RESPONSES OF UNGA LIMITED TO CHANGES IN THE COMPETITIVE ENVIRONMENT

By

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DECLARATION

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

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

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DEDICATION

This project is dedicated to my wife; a beautiful woman with a beautiful heart. God bless you Tina.

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ABSTRACT

The study was conducted by interviewing senior managers of the company. The study intended to identify the changes that have occurred in the flour milling industry, the challenges these changes pose to Unga and how the company has responded to them.

For determining the responses to competition, Porter's five-force industry model was adopted, that is, the entry of new competitors, threat of substitute products, bargaining power of suppliers, bargaining power of buyers and the rivalry between existing competitors in the industry.

Historically, Unga was a dominant player in the flour milling industry until the early 1990s when globalization and economic reforms saw an influx of other players in the industry.

The study found out that competition has really intensified in recent years and the company has adopted several strategies to respond to increased competition. These strategies include quality consistency, flexible pricing, product rationalization and branding.

The study used primary data collected through an interview guide administered to eight respondents. However, only six of these respondents were interviewed. Secondary data was also used from the existing company records at the company's Ngano House head office in Nairobi.

CHAPTER ONE

INTRODUCTION

1.1 Background

The environment is constantly changing, and as Ansoff (1987) says, it is therefore important for organizations to continuously adapt to these changes in order to survive. To survive in this very dynamic environment, organizations need strategies to focus on their consumers and to deal with emerging environmental challenges. The external environment provides the opportunities and threats for the organization. Opportunities present an avenue for improving performance for the organization while threats carry the potential to inhibit the success of the organization. A good understanding of the two forces is desirable if the organization is to remain relevant and competitive to ensure success in business.

The environment is very important to the organization. More important however, is how the organization responds to these challenges brought about by the changing environment. The Kenyan business environment has been undergoing drastic changes. These include implementation of economic reforms, liberalization of the economy, removal of price controls, increased competition and privatisation of the public sector. Organizations have to adapt to all these changes, failure to do so will put will put them into jeopardy (Aosa, 1998).

In the Kenyan context, economic reforms started having an impact in the 1990s. They covered the entire economy including gradual decontrolling of prices, liberalization of interest rates and foreign exchange rates and the privatisation of state- owned enterprises. The government policy on liberalization and privatization was articulated in the sector policy paper (Government of Kenya (GoK, 1996/8). This policy document outlined the reform measures to be undertaken in all sectors of the economy in order to stimulate growth and development, specifically through the privatization of state owned enterprises.

As Hofer and Schendel (1978) observed. for firms to be effective and hence successful. they should respond appropriately to changes that occur in their respective environments. A firm as an open system must interact with the environment to survive. It consumes resources which it then transforms into outputs and exports them to the consumer. Daft (1986) notes that open systems can be enormously complex and that internal efficiency is just one issue and is sometimes a minor issue. The organization has to find needed resources, interpret and act on the environmental changes, dispose of outputs, control and co-ordinate internal activities in the face of environmental disturbances and uncertainties if it is to be effective.

Major escalation of environmental turbulence means a change from familiar world of marketing and production to an unfamiliar world of new technologies. new competitors. new consumer attitudes. new dimensions of social control and most important an unprecedented questioning of the firm's role in the society (Ansoff and McDonald 1990).

1.1.1 Organization Responses to the Environment

An organization is part of its environment; it interacts with its environment both as a receptor and as a transmitter of signals to the environment. The character of environment the firm faces is importantly shaped by interdependencies and transactions that occur entirely outside the domain and realm of influence of the organization. If a firm is to succeed in positioning itself for future competitive situations. its strategic managers must look beyond the limits of the firm's own operations. They must consider what the relevant others are likely to do.

The environment can be analyzed through the SWOT analysis and industry analysis; this will assist in coming up with the organization's weaknesses so as to turn them into opportunities. The analysis will forecast the changes that affect the firm. This enables long term planning as a response which shows the firm's focus and direction, implementations and reviews.

Different departments in the organization play different important roles in environment analysis. The technology department for instance is used to research what competitors use to make the work flow easier. and cheaper. The information technology department is used by an organization for creating innovating design processes and products that will best suit the organization.

The environment is such a dominant influence that most organizations are unable to influence it; all they can do is to keep costs down. learn to be as good as possible at forecasting changes in the environment and respond as rapidly as possible to such changes (Johnson and Scholes, 1990).

Organizations that do not respond or respond inappropriately will not be able to survive the competition. or turbulent environment. they will perish. Others might just survive without making any profits for they are not clear what their market is and what exactly the market needs. Customer dissatisfaction is due to organizations giving the market not what the market wants them to produce. but what the organization is good at producing. The dissatisfied customers will eventually abandon the organization.

Without the environment and its effects. the organization is unable to plan and strategise. Therefore. it operates in a vacuum. it is in isolation and when the organization encounters problems. there is no recovery plan. or planned resources. A mismatch between strategy options and forecast(ed) opportunities will make an organization focus on the less important areas. and at the end of the day waste time. resources and perish (Johnson and Scholes. 1990).

1.1.2 Flour Milling Industry in Kenya

Maize is a staple food in Kenya especially in the rural areas and the urban poor. Consumption of maize products is generally higher in rural areas as opposed to the urban areas where people are better economically and can afford other substitutes to maize like rice. *chapati* and bread. Maize is grown in most parts of the country but most of the commercial maize is grown in Trans Nzoia, Uasin Gishu and Nandi districts. Maize farmers sell their produce to the National Cereals and Produce Board (NCPB) and to the flour milling companies like Unga Limited. Pembe Maize Millers, Mombasa Maize Millers and Nairobi Flour Mills.

Wheat in Kenya is grown in Uasin Gishu and Narok districts. It is sold directly to the same milling companies. Millet and sorghum for making porridge are grown in Kenya on a small scale and are mostly imported from Tanzania.

For a long time, the flour milling industry in Kenya was dominated by Unga Limited. This was because of the high entry costs into the industry in form of set up costs. The company was so large and well established that challenging it was an enormous task. It had brands which were house hold names like Jogoo and Hodari. With liberalization of the economy however. there was an influx of small regional milling companies with much lower costs than Unga Limited and thus lower prices. Besides Unga Limited. the other big players in the industry include Pembe Maize Mills with their Pembe brand of flour and Mombasa Maize Mills who produce Ndovu.

There are very many regional millers in the market. Around Eldoret town there is Eldoret Grains Limited which sells Dola, in Machakos there is Eastern Millers that sell nzau, at the coast, strong brands are Taifa and Tima by TSS and around Mount Kenya, the strongest brand is Soko.

In total. there are about 50 different brands of maize meal in Kenya today. This just goes to tell how easy it has become to join the industry as opposed to the early 1990's.
Local *posho* mills are also a big player in the maize milling industry in Kenya. Most people prefer *posho* mill flour because it is not as fine as sifted flour. Very fine flour has been said to contribute to cases if diabetes. These *posho* mills have sprung up even in urban areas to meet this demand.

The flour milling industry in Kenya experiences interesting patterns and seasonality. Maize flour sales are usually at their lowest during the months of September and November. This is the time farmers in the North Rift Districts harvest their maize crops and consumption seems to shift from the sifted maize to local maize. Wheat flour sales are at their highest in the festive month of December. At this time. most people will tend to shift consumption from maize to wheat flour.

The flour industry in Kenya is also very price-sensitive. Companies are constantly changing their prices to keep up with competition. Any company that does not adjust its prices downwards when all other competitors do so, will have a big drop in its sales since consumers will mainly use the prices when shopping for flour.

1.1.3 Unga Limited

Unga limited is part of Unga Group. Other companies in the group are Unga Farm Care (East Africa) Limited. Unga Millers (Uganda) Limited and the Thika based Bullpak Limited. Unga Limited is a flour milling company that mills maize. wheat and porridge flour. Unga Farm Care makes and sells animal feeds as well as animal health products. Unga Millers is the branch in Uganda while Bullpak is a paper packaging manufacturer.

Unga Group was formed by Lord Delamere, a prominent settler farmer, and others on 30th December 1908 at the Norfolk Hotel. The company was incorporated on January 16th 1909 and began its operations as a miller of maize. wheat and manufacturer of animal feeds. The company has undergone numerous challenges including financial difficulties and in 1928 the present Unga Group Limited was incorporated as Unga (1928) Limited to take the operations of Unga Limited.

Unga Limited concentrates on the company's core business of processing and milling maize and wheat flour for human consumption. The current maize flour brands include "Jogoo", "Hodari", "Jogoo Extra" and "Hostess". The wheat flours bear the "EXE" brand name including EXE All Purpose, EXE Mandazi. EXE Chapati, EXE Self Rising, EXE

Brown Chapati etc. It also has wheat flour called PAA which is a price fighter brand since it is cheaper than EXE. The porridge flour category has Famila Uji Mix, Famila Pure Wimbi and Famila Infant Weaning.

1.2 The Research Problem

Flour marketers in Kenya like any other organization are environment dependent. They rely on the environment to carry out their activities. They have to constantly understand the changes taking place in the competitive environment for them to survive. The nature of changes taking place in the competitive environment affects the organizations future business. The Kenya flour industry environment for maize and wheat flour marketers has experienced many changes in the competitive environment.

Prior to the early 1990s, the Kenyan flour industry was dominated by one company, Unga Limited. However, the 1990s saw an influx of small regional millers with lower operations cost and thus lower prices. The environment has thus shifted from being dominated by one company to that of many players taking an active role.

On the international scene, the food prices have been experiencing an upward trend. Kenya produces both maize and wheat. Kenyan wheat however is of a lower quality and companies in Kenya import wheat from Germany, USA, Australia and the Far East to blend with local wheat. Unga Limited is operating in this changed environment. It is one of the players in the flour milling industry. How has it responded to the changes occurring in its competitive environment?

Several studies have been done to establish how organizations respond to changes in the competitive environment in Kenya. Chepkwony (2001) studied the responses of petroleum firms in Kenya to challenges of increased competition. Leseketeti (2006) looked at the responses to increased competition by the Kenya National Examinations Council. Kiptugen (2003) also studied the responses to changing competitive environment by the Kenya Commercial Bank (KCB).

Very few studies, however, have been done on Unga Limited: Gathua (2006) researched on the strategic change management and impact on performance of Unga Group while Wainaina (1982) did a study on the application of linear programming in formulation of input factors in minimizing animal feeds production costs at Unga Feeds Limited (Now Unga Farm Care East Africa Limited). In is this limited information on the company that made the researcher feel there is need to do more studies on the company specifically on responses to the changes in the competitive environment.

1.3 The Research Objective

The study will establish the following;

i) Changes that have taken place in the competitive environment of the flour milling industry in Kenya.

ii) The responses adopted by Unga Limited to cope with the challenges brought by the changes taking place in the competitive environment.

1.4 Importance of the Study

The will be important to the following groups of users:-

i) The stakeholders who will be interested to know what is going on in the flour milling industry in Kenya, especially when they are making decisions to buy shares in the company.

ii) Financial institutions which are the main financiers of the flour milling companies. This will help them make good investment decisions.

iii) Scholars who will do further research in the area of changes in the competitive environment and in particular the responses that companies adopt to these changes.

iv) The government on the formulation of food policies in the country.

v) The researcher in the fulfilment of the requirements of the MBA degree.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section will review literature relevant to competition and organization responses. It will entail meaning of competition, its forms and some of the responses which organizations adopt to combat competition. This will guide in understanding competition and responses in a view to assist in achieving the objectives of the study.

2.2 Theoretical Foundation of Competition

Competition is the act of striving against one another for the purpose of achieving dominance or attaining a reward or goal, or for survival. Competition may be between two or more forces, life forms, agents, systems, individuals or groups, depending on the context in which the term is used. There are four forms of competition. First, there is pure competition where individuals or firms operating in the market place have the same objectives to be achieved under the same rules. Secondly, there is collaborative competition where firms or individuals have shared objectives to be achieved under the same rules in the market of operation. The third form of competition is a market where the operating firms are governed by different rules although they have similar objectives. Finally, is the market growth competition where the firms are governed by different rules although they have value added orientations. The defining characteristics of the four types of competition are respectively: needing a regulator, arguing over the spoils, differentiation and substitutability, and customer focus.

From a different perspective, three forms of competition have been identified. The most narrow form is direct competition (also called category competition or brand competition), where products that perform the same function compete against each other. For example, a brand of medicated soaps competes with several different brands of medicated soaps. Sometimes two companies are rivals and one adds new products to their line so that each company distributes the same thing and they compete. The next form is substitute competition where products that are close substitutes for one another compete. For example butter competes with margarine, mayonnaise and other various sauces and spreads. The broadest form of competition is typically called budget competition. Included in this category is anything that the consumer might want to spend their available money on, which can all be seen as competing with each other for the family's available money .

Industry competition can be analysed and understood using the Porter's five forces model. The competition in an industry depends on the collective strengths of five basic forces. The model provides a framework that enables a player to formulate strategies to influence or defend itself against the forces (Porter, 1979). Wheelen and Hunger (1990) argue that the Porter's five forces model was developed for developed countries contexts, which are different from developing countries. They suggested that a 6th force called "other stakeholders" should be included in this model. The other stakeholders include: unions, government and other interested parties. At times, the government is considered as aspirate force due to the influence it has in some industries e.g. in the energy and telecommunications sectors.

Competition has intensified over the last 20 years in virtually all parts of the world. This increase in competition has played a major role in unleashing innovation and driving progress worldwide (Porter, 1979). Likewise, there are few industries that have not experienced competition. No company and no industry can afford to ignore the need to compete and each therefore must try to understand and master competition. In the fight for market share, Porter (1979) further postulates that competition is not only manifested in other players, but also in customers, suppliers, potential entrants and substitute products. He argues that competition in the industry is dependent on the collective strengths of five basic forces.

Threat of entry is a major force in competition because new entrants bring new capacity, gain market share and often bring substantial resources. Threat of entry depends on the barriers created by existing players and their expected retaliation. An industry with strong entry barriers is likely to be more attractive than that with ease of entry. Barriers to entry include absolute cost advantage, proprietary learning curve, access/control of production inputs, government policy, capital requirements, economies of scale, access/control of distribution and brand identity.

Intense competitive rivalry can affect an industry negatively by use of functions such as price competition, product introductions and heavy advertising costs. Such actions may reduce industry profitability especially if the industry is not growing. Degree of rivalry among organizations depends on exit barriers, industry concentration, fixed costs/value added, rate of industry growth, intermittent over capacity and switching costs. If rivalry among firms in an industry is low, the industry is considered to be disciplined. When a rival acts in a way that elicits a counter reaction by other firms, rivalry intensifies. In pursuing an advantage over its rivals, a firm can choose several competitive moves. These moves include lowering prices, improving product differentiation, creatively using channels of distribution and exploiting relationship with suppliers.

Suppliers are also essential for the success of an organisation. Raw materials are needed to complete the finish product of the organisation. If they are the only supplier or one of a few suppliers who supply a particular raw material to a company, they are capable of exerting pressure to the company to increase the price they supply the raw materials at. Suppliers' bargaining power will also be high if they know it costly for the organisation to move from one supplier to another (known also as switching cost), and also if there is no other substitute for their product.

Buyers determine the attractiveness of an industry because they exert pressure on industry margins. The ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes. When buyers are powerful, they will determine the prices in the industry. Buyers are usually powerful when there are a few buyers with a significant market share, when they purchase a significant proportion of output and when they possess a credible backward integration threat i.e. they can threaten to buy the producing firm or its rival.

Substitute products limit the potential of an industry by placing a ceiling on prices it can charge. Substitutes of strategic concern are those that are subject to trends improving their price performance trade off with the industry products, and also those produced by industries earning high profits. Where such substitutes are available, they can stifle industry growth and earnings thus making it unattractive. A threat of substitutes also exists when a product's demand is affected by a price change of a substitute product. A product's price elasticity is affected by substitute products. When there are substitute products the demand becomes elastic since customers have more alternatives. A close substitute constrains the firm's ability to increase prices since it will lose the customers.

The government on its own presents challenges to an industry because it plays a dominant role in the economy. It regulates operations of the industry by formulating policies to be used by all practitioners in the industry. In Kenya, the government has exercised a lot of controls through selective issuance of licences to institutions, among other things. Aosa (1992) brought in another aspect of government "power play". He argues that managers in Kenya complained of external interference and unfair treatment while carrying out their normal managerial activities. This behaviour results in obstruction and legal competition. He argues that individuals in high government positions wield such power that they could flout government policies and controls at will. The government and such powerful individuals form a strong strategic force that needs to be considered in making strategic decisions.

2.3 Organizational Responses to Competition

Organizations depend on the environment for their survival and they have to scan it in an effort of building trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 1993). Failure to do this will lead to serious strategic problems characterised by the maladjustments of the organization's output and the demands of the external environment.

Responses of any organization to competition can be both strategic and operational. Strategic decisions are likely to affect operational decisions. The link between overall strategy and operational aspects of the organization is important because first, if the operational aspects of the organization are not in line the strategy, then, no matter how well considered the strategy is, it will not succeed. Second, it is at the operational level that real strategic advantage can be achieved (Cheluget, 2003).

2.3.1 Operational Responses

According to Johnson and Scholes (2001), the nature and tasks undertaken by the operating core of the organization has an important influence on the various aspects of the organizational design and control. Operations are the core function of the organization and continuously manage the flow of resources through it. In many organizations, operations account for 80% of employees and hence most of their added value. The output of an operations system is the bundle of goods and services, which is consumed in society.

Hunger and Wheelen (1990) observed that firms can respond to environmental changes by crafting new operational strategies, which are taken by functional areas of the organization to achieve corporate and business unit objectives by maximising resource productivity. They further note that operational responses are concerned with developing and nurturing a distinctive competence to provide an organization with a competitive advantage.

2.3.1.1 Marketing

Marketing is an important aspect of operational responses. As noted by Hunger and Wheelen (1990), marketing strategy deals with pricing, selling and distribution of a product. By adopting a marketing development strategy, a company can nurture a share of existing market for current products through market saturation and market penetration. As Kotler (1990) observed, the company could also develop new markets for current products. Using the product development strategy, a company can develop new products fro existing markets or develop new products for new markets. A company can use "Push" and "Pull" marketing strategies for advertising and promotion.

2.3.1.2 Accounting and Financing

A company can also examine the financial implications of corporate and business unit options and identify the best financial course of action. As Hunger and Wheelen (1990) noted, the key issue here is the trade off between the desired debt-to-equity ration and relying on internal long term financing via cash flows.

2.3.1.3 Research and Development

With the increasing rate of technological changes in most industries, research and development has assumed a key strategic role in many firms. As the environment continues to be depleted, firms have been challenged to develop products that have minimal impact on the environmental resources. Success entails high risks and demands considerable technological skills, forecasting expertise and ability to quickly transform innovations into commercial products.

2.3.1.4 Human Resource Management

As far as human resources are concerned, training programs that get employees to think like customers are important in achieving superior customer responsiveness (Hill, 2001). Cross training of employees can also facilitate strategy implementation and can yield many benefits. Employees gain better ideas in planning sessions.

2.3.2 Strategic Responses

Pierce and Robinson (1991) define strategic responses as the set of actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Thompson (1997) argues that strategic adaptations are changes that take place over time to the strategies and objectives of an organization. Such change can be gradual or evolutionary or more dramatic, even revolutionary. Strategic responses are therefore organizational actions that are long term in nature. They are more embracing of an organization as a whole as opposed to departmental decisions. These responses are also known to involve huge amounts of resources. They are a reaction of organizations to what is happening in the environment.

Ansoff and McDonnell (1990) noted that strategic responses involve change in a firm's strategic behaviour to assure success in the transforming future environment. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment. Such responses may take many forms depending on the organization's capability and the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, diversification, information technology, culture change, integration, acting defensively, pricing, keeping focus on powerful customers, improvement in quality of products or services, relationship marketing, and lastly, Porter's generic strategies of cost leadership, differentiation and focus. These are discussed as follows.

Porter (1980) suggests three generic strategies, which are seen to be potentially successful approaches to outperforming other firms in an industry. These strategies are overall cost leadership, differentiation and focus. Pearce and Robinson (1997) noted that forms could sometimes pursue more than one approach as its primary target. They argued that a long-term or grand strategy must be based on a core idea about how a firm can best compete in the market place. The popular term for this core idea is generic strategy.

Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts and minimization in areas like research and development, service, sales force and advertising. To achieve these aims, a great deal of managerial attention to cost control is necessary (Porter, 1980). A low cost position protects the firm against all competitive forces. Such a position provides defence for firms against rivalry from competitors, powerful buyers as well as powerful suppliers. It usually places the firm in a favourable position vis-à-vis substitutes relative to its competitors in the industry.

The focus strategy aims at narrow market segments. product category or certain buyers. This helps firms to narrow their operations to specific markets and thus achieve competitive advantage. According to Porter (1980). this strategy rests on the premise that the firm is able to serve its narrow strategic target more effective or efficient than competitors who are competing more broadly. The focus strategy therefore helps forms to direct their strategic plans to align themselves to the environment (Chepkwony, 2001).

Differentiation involves the differentiating of the product or service offering of the firm and creating something that is perceived industry wise as being unique. It can be attained through design or brand name, technology, customer service, dealer network and other dimensions. Pearce and Robinson (1997) observed that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. They noted that it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also causes increase in margins which avoids the need for a low cost position.

2.3.2.1 Restructuring

Structure, as defined by Wilson and Rosenfeld (1996), is the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. In essence, structure distinguishes the parts of the organization and delineates the relationship between them. One of the major activities of restructuring is business process reengineering. Companies can dramatically improve their efficiency and quality by focusing on customers and processes that create value for them. Outsourcing. for instance. would enable an organization to concentrate on its core business, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity.

Firms can design their strategies based on their processes, for instance through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets. Thompson (1997) states that radical business process reengineering implies that a firm completely rethink how certain tasks are carried out and searches for new ways through which performance can be improved. Consequently, this would demand for the breaking down of functional and individual job boundaries as the processes do not have to coincide with existing departmental structures. However. Grundy (1995) cautions that speeding activities up without detriment to quality and without increasing costs, demand more effective learning and feedback in the management process. There are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of a new IT equipment or system, business process reengineering through process intensification or extension, the redesign of a group of jobs, staff right-sizing and subsequent staff cutbacks, as well as staff redundancies.

2.3.2.2 Culture change

Culture change is another strategic response to increased competition in the environment of operation. As defined by Brown (1998). culture is the pattern of beliefs, values and learnt ways of coping with experience that have developed during the course of an organization's history and which tend to be manifested in its material arrangements and in the behaviours of its members. Consequently. an appropriate and cohesive culture can be a source of competitive advantage as it promotes consistency, coordination and control, and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitate the chances of being successful in the market place. Therefore, corporate culture identity, for the marketer, is a strategic tool that is used to manipulate consumer perceptions of an organization and its products or services.

According to Thompson (1997). the potential for changing the culture of an organization is effected by the strength and history of the existing cultures. how well the culture is understood. the personality and beliefs of the strategic leader. and the extend of the strategic need. He notes that the culture of an organization would need to be hanged it does not fit well with the requirements of the environment in the organization's resources, the company is not performing well and needs major strategic changes, or the company is growing in a changing environment and needs to adapt. Culture changes and corporate learning are interdependent. The rate of organizational learning is dependent on culture, while the rate and content of organizational learning fundamentally influences the firm's culture.

2.3.2.3 Marketing

Marketing is a social and managerial process. It is a process by which individuals and groups obtain what they need and want through creating and exchanging products of value with others. Basically, it is all about satisfying customer needs and wants (Kotler, 1999). Marketing helps to define the business mission, as well as analysing the environmental, competitive, and business situations. It therefore plays a major role in the organization's strategic planning process. The strategic marketing responses are based on the marketing mix elements of product, price, place and promotion.

According to Thompson and Strickland (1993), environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to the emergence of opportunities and threats. This will help the managers to develop appropriate strategies given the industry's competitive situation. A number of marketing variables may be manipulated in response to competition. These include adjusting of target markets, diversification, developing new products, distribution changes and making price cuts (Business Trends Review, 1992).

Pricing is another marketing response tool to increased competition. Though it is a short lived strategy, it can work for a short time to boost the sales when the prices are revised downwards to attract more customers. Aaker (1996) observes that the pressure to on price directly affects the motivation to build brands. Porter (1980) states that price wars kill an industry where firms are engaged in offensive and defensive moves that will mean a more touch on widespread warfare. Also, for a marketer, he can lay the focus on powerful customers as customers pay attention to after sales services, knowledge and responsiveness of employees (Kotler, 1997). There is therefore, a need for companies to understand their market place and customers and the need to provide competitive value.

Firms can also respond to competition by improving on the quality of their products or services. Customers often judge the quality of a product or service on the basis of a variety of information cues. which are either intrinsic or extrinsic. Intrinsic cues concern the physical characteristics and the extrinsic ones include price, brand image and promotional message. Customer satisfaction is the ultimate measure of quality. Most companies monitor this on the basis of the number of letters of complaints and commendation. Other companies adopt a more pro active approach and survey their customers on regular basis to ascertain their perception of service quality.

Firms can also respond to competition by enhancing their relationship marketing campaigns. This involves a process of attracting and keeping customers. On attracting potential customers, the company tries to convert them to repeat customers which are in turn converted into loyal customers who become advocates by patronizing the company and encouraging others to build a long term 'win-win" relationship with customers, which is accomplished by delivering high quality goods or services to them over time. Another marketing variable that comprise the firm's response to competition is advertising (Kotler, 1997).

2.3.2.4 Information Technology (IT)

Competition can be defined along two dimensions: the physical world of resources and the virtual world of information. Information supports and enhances every activity in the organization, and it can itself be a source of added value and, hence, competitive advantage, provided organizations are able to draw that value. Strategically, successful organizations obtain market feedback continuously and rapidly, and adapt to the feedback ahead of their rivals. They exploit the potential of strategic as well as competitive and operating information systems. Some of the information technology variables that can influence a firm's response to competition include the usage of real-time systems, extend of interconnectivity of distribution channels, as well as the efficiency of the telecommunication systems.

Technological change, especially IT, is among the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize the information (Porter, 1985). He states that IT can create new businesses from within a company's existing activities. Luftman (1996) adds that the way a firm views its businesses, customers and competition is critical to successfully aligning its business IT strategy. It is used to automate processes and to augment the skills of the organizations staff.

2.3.2.5 Intensive Strategies

Market penetration, market development and product development are sometimes referred to as intensive strategies because they require effort to improve a firm's competitive position with existing products (Fred. 1997).

According to Pierce and Robinson (1997), market penetration involves introducing present products or services into new geographical areas. It is therefore most effective when new channels of distribution are available that are reliable, inexpensive and of good quality. They note that this strategy may be applied when an organization's basic industry is rapidly becoming global in scope.

For product development, it's a strategy that seeks to increase sales by improving or modifying present products or services. When an organization has successful products that are in the maturity stage of the product life cycle, the idea is to attract satisfied customers to try new, improved products as a result of their positive experience with the organization's present products or services (Kiptugen. 2003). Pierce and Robinson (1997) observed that this strategy is most effective when an organization competes in an industry that is characterised by rapid technological developments and when major competitors offer better quality products at comparable prices. They further argue that this strategy is adopted to prolong the life cycle of current products or to take advantage of favourable reputation or brand name.

Market penetration seeks to increase the market share for the present products or services in present markets through greater marketing efforts. As Pierce and Robinson (1997) noted, this kind of strategy includes increasing the number of sales persons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts. Market penetration strategies are most appropriate when increased economies of scale provide major competitive advantage.

2.3.2.6 Diversification

Fred (1997) observed that there are three types of diversification strategies. These are concentric, horizontal and conglomerate. Concentric diversification involves adding new but related products or services. According to Jauch and Glueck (1988), this calls for a form to build on the assets or activities that it has developed. Horizontal diversification is adding unrelated products or services for present customers. According to Pierce and Robinson (1997), this strategy can be applied when an organization competes in a highly competitive or non growth industry, as indicated by low industry profit margins. Conglomerate diversification would be most effective when an organization's basic industry is experiencing declining annual sales and profits. It would also be applicable when the organization has the capital and managerial talent needed to compete in the new industry (Fred, 1997).

2.3.2.7 Integration

Forward integration, backward integration and horizontal integration are sometimes referred to as integration strategies. These strategies allow firms to gain control over distributors, suppliers and competitors (Fred, 1997). Forward integration involves gaining ownership or increased control over distributors or retailers. According to Cheluget (2003), this kind of response would be appropriate when a firm competes in an industry that is growing and expected to continue to grow markedly. Backward integration is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's suppliers are unreliable, too costly or cannot meet a firm's need or when the number of suppliers is few and the number of competitors is high. Horizontal integration refers to a strategy of seeking ownership or increased control over a firm's competitors. This strategy is most effective when an organization can gain monopolistic characteristics in a particular area or region without being challenged. It can also be effective when competitors are faltering due to lack of managerial expertise or a need for particular resources that your organization possesses (Pierce and Robinson, 1997).

2.3.2.8 Defensive Strategies

Apart from the strategies discussed above, organizations can also pursue strategic alliances, joint ventures, retrenchment, divesture, or liquidation and mergers/acquisitions. Strategic alliances involve pooling of resources with other organizations, to band together in order to exploit opportunities and to share ideas and information (Burnes, 2000). Such alliances are for cases when the resources of the various partners are insufficient to allow then to undertake the project on their own or to take advantage of an opportunity that has arisen. A joint venture is a strategic alliance that occurs when two or more companies come together for a temporary partnership or consortium for the purpose of capitalizing on some opportunities. This strategy can be considered defensive only because the firm is not undertaking the project alone.

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. This strategy would be very effective when an organization has clearly distinctive competence, but has failed to meet its objectives and goals consistently over time. Divesture is the selling of a division or part of an organization. It is often used to raise capital for further strategic acquisitions or investments. According to Johnson and Scholes (2001), divesture can be an overall retrenchment strategy to rid the organization of businesses that are not profitable. Liquidation is the selling of a company's assets, in parts, for their tangible worth. It is the recognition of defeat and consequently can be an emotionally difficult strategy.

A compelling reason to develop by acquisition is the speed with which mergers and acquisitions allow companies to new products or market areas. In some cases, the products or markets are changing so rapidly that this becomes the only successful way of entering the market successfully (Johnson and Scholes, 2001). Another reason for acquisition is the lack of resources or competence to develop a strategy internally. There are also financial motives for acquisitions as well as cost efficiency case. Mergers are more typically the result of organizations coming together voluntarily because they are actively seeking synergistic benefits, perhaps as a result of common impact of a changing environment in terms of either opportunities or threats.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design.

The study used case study design. The design was used to gather systematically factual information necessary for understanding how Unga Limited has adapted/responded to changes in the external environment. A case study is an in-depth investigation of an individual, group, institution or phenomenon. A case study was suitable for this research as it involved a complete observation of a social unit emphasizing in depth rather than breadth analysis.

3.2 Data collection.

The study used both secondary and primary data. Secondary data was collected from existing records at Unga Limited including strategic corporate plans, organizational structures, researches and studies done on flour marketers. Primary data was collected by interviewing the 8 departmental heads at Unga Limited, who are the people responsible for strategy planning. These are; Finance Manager, Human Resourses Manager, Sales and Marketing Manager, Production Manager, Operations Manager, IT Manager, Supply Chain Manager and Business Improvement Manager.

The managers were interviewed using an interview guide.

3.3 Data Analysis.

Data collected was analysed as per the set objectives using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It will involve observations and detailed description of objects, items, or things that comprise the sample. Content analysis was used to objectively identify specific characteristics of messages. Relations and trends were found to be important in drawing understanding and conclusions.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

In this chapter, we shall present the analysis and interpretation of findings of the study as set out in the research objectives. The researcher used Porter's five forces industry model and the results are presented in the order of the objectives, i.e. to establish the changes that have taken place in the flour milling industry in Kenya as well as the responses adopted by Unga to cope with the challenges brought by these changes taking place in the competitive environment. The study set out to interview eight respondents but managed to successfully interview six respondents. This represents a response rate of seventy five (75%) percent which is an adequate response rate to base conclusions on.

4.1 Changes in the flour milling industry

The first research objective was to establish the changes that have taken place in flour milling companies' competitive environment. The interview guide used Porter's five forces model and the respondents were thus asked to indicate the changes that have taken place in each of the five forces (rivalry among organizations, threat of substitute products, threat of new entrants, power of buyers and power of suppliers).

Rivalry among firms in the flour milling industry was found to have increased tremendously since the 1990s. Many companies have come up especially in the maize flour industry. The main reason for this is the fact that maize is a staple food in Kenya and there will always be a ready market for maize flour. In the wheat sector, competition has also come up but it is not as stiff as in the maize industry.

Another change that has taken place in this industry is government relaxation of policy on food production. Until the early 1990s, the government had a strict policy which in some way protected the few players in the industry from competition, Unga Limited included. After the liberalization of the economy, many players were allowed to enter this industry. With no entry barriers, the market was thus thrown open.

Respondents noted that maize flour has a very easy production system since all one needs is a milling machine and packaging material. They further noted that most of these milling machines can be imported from India fro as low as forty thousand shillings. This has definitely attracted more people in the industry of maize flour milling. However, majority of the respondents observed that the wheat flour was not easy to get in because of the complex milling process, high costs of the milling machines and the critical mass or volume needed to drive profitability.

On the bargaining power of suppliers, several changes have also taken place. Maize and wheat farmers used to rely on the government and Unga limited to buy their products. They now have many other options after the liberalization of the market; they can sell to other millers or even export the produce.

Some middle men have also come up to buy produce from farmers the sell to flour companies. This is a big change in the industry since it lengthens the distribution process. The challenges that these middlemen pose to Unga will be discussed in section 4.2.

Flour milling companies must rely on trucks to transport the flour to various destinations. In the 1990s, Tibbet and Britten was a big established company providing logistical support. However, this is no more and the trend has moved to individuals who own small fleets of even one truck. This is a change from the large established companies like Tibbet and Britten that would handle all logistics for the millers.

Another major supplier for the flour milling industry is the National Cereals and Produce Board (NCPB). NCPB basically buys maize and wheat from farmers and resells it. This is usually a last resort for flour milling companies when they have exhausted the market and there is no more maize or wheat to buy from neither farmers nor middlemen, they usually turn to NCPB for the supply. In 1979, the Government established the National Cereals and Produce Board (NCPB) by merging the Maize and Produce Board with the Wheat Board of Kenya in order to streamline the management, handling and marketing of all grains. The NCPB Act, Cap.338, that made NCPB a corporate body, was enacted in 1985. Under the Act, the Board was given monopoly powers to purchase, store, market and generally manage cereal grains and other produce in Kenya. As a legal monopoly, NCPB was empowered to regulate and control the collection, movement, storage, sale, purchase, transportation, marketing, processing, distribution, importation, exportation, and supply of maize, wheat and other scheduled agricultural produce under a controlled price system. However, due to increased food production, the government commenced the Grains Sector reform program in 1988 in which the monopoly powers of NCPB were reduced and the Grains sector was fully liberalized in 1993.

The last of these reform processes was undertaken during the implementation of Kenya Government/World Bank funded NCPB Commercialization Project that commenced in 1996 and ended in April 1998. The key objective of this program was to transform NCPB into a commercially viable entity, free to make independent commercial decisions. All these changes have effects on the flour milling industry in Kenya.

The bargaining power of buyers has also witnessed some changes. First of all, maize flour is more of a commodity than a product. What this means is that customer loyalty has become very low and when a customer does not find a particular product on the shelf, they will easily pick a competitors product. Consumers have therefore become more enlightened, empowered and very demanding. When it comes to wheat flour, in as much as there in some level of loyalty to particular brands by consumers, the consumers have also undergone several changes worth noting by companies since they affect the company's livelihood. One major change in the wheat flour industry especially in urban areas is the mushrooming of kiosks and other small roadside eating places. The respondents noted that these establishments consume more wheat flour than households and the companies have to make special plans for this market.

Consumers have also become more health conscious and are willing to pay a premium for flour that has extra vitamins and other nutrients. This is a change from the conventional flour and poses a challenge to the industry. Companies therefore have to be very keen in the ingredients of their products.

Regarding substitute products, rice, beans and other farm products were identified as the major substitutes to processed flour. These products were said to be cheaper than flour and with the rising cost of living, customers were opting for them.

Another change as far as substitute products are concerned is the increase of diseases like HIV Aids, and Diabetes. Most of these patients are advised to eat special foods like *ugali* made from millet, cassavas and potatoes. This is a challenge to flour processors because part of their market is taken away from them.

Consumers were also observed to be changing. Most single working people in towns have been observed to be shifting from *Ugali* and *Chapati* to foods like pizza, spaghetti which are easy to make. They find the thought of using one packet of maize or wheat flour then storing it for further use as both cumbersome and unhygienic. They would rather go for the ready foods. This affects the maize and wheat market.

It was also observed that global warming is having an effect on this industry. Global warming leads to unreliable weather patterns which affects the production of raw materials (maize and wheat).

4.2 Challenges posed by these changes in the flour milling industry in Kenya

The changes taking place in the flour milling industry as discussed in 4.1 have brought some challenges with them to Unga Limited. These challenges will also be discussed using Porter's five forces model.

When rivalry among organizations is very high as has been noted in the flour milling industry, it brings very stiff competition. The main challenge brought by this is loss of market share since every competing company will take a share of the market. Unga has lost its market share from 80% in 1990 to 30% in the year 2007. This loss of market share is a big challenge because the company has to work extra hard to retain the market share.

As it was noted from respondents, it is very easy to enter the maize flour market because of ready market and low set up costs. This threat is a challenge to Unga Limited because every new entrant takes a chunk of the market share.

The liberalization of the economy was a serious challenge to Unga Limited because it had enjoyed a monopoly in the flour milling industry before. It was now faced with competition from new and aggressive players and the company had to work harder to keep up with the competition.

When consumers are powerful, the company is at threat. They will force the company to lower prices. Any price increase will be resisted by the customers which in turn erodes the profits. Because of high production costs, Unga's leading brand of wheat flour EXE All Purpose passed the psychological price of Kshs 100 in May 2008. The result of this is that people stopped buying the flour and instead opted for competitors' flour that was still in the range of Kshs 95- 99. The company was forced to drive the price down to Kshs 99 in order to sell. Powerful consumers will also demand for more attention from the company and their complaints must be addressed in good time and effectively. This is a challenge to Unga and it has to invest in man power to address customer issues.

The company's continuous loss of market share saw it report losses in 1999. Many suppliers were affected by this performance. It became very difficult for the company to deal with suppliers. Maize and Wheat farmers were reluctant to supply to the company or were demanding cash payments upfront instead of the usual 30 days credit which was further affecting the company's cash flow. Financial institutions were reluctant to give loans to the company and when they did, the interest rates were very high. Shareholders started selling off their shares in the company and it was still difficult to get willing investors to buy the shares. It also became extremely difficult for the company to attract and retain competent staff. All these are the challenges that suppliers have poser to Unga.

The emergence of middle men who buy grain from farmers and sell to milling companies poses a big threat to Unga Limited. These middle men can hoard maize and wheat and provide it at inflated prices and the company will have no choice but to buy. This makes raw material prices unstable and the company has to keep changing the prices of final products to reflect this. Consumers do not like the shaky prices and will resort to other substitute products that have reliable prices.

Global warming has caused adverse weather conditions which in turn have affected crop output. Unga Limited imports 70% of wheat from USA Australia and Germany. This has affected the availability of wheat for the company. With unstable supply of raw materials, production also becomes unstable and the company will sometimes completely lack raw materials. This means, it will not have products to sell which in turn gives its customers, even the very loyal ones, an opportunity to sample competitor flour. Some of these customers are lost forever to competition.

The weakening of the Kenyan shilling in relation to the US dollar also means that Unga has to spend more when importing wheat. As noted earlier. Unga imports up to 70% of its wheat flour from abroad. A weak shilling is expensive to the company when buying wheat flour and will thus make its flour more expensive. It should be noted that most other companies in the flour milling industry in Kenya do not import wheat from abroad. The use local flour exclusively and will therefore have lower costs than Unga, but their flour quality is much more inferior to Unga's wheat flour.

Increasing fuel and electricity costs, poor infrastructure especially the road network and high costs of credit are other industry factors that are a big challenge to Unga. It is important to note that the flour milling industry has very low profit margins. Unga's average profit margin is 2% meaning that from an average annual turn over of Kshs 5 billion, the company's net profit is only 10 million Kshs. This is a big challenge both for the company and for the industry. Just to compare a couple of other industries, soap manufacturers have average profit margins of 40% while cosmetic companies make 50%

profits. The low profit margins means the company has to be always striving to cut costs and improve efficiency. These are discussed in 4.2.

4.3 Responses of Unga Limited to the challenges posed by the changes in the flour milling industry

Unga Limited has responded to the challenges brought about by the changes in the competitive environment in various ways. The company has formed a cartel with other big flour milling companies like Pembe Millers and Mombasa Maize Millers to push for their interests with the government. The millers hold regular meetings with government officials as well as other stake holders in the agricultural sector to try and influence favourable policy on the flour millers. The millers have petitioned the government to waive duty on imported flour in order to make them more competitive.

Unga has also been very aggressive in trying to block new entrants into the flour milling industry. The company has sued several small upcoming millers for brand infringement. It has also come up with fighter brands to fight competitors who use low prices to enter the market at the low end. A fighter brand is a brand that is cheaper than the main company brand which is used to fight competition in areas where the company is weak. Unga has two fighter brands; Hodari for maize flour and Paa for wheat flour. These brands have been effective in rural areas and the lower end markets in the urban areas. The people in these areas perceive Unga's leading brands of Jogoo for maize and EXE for wheat as being too expensive. With the fighter brands. the company is able to use its existing distribution network to block competition from entering the market.

Respondents noted that Unga has adopted a regional pricing strategy to fight with the small regional millers. Instead of having a uniform national price for its flour, the company has different prices for different regions. This enables the company to compete with the dominant brands in those areas. At the coast for instance, the leading brands were found to be Taifa and Tima and Unga's price in the region is in relation to these two brands. In Nakuru. Dola is the main brand and Unga prices its flour against this brand in

the region. Nairobi prices were found to compete with Pembe brand while in the Mount Kenya region the company matches its prices with Soko. In Eldoret and the entire western region, Unga's prices are matched with Ndovu brand.
Still on pricing, the company adjusts its prices regularly to match with competition. It is not unusual for the company to change the prices two or three times a day to keep up with competition.

Unga has also re-branded its products to make them distinct brands in the market. From the hitherto khaki packaging papers, Unga brands are now in white packaging which distinguishes them from other brands in the market. This branding has helped to build customer loyalty for the products since customers can identify with the different brands. The company has also rationalized its SKUs (Stock Kept Units), introduced new ones and discontinued the slow moving ones. This has helped to cut costs and optimize production. Among the de-listed products are Famila Nutri Health, EXE Brown Chapati and Simba. These were found to be very slow products which were not making economical sense to keep. The company also introduced new brands including Jogoo Extra with added vitamins to cater for the health conscious consumers, Hostess sifted flour and. These brands have improved the company sales because they are produced to satisfy a specific need in the market.

The company has also introduced smaller SKUs to cater for customers who can not afford to buy the normal flour packets which are in 2 Kg packs. The company has introduced 1Kg and half a Kilogram packets which can be afforded by the lower segment of the market. This strategy has worked well especially for porridge flour which is now in ½ Kg packaging.

Contract manufacturing is another strategy that Unga has adopted to cope with the changing competitive environment. The company has subcontracted Rafiki Millers in Nairobi to be producing wheat flour on its behalf. This strategy ensures that Unga's plant in Nairobi is used solely for maize flour production in order to meet its market demand.

order to cope with the challenge of inadequate raw materials, i.e. maize and wheat, the mpany has entered into partnership with large farmers in key maize and wheat oducing regions to be producing specifically for Unga. This has ensured constant ipply of maize and wheat throughout the year. The same strategy is also being applied ı the USA by Unga's share partner Seaboard Corporation to source for wheat from armers in the USA to bring it to Kenya.

In order to get maximum grain during harvesting seasons, the company has temporary buying centres in the maize and wheat producing seasons. These centres which only open during the harvest seasons are usually in Narok for wheat and Kitale for maize. This makes it easy for farmers to sell their outputs and the company therefore gets more grains than it would had it remained stationed at its premises and waited for farmers to bring the products.

On distribution, Unga has made various responses to cope with the increasing competition. The company has partnered with key traders across the countries who distribute its products. These big distributors are very influential in the success of the company's products because they are the middlemen between the company and the other small traders. The company gives these distributors some incentives to re-distribute the products and this ensures that the products reach the furthest corners of the country. With such an elaborate distribution network, the company has an edge over competition. Some of these distributors have actually signed contracts with Unga not to sell any other competitor flour and this effectively locks competition out in these regions.

Still on distribution, the company has come up with a transport rebate system to ease the problem of lack of transportation trucks. Instead of the company using its own trucks or hired ones to deliver goods to the customers, the company pays distributors an agreed amount so that they can be using their own trucks to collect flour from the company. This transport rebate is enticing to the distributors since most of them are established traders with their own fleet of trucks. The distributors use their trucks to collect the flour from Unga then go to buy other products they might require especially sugar to fill up the trucks. With this system in place, the company does not have to worry about looking for transporters to deliver to various destinations in the country.

Unga limited has also adopted a schedules delivery system. This system allows the company's 130 distributors countrywide to buy flour only on their designated days. If a customer is scheduled to buy on Mondays and Saturdays for instance, they can only be allowed to buy on those allocated days and if they come to the company on Tuesday to buy flour, they will be turned back since that is not their scheduled buying day. The days have been carefully selected and allocated based on customers' buying ability and the customers who buy more flour are allocated more scheduled days. This system has greatly eased congestion at the company's sales offices. Before the system was adopted, trucks could queue at the company for as long as three days before their turn to load reaches. Right now, the waiting time is 6 hours maximum.

Unga has also worked very hard to maintain very high quality of its flour. The company has the best quality of flour and in fact, it is only Unga's flour that bears the diamond mark of quality from the Kenya Bureau of Standards. It is in view of this that the company has adopted the Kaizen principles in its operations. Kaizen is a system of continuous improvement in quality, technology, processes, company culture, productivity, safety and leadership. It was developed in Japan after the Second World War when the country had to rebuild after the devastating war. Kaizen is a system that involves every employee - from upper management to the cleaning crew. Everyone is encouraged to come up with small improvement suggestions on a regular basis. This makes the low level employees feel they are part of the team and that their input is valued by the company.

In order to satisfy the increasingly demanding customers, the company set up a customer service department in the year 2005. This department is has a manager as well as customer service executives stationed at the plants in Nairobi and Eldoret. This department has helped transform the company's operations since any customer issues are addressed effectively. The department has also helped educate the other departments especially credit control on the importance of all customers, internal and external.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarises the results of the study, discusses and draws conclusions. This will be presented in the order of objectives.

5.1 Summary and conclusions

The first objective sought to establish the changes that have taken place in the competitive environment of the flour milling industry.

Rivalry among companies in the flour milling industry was found to have increased tremendously in recent years. This is primarily due to the ready market available since maize is a staple food in Kenya and wheat consumption is equally high. Companies in the industry were found to have cut throat competition because the margins are very small and they have to strive to beat competition.

New entrants were found to be a big threat in the maize milling industry but not so in the wheat milling industry. It was observed that it is very easy to enter the maize milling industry because of low set up costs and the ready market. It was noted that consumers were not particularly loyal to brands of maize flour and they would buy any brand they find on the shelves so long as the price is right. In the wheat milling industry, set up costs were found to be high and thus the threat of new entrants was found to be limited. Wheat flour consumers were also found to exhibit some level of loyalty to particular brands which made it difficult for new comers to get a market share. All these changes have happened in

Rice, beans and potatoes were found to be the main substitute products to maize and wheat. They pose a real danger to maize and wheat because they are more easily available, have lower costs and were preferred by people with diseases like diabetes, high blood pressure and HIV Aids. This change in consumption has seen more people opting for the traditional foods at the expense of maize and wheat.

Supplier power was also found to have undergone several changes. Maize and wheat farmers now had several options when it came to selling their farm produce. Big transportation companies that used to transport for flour companies had gone under and instead small scale transporters had emerged. The NCPB which is a big supplier of cereal to flour millers had also undergone liberalization and middle men have come up to fill the gap left by the NCPB.

Consumers had also changed a great deal. They were found to be very health conscious and were shifting preference to products that had more nutrients. The consumers had also become very price sensitive and were not willing to pay beyond a certain psychological price for any given product.

From the above discussions, the following conclusion can be drawn: after the liberalization of the economy in the early 1990s, many changes have taken place in the flour millers' competitive environment. Unga Limited no longer enjoys the near monopoly market share it had because very many players have come up in the industry. It is however noted that the changes taking place are more in the maize milling industry than the wheat milling industry.

With the changes in the competitive environment, Unga has had several challenges. The main challenge is obviously loss of market share. The company has to struggle to retain its market share; it finds it difficult to get enough raw materials and suppliers are choosier.

The second objective sought to establish the responses by Unga Limited to the challenges brought about by these changes in the competitive environment. The company was found to have responded in very many ways to these challenges. It has collaborated with other millers to push for favourable legislation to the industry. It has also re-branded its products to make them distinct in the market. Thc company has introduced new products and discontinued the slow moving ones. Smaller packaging of products has also been adopted.

Setting up a customer service department had also been instrumental in ensuring that customers are well serviced and their complaints are addressed promptly.

The company has adopted a flexible pricing strategy and contract manufacturing to cope with demand. Scheduled distribution, transport rebates and partnering with both farmers and traders have also been adopted by the company. Finally the company has stressed on quality of its products. This includes bearing the diamond mark of quality from the Kenya Bureau of Standards as well as embracing the Kaizen principles in its operation.

From the discussion, Unga is faced with stiff competition in the flour milling industry from various other players, which has brought several challenges to the company. The company has had various responses to these challenges ranging from quality and performance improvement to aggressive distribution. These responses are both strategic and operational in nature. However, operational responses appear to be given more emphasis by the company that the strategic responses. Investing in Information Technology, restructuring as well as diversifying into other related industries would go a long way in enhancing the product portfolio and improving profitability.

5.2 Limitations of the study

The researcher was unable to get all the 8 heads of department for the interview. Two were totally unavailable and only six were used in the study. The company's top management was not willing to give all the information in the interview guide and chose for the managers which questions to answer and which ones not to answer before the interview.

5.3 Recommendations for further research

This study was based on Unga Limited which is part of the larger Unga Group. Further research in this area can be conducted to assess the changes taking place in Unga Group as a whole. The study was also based on Porter's five- force industry analysis model; other studies based on other models could be conducted.

5.4 Recommendations for Policy and Practice

Unga Limited buys the bulk of its wheat flour through its partner, Seaboard Corporation based in the USA. This flour is usually expensive and makes the company's flour not competitive locally. The company can start sourcing for the flour on its own like other flour millers for it to be competitive.

The company's flour is all consumed locally. There is a huge potential to export to other Great Lakes region countries like Burundi and Rwanda. Southern Sudan also has a big untapped potential.

Also, there are very many Kenyans living in the Diaspora especially the USA and the UK. These countries have African shops and the company can establish contacts and start selling to them. Flour has a long shelf life of six months and even if it was transported by ship, it will reach in good time.

Finally, the company can also make a bold move and venture into other related industries like cereals. It will use the bi products from its flour milling and will therefore have lower costs. This will diversify the company's portfolio and stop it from relying on flour alone.

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APPENDICES

Appendix 1: Letter of Introduction

Dear Sir/Madam,

I am a student pursuing Master of Business Administration (MBA), Strategic Management, in the School of Business, University of Nairobi. The title of my study is "Responses of Unga Limited to changes in the competitive environment".

The questionnaire attached asks questions about Unga's capability in responding to the environmental change in the flour milling industry. Based on your experience and knowledge, please indicate the most appropriate response.

Your participation is essential to this study and will enhance our knowledge of strategic management operations in Kenya. I wish to assure you that all information with respect to this research will be treated with the strictest confidence it deserves and will only be used for academic purposes, and in no circumstances will your name be mentioned in the report without your prior permission. If you would like, we can send you the report of the findings on request.

Thank you very much.

Simon Wekesa

Dr. Martin Ogutu
Supervisor

Appendix 2: Interview Guide

1. Name...
2. How long have you worked for Unga Limited?
3. Has the number of competitors in the flour milling industry increased significantly in the last 10 years?
4. If yes in 4 above, how has this affected Unga's competitive position?
5. How has Unga responded to these challenges?
6. What makes it easy/difficult for other players to enter the flour milling industry in Kenya?
7. What has been done to limit new entrants in the industry? (By Unga. the government etc)
8. Is there strong competition among firms in the flour milling industry?
9. What challenges has this rivalry posed to Unga?
10. How has the company responded to these challenges?
11. Has there been an increase in substitute products to flour in the last few years?
12. If yes in 12 above. what challenges have these substitute products posed to Unga?
13. How has Unga responded to these challenges?
14. Who are some of Unga's big suppliers?
15. How have the suppliers influence changed in the past few years?
16. What challenges has this suppliers' influence posed to Unga?
17. How has the company responded to these challenges?

18. Have Unga's customers become more demanding in the past few years?

19. If yes in 19 above, what challenges have these demanding consumers posed to Unga?

20. How has Unga responded to these challenges?