# SUSTAINABLE COMPETITIVE ADVANTAGE ARISING FROM COMPETITIVE STARTEGIES ADOPTED BY LOW-COST AIRLINES IN KENYA: CASE OF FIVE FORTY AVIATION LTD

**By**

**Sirengo, Adeline Nafula**

**A Management Research Project Submitted in Partial Fulfilment of the Requirements of the Degree of Master of Business Administration (MBA), School of Business, University of Nairobi**

**November, 2009**

## DECLARATION

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

Signed............................ Date....6/11/2009..........

Adeline Nafula Sirengo

D61/8328/2006

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

Signed............................ Date...6/11/2009..........

for Dr. Mohammed Mohamoud

Lecturer,

Department of Business Administration

School of Business

University of Nairobi

## DEDICATION

This project is dedicated to my lovely daughter, Ratana, may you grow to be a woman of great virtues and always be the best of the best.

## ACKNOWLEDGEMENT

First, I would like to thank God, who gave me the strength and will to do all these work. May you always be praised.

My special thanks go to my supervisor, Dr. Mohammed for his enormous patience, guidance and constant advice to make sure that this work is a complete masterpiece.

To my parents, for their belief in education, prayers and encouragement to always strive for the best. Special thanks go to my sisters and brothers, for their support and urging me to press on always. To my brother Reagan, you know how you made this project a success, thank you so much for being selfless, God bless you so much.

I would also like to thank the Management of Five Forty Aviation Ltd for giving me the opportunity to collect the necessary data through interviews.

Lastly, special thanks go to my husband, Joginder, for always being there for me at a time when I needed him most. And anyone else who made this project a success in one way or another, God bless you so much.

## TABLE OF CONTENTS

**CHAPTER 3: RESEARCH METHODOLOGY**



**CHAPTER 4: DATA ANALYSIS AND FINDINGS**



**CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

## LIST OF TABLES

## LIST OF FIGURES

**ABSTARCT**

This case study was carried out with the objectives of establishing the sustainable competitive advantage arising from competitive strategies Five Forty Aviation has adopted as a low-cost carrier to compete successfully in the face of competition in the turbulent airline industry and determine the challenges in the application of these chosen competitive strategies. The study findings indicate that Five Forty Aviation has managed to proactively execute various strategies that have enabled it to compete effectively in the turbulent aviation industry which has been dogged with rising costs, competition and a slow down in airline traffic due to the deteriorating economic climate. During the global financial crisis early this year saw most major airlines opting to downsize and aggressively cut costs to survive the massive losses they felt. Five Forty Aviation was not only spared by this downturn but boosted. This is because of its lean business model which offered a compelling alternative at a time when people were conserving money to cover essentials such as food, shelter and family necessities.

In its strategy to be a low cost provider, Five Forty Aviation has undertaken to cut costs by flying to secondary airports and by operating a fleet of modern turbo props which offer an ideal mix of comfort, speed and economic operating costs.Other strategies used by the airline to stay competitive include use of low fares to attract customers, frequent flying from point-to-point, low operating costs on aircraft equipment and a lean and mean workforce, use of online booking over the internet, commitment to safety and quality maintenance, diversifying its business, using the first mover advantage and being able to differentiate its products from those of its competitors. At the core of a low-cost model are these cost-reductions, which partly end up in cheaper tickets for passengers.

The study also found out that Five Forty Aviation's management undertakes the responsibility of strategy formulation, implementation and evaluation. The management reviews its strategies from time to time and it's a continuous process to stay competitive. This is supported by Ohmae (1985) who contends that if an organization is to manage its environment, it will seek to be proactive rather than reactive. From the findings, it is clear that Five Forty also embraces modern technological innovations. On-line processes such as E-Crew and Omni-Flow have been adapted to help streamline flow of information. Organizational learning approach is also used by the organization to ensure that information is shared within the organization and in particular between groups, functions, and geographical locations. A climate of openness has been encouraged to facilitate creation of new knowledge The organization has also diversified its business to increase its revenues and market penetration by operating chartered flights in Libya and freight services.

Despite all these cutting edge strategies, the airline has been greatly facing various challenges in the implementation of these strategies. They include high cost of fuel, internal competition, shortage of trained and skilled manpower, increasing labor costs, infrastructural hurdles and deficiency of airports and airstrips which have greatly affected the airline's growth strategy. To survive the situation resulting from these challenges, the firm has opted to minimize its operating costs, hedge the fuel pricing and improve its load factor. This has enabled the organization to tap potential markets by enlarging the size of air traveling segment by aggressive marketing, improving the ancillary revenues by in-flight marketing, and selling packages with tours and hotels along with tickets for sustainability. Managers are convinced that the low-cost carrier industry in Kenya has not yet realized its full potential and that this industry is one that expects growth and sustainability in the years to come.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

The global aviation industry is undergoing a fundamental structural shift. Aviation Industry Survey Results (2008) states that the aviation industry is faced with excess capacity, rising costs, competition and deteriorating economic climate, therefore airlines must innovate to ensure continued survival and profitability. For many airlines, survival depends on their ability to develop new business models to enable them adapt to the ever changing environment. The globalization of the worldwide economy, coupled with airline deregulation and trade expansion, has caused a boom in the air travel. This rapid growth has not been paralleled by a similar expansion in the national airspace infrastructure, resulting in congestion, delays and widespread frustrations (Ochieng, 2006).

The purpose of strategy according to Ramaswamy and Namakumari (1996) is to exploit the unique advantages of the organization in facing the challenges of the environment. A strategy begins with a concern and a burden of how best to use the limited resources of the organization. The successful corporations make their strategic priority to build their core competencies and long term competitive advantages, so that they will serve the real back up for the business level strategies of the business units of the corporation. To acquire competitive advantage in any market, a firm needs to be able to deliver a given set of customer benefits at lower costs than competitors, or provide customers with a bundle of benefits its rivals cannot match. To realize the potential that core competencies create, a company must also have the imagination to envision markets that do not yet exist and the ability to stake them out ahead of competition (Hamel and Prahalad 1991; Porter 1980).

Chaudhary (1979) asserts that the process of strategy formulation involves matching of opportunities and corporate capabilities, which results in the generation of economically feasible strategic alternatives. There must be a strategic fit between what the environment wants and what the firm has to offer, as well as between the firm needs and what the environment can provide (Wheelen and Hunger, 1995). Businesses become successful when they posses some advantage relative to their competitors (Pearce and Robinson, 1997).Cole (1995) observes that some firms change in response to external forces (reactive change), while others change principally because they have to implement change (proactive change).

Businesses all over the world are faced with the challenges posed with the ever changing and turbulent environment. Institutionalizing strategies, allocation of adequate resources, visionary leadership, and good corporate culture, amongst others are necessary ingredients for successful business strategies. This is the essence of environmental analysis, the process by which strategists monitor the environmental sector to determine opportunities and threats to their firms (Jauch and Glueck, 1998).

This paper seeks to examine the various competitive strategies being employed by Fly540 airline to remain competitive in the airline industry which has seen tremendous changes in the recent past. The organization's competitive advantage potential depends on the value, rareness, and imitability of its resources and capabilities (Barney, 1992). The increasing global nature of competition requires that the firm utilizes all of its valuable resources in order to survive and succeed. Therefore, Fly540 as an airline needs to identify and build these competitive strategies that are sustainable and will set it above other airlines in the industry as competition intensifies.

### 1.1.1 Overview of Competitive Strategies

Competitive Strategy according to Johnson *et al* (2002) is the bases on which a business unit might achieve competitive advantage in its market. According to Porter (1985) competitive strategy is the search for a favorable competitive position in the industry and aims at establishing a profitable and sustainable position against forces that determines industry competition. Thompson and Strickland (2007) postulate that a company's competitive strategy deals exclusively with the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals.

Competitive strategy has never been more important to success in today's business environment, yet many companies fail to execute a successful strategy. Thompson (1997) stresses that when considering the appropriateness of current strategies and the need for change, managers must take account of the passage of time if their decisions are to be effective. The old competitive strategies of invention and mass production no longer work in an increasingly turbulent business environment. Successful firms are always implementing the new competitive strategies for continuous improvement and mass customization of which is defined as a dynamic flow of goods and services via a stable set of process (Hill and Jones, 2002).

Therefore, managers of firms must asses their firm's current competitive position, build a vision for where they must be in the future and craft a transformation strategy to turn that future vision into reality. Understanding the key forces at work in the competitive environment and identifying the underlying forces in the macro-environment that are driving competitive forces are critical for the success of firms operating in the industry. Craig and Douglas (1996) suggest that for firms to respond to the challenges of change, complexity, competition and conscience, they should use different tools such as information systems technology, creating new organizational forms, providing administrative and organizational flexibility, and effective resource deployment at various stages of the value chain.

This research paper will investigate how fly540 has developed innovative competitive strategies to cope with the changing airline industry in Kenya as a result of excess capacity, rising costs, competition and deteriorating economic climate. The inconclusive nature of much of the existing research reflects the fact that organizational capabilities, competition, strategy and performance are fundamentally endogenous. The capabilities of Fly540 airline, its managers' understanding of the capabilities and the historical context that surrounds them has conditioned the firm to react proactively to changes in its business environment. The organization needs to conduct a competitive analysis to asses the firm's external environment and lay the groundwork for matching the firm's strategy to its external situation.

### 1.1.2 Low-Cost Carriers

According to Travel Business Analyst (2003) Discount airlines, No frills airlines, Prizefighters, Low-cost airlines, or low-cost carriers, all are different names for the same phenomenon: airlines which offer cheaper tickets compared to other carriers. But when is an airline a low-cost carrier? First of all, it's not the carrier itself which makes it a low-cost carrier, but it is the operating model that makes the difference. So in this way it would be better to speak of a low-cost model, which is based on reducing all kind of complexity costs. By reducing these complexity costs, it becomes possible to offer the same ticket for a much lower price. European Travel Network (2005) says that an airline is recognized as a low-cost carrier if at least 75 percent of their seats are sold at their lowest published fares or if they offer a very good deal. In principle an airline company is a low-cost carrier if they operate according to the low-cost model.

Business model typical of low-cost carriers include a single passenger class, a single type of aircraft, a simple fare scheme, unreserved seating, fly to secondary airports, fast turnaround times, point-to-point network instead of hub and spoke, emphasis on direct sales of tickets, especially over the internet to avoid fees and commissions paid to travel agents and reservations systems, and finally employees also work in multiple roles to limit personnel costs (Gillen and Lall, 2004).

The low-cost carrier sector is a fast changing sector. It is expected the latent demand of low-cost carrier traffic will reduce and the market will get saturated. The low-cost carriers will keep on growing and try to attract customers from other airlines (McKinsey, 2003; Bingelli, 2005). From a study of Mercer Management Consulting (2002) it is expected that the low-cost carriers will have a market share of over 25% in 2010 and it will continue to grow while Airline Business (2005) expects this would be even higher at 33%. Larger low-cost carriers need to compete with smaller ones in order to expand their own market share. Meanwhile full-service carriers are looking for another strategy to profit from the low-cost carrier market. Both low-cost and full-service carriers need to reconsider their strategy and try to keep their head above water. In Kenya, currently low-cost carriers include; Fly540, Jetlink Express, East African Safari Air, LacVic Aviation, and Air Kenya.

### 1.1.3 Five Forty Aviation Ltd

According to Flight International (2007) Fly 540 airline was established as a low-cost carrier in October 2006, where Lonrho acquired 49% of the issued share capital of the airline for a cash consideration of US$ 1.5 Million. The airline started operations between Nairobi and Mombasa on November 24, 2006. The service initially operated twice daily using 48-seat ATR 42 aircraft. The airline's name refers to its price of Sh5, 540 per adult return fare between the above-mentioned cities .As well as providing freight services, Fly 540 has been created to meet the growing demand for alternative domestic and regional air travel within Africa.

It operates flights to Mombasa, Malindi, Lamu, Kisumu, Kitale, Lodwar, Nairobi, Eldoret, Maasai Mara, Entebbe in Uganda, Dar-es-salaam, Zanzibar, Serengeti, Seronera, Kilimanjaro and Manyara in Tanzania and Khartoum in Sudan. The airline projects to fly to Angola, with plans to make it act as a hub for South African region, Congo DRC, Tanzania and west-wards as far as Accra in Ghana to act as a hub for West Africa region in the future. After all these is achieved, it will be the first Pan African low-cost carrier airline with hubs in three quadrants in Africa that offers services which people require, that is; low costs for travel that will be convenient to their budgets. The airline has deployed a fleet of four modern turbo prop aircrafts offering an ideal mix of comfort, speed and economic operating costs. It uplifts in excess of 20,000 passengers a month in peak months, demonstrating the demand for low budget air travel in East Africa and the potential that this market offers. The rapidly increasing demand for such services makes this a high growth area of business aligning it with Lonrho's renewed strategic focus.

According to Travel Business Analyst (2003) based on experience of the terrorist attacks on September 11, low-cost airlines are likely to survive the economic downturn. The journal says that at first glance, low-cost carriers were not only spared, but boosted by this massive downturn. Their lean business models have offered a compelling alternative at a time when passengers began looking for ways to avoid paying high prices to maintain their complex hub and spoke systems. On continental travel routes, low-cost airlines are able to deliver 80 per cent of the service quality at less than 50 per cent of the cost of network airlines.

Like any other organization, Fly 540 operates in a turbulent environment characterized by high demand for services, competition and rising costs. To cope with these changes, strategic management has taken a centre stage in organizations that intend to succeed in the turbulent business environment. Many believe that Fly 540 will succeed in the market giving the type of equipment it operates: - fuel and environmentally friendly turbo props. This however is expected to be complemented by quality customer service to continue to make a substantive difference in line with the objectives of its founders.

### 1.2 Statement of the Problem

The aviation industry is currently faced with excess capacity, rising costs, competition and deteriorating economic climate, prompting most airlines to innovate to ensure continued survival and profitability. According to Certo and Peter (1995) the Airline Deregulation Act of 1978 was designed to create a competitive environment where market forces could freely operate an efficient and effective air transportation system. Competition has intensified and resulted in industry consolidation as operators have adjusted to the realities of a deregulated environment. The air transportation system has been developed around the "hub and spoke" concept with major carriers dominating key hub cities and the regional airlines feeding into these hubs (Kramer, 1991).

The issue of growth presents both opportunities and threats for airlines (Thiga, 2002). Opportunities in that "new" markets are emerging through the signing of open skies agreements between nations and economic trading blocks. Each player in the industry faces more external competition from other players as each one of them steps efforts to garner a sizeable market share. Many regional airlines have opted to code-share with major carriers to survive in the industry. Airlines must therefore formulate appropriate strategies to quickly tap into such markets in order to reap the potential benefits. Currently in Kenya; there has been an overwhelming entry of low-cost carrier airlines in the industry. Most airlines are struggling to match capacity with fast-falling demand and until this comes into balance, even the sharp fall in fuel prices cannot save the industry from drowning in red ink.

Various studies (Kiburi 1999, Anot 2006, Obado 2005, Omondi 2006) have been conducted on competitive strategies but under different contexts because each industry is unique and thus adopts different competitive strategies. Recent studies on airlines include by Omondi (2006) which focused on the competitive strategies adopted by airlines operating in Kenya and Thiga (2002) focused on strategic responses of airlines operating in Kenya in the face of changing environmental conditions. These studies brought out pertinent strategic responses adopted by airlines which are largely for survival and not competitiveness. Thus there is a gap in knowledge on addressing low-cost airlines which have not been tackled in any research. This study intends to look at various competitive strategies adopted by low-cost airlines, especially Fly540, which has a totally different business model from global/ major airlines and how it has sustained this competitiveness since its inception in the turbulent airline industry.

## 1.3 Objectives of the Study

The objectives of this study are to:

1) Establish the Sustainable Competitive Advantage arising from Competitive Strategies Fly540 airline has adopted as a low-cost carrier to compete successfully in the face of competition in the turbulent airline industry.
2) Determine the challenges facing Fly540 airline in the application of these chosen Competitive Strategies.

## 1.4 Significance of the Study

The findings of this project will be beneficial to Fly540 airline management in determining the effectiveness of the Competitive Strategies they are employing currently to compete in the industry and the challenges in their implementation for sustainability in the long-term. To the Airline Industry where there is stiff competition among airlines and new entrants are coming up everyday to try and oust one another. Hence the findings of this study will help boost the understanding of the strategies these airlines need to adopt to compete effectively in the industry. Finally, considering that low-cost carriers are coming up all the time to compete with global airlines, little research has been done on the reasons why these airlines keep on emerging and have managed to survive competition despite the harsh economic environment. This study therefore, provides an ample base for further research for scholars.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Concept of Strategy

Johnson and Scholes (2005) defines strategy as the direction and scope of an organization over the long term through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder's expectations. Kangaroo (1998) defines strategy as the underlying concept in strategic management. It's about winning and it serves as a unifying theme that gives coherence and direction to the actions and decision of an individual or an organization. Quinn (1980) defines strategy as a pattern or plan that integrates organizations major goals, policies and action sequences into a cohesive whole. Thompson *et al* (2007) contends that a company's strategy represents a managerial action plan for running the business and conducting operations. Ansoff (1965) defines strategy as a set of decision making rules for guidance of organizational behavior. In the end, the strategy by which the sustainable competitive advantage is gained is known as business level strategy of the organization (Hill and Jones, 2001).

A good strategy is one that has simple, consistent and long term objectives and is similarly derived from a good understanding of the competitive environment through appreciating the dynamics of competition and the turbulence of the environment. Thompson and Strickland (2007) asserts that the heart and soul of any strategy are the actions and moves in the market place that managers are taking to improve the company's financial performance, strengthen its long-term competitive position and gain a competitive advantage over its rivals. The crafting of a strategy represents a managerial commitment to pursue a potential or set of actions in growing the business, attracting and pleasing customers, competing successfully, conducting operations and improving the company's financial and market performance.

We find that strategy guides organizations to superior performance through establishing competitive advantage and acting as a vehicle for communicating and coordinating activities and policies within the organization (Johnson and Scholes, 2002). How well is the present strategy working is a key question most firms should ask themselves (Thompson and Strickland, 2007). The essential managerial dictum of strategy is that competitive advantage accrues to those firm's whose distinctive organizational competences have a superior fit with the business and societal environments within which they operate .Therefore, we conclude that strategy is the roadmap towards gaining competitive advantage.

**Managing and Adapting to Changes in a Turbulent Environment**

Ansoff (1987) contends that to survive and succeed in an industry, the firm must match the aggressiveness of its operating and strategic behaviors to the changeability of demands and opportunities in the market place. The extend to which the environment is changeable or turbulent depends on six factors; changeability of the market environment, speed of change, intensity of competition, fertility of technology, discrimination by customers and pressure from governments and influential groups. Ansoff (1985) further suggests that the more turbulent the environment is, the more aggressive the firm must be in terms of competitive strategies and change orientation if it is to succeed. If a firm is to control its growth, change and development, it must seek to control the forces which provide the opportunities for growth and change, and those which pose threats and demand response.

Organizations today operate in a dynamic and constantly changing environment and the purpose of strategy is to exploit the unique advantages of the organization in facing the challenges of the environment (Ramaswamy and Namakumari 1996). However, Ohmae (1985) contends that if an organization is to manage its environment, it will seek to be proactive rather than reactive. To cope with these changes, strategic management has taken center stage in organizations that intend to succeed in the turbulent business environment. David (1997) defines strategic management as the art and science of formulating, implementing and evaluating cross-functional decisions that enable our organizations to achieve its objectives. Effective strategic management is the positioning of an organization, relative to its competitors, in such a way that it outperforms them. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products and cultures to survive the shocks and prosper from the forces that decimate the competition. Managers must clearly appreciate the relative importance of various stakeholders, and seek to influence them rather than be predominantly influenced by them. An organization will never be able to predict everything that might happen and avoid ever having to react to unexpected events, but some will be more in control of the situation than their rivals, who might find themselves always responding to changes instituted by others.

## 2.2 Competitive Advantage

Porter (1985) defines competitive advantage as a position a firm occupies against its competitors. It defines the 'uniqueness' of an organization vis-à-vis its competitors. It implies a distinct, and ideally sustainable, edge over competitors (Thompson, 1997). It is more than the idea of competitive strategy which may or may not prove distinctive (Johnson *et al*, 2005). Ohmae (1988) argues that it is important to remember that competitive advantage is being sought for one major purpose- to serve customers real needs, it is not simply to beat competition.

Porter (1985) stresses that competitive advantage is created and sustained when a firm performs the most critical functions either more cheaply or better than its competitors. He further says that sustained competitive advantage requires effective control of cost drivers and that scale economies, learning, linkages, inter-relationships and timing provide the key opportunities for creating advantage. Porter (1985) has shown how companies can seek broad advantage within an industry or focus on one or a number of distinct segments. He argues that advantage can accrue from cost leadership, differentiation and focus strategies.

Thompson (1997) postulates that outstanding companies usually obtain their competitive advantage from more than one source. Porter (1985) asserts that speed and fast reaction to opportunities and threats can provide advantage, essentially by reducing costs and differentiating. The most successful companies innovate and continually seek new forms of advantage in order to open up a competitive gap and then maintain their lead since few individual sources of advantage are sustainable in the long-run. Gaining competitive advantage entail a set of specialized skills, assets, and capabilities for the organization. A successful competitive position implies a match between customers' perceptions of the relative quality or value of a product or service in comparison to rival offerings- and it is price, again in relation to the prices of competing products or services. Ohmae (1982) offers an alternative, but clearly related view of competitive advantage highlighting three C's- customers, competitors and the corporation. Customers will ultimately decide whether or not the business is successful by buying the product or service. Corporations are organized around particular functions and the way they are structured and managed determines the cost of the product or service while competitors will similarly differentiate their products, goods and services and again incur costs in doing so.

### 2.2.1 The Generic Building Blocks of Competitive Advantage

Hill and Jones (2001) says that these are the generic blocks of competitive advantage that any company can adapt regardless of its industry, products or services. They are highly interrelated and they include efficiency, quality, innovation and customer responsiveness.

Efficiency helps a company attain a low-cost competitive advantage through employee productivity which is measured by output per employee. Quality products are goods and services that are reliable in the sense that they do the job they were designed for and does it well. The impact of high quality on competitive advantage is two fold (Garvin, 1984). First, it increases the value of the products in the eyes of consumers and secondly, it brings about greater efficiency and lowers unit costs. Innovation includes advances in the kinds of products, production processes, management systems, organizational structures and strategies developed by a company. Competition is viewed as a process driven by innovations as they give a company something unique which lets it differentiate itself from its rivals and charge a premium price for its products or reduce its unit costs far below its competitors.

Achieving superior quality and innovation are an integral part of achieving customer responsiveness in that customers will place more value on its products, creating a differentiation based competitive advantage. Stalk (1990) stresses that customer response time is an aspect of customer responsiveness that can either be a major source of customer dissatisfaction or satisfaction. The need to customize goods and services to the unique demands of individual customer groups, superior design, superior service and superior after sales and service and support also help achieve customer responsiveness as all these enable build brand loyalty.

### 2.2.2 Bases of Competitive Advantage

**The Strategy Clock**

According to Johnson and Scholes (2002) the strategy clock is a market based model of generic strategy options rooted in the question: what is of value in the product or service to the customer, user or provider of funding? It does not deny that the cost base of an organization is crucially important, but it sees this as a means of developing generic strategies and not as a basis for competitive advantage in itself.

**<u>The Strategy Clock: Competitive Strategy Options</u>**

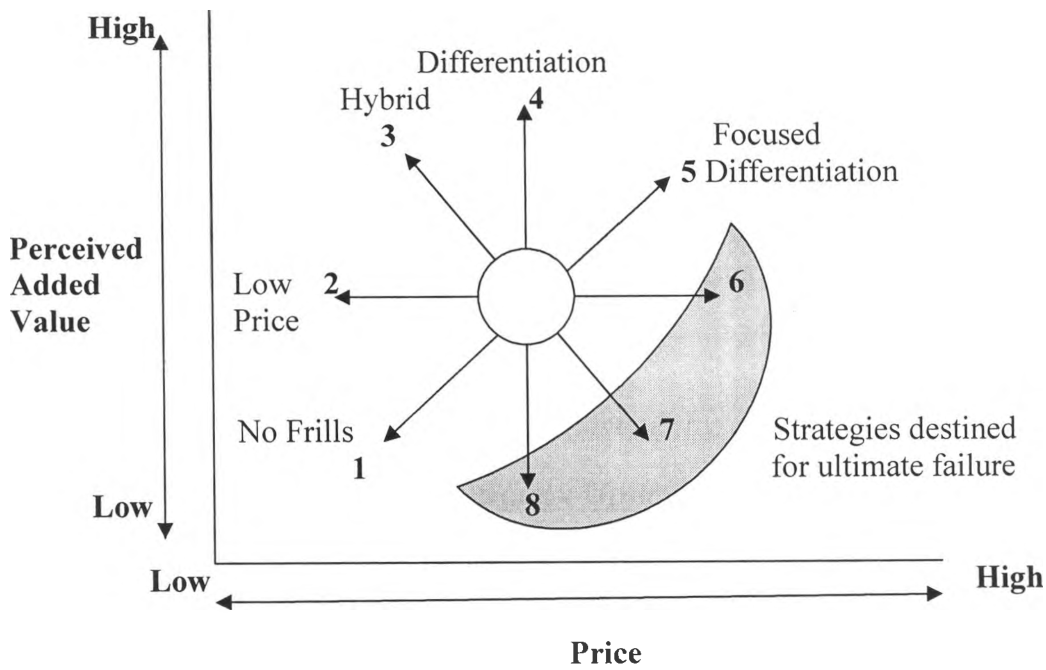


**Figure 1: Adopted from the work of Cliff Bowman**

Johnson, G. and Scholes, K. (2005). ***Exploring Corporate Strategy***. 7th edition, page 243.

| | |
|---|---|
| **1. "No Frills"** | -Likely to be segment specific |
| **2. Low price** | -Risk of price war and low margins; Need to be cost leader |
| **3. Hybrid** | -Low cost base and reinvestment in Low price and differentiation |
| **4. Differentiation** | |
| **(a) Without price premium** | -Perceived added value by user yielding Market share benefits |
| **(b) With price premium** | -Perceived added value sufficient to bear Price premium |
| **5. Focused Differentiation** | -Perceived added value to particular segments Warranting price premium. |
| **6. Increase price/standard value** | -Higher margins if competitors do not Follow; risk of losing market share |
| **7. Increased price/low value** | -Only feasible in monopoly situation |
| **8. Low value/standard price** | -Loss of market share |

## 2.3. Competitive Strategies

### 2.3.1 Generic Strategies

Porter (1985) has developed his work on industry analysis to examine how a company might compete in the industry in order to create and sustain competitive advantage. In simple terms, there are two basic choices: (1) a company is seeking to compete by achieving lower costs than its rivals or through differentiation, (2) what arena is the company seeking competitive advantage? These two choices lead to three generic strategies which include; Cost leadership, Differentiation and Focus.

Cost Leadership according to Porter (1998) occurs when a firm delivers the same services as its competitors but at a lower cost.To achieve substantial rewards from this strategy, Porter argues that the organization must be the cost leader, and unchallenged in this position. Cost leadership as a generic strategy does not imply that the company will market the lowest price product or service in the industry. Quite often the lowest price products or services are perceived as inferior, and as such appeal to only a proportion of the market. The aim of a low-cost provider is to secure a cost advantage over their rivals, price competitively and relative to how their product is perceived by customers, and achieve a high profit margin (Thompson *et al,* 1997).

Differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. Grant (19980) argues that differentiation is not about understanding the product or service and the customer They are collectively known as positional advantages because they denote the firm's position in its industry as a leader in either superior services or cost, (Porter, 1998). Differentiation adds costs in order to add value for which customers are willing to pay premium prices. According to Barney (1992) approaches to differentiation can take many forms such as design or brand image, technology features, customer service, dealer network or other dimensions. For a differentiation strategy to be successful, the market must be capable of clear segmentation where superior performance is achieved by serving customer needs differently, ideally uniquely. The more unique the difference, the more sustainable is the advantage. Furthermore, it is insufficient merely to add value; customers must recognize and appreciate the difference. If it cannot be seen easily, it should be communicated perhaps through advertising.

Focus strategy is different from the other two chiefly because it is directed towards serving the needs of a limited customer group or segment (Hill and Jones, 2001). Porter (1998) contends that a focused approach requires the firm to concentrate on a narrow, exclusive competitive segment hoping to achieve a local rather than industry wide competitive advantage. Once it has chosen its market segment, a company pursues either a differentiation or a low-cost approach. In essence, a focused company is a specialized differentiator or a cost-leader (Hill and Jones, 2001). With a focused strategy, a company concentrates on small-volume custom products, for which it has cost advantage and leaves the large-volume standardized market to the cost-leader. The focuser concentrates on building market share in one segment and if successful, may begin to serve more and more market segments, chipping away the differentiator's competitive advantage. Furthermore, concentration on a small range of products sometimes allows a focuser to develop innovations faster than a larger differentiator. However, the focuser does not attempt to serve all market segments for doing so would bring it into direct competition with the differentiator

### 2.3.2 Grand Strategies

According to Pearce and Robinson (1997) a Grand Strategy can be defined as a comprehensive general approach that guides a firm's major action. They are the basis of coordinated and sustained efforts directed towards achieving long-term business objectives. They include:

Collaborative Strategies (Alliances and Partnerships) according to Thompson and Strickland (2007) are being formed by companies in all industries and in all parts of the world as a way of complementing their own strategic initiatives and strengthening their competitiveness in domestic and international markets. Hamel and Prahalad (1989) contend that collaboration between organizations may be a crucial ingredient in achieving advantage or avoiding companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expansive skills, resources, technological expertise and competitive capabilities than they can assemble and manage alone.

Mergers and Acquisition Strategies according to Thompson and Strickland (2007) is combining the operations of two companies, which is an attractive strategic option for achieving operating economies, strengthening the resulting company's competences and competitiveness, and opening up avenues of new market opportunity. Bower (2001) stresses that many mergers and acquisitions are driven by strategies to achieve the following strategic objectives; To create a more cost-efficient operation out of combined companies, expand a company's geographical coverage, extend the company's business into new product categories, gain quick access to new technologies or other resources and competitive capabilities and finally, to try to invent a new industry and lead the convergence of industries whose boundaries are being blurred by changing technologies and new market opportunities.

Outsourcing Strategies involves a conscious decision to abandon or forgo attempts to perform certain value chain activities internally and instead to farm them out to outside specialists and strategic allies. The two drivers for outsourcing are that outsiders can perform certain activities better or cheaper and outsourcing allows a firm to focus its entire energies on those activities at the centre of its expertise(its core competencies) and that are the most critical to its competitive and financial success (Quinn, 1999).

Offensive Strategies is another grand strategy whereby most companies will go on offensive to improve its market position and try to build a competitive advantage or widen existing one. Stalk (2004) contend that the best offensives tend to incorporate several behaviors such as focusing relentlessly in building competitive advantage and trying to convert competitive advantage into decisive advantage, employing the element of surprise as opposed to doing what rivals expect and are prepared for, applying resources where rivals are least able to defend themselves and finally being able impatient with status quo and displaying a strong bias for swift, decisive actions to boost a company's competitive position vis-à-vis rivals.

Defensive Strategies lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challengers to aim their efforts at other rivals (Thompson and Strickland, 2007). While defensive strategies usually don't enhance a firm's competitive advantage, they can definitely help fortify its competitive position, protect its most valuable resources and capabilities from imitation, and defend whatever competitive advantage it might have. Defensive strategies can either take actions to block challengers and signaling the likelihood of strong retaliation.

Web Site Strategies is one of the biggest strategic issues facing company executives across the world. The main issue being what role the company's Website should play in a company's competitive strategy. Companies are wrestling with how to use their Web sites in positioning themselves in the marketplace-whether to use their Web sites just to disseminate product information or whether to operate an e-store to sell direct to online shoppers (Porter, 2001).

## 2.4 Sustainable Competitive Advantage

According to Vadim (2001) Sustainable Competitive Advantage is the prolonged benefit of implementing some unique value-creating strategy based on unique combination of internal organizational resources and capabilities that cannot be replicated by competitors. Sustainable competitive advantage is the focal point of your corporate strategy. The potential of an organization's sustainable competitive advantage depends on the rareness and imitability of its resources and capabilities. The less imitable competitive advantage is, the more cost disadvantage is faced by the competitor in imitating these competencies. Thus, core competencies are important source of sustained competitive advantage for corporate success and greater is its economic return (Johnson and Scholes, 2005). Hamel and Prahalad (1994) define core competence as a bundle of skills and technologies that enable a company to provide a particular benefit to customers. They are distinctive skills which yield competitive advantage and once developed, they should be exploited.

Core competencies are not product specific; they contribute to the competitiveness of a range of products or services. They are the roots of competitiveness and individual products and services are the fruit. Porter (1980) developed five-force framework of competitiveness, which helped managers to understand external opportunities and competitive threats, and enable them to formulate a strategy, based on these analyses. It is simultaneously important to know if the organization has the requisite skills to implement the chosen strategy or can it acquire those skills at a reasonable cost. Hayes (1985) stressed the thinking on an organization's internal competencies wherein he advised managers to build capabilities first and then encourage the development of plans for exploiting them.

### 2.4.1 Sustaining Competitive Advantage

Barney (1991) contends that a firm is said to have a sustainable competitive advantage when it is implementing a current or potential activity not simultaneously being implemented by any current or potential competitor and when these other firms are unable to duplicate the benefits of this strategy. Coyne (1986) proposes that in order to have a sustainable competitive advantage, consumers must perceive some differences between a firm's product offering and the competitor offering. For gaining sustainable competitive advantage, a firm has to optimally utilize its internal resources and capabilities to exploit external opportunities, at the same time, gauging the external threats. Competitive advantage then does not come from simply being different. It is achieved if and when real value is added for customers. This often requires companies to stretch their resources to achieve higher returns (Hamel and Prahalad, 1993).

Thompson (1997) contends that sustainable competitive advantage requires the organization to behave in a co-coordinated, synergy creating manner, integrating functions and businesses and the value adding networks to be managed in an effective, integrated system. Kay (1993) refers to the ability to achieve these demands as strategic architecture. The ability to build and control a successful architecture is facilitated by strong technological competency and effective functional process competencies. Competitive advantage is also facilitated by good internal and external communication. Without this businesses cannot share and learn best practices as information is a fundamental aspect of organizational control and companies learn from other competitors. Companies should never overlook opportunities for communicating their achievements, strengths and successes (Thompson, 1997).

Sustaining Low Price Advantage according to Johnson and Scholes (2002) is whereby an organization seeks to sustain reduced prices over competitors on the basis of having the lowest cost base such that competitors cannot emulate it. However, cost leadership is difficult to achieve. Johnson and Scholes (2002) further argued that it can be achieved by means of substantial relative market share advantage because this provides a firm with cost advantage through economies of scale and market power. Porter (1985) contends that the concern here is driving costs down through organization's specific competences in the value chain. If this approach is to be followed, it matters that the operational areas it chooses do truly bestow cost advantage which yield real price advantage over its competitors. The organization should outsource activities which it recognizes as actual value-enhancing activities, otherwise there would be no advantage gained. However, managers need to be sure that competitors cannot easily imitate or catch up with the cost advantage.

Sustaining Differentiation-Based Strategy needs to be based on less imitable aspects of competitive advantage (Johnson and Scholes, 2005). It is, then, not likely to be one specific advantage or difference that matters, but a mix of linked activities, relationships and competences of different parts of the value chain. These are the core competences of an organization that provide the basis of sustainability. Thompson (1997) contends that conditions to sustain differentiation include difficulties of imitation based on core competences. Reasons for this include complexity, casual ambiguity culture and imperfect mobility which is concerned with whether or not the capabilities and competences of an organization could be traded. If they can be traded, then differentiation may not be sustainable.

### 2.4.2 Capabilities for Sustainable Competitive Advantage

If the capabilities of an organization do not meet customer needs, at least to a threshold level, the organization cannot survive. If it cannot manage its costs efficiently and continue to improve on this, it will be vulnerable to those who can. The question then becomes; what resources and competences might provide competitive advantage in ways that can be sustained over time? (Johnson and Scholes, 2005).

Stalk *et al* (1992) contend that competitive advantage is based on the ability to respond to evolving opportunities which depends on business processes or capabilities. Business success involves choosing the right capabilities to build, managing them carefully, and exploiting them fully. It is important to emphasize that if an organization seeks to build competitive advantage, it must meet the needs and expectations of its customers. The strategic capabilities must be able to deliver what the customer values in terms of product or service (Johnson and Scholes, 2005). Chandler (1990) stresses that the building of capabilities derives from initial heavy and risky investments which allow firms to exploit the opportunities available for scale and scope economies.

Competitive advantage cannot be achieved if the strategic capability of an organization is the same as other organizations. It could, however, be that a competitor possesses some unique or rare capability providing competitive advantage which could take the form of unique resources. Some organizations have patented products or services that give them advantage. Competitive advantage could also be based on rare competencies such as the years of experience in, for example, brand management or building relationships with key customers. Rarity may also depend on who owns the competence and how easily transferable it is.

The search for strategic capability that provide sustainable competitive advantage involves identifying capabilities that are likely to be durable and which competitors find difficult to imitate (Hamel and Prahalad, 1997). In order to achieve this advantage, core competences therefore need to be complex in such a way that the linked set of activities and processes that, together, deliver customer value which may be within the organization and customers, suppliers or other key stakeholders. External interconnectedness of competences and casual ambiguity are important for firms seeking to achieve competitive advantage (Johnson and Scholes, 2005). Such competences are likely to become embedded in their culture in such a way that these competences have developed over time and in a particular way that it is difficult to discern and imitate. Achieving sustainable competitive advantage also means avoiding the risk of substitution. Providing value to customers and possessing competences that are complex, culturally embedded and casually ambiguous may mean that it is very difficult for organizations to copy them.

Dynamic capabilities according to (Hamel and Prahalad 1990) are taken to mean an organization's ability to develop and change competences to meet the needs of rapidly changing environment. More emphasis has to be placed on the organization's capability to change, innovate, be flexible and to learn how to adapt to a rapidly changing environment. These dynamic capabilities will have formal and informal, visible and invisible characteristics within them (Stalk, Evans and Shulman 1992). Where as in stable conditions competitive advantage might be achieved by building core competences that may be durable over time, in more dynamic market conditions, competitive advantage has to be developed by building the capacity to change, *innovate and learn to* build the capacity for dynamic capability (Johnson and Scholes, 2005).

However, Hill and Jones (2001) points out that the durability of competitive advantage depends on barriers to imitation, the capability of competitors and the general dynamism of the industry environment. Barriers to imitation are factors that make it difficult for a competitor to copy a company's distinctive competencies. The greater the barriers to such imitation, the more sustainable a company's competitive advantage .Also imitating a company's capabilities tends to be more difficult than imitating intangible or tangible resources because a company's capabilities are often invisible to outsiders (Hill and Jones, 2001). Another determinant of the ability of competitors to respond to a company's competitive advantage is their absorptive capability. This is the ability of an enterprise to identify value, assimilate and utilize new knowledge. Also, once a company has made a strategic commitment, a company's commitment to a particular way of doing business; it will find it difficult to respond to new competition if doing so requires a break with this commitment. They may be slow to imitate as innovating company's competitive advantage thus its competitive advantage will be relatively durable.

In such a dynamic and fast- paced environment, the other way a company can maintain a sustainable competitive advantage is to institute continuous improvement and learning within the organization, (Senge, 1990). The most successful companies are those that continually seek out ways of improving their operations and, in creating new competencies. Their objective is to learn from prior mistakes and seek out ways to improve their processes over time. A company has also to identify best industrial practice and adapt it to be able to build and maintain the resources and capabilities that underpin excellence in efficiency, quality, innovation and customer responsiveness. The best way to do so is through benchmarking. This is defined by Hill and Jones (2001) as the process of measuring the company against the products, practices and services of some of its most efficient global competitors. The firm should also focus on building the four blocks of competitive advantage which include efficiency, quality, innovation and customer responsiveness and build distinctive competencies that contribute to superior performance in these areas.

### 2.4.3 Overcoming Traditional Bases of Competitive Advantage

Many markets and industries are not stable any longer because the forces at work in the environment are rapidly changing. New technology, in particular, is reshaping industries and organizations are busily trying to disrupt the status quo rather than preserve it

Organizations will therefore try to build barriers to preserve advantage in difficult ways but others will be trying to circumvent or overcome these bases of advantage and barriers. This happens in various ways.

According to Johnson and Scholes (2005) a firm may try to achieve advantage by being the first to make a strategic move in the market or perhaps by launching a product first. This can give considerable benefits such as it may take time for competitors to catch up; allow the first mover to gain benefit of economies of scale and experience curve effects, build customer loyalty and therefore switching costs. Firms seek to sustain advantage by building barriers to prevent competitors entering their domain or against them succeeding if they do (Johnson and Scholes, 2005). Firms seek to build resource based advantage through the robustness of their resources and capabilities. Another way of trying to hold on to competitive advantage is to build 'strongholds'. A firm may try to dominate particular areas or market segments to try achieve market power in that area. Firms also seek advantage through 'deep pockets' or substantial surplus resources. This means that a competitor can withstand an intensive competitive war. Such deep pockets may take different forms, most obviously financial, but also conceivably in terms of talent or global reach.

### 2.5 Challenges to the Implementation of Competitive Strategies.

Thompson and Strickland (2007) stresses that the challenges facing a Low-Cost provider strategy include getting carried away with overly aggressive price cutting and ending up with lower, rather than higher, profitability. Hill and Jones (2001) says that the cost leadership approach may lurk in competitor's ability to find ways to produce at lower cost and beat the cost leader at its own game. Another challenge for cost-leadership approach is not emphasizing avenues of cost advantage that can be kept proprietary or that relegate rivals to playing catch-up. The value of a cost advantage depends on its sustainability which in turn, hinges on whether the company achieves its cost advantage in ways difficult for rivals to copy or match. The other challenge according to Hill and Jones (2001) is the single minded desire to reduce cost, may lose sight of changes in customer tastes which may lead to drastically affecting the demand fro the product. Finally, Thompson and Strickland (2007) contends that even if these mistakes can be avoided, cost-saving technological breakthroughs or the emergence of lower-cost value chain models can nullify a low-cost leader's hard-won position.

Thompson and Strickland (2007) observe that a differentiation strategy is always doomed when competitors are able to quickly copy most or all of the appealing product attributes a company comes up with. This is why a firm must search out sources of uniqueness that are time-consuming or burdensome for rivals to match if it hopes to use differentiation to win a competitive edge over its rivals. Hill and Jones (2001) argue that if the differentiation stems from the physical features of the product, imitation is easy unlike when differentiation stems from quality of service or reliability. It is difficult to imitate intangibles. A second challenge is that the company's differentiation strategy produces a ho-hum market reception because buyers see little value in the unique attributes of a company's product. Buyers fail to recognize the perceived value of the product thus they may decide it is not worth the extra price which may lead to disappointingly low sales.

The third challenge of a differentiation strategy is overspending on efforts to differentiate the company's product offering, thus eroding profitability. The trick to profitable differentiation is either to keep the costs of achieving the differentiation below the price premium the differentiating attributes can command in the marketplace or to offset thinner profit margins per unit by selling enough additional units to increase total profits. Gary Hamal (1997) contend that other common challenges in crafting differentiation strategy include; over differentiating so that product quality or service levels exceed buyer's needs, trying to charge too high a price premium and being timid and not striving to open up meaningful gaps in quality or service or performance features vis-à-vis the product of rivals.

Thompson and Strickland (2007) asserts that the challenges of a focus strategy include the chance that competitors will find effective ways to match the focused firm's capabilities in serving the target niche-perhaps by coming up with products or brands specifically designed to appeal to buyers in the target niche or by developing expertise and capabilities that offset the focuser's strengths. A second challenge is that the focuser's niche can suddenly disappear because of technological change or change in customer tastes and preferences (Hill and Jones, 2001).This lowers entry barriers into the focuser's market niche and provides an open invitation for rivalry for focuser's customers. Another challenge is that since the focuser produces in small volume, its production costs often exceed those of a low-cost company. Higher costs can reduce profitability if a focuser is forced to invest heavily in developing a distinctive competency in order to compete with a differentiated firm. Thompson and Strickland (2007) also contend that the segment may become so attractive; it is soon inundated with competitors, intensifying rivalry and splintering segment profits.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

This study was conducted using a case study approach to give an in-depth understanding of how Five Forty Aviation as a low-cost carrier has managed to establish and sustain a competitive advantage in the turbulent aviation industry. Lamnek (2005) defines a case study as an empirical inquiry that investigates a phenomenon within its real-life context. Case study research provides a systematic way of looking at events, collecting data, analyzing information, and reporting the results. As a result the researcher may gain a sharpened understanding of why the instance happened as it did, and what might become important to look at more extensively in future research (Yin, 2002).

It is believed that this case study provides valuable information on various competitive strategies which Five Forty Aviation is applying in order to compete effectively in the airline industry. Since the focus of the study was on strategy, the targeted respondents were drawn from the top level management of the airline who have a wider view of operations in their departments and contribute to major policy and operational decisions of the organization as a whole. The functional areas targeted include; Flight Operations, Commercial, Finance, Human Resources, Ground Handling, Information Technology and Sales and Marketing departments of the airline. Other studies such as (Kombo 1997, Murage 2001, Ochieng 2006, Mugo 2006) have successfully adopted this research design.

## 3.2 The Population

Being a case study, the respondents were drawn from senior level management, who were eight in total. Six respondents were interviewed which represented 75% of the total population.

## 3.3 Data Collection

The study relied heavily on primary data which was collected through in-depth interviews guided by an interview guide. The interview guide was developed in line with the study objectives and was divided into two sections. Section A consisted of general questions about the airline and managers, while Section B consisted of various questions addressing the competitive strategies and challenges the airline is currently facing. The approach of data collection was through making appointments with the respondents. The interviews were done face to face and detailed notes were taken during the interviews.

## 3.4 Data Analysis

The nature of data collected was qualitative. Content analysis was used to analyze data in this research because they are concerned with describing meaning and implications rather than with drawing statistical inferences emanating from respondents information and documented data. Content analysis provides a more in depth and rich description of the situation and does not restrict respondents on answers and has potential of generating more information with much detail.

# CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

The objectives of this case study were to establish the Sustainable Competitive Advantage arising from Competitive Strategies Fly540 airline has adopted as a low-cost carrier to compete successfully in the face of competition in the turbulent airline industry and determine the challenges in the application of these chosen Competitive Strategies.

This chapter highlights how primary data was collected from six respondents, which represents 75% of the target population, who were drawn from top level management because they have a wider view of operations in the organization and contribute to major policy and operational decisions of the organization as a whole.An interview guide was used to collect data which was in line with the research objectives and the interviews were done face-to-face and questions answered satisfactorily. Finally, content analysis was used to analyze the collected data.

## 4.2 Ownership and Organization Profile

Fly540 airline was established as a low-cost airline in Kenya in November, 2006 in Nairobi to operate both domestic passenger and freight services. It commenced operations between Nairobi and Mombasa on November 24, 2006. Lonrho Africa is a major investor in the company, paying US $ 1.5million for a 49% stake while the rest is owned by Five Thirty Aviation. The organization currently flies to 16 destinations in East Africa with plans to fly to Angola, Rwanda and Ghana respectively. It operates a fleet of turboprops, which are proven equipment for low-cost operations in Africa. They consist of three ATR 42-320, three Bombardier Dash 8-100, one C-208, one B1900D, one Fokker and two Embraer ERJ 135 LR aircrafts offering an ideal mix of comfort, speed and economic operating costs.

**Table 1: Five Forty Aviation's Destinations**

| Country | Destinations |
|---|---|
| Kenya | Mombasa, Malindi, Lamu, Kitale, Eldoret, Kisumu, Lodwar, Maasai Mara & Nairobi |
| Tanzania | Dar es Salaam, Kilimanjaro, Zanzibar , Serengeti, Seronera, & Manyara |
| Uganda | Entebbe |

**Source: Research Data, 2009**

The Organization has already signed a Memorandum of Understanding with Toulouse-based ATR purchase of 8ATR-72-500 airplanes to expand its fleet in a deal valued at over USD 150million. Further interview with the head of Flight Operations revealed that one CRJ airplane was to be delivered by the end of October, 2009 to operate long haul flights.

The airline provides low cost travel options to major tourist and business destinations in East Africa to meet the growing demand for alternative domestic and regional air travel. This aligns well with Lonrho's objective of investing in businesses that can make a substantive difference in the region. The airline boosts of carrying mostly tourists as well as business travelers. Talking about the prospects for the airline, the Commercial Director said:

> "Kenya is the ideal base for the airline as the strong economy is driving escalating demand for domestic and regional air travel. Nairobi is the most appropriate and best hub for services in East Africa and the region and we are optimistic about the steady expansion of Fly540".

The airline's orange color which is used by the airline's staff uniforms and the exterior of its aircrafts and features in the passenger cabin radiated happiness and symbolizes the warm and friendly service offered by the airline. "The airline's slogan "Simply fly" aims to make travel as easy and pleasant as possible," says the Flight Operations Manager.

**Table 2: Five Forty Aviation's Fleet of Aircrafts**

| | Type of Aircraft |
|---|---|
| 3 | ATR 42-320 |
| 3 | Bombardier Dash 8-100 |
| 2 | Embraer ERJ 135 LR |
| 1 | B1900D |
| 1 | Fokker |
| 1 | C-208 |

**Source: Research Data, 2009**

### 4.3 Strategic Planning at Five Forty Aviation Ltd

From the findings we find that the task of crafting and executing strategy at Five Forty Aviation is a task done by the core management of the airline. We find that top managers have the best perspective to fully understand the ramifications of formulating decisions and they have the authority to commit the resources necessary for implementation. The respondents said that the organization's strategy is formal and is in line with its vision and mission statements. Due to the ever changing aviation industry, the organization reviews its strategies from time to time to be able to stay competitive. The management recognizes the value of various stakeholders during its strategy formulation process. Through effective communication and interaction among managers and employees across hierarchical levels, the firm has been able to function as a competitive team all throughout. Its strategic plan is for the years 2006-2010.

## 4.4 Competitive Strategies adopted by Five Forty Aviation Ltd to attain sustainable competitive advantage

Five Forty Aviation's objective has been to establish itself as Kenya's leading low-cost scheduled passenger airline through continued improvements and expanding offerings of its low-cost service. From the data collected we find that Five Forty has cut costs by flying to secondary airports and by operating a fleet of modern turbo props which offer an ideal mix of comfort, speed and economic operating costs. A continuous focus on cost-containment and operating efficiencies is a critical aspect of the Fly540 aviation modus operandi. The main competitive strategies that Five Forty Aviation has adopted include:

### 4.4.1 Low Fares Strategy

The Commercial Director said that low fares are used to boost demand and this targets fare conscious, leisure or business travelers who otherwise might not have traveled at all or used other modes of transport such as car, train or bus. The airline sells its seats on either a one-way basis or return ticket unlike most traditional full service airlines which insist on selling return tickets. Fly 540 sets its fares on the basis of the demand for particular flights and by reference to the period remaining to the schedules date of departure. The Chief Executive Officer, the Chief Operating Officer and the Commercial Director are in charge of deciding ticket prices and this is usually reviewed from time to time together with travel agents. 75% of seats on a flight are sold at the minimum available fare assigned for the route, once these are filled the price per seat rises. This simple fare scheme can be seen in the airline's name which refers to its price of Shs 5,540 per adult return fare between Nairobi and Mombasa

### 4.4.2 Point-to-Point Strategy

Frequent point-to point flights on short-haul routes is another competitive strategy that Five Forty Aviation has adopted. This offers frequent point-to-point service on short-haul routes to secondary airports in and around major population centers and travel destinations. The choice of only flying short-haul routes enable Fly540 to offer frequent service, while eliminating the necessity to provide full services otherwise expected by customers on longer flights. Point-to-point flying allows Five Forty to avoid the costs of providing service for connecting passengers, including baggage transfer and transit passenger assistance costs. This is one of the key differences between Fly540 airline and traditional carriers. It also emerged that the airline flies to cheaper; less congested secondary airports early in the morning or late in the evenings to avoid air traffic delays and take advantage of lower landing fees that are charged. The benefit that come with this is that underused airports can be used again which, in turn, leads to a reduction of air congestion and an improvement of air safety.

### 4.4.3 Low Operating Efficiencies Strategy

Low operating costs is also another competitive strategy that I found out has worked for the airline since its inception. The Finance Manager emphasized that profitability in the airline industry depend largely on a carrier's ability to control costs, particularly those for labor and fuel. Five Forty Aviation's top management believes that the firm's operating costs are among the lowest of a scheduled passenger airline. At the core of the low-cost model are the cost-reductions, which partly end up in cheaper tickets for passengers. The key expenses which Fly540 aviation has been able to control and or reduce include;

Fly540's strategy for controlling aircraft acquisition costs is to use turbo props which operate using a similar type of engine. The Flight Operations Manager says that this strategy of limiting its fleet is mainly to minimize the costs associated with personnel training, maintenance and the purchase and storage of spare parts, as well as affording greater flexibility in the scheduling of crew and equipment. The aircrafts engines are also fuel efficient whereby they utilize approximately 600litres of fuel per hour compared to large aircrafts operated by major carriers. The airline has also opted to lease its aircrafts instead of buying as explained by the Operations Manager who said that this is done mainly by Lonrho, which has a 49% stake in Five Forty Aviation in conjunction with the Chief Pilot and the Safety Officer.

A Lean and Mean Workforce whereby the Human Resource Manager explained that Fly540 Aviation controls its labor costs by continually improving the productivity of its already highly-productive work force. Remuneration for employees emphasizes productivity-based pay incentives, including commissions for on board sales of products for flight attendants and payments based on the number of hours or sectors flown by pilots and cabin crew personnel within limits set by industry standards or regulations fixing maximum working hours. Flight crew members who work on their off days are paid cash immediately after the flight or the sum is accumulated and the later paid at the end of the month. The company recognizes that its staff is the core of its success and will continue to invest in a number of initiatives that will deliver a competitive edge in the industry. It has a strategy of attracting and retaining high caliber professionals through the use of modern recruitment and selection process. Another key factor for its success is the company's culture, which allows the employees to participate in the company's success, thus attracting flexible and highly motivated staff creating a customer friendly environment.

### 4.4.4 Website Strategy

Another competitive strategy that the Sales and Marketing Manager stressed is emphasis on direct sales of tickets, especially over the internet to avoid fees and commissions paid to travel agents and reservations systems. Emphasis on online ticket booking system allows internet users to access its host reservation system and to make and pay for confirmed reservation in real-time through FLY540's website. Although the marketing manager was quick to point out that due to credit card fraud, passengers are only allowed to book using their own credit cards with names that appear on the credit card being the same as the ones appearing on the ticket or any identification document. Five Forty Aviation substantially promotes its website through radio station, newspaper and television advertising. As a result, internet bookings have increased drastically, accounting for 38% of all reservation on a daily basis compared to two years ago. The firm also encourages passengers to book directly at Five Forty's Aviation offices located at Laico Regency in town, ABC Place in Westlands and at Jomo Kenyatta International Airport.

### 4.4.5 Safety and Quality Maintenance Strategy

The Safety Officer who is in-charge of the overall safety issues of the airline said that commitment to safety and quality maintenance regulations is the primary focus of the company and its management. This commitment begins with the recruiting and training of Five Forty pilots, cabin crews and maintenance personnel and included a policy of maintaining its aircraft in accordance with the highest International airline industry standards. The Chief Training Officer emphasized that the airline conducts training for its cabin crew and pilots yearly as required by the Kenya Civil Aviation Authority and also regular checks are done randomly on board to keep the flight crew up-to-date. Currently the airline has increased its cabin crew from

30 to 43 while captains and first officers were increased from 20 to 28. Five Forty has kept a clean record which has only had a single incident involving a cargo aircraft, a Fokker F27-500, operated by Fly540 Logistics Ltd crushed about 20km from Namber Konton airport near Mogadishu, Somalia on 13th August, 2008. Although Five Forty Aviation seeks to operate its fleet in a cost-effective manner, management does not seek to extend Five Forty Aviation's low cost operating strategy to the areas of safety, maintenance, training or quality assurance.

### 4.4.6 Differentiation Strategy

The Sales and Marketing Manager said in the interview that with similar airlines increasingly butting heads, product differentiation was vital to the airline's survival and growth.The airline has opted to differentiate itself by offering light refreshments on board instead of a completely "no frills" service like other low-cost carriers in an attempt to woe business travelers. This is because low-cost carriers were once the mainstay of budget-conscious leisure travelers and thus had limited appeal to business travelers, but this is quickly changing as Five Forty has increasingly added more business destinations and modified its products to target a more discerning customer. The organization has its own catering department which works hand in hand with Nairobi Airport Services (NAS) to ensure that enough snacks are loaded on each flight before departure. To make sure that this is effective, the airline does not allow NAS to load its snacks on board instead this is particularly done by the catering department itself.

### 4.4.7 First- mover Advantage as a Strategy

Another strategy that Five Forty Aviation has adopted to beat competition is selecting routes that do not put them in head-to-head competition with larger airlines .This has given the airline considerable benefits such as it may take time for competitors to catch up; allow the first mover to gain benefit of economies of scale and experience curve effects, build customer loyalty and therefore switching costs .This has happened on route like Kitale and Lodwar whereby before a decision is made to fly to such airstrips, the chief pilot, safety officer and the Flight Operations Director have to do serious surveys of the airstrips to see if the area is air worthy. This was explained by the safety officer who said this has to be done because some airstrips are unpublished by the government thus maps are not available to help pilots with directions during flying. This has helped Five Forty Aviation to expand aggressively and profited from first-mover benefits when negotiating with different airports to reduce airport related costs. First-mover advantages arise when a low-cost carrier starts flying on a region and can choose between multiple airports located in the region.

### 4.4.8 Diversification Strategies

During the interview with the Commercial Director, he mentioned that the airline has diversified its business operations not to carter for both passengers and freight services in East Africa. The firm has set aside one aircraft in Kenya and two in Uganda to specifically do cargo operations. To add onto the company's diversification programme, the Chief Pilot said that Five Forty Aviation has three aircrafts stationed in Libya where they operate chartered flights. The flights are operated by Five Forty's cabin crew and pilots who are stationed in Libya. This has seen substantive growth in revenues for the airline of which the Finance Manager was not willing to disclose the figures. The airline also provides freight services to various parts in Kenya and Africa as part of its diversification strategy. Kenya has one cargo aircraft that uplifts food to drought prone areas such as Mandera and Wajir as part of the airline's corporate social responsibility. Two cargo aircrafts are also based in Uganda to operate freight services.

## 4.5 Organizational Learning as a Source of Competitive Advantage

Five Forty Aviation has also adopted a learning organization approach as a source of competitive advantage. This has been defined in terms of a system and the processes that help create, acquire, codify and utilize new knowledge and learning. The firm encourages the climate of openness as a facilitating factor that has expedited learning in the organization. The Human Resources Manager said that there is a need of permeable boundaries around information flow so that people can make their own observations. Since the organization has out station offices in Dar-es-salaam, Entebbe and Libya, the opportunity to meet with the other groups and see higher levels of management has promoted learning. The Human Resources Manager further stressed that all people in the organization have a primary responsibility for learning from customers, competitors, suppliers and other companies. She said that all managers ensure that information is shared within the organization and in particular between groups, functions, and geographical locations. She also said that the organization cannot become competent tomorrow with today's knowledge, as different and new knowledge will be required to meet the needs of the customers in competitive environmental changes. This ability to create new knowledge continuously is what has created competitiveness for the airline.

## 4.6 Management of Technology as a Source of Competitive Advantage

An interview with the Information and Technology Manger revealed that technology is important for competition and it significantly affects the organization's competitive advantage. He said that this is a managerial responsibility which should be done with tact, patience, will and efficiency, in the interest of better organizational performance. He further stressed that technology management has a broader charter of integrating activities throughout the organization as a source of competitive advantage. We find that Five Forty is able to integrate all its activities in all the countries that it has operations through Information Technology. The organization has several on-line processes such as e-crew and omni-flow which all employees can use to access the required information about the organization anywhere in the world without contacting head office. The Information Technology manager furthers said that failure to improve the internal systems and processes leaves an opportunity for competitors to move ahead with technology based strategies and create a foundation of competitive advantage which Five Forty has not left to chance. Through Information Technology, the firm has experienced tremendous corporate success and growth and the internal systems and processes are reviewed constantly to ensure seamless flow of information across the board. It's through Information Technology that online booking and payment of flights has been made possible.

### 4.7 Challenges to the implementation of the chosen strategies

The Sales and Marketing Manager said that the main challenge that the airline is currently facing is stiff competition from mainly other low cost airlines especially Jetlink Express which has almost a similar operating model like Five Forty Aviation. To beat competition, Five Forty Aviation has sought to differentiate itself by providing quality customer service to its customers to continue making a substantive difference in line with the objectives of its founders. This has also led to price wars emerging due to stiff competition among carriers. Another challenge is the rising cost of fuel which is also a major cost element of operating expenses. The cost of fuel per barrel currently is at USD 65 which sometimes trickles down to passengers via increased ticket prices. In its efforts for survival and market share, Five Forty Aviation has sought to use fuel efficient turbo props which are economical, comfortable and fast. Due to high fuel prices, the Commercial Director said that the issue of substitution arises whereby passengers are willing to pay a certain price for a certain good or service. Once the price exceeds that level, the consumer will attempt to substitute with a less expensive product. Since majority of Five Forty's customers are tourists, there is the time/cost trade-off involved in their decision to choose air travel over other modes of transport. As the fuel costs continue to rise, the travel-time savings offered by air travel becomes increasingly offset by the dollar savings offered by substitute transportation mode.

Another challenge facing Five Forty Aviation is imitation from other airlines. This is fuelled by the constant changing needs of customers. Various trends keep on emerging and the airline has to keep on conducting market research customer survey forms on board to find out what needs improvement to enhance customer satisfaction and loyalty. The Sales and Marketing manager then takes it upon herself to ensure that the mentioned areas of improvement are looked into. Five Forty believes that customer response time is an aspect of customer responsiveness that can either be a major source of customer dissatisfaction or satisfaction. Acute shortage of trained pilots to operate the particular type of aircrafts operated by Five Forty is another challenge facing the airline. This has severely limited the growth prospects of the airline because it takes a lot of time and resources to fully train a pilot and first officer before they are licensed to fly an aircraft by the Kenya Civil Aviation Authority. Five Forty also faces the challenge of flying to secondary airports which have inadequate facilities and infrastructure put in place by the government. Some airstrips are also in unplanned locations and therefore lack appropriate maps needed during flying. The huge capital outlay required to start the airline is also a major challenge Five forty is facing. Also the ever changing technological innovations has been a challenge for the airline because a strategy that stresses technology is not necessarily the best due to imitation from competitors.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary and Conclusions

Entertainment and hospitality industries were among the hardest hit by the global financial crisis early this year. This is because leisure and tourism are vulnerable to economic uncertainty and volatility as most travel involves optional expenses. According to interviews conducted during this research, Five Forty Aviation is one of low-cost airlines that survived this economic downturn that engulfed the aviation industry. We found out that it was not only spared, but boosted by this massive downturn. This is because of its lean business model which offered a compelling alternative at a time when people were conserving money to cover essentials such as food, shelter and family necessities.

Five Forty Aviation is one of Kenya's well performing low-cost airlines both locally and in the East African market. This is due to the need to provide a friendly and reliable service for cost conscious passengers, leisure or business travelers who otherwise might not have traveled at all or used other modes of transport such as car, train or bus.Research findings revealed that strategy formulation at Five Forty Aviation is paramount to the organizations' performance. The core management has taken upon itself the responsibility of constantly reviewing its strategies to continue growing the business, attracting and pleasing its customers and to compete successfully so that to improve the company's financial and market performance.

Further investigations revealed that Five Forty Aviation has put in place a number of competitive strategies that have enabled it to have a sustained growth since its inception. These low-cost strategies include use of low fares to attract customers, frequent flying from point-to-point to secondary airports, low operating costs on aircraft equipment and a lean and mean workforce, use of online booking over the internet, commitment to safety and quality maintenance, diversifying its business, using the first mover advantage and being able to differentiate its products from those of its competitors. Findings further revealed that focus strategy has not been widely used as the airline is striving to attract both cost conscious, leisure and business travelers. Apart from flying to most tourist destinations in East Africa, the airline is also focusing on areas of high growth areas like Khartoum, Rwanda and Ghana in West Africa that it intends to extend its network to. Five Forty has had several challenges that have affected implementation of its competitive strategies. Some of these challenges include the high cost of fuel, competition from other low cost carriers which has prompted price wars, inadequate infrastructure in secondary airports, huge capital outlay, imitation from other airlines and shortage of trained pilots which has greatly affected the company's growth strategy.

Normally airline companies have different strategies available to strengthen their position against competition. Sometimes it is possible to start a partnership or completely take over another carrier. Franchising is another method, in which the airline company lends its name and identity to another company and in that way increases its brand reach, without direct economical risks. Low cost travel, in whatever form, has clearly revolutionized the airline industry and undoubtedly the increased competition has forced more established airlines to make some much-needed changes. From the analysis based on Porter's Generic Strategies, Five Forty Aviation obviously has chosen to follow a "Low-Cost" strategy in its value chain activities. Managers are convinced that the low-cost carrier industry in Kenya has not yet realized its full potential and that this industry is one that expects growth and sustainability in the years to come.

## 5.2 Limitations of the Study

One major limitation to this study was respondents not being willing to give information freely due to fear of leaking out company secrets to the public being a privately owned company. This made data collection process to be done discreetly and with lots of confidentiality. Lack of adequate time to interview target respondents was a major limitation to this study which eventually restricted the scope as well as the depth of the research. Time allowing, I would have also looked at why Five Forty Aviation conducts its chartered flights in Libya as a strategy to increase both its revenues and market penetration and how this has affected the firm's growth strategy.

## 5.3 Suggestions for Further Research

During this research, some interesting subjects needed to be left out because of the limited scope of this research, but which still are interesting for further investigations. First, further investigation need to be done to get a better understanding into the politics and policies involved in the low-cost carrier organizations. This could answer the question of to what extend current politics or policies influence the development of airports and airline companies.

Lastly, at the core of the low-cost carrier model lays the cost reductions which partly result in cheaper flight tickets. Because most information on ticket prizes is advertised and available on the internet, it is possible to continuously monitor the price development of low-cost carriers. This way a better understanding can be obtained on price behavior of the low-cost carriers and for example be investigated how prizes of different airline companies might influence each other.

## 5.4 Recommendations for Policy and Practice

This study found out that one of the strategies used by low-cost carriers is to fly to secondary airports and airstrips. The challenge that comes with this strategy is that most of these airports have inadequate facilities and are poorly planned. This has affected most airline's growth strategies, aircraft safety and security standards. It is therefore recommended that a policy document be developed to look at how the economic regulations should respond to the development of these low-cost terminals.

## REFERENCES


Andrews, K.R. (1980). ***The Concept of Corporate Strategy***. Homewood: Richard D. Irwin.

Ansoff, I. (1965). ***Competitive Strategy: Analytical Approach to Business Policy for Growth and Expansion.*** New York: McGraw-Hill.

Ansoff, I. (1987). ***Corporate Strategy***. London: McGraw-Hill.

Ansoff, I. (1990). ***Implanting Strategic Management.*** New York: Prentice Hall.

Airline Business. (2005). ***Low-cost failures loom***. pg 1- 7.

Barney, J. (1992). ***Gaining and Sustaining Competitive Advantage***. USA: Addison-Wesley Publishing.

Certo, S.C. and Peter J.P. (1991) Strategic ***Management: Concepts and Applications***. New York: McGraw-Hill.

Chaudhary S. (1979). ***Corporate Strategy: Concepts and its Relevance in the Indian Context.*** Vikalpa, 4(1), 27-38.

Craig C.S. and Douglas S.P. (1996) Responding to Challenges of Global Markets: Change, Complexity, Competition and Conscience. ***The Columbia Journal of World Business***, winter 6-18.

Dreyfack, M. (1983). "Airlines Battle for Survival*."* ***Marketing & Media Decisions***, April, 119-26

Ezekiel, C.J. (2006). ***Competitive Strategies Applied by Mumias Sugar Company***. Unpublished MBA Project, University of Nairobi

European Travel Network (2005*).* ***Low Cost Airlines Graveyard – about fake or sponsored low cost airlines.***

Farrell, K. (1983). "New Airlines Go Regional." ***Venture,*** July, pg. 73

Gillen, D. & Lall, A. (2004). Competitive advantage of low-cost carriers: some implications for airports. ***Air Transport Management,*** 41-50.

Hamel, G. and Prahalad, C.K. (1989). Strategic Intent. ***Harvard Business Review***, May-June, 63-76.

Hamel, G. and Prahalad, C.K. (1990). The Core Competence of the Corporation, ***Harvard Business Review,*** May- June, 79-91.

Hamel, G. and Prahalad, C.K. (1991). Corporate Imagination and Expeditionary Marketing, ***Harvard Business Review***, July-August, 81-92

Hamel, G. and Prahalad, C.K. (1994). Strategy as Stretch and Leverage, ***Harvard Business Review***, March-April, 36-48.

Hayes R. (1985). Strategic planning Forward in Reverse. ***Harvard Business Review***, Nov.-Dec. 111-119.

Hill, W.L. and Jones, G.R. (2001). ***Strategic Management Theory-An integrated Approach.*** New York:McGraw-Hill.

Hunger, J.D. and Wheelen, T.L. (1995). ***Strategic Management.*** 5th edition. New York: Addison-Wesley.

Jauch, L. R. and Glueck, W. F. (1998). ***Business Policy and Strategic Management*** 5th edition. New York: McGraw-Hill.

Johnson, G. and Scholes, K. (2005). ***Exploring Corporate Strategy***. 7th edition. New Delhi: Prentice-Hall.

Kay, J.A. (1993). ***Foundations of Corporate Success***. New York: Oxford University Press.

Kotler, P. (1988). ***Marketing Management: Analysis, Planning and Control***. 6th edition. New Delhi: Prentice-Hall.

Kramer, F. (1991). "Small Airlines Hit Turbulence But Stay Aloof." ***Investors Daily,*** April 5th, pg 34.

Mintzberg H. (1989). Crafting Strategy. ***Harvard Business Review***, july-Aug. 66-75.

Murage, S. N. (2001). ***Competitive Strategies Adopted by Members of the Kenya Independent Petroleum Dealers Association***. Unpublished MBA Project, University of Nairobi.

Obado, Z.K. (2005). ***Competitive Strategies employed by the Sugar Manufacturing firms in Kenya***. Unpublished MBA Project, University of Nairobi.

Ochieng O. J. (2006). ***Investigation of Capacity Management Strategies: The Case of Kenya Airways***. Unpublished MBA Project, University of Nairobi.

Omondi, A. M. (2006). ***Competitive Strategies Adopted by airlines in Kenya***. Unpublished MBA Project, University of Nairobi.

Ohmae, K. (1985). ***Triad Power: The Coming Shape of Global Competition***. New York: Free Press.

Ohmae, K. (1988). Getting back to Strategy. ***Harvard Business Review***, Nov-Dec.

Pearce. J.A and Robinson, R.B. (1997). ***Strategic Management: Strategy Formulation, Implementation and Control***. 3rd edition. Boston: Irwin.

Pearce, J. and Robinson, R. (2002). ***Strategic Management: Strategy Formulation and Implementation***.5th edition, New Delhi: Nice Printing Press.

Porter, M.E. (1980). ***Competitive Strategy: Techniques for Analyzing Industries and Competitors***. New York: Free Press.

Porter, M.E. (1985). ***Competitive Advantage: Creating and Sustaining Superior Performance***. New York: Free Press.

Quinn, J.B. (1980). ***Strategies for Change: Logical Increamentalism***. USA: Richard D. Irwin.

Senge, P.M. (1994). ***The Fifth Discipline: The Art and Practice of the Learning Organization.***New York: Currency Doubleday.

Ramaswami V.S. and Namakumari S. (1996) ***Strategic Planning for Corporate Success.*** New Delhi: Macmillan India Limited.

Stalk G., Evans, P. and Shulman, L.E. (1992). Competing on Capabilities: The New Rules of Corporate Strategy, ***Harvard Business Review***, March- April, p.57-69.

Thiga, W.S. (2002). ***Strategic Responses of Airlines Operating in Kenya in the Face of Changing Environmental Conditions***. Unpublished MBA Project, University of Nairobi

Thompson, J. L. (1997). ***Strategic Management: Awareness and Change***. 3rd edition. New York: McGraw-Hill.

Thompson, Jr. A.A. and Strickland, A.J. (2007). ***Crafting and Executing Strategy: Concepts and Cases***. 5th edition. USA: McGraw-Hill.

Travel Business Analyst (2003). Trade report - Low-fare airlines. ***Travel Business Analyst,*** May, 2003.

www.Fly540.com.

Yin, R.K. (2002). ***Case Study Research- Design and Methods.*** 3rd Edition, California: Sage Publications.

## APPENDIX 1: INTERVIEW GUIDE

**Kindly answer the following questions as accurately as possible. Your answers will be treated in confidence and used only for academic purposes. In no instance will your name be divulged.**

**SECTION A**

What is the name of your department?

.....................................................................................................

What is your current position in the airline?

.....................................................................................................

How long have you been in the airline?

.....................................................................................................

**SECTION B**

**Competitive Strategies, Sustainable Competitive Advantage and Challenges to the Implementation of these Strategies.**

1. How is/are your current strategy (ies) formulated?

.....................................................................................................

.....................................................................................................

2. Who is responsible for strategy formulation at FLY540 airline?

.....................................................................................................

.....................................................................................................

3. How often do you review the organization's strategy (ies)?

.....................................................................................................

.....................................................................................................

4. How would you describe the current strategic health of the airline?

.....................................................................................................

.....................................................................................................

5. How would you describe the level of competition facing the airline currently in comparison to your competitors?

.....................................................................................................

.....................................................................................................

6. How would you describe the nature of changes your organization has introduced to improve competition in the airline industry?

..................................................................................................................

..................................................................................................................

7. What competitive strategies has the organization adopted to have a competitive advantage over its competitors in the current deteriorating economic climate?

..................................................................................................................

..................................................................................................................

8. How have the competitive strategies adopted by the organization affected its competitiveness in the industry?

..................................................................................................................

..................................................................................................................

9. How have the adopted competitive strategies assisted the organization in the achievement of its strategic goals?

..................................................................................................................

..................................................................................................................

10. What strategy (ies) does your department use to integrate activities from all other departments?

..................................................................................................................

..................................................................................................................

11. What strategy (ies) does your department use to match passenger demand during high or low season?

..................................................................................................................

..................................................................................................................

12. What measures does the organization put in place to ensure that this strategy (ies) is/ are sustainable in the long term?

..................................................................................................................

..................................................................................................................

13. What value creating strategies has your department initiated since you joined the airline?

..................................................................................................................

..................................................................................................................

14. How has FLY540 created uniqueness for its products/ services to its customers?

..........................................................................................................

..........................................................................................................

15. How does FLY540 strive to maintain customer loyalty?

..........................................................................................................

..........................................................................................................

16. Do you feel the organization has adequate resources/assets to achieve its strategic objectives?

..........................................................................................................

.........................................................................................................

17. What major challenges has your department faced recently as a result of the expansion program the airline has undertaken in the face of turbulent environment?

..........................................................................................................

..........................................................................................................

18. What key challenges are facing the airline currently in the implementation of these competitive strategies?

..........................................................................................................

..........................................................................................................

19. What strategies does the organization use to solve these challenges?

..........................................................................................................

..........................................................................................................

20. What other information would you like to provide that your department uses to effectively manage its operations to improve the airlines performance?

..........................................................................................................

..........................................................................................................

21. What are the future plans for the airline?

..........................................................................................................

..........................................................................................................

***Thank you very much for your time.***

## APPENDIX 11: LETTER OF INTRODUCTION

C/O MBA Office,
University of Nairobi,
P.O Box 30197,
Nairobi.

April, 2009.

Dear Respondent,

**RE: REQUEST TO COLLECT DATA**

I am a Postgraduate student studying for Master of Business Administration- Strategic Management option at the School of Business, University of Nairobi. I am currently conducting a research on "**Sustainable Competitive Advantage Arising from Competitive Strategies Adopted by Low-Cost Airlines in Kenya": Case of Fly540 Airline".**

The purpose of this letter is to request to schedule an interview with you so that I can collect the necessary data. The information you give will be treated in strict confidence and will be used for academic purpose only. A copy will be issued to your organization upon request. Thank you very much for your co-operation.

Yours Sincerely,

Adeline Nafula Sirengo,
Email: asirengo@yahoo.com
Cell: 0721-300956

# UNIVERSITY OF NAIROBI
## SCHOOL OF BUSINESS
### MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 20/09/09

## TO WHOM IT MAY CONCERN

The bearer of this letter ADELINE NAFULA SIRENGO

Registration No: D61/8328/2006

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM