

**COMPETITIVE STRATEGIES EMPLOYED BY JOHNSON DIVERSEY  
EAST AFRICA LIMITED COMPANY.**

**BY:**

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE  
DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF  
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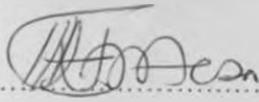
## DECLARATION

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

Signed.......... Date.....26-11-2008.....

Winnie Wanjiku Ngotha.

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

Signed.......... Date.....26/11/2008.....

PROF. AOSA

## DEDICATION

To my husband for his understanding, support and encouragement.

To my parents for their moral support.

Johnsondiverse<sub>y</sub> fraternity for sparing their precious time to give the information I needed for the research.

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

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## ACRONYMS

EDI	Electronic Data Interchange
KIPEDA	Kenya Independent Dealers Association
TKL	Telkom Kenya Limited
TQM	Total Quality Management
NEMA	National Environmental Management Authority
IT	Information Technology

## ABSTRACT

Organizations are environment dependent. External environment provide inputs in the organization, and organizations discharge outputs that meets the needs of the external environment. The external environment is always changing sometimes more turbulently than other times. Organizations must therefore develop strategic responses and configure the resources to respond to these challenges

Organization develop strategic planning programme to respond to the high levels of environmental turbulence. Strategies are designed which ensure that organization remain successful in terms of profitability. Competitive strategies help organizations to develop and maintain a competitive edge in the market and to possess some advantages relative to their competitors.

Organizations strive to create competitive advantage which is the ability of the firm to outperform rivals on the primary performance goal of profitability. Competitive advantage comes in a number of ways such as low cost production, market differentiation and focus.

The ultimate aim of a firm is to make profit and to develop a distinctive competence greater than its competitors. This depends mainly on the collective strength of the five forces that determine industry attractiveness. These forces include the threats of new entrants, the bargaining power of buyers, bargaining power of suppliers, the threat of substitute products or services and rivalry among existing firms. The proper analysis and management of five forces should lead a firm to determine its competitive advantage, which is a basis for above average performance in the long run.

The study of this research mainly looks at the competitive strategies employed by Johnsondiversey E.A Company. This helps to explain how the company uses the competitive strategies to maintain its market share and to respond to the changes and challenges in the external environment. The study also looks at the challenges facing the application of these strategies in the company.

The major objectives of this study were to determine the competitive strategies employed by Johnsondiversey E. A Company and to determine challenges facing the attainment of these strategies. The turbulent environment in which businesses operate demand that the firms craft competitive strategies that are sustainable and assures them of their market position.

Soap and detergent industries are faced with many challenges that must be urgently addressed. These challenges include changing environmental requirements, unstable price of fuel, political instabilities in certain geographic areas, increased competition, trading blocks and increasing costs of raw materials among others. Johnsondiversey E. A. Company manufactures and markets cleaning detergents mainly for commercial purposes. The market share extends from local to regional markets which include Kenya, Uganda, Nigeria, Ethiopia, Rwanda, Djibouti and Burundi.

The research was conducted through a case study design which intends to bring out information regarding the competitive strategies employed by the company and challenges facing their application.

The data for this study was obtained from primary and secondary sources. Primary data was obtained through personal interview with chief executive officer and heads of departments, using an interview guide with open ended questions. The secondary data was obtained from secondary sources such as company journals, prospectus and annual reports. The data was summarized according to study themes and a content analysis technique was used to analyze the data.

The findings of this study show that Johnsondiverse E. A Company has formalized vision and mission statement. The company employs competitive strategies of cost leadership, differentiation and focus. Cost leadership strategies involve cost control strategies in the company's value chain activities. Differentiation strategies used include creating unique products and services that increase the perceived value of products and services to customers. This can be seen in packaging and branding of products, excellent customers services and good management of distribution channels. Focus strategy revolves around customers' categorization into various target market niches. Each category of customers receive different quantity of products from the company and have different market sizes depending on whether is international, national or small independent businesses.

Limitations of this study are that, the study only focused on competitive strategies used by the firm to maintain its market share, while there are other strategies that the firm can use to improve its economic performance such as Total Quality Management, Just in Time Delivery and Efficiency.

There was lack of adequate time to conduct oral interview from the respondents due to their busy schedule. This caused delays in availing information in good time. Some of the information was generalized leading to subjective conclusions of the results.

Another limitation was resource materials constraints experienced in obtaining the secondary data. Some secondary resource materials did not have adequate information required for the study and this limited the scope of the research.

Further studies should be done on competitive strategies used and challenges faced in their application in the other soap and detergents manufacturing companies in the consumer sector. Further studies should also look at other types of strategies used by the company to respond to changes and challenges in the external environment. The study was limited only to Johnsondiversey E. A. Company. The study focused on the competitive strategies used by the firm and challenge facing the application of these strategies.

The study concludes that the company applies competitive strategies of cost leadership, differentiation and focus in its main value chain activities. The company experience challenges as it implements the strategies, hence it needs serious and urgent reforms to address the challenges so as to favourably compete locally, regionally and globally.

## CHAPTER 1: INTRODUCTION

### 1.1 Background

#### 1.1.1 Business Environment and Competitive Advantage

The environment within which a firm operates is perhaps the largest determinant of the strategies it adopts. Porter (1980) observed that the essence of formulating competitive strategy is to relate an organization to its environment. Organizations are environment dependent. They must scan the environment in order to spot trends and conditions that could affect the industry and adapt to them. Failure to do this could lead to a serious strategic problem characterized by the maladjustments of the organizations outputs and the demands of the external environment.

Ansoff (1984) observed that in order for organization to achieve their goals and objectives they have to constantly adjust to their environment. This environment is turbulent, constantly changing and so it makes it imperative for organizations to continuously adapt their activities to this environment in order to survive. The success and the survival of every organization depend on how it relates with its challenges and how it positions itself to the external environment. The manager therefore has a major task of designing strategies that will ensure that the organizations remain successful.

Strategy is the heart of strategic management for it helps an organization to formulate and implement various tasks in its attempt to prosper. Strategy should help organizations to develop and maintain a competitive edge on the market focusing on the customer needs and the competitors. Business managers should evaluate and choose strategies that will make their business successful. Business becomes successful when they possess some advantages relative to their competitors (Pearce

and Robinson, 1997). The core of success or failure of a business rests in the level of competition. It is the competition that defines the appropriateness of firm's activities that can contribute to its performance such as innovation, a cohesive culture or good implementation.

Strategic planning is developed to respond to increasing challenges caused by high levels of environmental turbulence. Strategy helps firms to cope with changes by designing appropriate strategic responses (Pearce and Robinson 1988). Successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities which could affect its operations. In every industry a successful firm continuously reassesses competitive factors which will bring future success. Ansoff and Mc Donnel (1990) observed that strategic diagnosis helps to determine the firm's strategic responses which will ensure success.

Firms have been faced with dynamism in the environment in the globalization of world markets, worldwide economic recession, increased competition and other environmental changes. Firms need good strategies to enhance their success. Strategies chosen for implementation depend on factors such as leadership, resource available to the firm and changes in the environment. Studies in strategy suggest that firms need to seek strategic fit between their internal resources i.e. their strengths and weaknesses and their external environment that is opportunities and threats (Aosa, 1992). The internal environment includes systems, policies, resources capacity and corporate culture. In order to remain competitive, relevant and sustainable, firms need to formulate and implement strategies that will balance the two environments. Due to

constant changes in the environment, firms need to continuously adapt their activities to the realities in the environment; otherwise their future success may be in jeopardy (Aosa 1996).

The essence of formulating a competitive strategy is relating a company to its environment (Porter 1998). Aosa (1992) notes that the actions of competitors have a direct influence on a firm strategy. He further states that strategy will only make sense if the market to which it relates is known. The nature of the industry needs to be understood. The structure of an industry and trends in that industry will help the current and future attractiveness of that industry. Porter (1980) notes that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal profitability.

Barneys (1997) argues that the essence of business is to create competitive advantage that comes in a number of ways such as low cost production or market differentiation. He identified three elements that collectively lead to competitive advantage that creates value and they have called these elements the corporate strategic triangle- resources (company assets, skills and capabilities) Strategic business units and other key segments of the company- structure, systems and processes. They argue that these three sides of the triangle must be aligned to the company's vision, goals and objectives to produce competitive advantage that would lead to value creation.

The ultimate aim of a firm is to make profit and to develop a distinctive competence greater than its competitors. The profit potential in an industry depends on the collective strength of the five forces that determine industry attractiveness (Porter,

1998). The forces include the threat of new entrants, the bargaining power of buyers, bargaining power of suppliers, the threat of substitute products or services and rivalry among the existing firms. These forces are essential for determining how a firm positions itself in the industry and thus in the end determine whether a firm profitability is above or below the industry average. A proper analysis of the five forces should lead a firm to determine its competitive advantage, the fundamental basis for above average performance in the long run. The basic types of competitive advantage that firms can possess are low cost, differentiation, and focus. Sustained competitive advantage leads to superior average profitability in a company.

From the discussion above we note how inter-related the organization and their external environments are, as this is where the organizations output are discharged and where inputs come from. We also note that the company must discharge those outputs that meet the needs of the external environment. This external environment is always changing, sometimes more turbulently than other times. Consequently, the company must not only configure its resources to meet these needs but must develop foresight, flexibility and speed in order to respond to these changes in a timely manner. For an organization to be able to interact effectively with its external environment, it must have competitive strategies and be able to manage them.

### **1.1.2 Competitive strategies and challenges facing local firms**

Various studies have been done to determine the competitive strategies and challenges facing the Kenyan firms. But these have not been conclusive enough to warrant a generalization. Competitive strategies are unique and highly sensitive to environmental circumstances. Nyokabi (2001) studied on competitive strategies

adopted by members of the Kenya Independent Petroleum Dealers Association (KIPEDA). The study found out that all the respondents of Petroleum retail outlets, have similarities among them in terms of attributes such as target customer groups, product and service offerings, competitive strategies used and competitive challenges experienced. Competitive challenges identified include low customer confidence, negative publicity, Stiff competition from established outlets, insufficient funds for advertising, having few outlets, increasing overhead costs, fluctuating petroleum prices and low sales.

Kandie (2001) on strategic responses by Telkom Kenya Limited (TKL) in a competitive environment found out that the challenges facing TKL were lack of finance, technology change, overstaffing and staff turnover, bureaucratic processes and procedures, poor attitudes and culture, and poor pension. Strategic responses to cope with the competitive environment have not been significant due to the unavailability of capital caused by government freeze on credit, pending the conclusion of the taken off the company and lack of managerial autonomy to make strategic decisions.

Karanja (2002) on competitive strategies of real estates firms found out that the most popular type of competitive strategy employed by realtors was on the basis of differentiation. The service nature of the real estate industry leads to competition mainly based on giving a unique Service over what others are providing. The study further found out that the scope of operation used to gain competitive advantage, the most popular was a narrow focus. Major challenges include rising levels of inflation and interest rates related to the level of income available for investment.

### **1.1.3 Soap and detergent manufacturing industry in Kenya.**

The soap and detergent manufacturing industry includes about 15 companies with combined annual revenue of \$17 billion. Major companies in the consumer sector include divisions of Procter and Gamble, Unilever, and Cussons. Major companies in the commercial sector include divisions Ecob and Johnsondiversey East African Limited. Population growth, particularly households with children drives demand in the consumer sector, while economic growth drives demand in the commercial sector. The profitability of individual companies depends on efficient operations and effective sales and marketing.

Large companies have scale advantages in purchasing, manufacturing, distribution, and marketing. Small companies can compete effectively by offering specialized products, providing superior customer service, or serving a local market. The industry is capital-intensive average annual revenue per worker is \$500,000. The industry is about evenly split between the consumer and commercial segments. Both segments are highly competitive, with large companies spending millions to maintain market share.

Major products include laundry detergent, soap, dishwashing detergent, and toothpaste. Laundry detergents account for 40 percent of industry revenue, soap for 20 percent, and dishwashing detergent for 15 percent.

Soap and detergent manufacturing highly automated, and involves significant capital investment in plants and equipments, computers control equipments and inventory

management. Many companies use Electronics Data Interchange (EDI) to optimize the purchasing process. Due to high level of automation, the average plant has fewer employees. Research and Development involves product formulation, and evaluating environmental compatibility.

The level of competition between the commercial and consumer sector is increasing day by day. Most companies in the consumer sector have widened the range of product lines and market share. They have embraced the new technological innovations to improve product quality and offerings. This leads to increased competition in the industry.

External environment also bring challenges to the industry which includes the following, changing environmental requirements, worldwide economic recession, globalization of world markets, political instability, trading blocks, lack of free movement of goods within the regional markets, increasing cost of inputs such as raw materials and fuel and increased customer awareness and demands changing legislations, customers wanting lower prices, and shortage of skilled manpower and rapidly changing technological development.

#### **1.1.4 Johnsondiversey East Africa Company Limited**

Johnsondiversey Company was established in 1923 in Chicago, USA. Over the years it has seen many changes through mergers and acquisitions in 1996 and in 2002. In 1996 Diversey was acquired by Unilever and merged with its company called lever Industrial to create Diverseylever. Diverseylever was sold to Sc Johnson in 2002 and

merged with Johnson Wax professional to form JohnsonDiversey E.A Company limited in 1971.

The Company is wholly owned subsidiary of JohnsonDiversey a global company operating in over 100 countries with its headquarters in Racine, Wisconsin in the U.S.A. The Company is located at Lower Kabete in Lerosho Nairobi. It has 3 branches in Uganda, Nigeria and Mombasa. In Ethiopia, Rwanda, Djibouti and Burundi, it operates through distributors.

The network ensures prompt delivery of the cleaning and hygiene solutions to customers in these markets i.e. customized “regional” solutions. The company mainly manufactures and sells industrial cleaning products commanding a market share of 40% in Kenya. The market scope is mainly in industrial operations which include hotels, hospitals, schools, horticulture, buildings, and food processing plants.

Like other companies in the industry, the company business activities are affected by changes in the external environment. This include changing environmental requirements, political instability, trading blocks, lack of free movement of goods, increased competition, increasing cost of inputs such as raw materials, fuels and increased customer awareness and demand. Due to this, the company has to craft competitive strategies that will enable it to compete effectively and outperform its competitors and maintain its market share.

## 1.2 The Research Problem

The strategic uses of the products, complexities in their development and diversity of usage, has led firms to formulate and institute competitive measures that will ensure survival, growth and profitability. Companies pursue competitive strategies to gain competitive advantage that allows them to outperform rivals and achieve average profitability. Developing competitive strategy is essentially developing a broad formula of how the business is going to compete. Competitive strategy grows out of an understanding of the rules that guide competition.

Business strategy is only powerful if it produces a sizable and sustainable competitive advantage. The strategy should therefore emphasis on improvement in the competitive position of firm's products in the industry. Porter (1998) emphasizes that competition is at the core of the success or failure of firms and that every competing firms should have a competitive strategy which will relate the firm to its environment. Firms do not exist in a vacuum and are dependent on the environment. A firm external environment will consist of all the conditions and forces that affect its strategic options and define its competitive situation. A dynamic environment will therefore mean that firms have to compete more intensely (Pearce and Robinson, 1997).

Johnsondiversey E.A Company is unique because of its nature of the products and their wide usage. Over the last 10 years there has been a huge rise in the number of similar firms operating in the industry hence stiff competition. Key competitors in Kenya include Soilex, Robico, Odex, Blue-ring and Tradewise. These companies have increased their focus, they give heavy discounts to acquire key accounts, offer lower prices for the company's equivalent products, lease the equipments and are flexible in

tailoring their products and services to customer requirements. This has greatly increased the level of the competition.

The company operates within a turbulent and changing environment which affects its business activities. This include changing environmental requirements, political instability, trading blocks, lack of free movement of goods, increasing cost of inputs and increased customer awareness. To survive in such a competitive and turbulent environment, the company has to adjust its strategic response by developing various competitive strategies.

Previous studies on competitive strategies were done by Nyokabi (2001), Karanja (2002), Kandic (2001), Ndubai (2003), Obado (2005), Swahel (2007), Mburu (2007) and Mibei (2007). They all looked at competitive strategies applied in the service sector rather than the manufacturing sector. Johnsondiversey E.A Company manufactures and sells industrial cleaning solutions to both local and regional markets, commanding about 40% of the market share in Kenya.

The studies pointed out that the local firms apply competitive strategies and experience challenges which are unique and sector specific hence cannot be generalized. Findings from previous studies cannot be generalized to fairly represent the other sectors that have not been studied. The uniqueness of each sector may necessitate a separate study. The study set to answer the following questions:-

- i. What are competitive strategies applied by Johnsondiversey E.A company?
- ii. What challenges face the firm in the application of those challenges?

### **1.3 Objectives of the study**

The objectives of the study were:-

To establish competitive strategies employed by Johnsondiversey E.A company.

To determine the challenges faced by the company in the application of these strategies.

### **1.4 Scope of the Study**

The scope of the study is limited to identifying competitive strategies applied by the firm and challenges facing the application of these strategies. On a wider scale, same study could be extended to establishing competitive strategies adopted by other detergent manufacturers in Kenya.

### **1.5 Significance of the study**

The study will be important to the following stakeholders:-

To academia and other researchers the findings will serve as a data bank. The findings may be used for further research in the area of competitive strategies and challenges in their application in organizations.

Enlightening the management of Johnsondiversey E.A. Company in understanding whether the competitive strategies used have a positive contribution to the company's performance and market share.

The results may enable Johnsondiversey E.A Company to re-examine the application of competitive strategies and challenges in their application and take corrective measures.

The results may be important to policy makers as they use the results to understand the dynamics in the soap and detergents manufacturing industries and come up with measures of improving the sector for competitiveness

The practioners already in the industry may use the results to enhance the company's activities in the provision of goods and services to customers.

The private investors may find the results useful, when they want to set up new ventures in business.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 The Concept of Strategy

Firms need strategies to be successful. It is often argued that strategies a firm pursues have a major impact on its performance compared to that of competing firms. Strategy is therefore defined as an action that a firm takes to achieve one or more of its goals. For most firms, the key goal is to achieve superior performance (Thomson, 1997).

For firms to take specific actions to outmaneuver competition, they need to have a strategic intent. Strategic intent encompasses an active management process which includes focusing the firm's attention on the essence of winning, motivating the people by communicating the value of targets, encouraging individual and team contribution and, providing direction as circumstances in the environment change. Strategic intent involves setting ambitious goals that stretch the firm's resources and capabilities in attempts to achieve those goals.

Strategy is matching the firm's resources and capability to the external environment as well as the internal environment (Aosa, 1992). Chandler (1962) considered strategy as a means of establishing the purpose of a company by specifying its long-term goals and objectives, action plan and resource allocation to achieve the set goals and objectives.

Mintzberg (1991) viewed strategy as a plan, ploy, a pattern, a position and perspective. As a plan, strategy specifies consciously interrelated course of action of a

firm. As a ploy, strategy is seen as a maneuver intended to outwit a competitor. As a pattern, strategy is seen as a pattern emerging in a stream of actions. As a perspective, strategy consists of a position and an ingrained way of perceiving the world.

Johnson and Scholes (1999) defined strategy as the direction and scope of an organization over the long-term which achieves advantages for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholders expectations. The organizational environment is always changing and for an organization to enhance its competitive advantage, it must configure its resources to match the changes. The changes could be mild or turbulent but must be matched accordingly by appropriate strategy.

Ansoff (1965) define strategy as the product market scope of a company. This refers to a decision of what to produce in the market .If the environment is stable; an organization can operate without changing its product-market focus. However, if the environment changes, this would require changes in the organizations product market focus that is, its strategy. Product market focus relates to conditions of the external environment which have to be incorporated into strategy. If the products the company is producing or the market it is serving are not reflective of the demands of the external environment, then the company's efforts are futile. .

Thompson and Strickland (2003) perceive company strategy as a combination of competitive move and business approach that managers employ to please customers, compete successfully, to achieve organizational activities. The primary purpose of

strategy is to give management decisions towards superior performance through establishing competitive advantage.

Aosa (1992) states that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The strategic problem is mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of organizations core capabilities that are correlated to the external environment.

Strategy is required in order for an organization to obtain viable match between external environment and its core capabilities. It must also continuously and actively adapt the organization to meet the demands of an ever changing environment through strategic fit. Strategic fit is a process of developing strategy by identifying opportunities in the business environment and adapting resources and competencies to create opportunities or capitalize on them. The strategy of an organization is affected not by the environmental forces and resources availability, but also by environmental expectations of those who have power in and around the organization.

Pearce and Robinson (1997) define strategy as large scale, future oriented plans for interacting with competitive environment to achieve company objectives. It is the company 'game plan'. While it does not detail all future development of resources, it provides the framework for managerial decisions. A strategy reflects a company's awareness of how, where and when it should compete and for what purposes it should compete. The underlying issue of this definition is that the main thrust of strategy is to achieve long term sustainable advantage over the other competitors of the

organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization.

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

## **2.2 Business Environment and its Challenges**

All organizations are open systems that are influenced by environmental variables that are so turbulent and dynamic, that their unpredictability poses the greatest challenge to business. According to Pearce and Robinson (1997) a host of external factors influence a firm's choice of direction and action and hence it's organizational structure and internal process. These factors can be divided into three interrelated subcategories. Factors in the remote environment, factors in the industry environment and factors in the operating environment.

The remote environments comprise factors that organize beyond and usually irrespective of any single firms operating situation (e.g. economic, social, political, technological and ecological factors). The environment presents firms with

opportunities, threats and constraints. The industry environments ultimately provide the basis for competition. Operating environment is also called the competitive task environment; it comprises factors in the competitive situation that affects a firm's success in acquiring needed resources or profitability, marketing its goods and services. The most important factors in this category are the firm's competitive position, the composition of its customers, its reputation amongst suppliers and creditors and its ability to attract capable employees.

### **2.3 Competitive Strategy**

Competitive strategy specifies the distinctive approach which the firms intend to use in order to succeed in each of its strategic business units. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff 1985). Competitive advantage comes in many forms the most basic is to provide buyers with what they perceive to be superior value a good product that is worth paying more or a best value that represents an attractive combination of prices, features, quality, service and other attributes buyers find attractive.

Thomson and Strickland (2003) observed that competition is at the core of the success or failure of firms. Competition determines the appropriateness of firm activities that can contribute to its performance such as innovation, cohesive culture or good implementation. Competitive strategy is thus the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs.

Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter 1998). Firms pursue competitive strategies to seek to improve or maintain their performance through independent actions in a specific market or industry. There are two major types of competitive business strategies, cost leadership and product differentiation. Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategy attempts to gain advantages by increasing the perceived value of the product or service they provide to customer.

Competitive strategies should lead to competitive dominance which according to Tang and Baver (1995) is about sustained leadership and level of undisputed excellence. Tang and Baver contend that competitive dominance in the long run is not based on leadership position in the organization. Leadership is temporary and there is a brief that smart and competent competitors are always fully prepared to dislodge the leader or to displace the incumbent. Competitive dominance seeks to position the firm for future opportunities through quality initiatives and offerings that delight customers. It seeks to align, integrate and synchronize strategy and quality to achieve future leadership and to be able to sustain it.

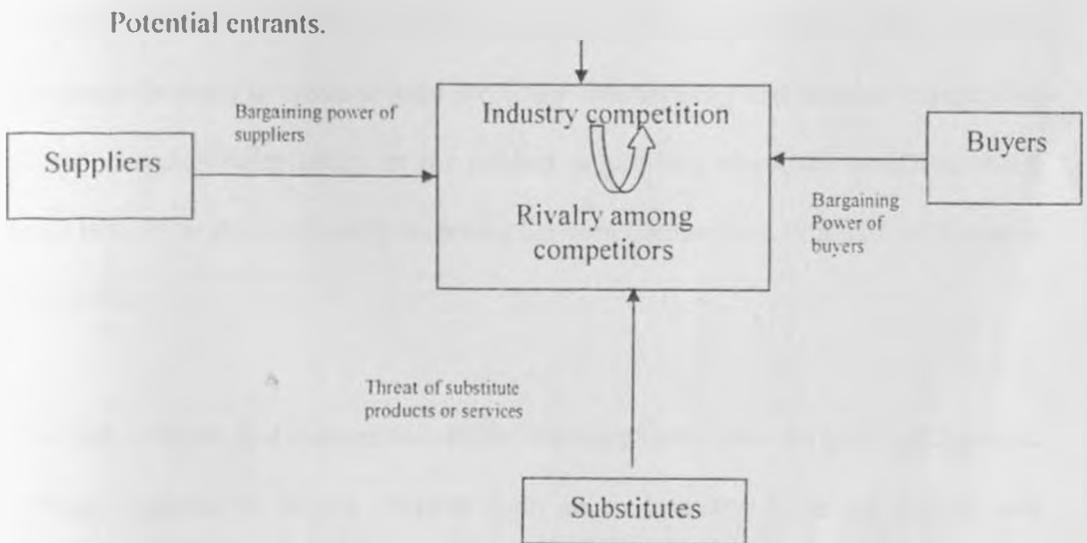
The core of company's competitive strategies consists of its initiatives to deliver superior value to customers. It also includes offensive and defensive moves to counter the maneuvering of rivals, actions to shift resources around to improve the firm's long-term competitive capabilities and market position. tactical efforts to respond to whatever market conditions prevailing at the moment (Thompson and Strickland

2003). Competition in an industry continually works to drive the rate of return on invested capital toward the competitive floor of return. Competition in an industry is rooted in its economic structures, which must be better than the current competitors.

The state of competition in an industry depends on five basic competitive forces. These include the threat of new entrants, the bargaining power of buyers, bargaining power of supplies, the threat of substitute products or services and rivalry among existing firms. Porter, (1998) observed that the five forces framework is useful only to the strategic business unit. They must not only be described but also be countered and overcome. The five forces are not independent of each other. It is common for pressure from one direction to trigger off changes in another in a dynamic process of shifting some competitors (Johnson Scholes, 2002).

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

**Figure 1. Five Forces Framework.**



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

## 2.4 Porter's Generic competitive Strategies

According to Porter, a company can out perform rivals only if it can establish a difference it can preserve, and the essence of strategy is choosing to perform activities differently than rivals do. Competition usually results into competitive rivalry-a phenomenon common with organizations offering similar products or services aimed at the same customer group. There are a number of factors that affect competitive rivalry. These factors are the extent to which the competitors are in balance, which include high fixed costs in an industry, market growth, addition of extra capacity in large increments and nature of the market.

Where competitors are roughly the same size, there is danger of competition as one competitor attempts to gain dominance over the other. High fixed costs in an industry perhaps through high capital intensity may result in price wars and very low margins operations, as capacity fill becomes a prerogative. The rate at which the market is growing naturally affects competitive rivalry, the firm making large capacity increment is likely to create at least short-term overcapacity and increase competition (Johnson and Scholes 2002). In the product or services which are undifferentiated, there is little to stop customers switching between competitors, thus differentiation is important.

To cope with the five competitive forces, there are three potential successful generic strategic approaches to out perform firms in an industry; these are overall cost leadership, differentiation and focus. A firm can successfully pursue more than one approach.

### 2.4.1 Overall Cost Leadership

A firm that pursues a cost leadership strategy focuses on gaining advantages by reducing its economic costs below the cost of all its competitors. Policy choices about the kinds of product that firm in an industry choose to produce can create important cost differences (Barney, 1997). Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reduction from expensive, tight cost and overhead control, avoidance of marginal customer accounts and cost reduction in areas like research and development, service, sales force, advertising.

According to Pearce and Robinson (1997), strategists examining their business value chain for low cost leadership advantages evaluate sustainability of those advantages by benchmarking their business against key competitors, and by considering the impact of any cost advantage on the five forces in their business environment. The firm can use its skills and resources available to accomplish one or more activities in its value chain so as to achieve a cost advantage. The low cost activities in a firm should be sustainable and cost advantages should form the basis for the business competitive strategy.

The low cost advantages should be capable of reducing the likelihood of pricing pressures from buyers, lessening the attractiveness of substitute products and push rivals into other areas thereby lessening price competition. A cost leadership strategy can sometimes revolutionize an industry in which the historical basis of competition have been otherwise and Competitors are ill prepared either perpetually or economically to take the steps necessary for cost minimization (Porter 1998).

## 2.4.2 Differentiation

Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers.

Product differentiation is always a matter of customer perception, but firms can take a variety of actions to influence these perceptions (Barney, 1997). Differentiating the product or service offering of the firm is thus the act of creating something that is perceived industry wide as being unique (Porter, 1998). Approaches to differentiating can take many forms, design or brand image, technology, features, and customer service, dealer network or other dimensions.

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

Strategists examining their business value chain for differentiation advantages evaluate the sustainability of those advantages by benchmarking against key competitors and by considering the impact of any differentiation advantage on the five forces in their business competitive environment. The basis for differentiation as a competitive strategy is used when a business successfully differentiate itself or buyers are less sensitive to prices for effective differentiated products or brand loyalty is hard for new entrants to overcome.

Thompson and Strickland (2003) argue that differentiation strategies tend to work best in market circumstances where there are many ways to differentiate the products or service and many buyers perceive the differences as having value. Buyers' needs and uses should be diverse and few rival firms should be following a similar differentiation approach.

When there is technological change, product innovations are fast and competition revolves around rapidly changing product features, therefore differentiation strategies work best. Firms can differentiate their products by altering or modifying the product features, linking different features within the firm, introducing the product at the right time, exploiting location advantages, mixing products, linking with other firms and reputation (Porter 1980).

#### **2.4.3 Focus**

Focus strategy involves focusing on a particular buyer group, segment of the product line, or geographic market, etc. Porter states further that although the low cost and differentiation strategies are aimed at achieving their objectives industry-wide, the entire focus strategy is built around serving a particular target very well and each functional policy is developed with this in mind. The strategy vests on the premise that a firm is able to serve its narrow strategic target more effectively or sufficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target or low cost in serving this target or both.

Thompson and Strickland (2003) argue that a focus strategy based on either low cost or differentiation becomes increasingly attractive as more of the following conditions are met. First the target market niche must be big enough to be profitable and offer good growth potential, and industry leaders do not see that having a presence in the niche is crucial to their own success, a condition that reduces rivalry from competition. Secondly, it's costly or difficult for competitors to multi-segment and put capabilities in place to meet the specialized needs of the target niche, and at the same time satisfy the expectations of their main stream of customers.

Thirdly, the industry has many different niches and segments thereby allowing a focuser to pick a competitively attractive niche suited to the resource. Lastly, the focuser can compete effectively against challenges based on capabilities and resources and serve the target market niche and the customer goodwill it has build up. A firm that is not pursuing any particular strategy but it is choosing between various aspects of the different strategies is said to be "struck" in the middle.

The difference among the three generic strategies is illustrated here below:-

**Figure 2: Porters Generic Strategies.**

Strategic advantage

		Uniqueness perceived by the customer	Low cost position
<i>Strategic target</i>	Industry Wide	Differentiation	Overall cost leadership
	Particular segment only	FOCUS	

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

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

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Research Design

The research was conducted through a case study. The study was intended to bring out information regarding the competitive strategies employed by the company and challenges facing the application of those strategies. Case studies designs are most appropriate when a detailed analysis of a single unit of study is desired. Case studies provide very focused and valuable insights to phenomena that may otherwise be vaguely known or understood.

Young (1960) and Kothari (1990) concur that a case study is a very powerful form of qualitative analysis that involves a careful and complete observation of a social unit be that unit be a person, a family, an institution, a cultural group or even the entire community. It is a method of study that drills down rather than casts wide.

The advantage of using a case study includes enabling an in-depth understanding of the behavior pattern of the concerned unit and facilitating intensive study of the concerned unit. The limitations of a case study include the danger of false industry generalization, which might be experienced due to lack of set rules to follow in the collection of information, it is time consuming, expensive and the research might be subjective. Further it is limited in its application. Despite the stated limitations, the application of open-ended questions and in-depth interviews minimized the risk of subjective responses/answers.

### **3.2 Data Collection**

The study required both primary and secondary data. Primary data was collected from oral interview carried out from the respondents. Secondary data was collected from secondary sources such as the company's prospectus, journals and annual reports. Methods of data collection involved an in-depth personal interview of the respondents and an interview guide questions were used to get the information (appendix I).

The respondents of the study included the chief executive officer and heads of departments in the sales and marketing, production, human resource and operations departments.

### **3.3 Data Analysis**

Data from interview and secondary sources was summarized according to study themes. The content analysis technique was used to analyze the data. Nachmias and Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends.

This approach has been used previously in a similar research paper like the one by Mbogo (2003). He argued that this method is a scientific as the data collected can be developed and verified through systematic analysis. The qualitative method can be used to uncover and understand what lies behind the phenomena under study. It can also be used to gain quite some fresh material even what was thought to be unknown.

## CHAPTER 4: FINDINGS AND DISCUSSION

### 4.1 Introduction

This chapter details the findings of the research based on analysis and interpretation of both primary and secondary data collected from various sources. The findings focus on the areas identified for the study which include strategy formation, cost leadership strategies, differentiation, focus and challenges facing the implementation of these strategies.

#### 4.1.1 Companies Profile – Johnsondiversey E. A. Company

The company was established in 1971 Johnsondiversey East Africa Company is a wholly owned subsidiary of Johnsondiversey based in Racine, Wisconsin in the USA. During its first year of operation, the company produced 10 tonnes of cleaning solution with seven members of staff. Over the years the company has grown in size and strength in terms of annual production and number of employees, to an average of 3600 tonnes and 155 employees respectively. The company operates locally and regionally which includes Kenya, Uganda, Nigeria, Ethiopia, Rwanda, Djibouti and Burundi.

The Company's total value is based in 3 aspects. These are strategic sectors, product portfolio and innovation and enterprise development. In strategic sectors, teams of industry specialists ensure deep understanding of customer's cleaning and hygiene needs. In product portfolio and innovation, a team of application specialists ensure

industry leading products have cutting edge innovation. In Enterprise Development, teams of business specialists ensure 'step change' new business models.

The company is committed to being the world's most trusted source of cleaning and hygiene products and solutions, and also industry specific for commercial, institutional and industrial facilities. The company believes in supporting, encouraging, developing and strengthening the team of employees around the world. It also aims at ensuring goodwill of customers and users of the products and committed to developing valuable environmentally sound products and services around the world.

The organization has teams of people who focus on specific industries to have deep understanding of an industry's precise cleaning and hygiene needs and to anticipate new challenges customers face and address them in advance. The company has strong customer base both locally and regionally, well positioned to service wide range of customers which include food and beverage hygiene, building care, kitchen hygiene, water treatment, food service lodging, commercial laundries, education institutions, industries, fast food, dairy, food processors, breweries, pharmaceuticals and cosmetic industry.

#### **4.1.2 Strategy Formation**

The study found out that the company has documented (written) vision and mission statements. The company's vision is to offer best solutions and services every day, everywhere. The company's mission is to become the pre-eminent provider of total cleaning and sanitation solutions to a core group of customer sectors where unique,

sustainable competitive position is found every day, everywhere. The company vision and mission were formed in 2002 when Diversey lever and Johnson wax professional merged to form JohnsonDiversey. In 2006 the strategy was refreshed and mission and vision statements were modified to harmonize the strategy for the two companies.

The study further found out that various stakeholders of the company were involved in the formation of vision and mission and, this includes internal staff, consultants, and directors. The stakeholders have different power and influence in the company in terms of decision making. The most influential and powerful in terms of rank include the owners, the employees, government and the community. The study further indicated that the company operates in a perfect market competition hence the level of competition in the industry very stiff. However the study showed that the company is fully prepared to compete in a liberalized market.

#### **4.1.3 Cost Leadership Strategies**

The respondents identified the following as the major cost elements: the selling expenses, administration expenses, manufacturing and warehousing, IT infrastructure costs, royalty expenses and finance costs. However, the study indicated that there are various ways in which the firm can minimize the cost so as to improve profitability. This include zero based budgets for department, every departmental head forecast a rigid annual budget and encouraged to operate within this budget, having long-term contracts with the suppliers where the company negotiates upfront with the suppliers for the supply of raw materials for a given period of time ( 3 years contract) in order to arrange for long term discounts on the prices of the raw materials, forecasting the

sales and supplies to enable proper planning of raw materials requirements to have optimum production.

Flat and mean organization structure which encourage fast decentralized decision making and easy flow of information. Fewer employees reduce the cost of human resource. Elimination of non-value adding activities where the company evaluates its activities every 3 months and divests all non-performing activities that do not add value to customer needs.

Development of IT facilities to enhance quick accessibility and sharing of information to every user to facilitate quick decision making and sharing of knowledge and experiences, and to enable efficient procurement of resources in the global markets. The customers are sensitive to changes in price of the products hence the company try as much as possible to maintain the price of the products. However, the prices of products are determined by the market rates, cost of raw materials and fuel costs.

#### **4.1.4 Differentiation**

The study indicated that the company tries to create unique products and services to customers. The company does things differently than the competitors, by increasing the perceived value of the products or services they provide to customers. Some differentiation strategies the company uses include deep understanding of customer needs and partnership with customer to give customized solutions.

Making innovative products with excellent after sales services and flexibility in giving customized solutions i.e. "Customer first then offer solutions". The company

organizes for workshops and training of customers on good usage of the solutions. differentiation is also in packaging and branding that brings out difference that glues customers to a particular product and brand, and the establishment of good distribution channels that ensures that stock out costs are minimized.

#### **4.1.5 Focus Strategy**

The study found out that the company use focus strategy. The company categorizes customers into three main groups. This categorization is based on the volume of products purchased from the company (large, medium or small range) and nature of services offered to customers by the company.

Category A is composed of International and national groups. This group gives the company sale of more than Kshs.100, 000.00 in a month. They buy prime and 'alternative' ranges of products, receive excellent after sales service and they are mainly 'total benefit' driven.

Category B is composed of customers of national large independent sites. They buy products worth between Ksh. 50,000.00 to 100,000.00 a month. They receive good after sale service and are offered low prices for wide range of products. This group forms the main distributors of products.

Category C is composed of medium sized independent sites and small professionals' independent businesses respectively. These group purchases products worth between Kshs. 20,000.00 to 50,000.00 a month. Both groups are price driven and get low after sales services.

The company uses various strategies to acquire categories of customers which include the following referrals and recommendations from current users. Looking for global or regional customer groups who demand for the same solutions across countries. Telephone sales the use of telephones to sell and promote products and services to customers in different areas both local and regional markets.

Organization of appointments for detailed customer audits to help in understanding the customer's needs and tailor make the products and services. This helps create good rapport and reduces suspicions from either parties. Proposal presentation of products range and services to a core group of decision makers with power and influence, to sell the idea to other stakeholders. A follow-up of proposal implementation is done by the company depending on the feedback from each user. Implementation is then actualized either in form of trials in some sections or immediate conversion in all areas. The company also uses face to face discussions with prospective customers through invitation to business conference or exhibitions.

#### **4.2 Challenges faced by the company in strategy implementation.**

The study revealed a number of challenges that affect strategy implementation and this include changing environmental requirements that lead the company to make structural adjustments in its operations to match up the environmental changes. Unstable price of fuel that leads to high cost of production, transport costs and other overheads costs that lower the profit margin. Political instability in certain geographic areas such as Rwanda, Burundi, Nigeria, and Djibouti which makes it difficult for the company to sell and market its products in those areas.

Stringent environmental regulations from NEMA (National Environmental Management Authority) which authorizes all companies to pre-treat effluents to reduce harmful substances before they are released to the environment and this increase the cost further. Increased competition from small players who imitate company's products and selling them at very low prices and this affects the market share of the company in some areas.

Optimizing returns from the service model the company deliver products on consignment even when demand is low and this lead to big losses. Increasing cost of inputs such as raw materials, fuel and other overheads increase the cost of production and transport hence low margins. The company has to make regular adjustments to price of the products which may lead to loss of customers and hence loss of revenue.

Lack of free movement of goods across countries that arise from long bureaucracy in clearance of goods at the import/export border points for example Tanzania. This may cause unnecessary delays. Increased customer awareness and demands making the company to increase expenses to tailor make solutions as customers needs and wants change. Presence of trading blocks, trade barriers, trade regulations and tariffs in some countries that protect local market and products. this makes it difficult for the company to sell and market products in these countries. Resource constraints such as human and financial inefficiency (inadequate finance to support strategy and team work implementation), and lack of clarity/ structure for career progression for high potential and best people.

### 4.3 Discussion of the results

The study revealed that the company employ competitive strategies of cost leadership, differentiation and focus in its main value chain activities. The company experience challenges in the application of these strategies. Some of the challenges include high cost of production, high levels of inflation and interest rates, technological change, stiff competition, increasing costs of raw materials, fuel and overheads and low sales among others.

Previous studies done by other researchers on competitive strategies used by companies and challenges faced in the application of the strategies indicate that there are similarities in the results of the findings with those of Johnsondiversey E.A. Company. Some of the researchers include Nyokabi (2001), kandie (2001), Karanja (2002), Obado (2005) and Ndubai (2003).

Nyokabi (2001) studied on competitive strategies adopted by Kenya independent petroleum dealers association. The study found out that all petroleum retail outlets have target customer groups who receive different nature of products and services. This is similar to Johnsondiversey E.A Company in its application of focus strategy, where customers are grouped into four different target groups. The grouping is based on the nature of products and services offered to them by the company. Similar challenges in this case include stiff competition from established outlets, fluctuating petroleum prices and low sales.

Kandie (2001) studies on strategic responses by Telkom Kenya limited. The study identified some challenges similar to those faced in Johnsondiversey EA company.

Those challenges include technological change, inadequate finance, high staff turn over and stiff competition.

Karanja (2002) studied on competitive strategies used by real estates. The study found out that the realtors mainly use differentiation strategy by giving unique services over what others are providing. Johndiversery EA Company also provides unique products and services to its customers through branding and packaging of products, and offering excellent after sale services. Similar challenges include high levels of inflation and interest rates.

Obado (2005) studies on competitive strategies employed by the sugar industry in Kenya. The study identified the main competitive strategies used in the industry as cost leadership and differentiation. Similar competitive strategies include cost control measures in the value chain activities. This include efficiency in production and operations areas, elimination of non-performing activities, zero based budgets and proper forecasting sales and supplies for optimum production.

Similar differentiation strategies used involve branding and packaging of products, and excellent after sale services to customers. Similar challenges include rising costs of production, increased competition from small players, rising costs of fuel, technological change, political instability and trading blocks among others.

## CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

Johnsondiversey E. A Company is about 37 years old and is located in Kabete area in Nairobi. The annual production of cleaning solutions is about 3600 tonnes, with 155 employees. The company manufactures and sells cleaning detergents to both local and regional markets. The company employs competitive strategies and experience strategies in their applications.

#### 5.1.1 Strategy formation

Strategy formulation in the company is triggered by liberalization effects. Various stakeholders groups who have power and influence in conjunction with consultants were involved in crafting strategies in the company. There has been one amendment to the vision and mission statements due to mergers and acquisitions that took place in the company in 2006.

Currently, the state of competition is very stiff due to full force of liberalization in the industry. This therefore calls for urgent measures aimed at reforming the industry towards competitiveness. These reforms must address the challenges that affect the company like changing environmental requirements, unstable price of fuel, political instabilities in certain geographic areas, increased competition, trading blocks and increasing costs of raw materials among others.

### **5.1.2 Competitive strategies**

The study found that the company employ cost leadership strategies in their value chain activities. They do this by eliminating non-value adding activities, zero based budgets, having long term contracts with the suppliers, proper forecasting of sales and supplies, flat and mean organizational structures, and innovations among value chains among others.

Differentiation strategies are also used through branding of cleaning solutions, deep understanding of customers needs and partnership with customers, making innovative products with excellent after sales services, to flexibility in giving solutions to the customers and giving customerized solutions.

Focus strategies are used through customer categorization into 3 groups A, B, and C. Each group is categorized depending on the volume of products purchased from the company, size of the customers and the nature of services offered to customers by the company. Each group is targeted and served depending on any of the 3 three aspects.

### **5.1.3 Challenges**

The study revealed a number of challenges that affect strategy implementation and this include changing environmental requirements, unstable price of fuel, political instability in certain geographic areas such as Rwanda, Burundi, Nigeria, and Djibouti. Stringent environmental regulations from NEMA (National Environmental Management Authority) and increased competition from small players.

Increasing cost of inputs such as raw materials, fuel and other overheads. Lack of free movement of goods across countries. Increased customer awareness and demands, presence of trading blocks, trade barriers, trade regulations and tariffs and resource constraints.

## **5.2 Conclusion**

Johnsondiversey E. A Company has competitive strategies that are sustainable and ensure it of its market position. The strategies include cost leadership, differentiation and focus. These strategies are formulated through the joint efforts of stakeholders.

The firm faces challenges and very stiff competition as a result of liberalization of the economy. The company therefore needs serious and urgent reforms so as to favourably compete both locally, regionally and globally.

## **5.3 Recommendations**

The study recommends that with the opening of the borders, trade in the regional markets will expand more effectively. The company should constantly innovate with the aim of delivering simplicity to the customers and cost control, by creating paradigm shifts each time a key innovation is delivered like every 5 years.

The company should also focus on niche markets with unique solutions for each groups, perform value chains activities better than competitors, make the customers the partner and work together to eliminate waste and improve processes.

The product base should be broadened and more research needed to find ways of minimizing overall cost of production. The government may provide both direct and indirect support in form of production and export subsidies. The company should organize around the “country specifics” and minimize investments in fixed assets in volatile geographic areas.

#### **5.4 Limitations**

The study focused on competitive strategies only. However, there are other strategies that firms can use to improve their economic performance. This may include Total Quality Management, Just in Time Delivery, and Efficiency. Due to the busy schedule of the Chief Executive Officer and Heads of Departments, some of the data could not be readily available in good time.

Another limitation was lack of adequate time to conduct oral interview from the respondents due to their busy schedule. This affected some of the data which was not readily available in good time. This led to generalization of some information and therefore making subjective conclusions. Resource constraints were also experienced especially in obtaining the secondary data, some of which did not have adequate information required for the study.

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## APPENDIX: INTERVIEW GUIDE:

What position do you hold at JohnsonDiversey Company?

How many years have you worked with JohnsonDiversey Company?

What is your main responsibility in the organization?

When was the farm established?

Describe the ownership of the firm?

What is the vision and mission statement of JohnsonDiversey Company?

Has the vision and mission changed in the last 10 years? If so why did it change?

Who are involved in the formation of strategies in the company? What are the current strategies?

What is the level of competition in the industry now?

How is the company prepared to compete in a liberalized market?

### **COST LEADERSHIP STRATEGIES**

What are your major cost elements?

How does the firm minimize the cost (above) so as to improve the profitability?

Are customers sensitive to changes in prices of the products?

### **DIFFERENTIATION**

How do you create a unique image of the firm to the customers?

What threats arise from the substitute products? How can these threats be minimized?

### **FOCUS**

What are categories of customers who buy your products? How do you ensure that you retain their loyalty?