	( )
More strategic locations	( )	( )	( )	( )	( )
Marketing research expenditure to identify customer needs	( )	( )	( )	( )	( )

<u>Best-cost provider</u>

Using the lowest selling prices	( )	( )	( )	( )	( )
Good-to-excellent product attributes	( )	( )	( )	( )	( )
Lower cost of roasting & packing	( )	( )	( )	( )	( )
Offering high quality product/service	( )	( )	( )	( )	( )
Attractive customer service at low cost	( )	( )	( )	( )	( )

<u>Cost Focus</u>

Market segmentation	( )	( )	( )	( )	( )
Providing lower costs than rivals in focused (narrow) market	( )	( )	( )	( )	( )
Serve niche market at lower price	( )	( )	( )	( )	( )

<u>Differentiation Focus</u>

Market segmentation	( )	( )	( )	( )	( )
Offer niche market customized attributes better than rivals	( )	( )	( )	( )	( )

15. Please indicate the extent to which you have used the following action plans to beat competition in the market. Use the following scale:

    5. Very great extent 4. Great extent 3.Moderate extent 2.A little extent
    1. Not used at all

	1	2	3	4	5
<u>Branding of product</u>					
Activate customer loyalty	( )	( )	( )	( )	( )
Charge a premium	( )	( )	( )	( )	( )
Enter new markets	( )	( )	( )	( )	( )
<u>Packaging and labeling</u>					
Differentiate from competition	( )	( )	( )	( )	( )
Use of quality packing material	( )	( )	( )	( )	( )
Use of latest technology	( )	( )	( )	( )	( )
<u>Market Communication</u>					
Carrying out sales promotion	( )	( )	( )	( )	( )
Creating reputation in industry using brands	( )	( )	( )	( )	( )
Strategic position in industry	( )	( )	( )	( )	( )
Consistency with branch/outlet promise	( )	( )	( )	( )	( )
<u>Location of outlets & interior décor (where applicable)</u>					
Increasing no. of outlets in Nairobi	( )	( )	( )	( )	( )
Convenience & ease of accessibility	( )	( )	( )	( )	( )
Attractive in outlet layout, design	( )	( )	( )	( )	( )
Consistency with other outlets	( )	( )	( )	( )	( )
General cleanliness of outlet	( )	( )	( )	( )	( )
<u>Staffing and customer service</u>					
Employing young, trendy adults	( )	( )	( )	( )	( )
Employing competent staff	( )	( )	( )	( )	( )
Use of feedback to rate customer service	( )	( )	( )	( )	( )
Training staff in customer service	( )	( )	( )	( )	( )
<u>Social Responsibility</u>					
Event sponsorship	( )	( )	( )	( )	( )
Donations to the needy	( )	( )	( )	( )	( )
Environment, health & safety issues	( )	( )	( )	( )	( )

<u>Other strategies</u>

Concentrated growth (i.e. market penetration)	( )	( )	( )	( )	( )
Innovation	( )	( )	( )	( )	( )
Joint ventures	( )	( )	( )	( )	( )
Strategic alliances	( )	( )	( )	( )	( )
Consortium	( )	( )	( )	( )	( )
Liquidation	( )	( )	( )	( )	( )
Divestiture	( )	( )	( )	( )	( )
Outsourcing	( )	( )	( )	( )	( )
Website (internet marketing)	( )	( )	( )	( )	( )

SECTION C: CHALLENGES OF THE STRATEGIES ADOPTED

Please indicate the extent to which each of the following is a challenge to your firm in applying the strategies you use for competition. To what extent have you resolved each?

5. Very great extent 4. Great extent 3. Moderate extent 2. A little extent 1. Not used at all

	Challenges 1 2 3 4 5	Resolution 1 2 3 4 5
Financial requirements (rentals, etc)	( )( )( )( )( )	( )( )( )( )( )
Changing customer tastes & preferences	( )( )( )( )( )	( )( )( )( )( )
Ability & skills of shareholders	( )( )( )( )( )	( )( )( )( )( )
Ability & skills of staff	( )( )( )( )( )	( )( )( )( )( )
Barriers to enter & exit industry	( )( )( )( )( )	( )( )( )( )( )
Marketing of product	( )( )( )( )( )	( )( )( )( )( )
Competition from non-branded firms	( )( )( )( )( )	( )( )( )( )( )
Government intervention	( )( )( )( )( )	( )( )( )( )( )
Erratic provision of utilities	( )( )( )( )( )	( )( )( )( )( )
Substitutes (other beverages)	( )( )( )( )( )	( )( )( )( )( )

THANK YOU FOR YOUR COOPERATION