THE EXTENT OF APPLICATION OF PORTER'S GENERIC STRATEGIES BY THE NEW KENYA CO-OPERATIVE CREAMERIES LIMITED (KCC)

BY

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DECLARATION

STUDENT

This management research project is my original work and has not been presented to any other institution for examination.

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SUPERVISOR

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

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For **DR. MARTIN OGUTU**
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DEDICATION

I dedicate this work first and foremost to beloved husband Moses Ajwang for this spiritual, moral and financial support throughout my studies. Also, to my beloved children Shammah and Joshua for their patience. Thirdly, my mother, brother and sisters. You all taught me the value of hard and selflessly supported me morally and materially. Surely you gave me the best you could afford. May the almighty God bless you all

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First and foremost is my gratitude to the Almighty God for the gift of life, resources, a sound mind and everything else that enabled me go through the course and I will be forever grateful.
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ABSTRACT

Strategic planning in an organization involves defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and PEST analysis (Political, Economic, Social, and Technological analysis) or STEER analysis involving Socio-cultural, Technological, Economical, Ecological, and Regulatory factors and EPISTELS (Environment, Political, Informatics, Social, Technological, Economic, Legal and Spiritual) (Newman, 1989)

This study was conducted through a case study design. Primary and secondary data was used in the study. Secondary data was also obtained for the study. The data collected was analyzed in accordance with the objectives of the study, which was to determine the extent to which the New KCC Ltd has adopted the Porters Generic Strategies and to establish whether the New Kenya Cooperative Creameries (KCC) management considers porter's generic strategies to be effective.

The study found that the new KCC adopted the porters generic strategies to a great extent, these strategies includes Product differentiation, low cost of production, cost focus strategy and cost of leadership strategy, the new KCC had also employed cost of leadership as competitive strategy to a great extent and had employed cost focus strategy in enhancing its competitive advantage to a very great extent as it helped in operating the company at lower cost thus maintaining a competitive edge over its competitors.

The study was limited to the application of porters' generic strategies by the new Kenya co-operative creameries limited (KCC). Owing to the fear that information gathering is intense in this sector amid heightened competition, the informants had to be fully convinced that the purposes of this study are purely academic. This limited the interviewer from probing on matters that are considered sensitive for the organization. The study recommends that a further study on a wider focus, to include all Dairy industries in Kenya and investigate the extent to which other co-operative and dairy firms practice to sustain porter' generic strategies in the turbulent environment.

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LIST OF ABBERVIATIONS AND ACRONYMS

DCS: Dairy Co-operative Societies

EPISTELS: Environment, Political Informatic, Social, Technological, Economic, Legal and Spiritual

GDP: Gross Domestic Product

NKCC: New Kenya Cooperative Creameries Limited

KDB: Kenya Dairy Board

PEST: Political, Economic, Social and Technological

STEER: Socio-cultural, Technological, Economic, Ecological, and Regulatory

SWOT: Strengths, Weaknesses, Opportunities, and Threat

CHAPTER ONE: INTRODUCTION

1.1 Background

In any natural setting, organizations exist within an external environment. filled with conditions and faces that affect their strategic options and define their competitive situation. A dynamic environment therefore means that firms have to compete intensively (Pearce and Robinson, 1997). The way in which organizations interact with the environment is therefore crucial for their survival and growth. Hence, organizations have to constantly align and re-align their strategies in order to remain competitive. According to Asnoff and McDonnell (1990) failure to effectively adapt the organization to its environment leads to a strategic problem thus threatening its existence.

Strategic planning in an organization involves defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths. Weaknesses. Opportunities, and Threats) and PEST analysis (Political. Economic, Social, and Technological analysis) or STEER analysis involving Socio-cultural, Technological. Economical. Ecological. and Regulatory factors and EPISTELS (Environment, Political, Informatics, Social, Technological, Economic, Legal and Spiritual) (Newman. 1989)

In Kenya, the government has made significant efforts in the implementation of economic reforms since the beginning of 1990s. This was done in order to stabilize the economy and to enhance both external and domestic c competitiveness (National Development Paper. 1997-2001). These changes have had a major impact on all industries and especially the dairy industry, which is among the major employment generating sectors in the country as well as foreign exchange earner. The changing climatic patterns and narrowing margins between revenues and expenditures coupled with increased liberalization in the Kenyan economy has led to increased turbulence in the business environment. thus forcing firms in the daily industry to adopt competitive strategies for them to survive and grow.

It is worth noting that the application of competitive strategies in the dairy industry may not be that simple. Newman (1989) argues that firm's in the industry may be faced with various competitive challenges which include structural and economic barriers in the industry. He goes on to identify three types of competitive challenges, which include financial requirement, regulatory issues imposed by the government and the ability of the company owners and managers to deal with competitive challenges that may hinder a firm's ability to grasp new opportunities.

According to Porter (1980), competitive advantage is therefore at the heart of any strategy and to achieve it, a firm is required to make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. He further defines competitive advantage as how a firm can gain sustainable cost-advantage, how it can differentiate itself from competitors and how a firm can select a segment such that competitive advantage grows out of a focus strategy.

1.1.1 Porter's Generic Strategies

In order for a firm to flourish, it should be able to develop a distinctive competence that is greater than its competitors. The porter's generic strategies model therefore is a guide to firms on how they can create and sustain a competitive advantage. It tries to link the strategy formulation process with the implementation. The concept of the three generic strategies is based on the premise that there are a number of ways in which competitive advantage can be achieved depending on the industry, structure and availability of resources. Porter's generic strategies hence provide alternative routes to superiors' performance in an industry (Porter, 1980).

Porter's generic strategies allow organizations to gain competitive advantage from different bases. Firms can posse's two basic sources of competitive advantage such as low cost or product/service differentiation (Porter, 1980). The two basic types of competitive advantage combined with the scope of activities which a firm seeks to achieve leads to the three generic strategies, which allows organizations to gain competitive advantages from three different bases for achieving sustainable competitive advantage or above average performance in an industry.

The basic for above average performance in any organization in the long run in sustainable competitive advantage is the process which allows for the maintenance of a firms competitive position in the market. Winning business strategies are therefore grounded in sustainable competitive advantage (Thompson, 1998). This therefore calls for organizations to thrive to invest in creating sustainable services against all their competitors over along period.

In order for a firm to attain competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and scope within which it will attain it (Porter, 1990). Any firm that engages in each generic strategy but fails to achieve any is said to be stuck in the middle, this places the firm in a very poor position and even though if it is successful, it would not survive if there was increased competitive pressure as it possess no competitive advantage.

1.1.2 Kenya Dairy Industry

Since the liberalization of the dairy industry in 1992, new institutional arrangements in milk collection, processing and marketing have emerged. At the farm gate level, informal marketing channels dominate with most farmers using this channel. These channels include hawkers, brokers, self-help groups as well as neighbours and business establishments like hotels. In total, the informal market channel is estimated to control 60% of the total marketed milk. Dairy co-operatives, which used to be an integral part of the formal milk collection and marketing, have been relegated to buyers of last resort. Furthermore, the cooperatives are also marketing a big proportion of their milk directly to urban markets. The 45 licensed milk processors with an estimated daily intake of 600,000 litres handle the rest of the market share. This is as compared to over one million litres per day, which Kenya Co-operative Creameries (KCC) used to handle during its peak.

Kenya's economy is heavily dependent on agriculture. Generally 75% of Kenyans earn their living from farming either directly or indirectly. Kenya is among few African countries whose food production has kept pace with its population growth. Agriculture usually brings in over 6% of foreign exchange earnings and provides raw materials for Kenya's agro-industries, which account for about 70% of all its industrial production (EPZA, 2005).

Kenya has one of the largest dairy industries in sub-Sahara Africa. Developments in the industry span over a period of 90 years and have undergone various evolutionary stages. In the first 60 years it was dominated by the large-scale farmers, while in the last 30 years smallholder farmers have increasingly dominated the sector, contributing over 80% of the total milk production (USAID KDSCP, 2009).

Up to 1992, the dairy industry in Kenya was under government control, which gave the policy guidelines, set prices, determined the players in the industry and set the market rules among other things. Kenya Co-operative Creameries (KCC) enjoyed a protected monopoly in the marketing of the milk and dairy products. Presently, the dairy industry is regulated by the Kenya Dairy Board, established under Section 4 of the Dairy Industry Act Cap. 336 enacted by Parliament in 1958. It is from this Act that the Board derives its mandate (EPZA, 2005).

Kenya is one of Africa's highest consumers of milk with total intake exceeding 2.6 billion kilograms in 2001. Revenue value is estimated to be $680-940m (6-8% of GDP). Per capita consumption is 85.6 kilograms and it is estimated that dairy consumption will grow by a slow but steady 2-4% per year in real terms until 2010 in accordance with expected population growth (EPZA, 2005).

Kenya is largely self sufficient in milk production. Currently, the production stands at about 4 billion litres per annum, though this is sufficient for domestic consumption, a lot more is required for the export market. Milk production in Kenya is based mainly on cattle, more so the dairy herd. Milk is also obtained from camels and goats. Kenya has an estimated cattle population of 13 million heads with dairy, mainly grade cows, amounting to 3.3 million and beef amounting to approximately 9.7 million.

The Kenyan dairy industry is based mostly on smallholder milk production. About 1.000 000 smallholders produce some 70% of the country's marketed milk. Approximately 80% of this milk is sold raw in the unregulated informal market; leading to public concerns about hygiene and safety (KDB, 2009). The Government of Kenya, in recognition of the role of private sector in spear heading industrialization, has put in place a policy framework to foster the creation of a conducive environment for private sector participation in economic development. The Kenyan dairy industry has potential for spurring substantial growth in the economy. Some of the investment opportunities available include artificial insemination services, dipping services, clinical services, rearing of livestock for dairy products and milk processing for local and regional markets.

Since milk market liberalization in May 1992, competition in milk processing and marketing has increased significantly in the industry. Since then, the Board has licensed over 40 private and dairy co-operative processors to process and market milk and milk products. The industry has a processing capacity of 3.0 million litres per day. The Kenya Cooperative Creameries (KCC) is estimated to have a processing capacity of 1.2 million litres of milk per day and the other processors combined have a processing capacity of about 1.3 million litres of milk per day. The Kenyan Dairy Industry contributes about 4% to the Gross Domestic Product. Milk production is estimated at 4 billion litres p.a. This supports over 1,000,000 smallholder Dairy households and generates directly to about 365,000 waged jobs and a further 500,000 jobs in support services (KDB, 2009).

1.1.3 The New Kenya Co-operative Creameries Limited (KCC)

Kenya is one of the largest produces of dairy products in Africa, with the highest per capita consumption of milk in Africa, estimated as being four times the Sub-Saharan African average of 25kg (Republic of Kenya, 2005). The dairy industry accounts for 14% of the agricultural G.D.P and 3.5% of the total GDP. It is based predominantly on smaller holder production, which accounts for about 70% of the total annual milk production in the country (Kenya Dairy Board, 2007.) Estimates of the number of small holder households depending on dairy for (part of) their livelihood vary between 625,000 and 800,000 (Leksmono, Young, Hooton, Muiruki and Romney, 2006).

Dairy farming in Kenya dates back to the colonial period. Many settlers ventured into large dairy farming with the support of the colonial administration. The first high yielding cattle breeds were introduced into the country during the colonial period. The period also led to the emergence of formalized institutional and organizational framework for milk marketing as well as delivery of livestock and health services (Ngigi, 2005).

The interaction of the state and farming settlers meant that the sector would be politically regulated. Although many creameries were in place. the post WWI. Depression period occasioned a reduction in prices forcing some of the creameries to merge. This led to the formation of Kenya Co-operative Creameries (KCC) in 1925 to facilitate the production, processing and marketing of milk and to insulate farmers from the impact of the depression. Later on demand for dairy was accelerated by prosperity from coffee and tea. which generated an increase in demand for milk and therefore demand for grade cattle (Bate. 1989)

The Dairy Industry Act was enacted in 1958 to preserve the dominance of KCC in the market. KCC became the sole agent in the marketing for dairy products in the main urban centers. which became known as "scheduled areas". The Kenya dairy Board (KDB) was also instituted under the act to the state agent to regulate the industry. KCC was appointed the sole agent for processing, packaging and sale of milk in the scheduled urban areas by the KDB. The act also established regulations that were interpreted as keeping raw milk out of the scheduled urban areas, where consumers were to be served pasteurized milk through the formal market.

Inspired by the success of some of the large scale colonial settlers. the new black elites bought settler land in the former white highlands through the land purchase programmes. They also entrenched by the settlers, including KCC. Whilst KCC provided valued services to new small holder dairy producers, the cost of its operation was high. By the 1970's KCC started experiencing trading losses, which reduced the price that it could afford to pay to a farmer for their milk. According to Ngigi (2005), during the period 1971 – 1992 the producer price for raw milk declined at 1.36p.a in real terms.

New KCC Ltd was registered as a state Corporation on 19th November 2004 as provided for under the State Corporations Act Section 2 (b) (v). The minister for Co-operative Development and Marketing duly appointed a Board of Directors as prescribed by the State

Corporations Act (Cap 446). New KCC Limited has since become a State Corporation with 100% Government shareholding.

1.2 Research Problem

According to Porter (1990) all organizations serve in the environment and depend on the environment for their input and outputs. The fact that the environment is very dynamic makes it to have impact on all industries within the country. The Kenya Cooperative Creameries (KCC) has been subjected to these changes. Firms in the dairy industry have therefore been forced to respond to the changing competitive situation in the environment by using Porter's generic strategies to ensure they maintain a competitive edge over their competitors. However, this may not be that easy for firms such as KCC since Porter's generic strategies model is imported from a developed country and hence its applicability in the dairy industry in Kenya might be difficult due to such factors such as, poor infrastructure, lack of capital, and competition from more branded products among others.

A number of studies have been carried out on the existence of competitive strategies in other industries for example; Kenei (2006) researched on challenges of application of Porter's Generic Strategies in the tea industry in Kenya, case study of Ketepa, Karanja (2002) looked at competitive strategies in the real estate, the perspective of Porter's generic model. Bett (2003) looked at strategic planning by tea manufacturing companies in Kenya while Cheluget (2003) looked at Study of Responses of Milk Processing Firms to Increased Turbulence in Micro Environment of the Diary Industry in Kenya: Case of KCC. Murage (2001) looked at competitive strategies adopted by members of the Kenya Petroleum Dealers Association, hence no study was found that have looked at the application of Porter's generic strategies by Kenya Cooperative (KCC).

This study therefore seeks to bridge the knowledge gap and the questions being addressed are: To what extent has New Kenya Cooperative Creameries Limited (KCC) applied Porters' generic strategies to cope with competition and the effectiveness of the application of Porters' generic strategies.

1.3 The Research Objectives

This study aimed at achieving the following objectives:

i. To determine the extent to which the New KCC Ltd has adopted the Porters Generic Strategies.

ii. To establish whether the New Kenya Cooperative Creameries (KCC) management considers porter's generic strategies to be effective.

1.4 Importance of the Study

The study will benefit the academicians both the students and lecturers. The findings will be used by students in doing their research as source of secondary data. Lecturers will use the information to extract lecture notes.

The study can be springboard for future studies. Academic researchers use other studies to source more information and establish research gaps. This is from the suggested areas for further research and as well as replica studies for further studies. Useful to strategy managers in knowing the benefits they can accrue by outsourcing. Also what factors to consider before outsourcing and what challenges they are likely to face and how to overcome them.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

Johnson and Scholes (2001) looked at strategy as concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment. According to Pearce and Robinson (1997) strategy is the process of matching the activities of an organization to the environment in which it operates – a process is known as search for a strategic fit which is the achieving the correct positioning of the organization such that it is able to meet the needs of the market and fulfill stakeholders' expectations.

It is argued that strategy is about winning. It is perceived strategy as a combination of competitive moves and business approaches that manager employ to satisfy customers, compete successfully and achieve organizational vision and objectives (Thompson and Strickland, 2003). Mintzberg (1997) on the other hand viewed strategy as a plan, ploy, pattern, position and perspective. As a plan, strategy consciously determines the intended course of action, as a ploy, strategy is seen as a man oeuvre intended to outwit competitors, as a pattern it is seen as a pattern emerging in a stream of actions, as a position, it is seen as a means of positioning a firm and its environment and as a perspective strategy is seen as giving an organization an identity and a way of perspective. Ansoff (1965) views strategy as the common thread among an organization's activities and the market.

According to Ansoff (1965), strategy in an organization exists in three levels which include corporate level which is concerned with the overall purpose and scope of the organization, business level strategy which is concerned with competition with other business in the market and achievement of competitive advantage and lastly operational level strategy which is concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, people and processes of a firm. These points to the fact that there is no single definition of strategy thus terms such as mission, vision and strategy and thus define the scope and boundaries of an organization.

2.2 Competition and forces driving industry competition

According to Kotler (2001) competition includes all the actual and potential rival offering and substitutes that a buyer might consider. Competition determines the appropriateness of a firm's activities that can contribute to its performance. Competition therefore is all about value, creating it and capturing it. According to Porter (1990), state of competition in an industry depends on five basic forces. The collective strength of these determines the ultimate project potential of an industry. These forces include: Threat of substitute products/service and rivalry among existing firms. Whilst these environmental forces influence the firm, the firm must seek to manage the environment (Thompton, 1998). In addition to these competitive forces, there are other catalysts to this competition.

According to Burnes (2000), it has become an accepted view that for society at large the magnitude, speed, unpredictability and impact of change are greater than before. New products have come up at an increasing rate, local markets have become global and protected industries have been opened up to stiff competition. Competition is therefore not only local and global but there is a realignment of the forces at a very fast rate. Therefore, understanding these forces will be crucial in studying the basis of competition in an industry. The forces can either be intense leading to low profit margins or build allowing for high profit margins.

2.2.1 Threat of Entry into the Industry

New entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. The seriousness of the threat of entry depends on the barriers present, coupled with reaction from existing competitors that the entrant can expect. If barriers are high and newcomers can expect sharp retaliation from entrenched competitors, then the threat of entry is low. Barriers to entry include: Economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and cost of disadvantages independent of scale. In the Kenyan business environment, the threat of new entrants has been tackled through improved customer service, pursuit of generic strategies and development of new markets.

2.2.2 Intensity of Rivalry among Existing Competitors

Rivalry among existing competitors takes the familiar form of jockeying for position. This involves using tactics such as price competition, product introduction and increased customer service of variations. Rivalry arises where competitors see the opportunity to improve position. Some of the factors that determine intensity of rivalry do change in time. Industry maturity can lead to such a change as industry matures its growth rate declines, resulting in intense rivalry, declining profits and often a shake-up (Porter, 1980).

Intense rivalry arises due to a number of factors. Numerous of equally balanced competitors precipitating fights for market share that involve expansion minded members, slow industry growth, which turns competition into a market game for firms seeking expansion. High fixed or storage costs, which create strong temptation to cut prices, lack of differentiation or switching costs. This locks in buyers and protects one combat from raids on its consumers by another competitor. Capacity animated in large increments where economies of scale dictate that capacity must be added in large increments. Competitors in strategies, origins and personalities, have different ideas about how to compete thus running head on into each other in the process. High exit barriers are also economic strategies and emotional factors that keep companies competing even though they may be earning low or even negative returns on investment.

2.2.3 Pressure from Substitute Products/Services

Consumer may compete with the industry by forcing down prices by bargaining for higher quality of more services and playing competitors against each other at the expense of industry profitability (Porter, 1980). He further states that buyers are powerful when they are concentrated or purchase in large volumes, products they purchase from industry that are standard or undifferentiated, when the industry's products do not save the buyer money, when the industry's products is unimportant to the quality of buyer's products or services and when buyers have full information hence the buyer is in a greater position to ensure he/she receives the most favorable prices.

2.2.4 Bargaining Power of Suppliers

Thompson and Strickland (1997) state that suppliers can exert bargaining power on participants in the industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of the industry unable to recover cost increased in its own prices.

Suppliers can be powerful where industry is dominated by a few firms and is more concentrated than the industry it sells to, when it is not obliged to content with other substitute products for sale to the industry, when the product is unique or at least differentiated, when the industry is not an important customer of the supplier group and when they pose a credible threat of forward integration. Conditions determining suppliers' power are not only subject to change but also often out of the firm's control. Hence to be able to cope effectively with the five competitive forces, firms must apply different strategies to respond to the increased levels of environment turbulence.

2.3 Competitive Strategies

A unique strategy contributes effectively to the competitiveness of business firms. Ansoff (1990) argues that whereas goals represent the ends which the firm is seeking to attain, strategy is the means to the ends. Porter (1980) states that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal of profitability. He further argued that the essence of any business is to create competitive advantage that could be gained in a number of ways such as low cost production or product differentiation.

According to Porter (1990), developing competitive strategies is developing a broad formula for how a business is going to compete. The purpose therefore of competitive strategy is to establish a profitable sustainable position against forces that determine industry competition which is out performing rivals in an ethical manner and cultivating the loyalty of consumers. Formulation of competitive strategies thus entails carrying out situational internal analysis of a firm. This involves analyzing the firm's strengths and weakness, opportunities and threats. Porter (1980) identified the three generic strategies using the analysis. These are cost leadership, differentiation and focus. These three competitive strategies are thus essential to any organization in that it provides the firm with a guide on how to compete, stipulates the goals of an organization and states the policies needed to attain these goal.

2.4 Porter's Generic Strategies Model

In order for a firm to flourish, it should be able to develop a distinctive competence that is greater than its competitors. The Porter's generic strategies model therefore is a guide to firms on how they can create and sustain a competitive advantage. It tries to link the strategy formulation process with the implementation. The concept of the three generic strategies can be achieved depending on the industry, structure and availability of resources. Porter's generic strategies hence provide alternative routes to superior performance in an industry (Porter, 1980).

Porter's; generic strategies allow organizations to gain competitive advantage from different bases. Firms can possess two basic sources of competitive advantage such as low cost or product/service differentiation (Porter, 1980). The two basic types of competitive advantage such as low cost or product/service differentiation (Porter, 1980). The two basic types of competitive advantage combined with the scope of activities which a firm seeks to achieve leads to the three generic strategies, which allows organizations to gain competitive advantage from three different bases for achieving sustainable competitive advantage or above average performance in an industry.

The basis for above average performance in any organization in the long-run is sustainable competitive advantage. Sustainable competitive advantage is the process which allows for the maintenance of a firms competitive position in the market. Winning business strategies are therefore grounded in sustainable competitive advantage (Thompson, 1998). This therefore calls for organizations to thrive to invest in creating sustainable service against all their competitors over a long period.

In order for a firm to attain competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and scope within which it will attain it (Porter, 1990).

Any firm that engages in each generic strategy but fails to achieve any is said to be stuck in the middle, this places the firm in a very poor position and even though it is successful, it would not survive if there was increased competitive pressure as it possesses no competitive advantage.

2.4.1 Cost Leadership

A firm becomes a low-cost producer in its industry if it has a broad scope and serves many industry segments. Cost leadership is realized through gaining experience, pursuit of economies of scale, investing in large-scale production facilities and careful monitoring of overall costs of operation. A low – cost producer must find and exploit all sources of cost advantage. Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction and tight cost curve control and coat maximization in various functions (Porter, 1980).

The strategy benefits the firm in that it is able to withstand intensive price competition and buyers may appreciate the offer for lower prices. (Thompson and Strickland, 1997). A cost leader cannot ignore the bases of differentiation hence it must achieve parity in the bases of differentiation relative to its competitions to be above-average performer. This allows the cost leader to translate its cost advantage into higher profit than competitors.

The greatest danger of cost leadership strategy is in competitor's ability to find ways of producing at a lower cost and beat the cost leader. Competitors have the ability to easily imitate the cost leader's methods and cause inflation in costs that narrow the firm's ability to maintain enough of a price differential to offset competitor's brand images. A firm using this strategy has to therefore invest highly in the industry for it to maintain its position as cost leader. The other great risk is that the single-minded desire to reduce costs may cause loss of sight of changes in consumer tastes. An organization while making decisions on reduce costs may effect demand for a product drastically due to the shifts in consumer preferences (Karanja, 2002)

2.4.2 Product/Service Differentiation

This strategy enables a firm to be unique in its industry along dimensions widely valued by buyers. The aim is to achieve higher market share than competitors by offering better products or services at same prices (Johnson and Scholes, 2001). The uniqueness may be in form of customer's service design, brand, image or technology. Porter (1980) argues that means of differentiation are peculiar to each industry. Differentiation is about understanding the product/service and the consumer (Grant, 1998). A firm that can achieve and sustain differentiation will be an above-average performer in its industry. Its premium exceeds the extra cost incurred in being unique (Porter, 1980). It creates a defensible position for coping with the five competitive forces.

This strategy requires that a firm chooses ways to differentiate itself, different from its rivals. An organization therefore has to study buyer's needs and behaviour in order to understand what they consider important with value and what they are willing to pay for it to be able to differentiate itself successfully. Hence, sustainable differentiation requires that a firm performs a range of value activities uniquely to influence the purchase criteria (Porter, 1985). An industry can therefore have more than one differentiation strategy if it has a number of attributes widely valued by buyers.

Major problems with this strategy centres on company's long-term ability to maintain its perceived uniqueness in consumers' eyes. Competitors may easily move in to imitate and copy successfully differentiators and thus the uniqueness of the product is therefore lost. Another risk is when the cost of differentiation between low-cost competitors and the differentiated form becomes too great for differentiation to hold brand loyalty and the buyers sacrifice the differentiated products for large cost savings.

2.4.3 Focus

Focus is a strategy that allows a firm to concentrate on developing its knowledge and competencies, since the business concentrates on a narrowly defined market (Pearce and Robinson). The focuser selects a segment or a group of segments in the industry and tailors its strategy to serving them to the exclusion of others. Focus strategy has two variants: Cost focus; where a firm seeks a cost advantage in its target segment and differentiation focus where a firm seeks differentiation in its target segment.

In this case both variants rest on differences between a focuser target segment and other segments in the industry. The target segment must have either buyers with unusual needs or else the production and delivery system must differentiate from that of other industry segment best (Porter, 1990). The focuser can therefore achieve competitive advantage by concentrating on its segments exclusively. A focuser takes advantage of such optimization in either direction by broadly – targeted competitors; the underperformance of competitors is meeting the needs of a particular segment opens the possibility for differentiation focus.

This strategy will not succeed if the focuser's segments are not differentiated from other segments. A firm will hence be an above average performer in its industry if it can achieve sustainable cost focus or differentiation focus in its segment and the segment is structurally attractive. The challenge facing this strategy is that it is prone to imitation thus making the target segment to be structurally unattractive because of technological change on consumer preferences. A focuser is also vulnerable to attack by differentiators who can compete for the same segment by offering products and services between the strategic target and market as a whole, which may narrow putting the focuser at risk of losing clients. The focuser has to therefore constantly defend his segment.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research design, data collection methods and data analysis methods. The population and sample sections have been omitted because this is a case study. This chapter utilizes theoretical framework, reviewed literature and experience of this author to discuss how the study will be done, how results will be presented and analyzed to arrive at conclusions and recommendations that might contribute new knowledge of application of porters Generic Strategies being about extent of application of Porters Generic Strategies. The pertinent primary data will be collected to meet the objective of the study.

3.2 Research Design

This study was conducted through a case study design. This was deemed an appropriate design, as the study involved an in-depth investigation of the phenomenon of extent of application and its effectiveness in the New Kenya Cooperative Creameries Ltd. It was a method of study in depth rather than breath. The case study research method was used continually by researchers in carefully planned and drafted studies of real-life situations, issues, and problems.

The case study method deals with the processes that take place and their interrelationship. The objectives of the study method are to locate the factors that account for the behavior patterns of the given unit as an integrated totality (Kothari, 2002). According to Kothari (2002), a case study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community and embraces depth rather than breath of the study.

Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Researchers have used the case study research method for many years across a variety of disciplines. According to Robert K. Yin a case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used (Yin, 1984, p. 23). White (2002) suggests that a case study requires a number of methods for its successful accomplishment.

3.3 Data Collection

Primary and secondary data was used in the study. Secondary data was obtained from text books, journals, written papers, unpublished project reports, unpublished PHD reports, internet article, New KCC Ltd business plan, staff magazines, annual reports and records and New KCC Ltd information management system.

Primary data was collected through personal interview method. The data, which was qualitative in nature, was collected by interviewing six (6) executives who are responsible for strategy application. These people will be the Managing Director (MD), Operations Director, Human Resource Director, Business Development and Strategy Director, Finance and Commercial Director, Company Secretary/ Legal land Corporate Affair Director and Regulatory Affair Director. The data was recorded writing the responses as provided by the respondents.

The data collection instrument was an interview guide (see appendix) because it is more flexible, provides the interviewer with greater control of the interview situation and gives an opportunity to probe further. Questions were administered and probing done in a semi-structured way. The semi-structured interview is one with predetermined questions with an open ended format that are asked to all respondents in that same manner (York, 1998). In a semi-structured interview, open-ended questions provided the interviewer with greater freedom and less restriction (Kadushin, 1990)

In data collection the researcher must collect and store multiple sources of evidence comprehensively and systematically, in formats that can be referenced and sorted so that converging lines of inquiry and pattern can be uncovered. Researchers carefully observe the object of the case study and identify casual factors associated with the observed phenomenon.

Renegotiation of arrangements with the objectives of the study or addition of questions to interviews may be necessary as the study progresses. Case study research is flexible, but when changes are made, they are documented systematically.

Exemplary case studies use field notes and databases to categorize and reference data so that it is readily available for subsequent reinterpretation. Field notes record feelings and intuitive hunches, pose questions, and document the work in progress. They record testimonies, stories, and illustrations that can be used in later reports. They may warn of impending bias because of the detailed exposure of the clients to special attention, or give an early signal that a pattern is emerging. They assist in determining whether or not the inquiry needs to be reformulated or redefined based on what is being observed. Field notes are kept separate from the data being collected and stored for analysis.

3.4 Data Analysis

The data collected was analyzed in accordance with the objectives of the study. The researcher was trying to establish the extent of application of porters' generic strategies at New KCC Ltd as well as the effectiveness of the application of the strategies. The analysis was done by comparing collected data with the theoretical approaches and documentations cited in the literature review. The data obtained from the various management team members was compared against each other in order to get more revelations on the issues under study.

Content analysis technique was used to analyze the data because this study seeks to solicit for data that is qualitative in nature. Analysis is about searching for patterns of relationships that exist among data groups. Content analysis is a research method that uses a set of categorization for making valid and replicable inference from data to their context (Rubin and Piele, 1990). Subjecting the collected data to content analysis allows the researcher to learn about underlying attitudes, biases, or repeating themes. By creating matrices of categories, researchers use the quantitative data that has been collected to corroborate and support the qualitative data, which is most useful for understanding the rationale or theory underlying relationships.

In case studies the researcher examines raw data using many interpretations in order to find linkages between the research object and the outcomes with reference to the original research questions. Throughout the evaluation and analysis process, the researcher remains open to new opportunities and insights. The case study method provides researchers with opportunities to use data in order to strengthen the research findings and conclusions.

Exemplary case studies will deliberately sort the data in many different ways to expose or create new insights and will deliberately look for conflicting data to disconfirm the analysis. Researcher categories, tabulate, and recombine data to address the initial propositions or purpose of the study, and conduct cross-checks of facts and discrepancies in accounts. Focused, short, repeat interviews maybe necessary to gather additional data to verify key observations or check a fact. In all cases, the researcher treats the evidence fairly to produce analytic conclusions answering the original "how" and "what" research questions.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data findings of the study and their analysis there of. The data was gathered through interview guides and analysed using content analysis. According to the data found. all the 6 executives officers projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100%. The commendable response rate was achieved at after the researcher made frantic effort at booking appointment with the senior managers despite their tight schedules and making phone calls to remind them of the interview.

4.2 Main Information

The study, in an effort to establish the interviewees' opinion on the nature of competition in the milk industry, asked the questions on whether the competition in the industry was stiff or relaxed. According to the interviewees' response, they all singled out that competition in the industry was very stiff. To the question on why the interviewee considered competition to be so, the interviewee said they were major producers in the industry who almost produced similar products to theirs.

In an effort to establish the products sold by the new KCC, the study asked the interviewees questions on the product sold by the new KCC. According to the interviewees' response. the product sold by KCC encompassesed a wide range of premium products such as fresh milk, cheese. long life milk both flavoured and unflavoured. fermented milk both flavoured and unflavoured. yoghurt, ghee and powdered milk both whole and skimmed variants. Further they indicated, there were other products under development in line with their marketing strategies. This strategy enables a firm to be unique in its industry along dimensions widely valued by buyers.

To the question on what the interviewees company's toughest competitor, the interviewees said that Brookside. Fresha. Limuru. Palm house dairy and Maziwa were the major competitors of New KCC. According to interviewees, they are considered as major competitor as they produces almost similar product with New KCC and they compete with New KCC when buying milk from the farmers. On the basis the new KCC uses to compete, interviewees said that the new KCC tried to offer lower prices compared to other competitors and offering unique products compared to their competitors. The aim was to achieve higher market share than competitors by offering better products or services at same prices. The uniqueness was in form of brand. This strategy required that the new KCC chooses ways to differentiate itself from its rivals. To the question on whether the basis of competition were effective , the respondents said that the approaches were effective in all the case as since their competitor offered almost similar products in the market and also some of the competitor were not ready to lower their price or offer the same price as that offered by the new KCC.

To the question on why the company relied on those basis of competition, the study finding show that the new KCC relied on them as they were effective, because their customers were able to differentiate their product from their competitors, their products were pocket friendly to the consumer, their products were quality compared to their competitors, they offered a wide range of products compared to their competitors and they were in the process of developing and introducing new products to the market .

On why the interviewees considered the basis for competition to be more effective than other, the interviewee revealed that they considered the basis effective as, it encouraged innovation of new products and the introduction of new products in the market, it helped the company to maintain a competitive edge and also helped the company to satisfy its customer by offering unique products even in the long term.. The interviewee also singled out that new KCC also used the basis of targeting many segment or the market in general as it was the only way to maintain their competitive edge over their competitors. Targeting of many segments or market in general was considered effective basis as most of the new KCC deports and factories are well distributed in the country thus it is easier to target many segments, most of the competitors are located within the Nairobi region and thus it would be unwise to concentrate on one region.

The study, in an effort to establish other approaches the new KCC used to compete, asked the interviewees to give other approach the new KCC used to compete, from the study findings they include Product differentiation: this strategy enables the new KCC to be unique in its industry along dimensions widely valued by buyers. The aim of this study is to achieve higher market share than competitors by offering better products or services at same prices. This uniqueness is in form of brand. This strategy required that the new KCC chooses a ways to differentiate itself, different from its rivals. The new KCC therefore had to study its buyer's needs and behaviour in order to understand what they consider important with value and what they are willing to pay for it to be able to differentiate itself successfully.

Cost focus strategy: this strategy has allowed the new KCC to concentrate on developing its knowledge and competencies, since the business concentrates on a narrowly defined market, this has made new KCC to seek a cost advantage in its target segment and differentiation focus where new KCC sought differentiation in its target segment. This strategy helped the new KCC on being above average performer in its industry on achieving sustainable cost focus or differentiation focus in its segment and the segment is structurally attractive.

Cost leadership strategy; new KCC has become a low-cost producer in its industry since it has a broad scope and serves many industry segments, this is realized through gaining experience, pursuit of economies of scale, investing in large-scale production facilities and careful monitoring of overall costs of operation. Being a low cost producer it has found and exploits all sources of cost advantage. This strategy benefits the new KCC in that it is able to withstand intensive price competition and buyers appreciate the offer for lower prices.

To the question on what extent had the new KCC employed cost leadership to counter competition in the dairy industry, the findings of the study show that the new KCC had employed cost leadership as competitive strategy to a great extent, on the extent to which new KCC had employed cost focus strategy in enhancing its competitive advantage the study established that cost focus strategy was employed to very great extent as it helped in operating the company at lower cost thus maintaining a competitive edge over its competitors.

On uncontrollable factor in the external environment that has adverse impact on the application of strategies, the interviewees said that political influence, strategies adopted by their rivals, new entrants into the industry, economic recession and environmental impacts which affect the quantity and quality of milk produced were the external environmental factors that have adverse impact on the application of strategies. On describing the available communication systems and whether it supported to the application of strategies, the findings of the study show that the available communication system was good and it supported the application of strategies. The study further revealed that the senior management of the new KCC was in the forefront in providing leadership that enabled the application of the strategies.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research objective which is to determine the extent to which the New KCC Ltd has adopted the Porters Generic Strategies and to establish whether the New Kenya Cooperative Creameries (KCC) management consider porter's generic strategies to be effective.

5.2 Summary of Findings

From the findings, the study established that the competition in the milk industry was stiff and that competition was stiff because major producers in the industry almost produced similar products to theirs. The study also revealed that the product sold by KCC encompassed a wide range of premium products such as fresh milk, cheese, long life milk both flavoured and unflavoured, fermented milk both flavoured and unflavoured, yoghurt, ghee and powdered milk both whole and skimmed variants and that there were other products under development in line with their marketing strategies.

The new KCC toughest competitors were; Brookside, Fresha, Limuru, Palm house dairy and Maziwa, they are considered as major competitor as they produces almost similar product with New KCC and they compete with New KCC when buying milk from the farmers. The basis that the new KCC used to compete with were offering lower prices compared to other competitors and offering unique products compared to their competitors. It was also established that these basis of competition were effective in all the case as sometimes their competitor offered almost similar products in the market and also some of the competitor weren't ready to lower their price or offer the same price as that offered by the new KCC. The study finding show that the new KCC relied on basis of competition because their customers were able to differentiate their product from their competitors, their products were pocket friendly to the consumer, their products were quality compared to their competitors, they offered a wide range of products compared to their competitors and they were in the process of developing and introducing new products to the market.

The study further revealed that they considered the basis effective as, it encouraged innovation of new products and the introduction of new products in the market; it helped the company to maintain a competitive edge and also helped the company to satisfy its customer by offering unique products. It was also revealed that the new KCC also used the basis of targeting many segment or the market in general as it was the only way to maintain their competitive edge over their competitors. Targeting of many segments or market in general was considered effective basis as most of the new KCC deports and factories are well distributed in the country thus it is easier to target many segments, most of the competitors are located within the Nairobi region and thus it would be unwise to concentrate on one region.

Among other approaches the new KCC used to compete, were Product differentiation as it enabled the new KCC to be unique in its industry along dimensions widely valued by buyers. The main aim of this strategy is to achieve higher market share than competitors by offering better products or services at same prices. This uniqueness is in form of brand. This strategy required that the new KCC choose a ways to differentiate itself, different from its rivals. The new KCC therefore studied its buyer's needs and behaviour in order to understand what they consider important with value and what they are willing to pay for it.

Cost focus strategy allowed the new KCC to concentrate on developing its knowledge and competencies, since its business concentrated narrowly on defined market; this has made new KCC to seek a cost advantage in its target segment and differentiation focus where new KCC sought differentiation in its target segment. This strategy helps the new KCC on being above average performer in its industry on achieving sustainable cost focus or differentiation focus in its segment and the segment is structurally attractive.

Cost leadership strategy, new KCC has becomes a low-cost producer in its industry since it has a broad scope and serves many industry segments, this is realized through gaining experience, pursuit of economies of scale, investing in large-scale production facilities and careful monitoring of overall costs of operation. Being a low cost producer it has found and exploits all sources of cost advantage. This strategy benefits the new KCC in that it is able to withstand intensive price competition and buyers appreciate the offer for lower prices ,This was employed as competitive strategy to a great extent and had employed cost focus strategy in enhancing its competitive advantage to a very great extent as it helped in operating the company at lower cost thus maintaining a competitive edge over its competitors.

The uncontrollable factor in the external environment that has adverse impact on the application of strategies at the new KCC were, strategies adopted by their rivals. new entrants into the industry, economic recession and environmental impacts which affect the quantity and quality of milk produced were the external environmental factors that have adverse impact on the application of strategies. The findings of the study show that the available communication system is good and it supports the application of strategies. The study further revealed that the senior management of the new KCC was in the forefront in providing leadership that enabled the application of the strategies.

5.3 Conclusions

From the study, the researcher concluded that new KCC adopted the porters generic strategies to a great extent, these strategies includes Product differentiation, low cost of production, cost focus strategy and cost leadership strategy. the new KCC had also employed cost leadership as competitive strategy to a great extent and had employed cost focus strategy in enhancing its competitive advantage to a very great extent as it helped in operating the company at lower cost thus maintaining a competitive edge over its competitors.

The researcher also concludes that the new KCC also used the basis of targeting many segment or the market in general as a way of maintaining a competitive edge over their competitors. targeting of many segments or market in general is considered to be effective basis as most of the new KCC deports and factories are well distributed in the country thus its is easier to target many segments. most of the competitors are located within the Nairobi region and thus it would be unwise to concentrate on one region.

5.4 Recommendations

From the findings and conclusions, the study recommends that the uncontrollable factor in the external environment of new KCC that has adverse impact on the application of strategies at the new KCC should be addressed in order to reduce the adverse impact on the application of strategies.

The study also recommends that the application of porter's generic strategies has made new KCC to develop a distinctive competence that is greater than its competitors and also gain competitive advantage from different bases i.e. cost of leadership strategy, cost focus strategy and product differentiation .

5.5 Limitations of the study

The research study was limited to the application of porters' generic strategies by the new Kenya co-operative creameries limited (KCC). Due to financial constraints and time factor the study focused on new Kenya co-operative creameries limited (KCC). However the study can be enriched further to cover all the Dairy industries in Kenya and investigate the extent to which other co-operative and dairy firms are applying the porters' generic strategies.

Owing to the fear that information gathering is intense in this sector amid heightened competition, the informants had to be fully convinced that the purposes of this study are purely academic. This limited the interviewer from probing on matters that are considered sensitive for the organization.

5.6 Suggestion for further research

This study was a case of the application of porters' generic strategies by the new Kenya co-operative creameries limited (KCC). The study recommends that a further study on a wider focus, to include all Dairy industries in Kenya and investigate the extent to which other co-operative and dairy firms practice to sustain porter' generic strategies in the turbulent environment.

The study also recommends that an in-depth study be carried out on the level of uptake of the porter's generic strategies by dairy industries and their effects on the performance of the dairy industry.

5.7 Implication for policy and practice

In Kenya today, milk industries in Kenya have taken a competitive trend. Several milk industries have joined the market and with various competitive products similar and with same looking packaging. In recent past Kenya relied on (KCC) Kenya co-operative creameries limited which dominated the market and dictating prices without competition.

The Kenyan government has done a tremendous work to liberalize the market and open doors for other industries to join the industry. The Kenya government should liberalize further and open market further so that the Kenya can expand and its export market to other counties. New Kenya co-operative creameries limited has come up with new products that Kenya can enjoy by exporting to neighboring counties and by so doing, the Kenya would increase its economy.

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APPENDICES:

Appendix I: Letter of Introduction to the Informants

Omollo Jane Achieng
University of Nairobi
P.O Box 30197
Nairobi

Dear Respondent

RE: <u>PARTICIPATION IN THE RESEARCH AS AN INFORMANT</u>

I am a bonfide student at the University of Nairobi, College of Humanity and Social Sciences pursuing a Master of Business Administration. I am currently carrying out this study on the application of Porter's generic strategies in the dairy industry in Kenya Co-operative Creameries. I hereby wish to inform you that you have been selected to take part in this study as a respondent. You are therefore requested to answer all the items in the instruments with utmost honesty. The information obtained from you will be strictly used for the purpose of this study only. To ensure confidentiality, you are asked not to indicate your name or that of your business or factory/plant. Your co-operation will be highly appreciated.

Thank you

Yours faithfully

OMOLLO JANE ACHIENG
MBA Student

Appendix II: Interview guide

Top and middle level management

1. a. Do you consider competition in this industry to be stiff/ relaxed?

   b. Why do you consider it to be so?

2. Which products do you sell?

3. a. Which firm do you consider to be your toughest competitors?

   b. Why do you consider them to be your toughest competitors?

4. Which of the following do you use as a basis to compete?
   a. Ensuring your price are lower than those of other competitors
   b. Offering a unique product to the market.

5. Do you find this basis effective for competition?

6. Why do you rely on that basis of competition?

7. Do you consider it to be more effective than the other? Why

8. Firms also compete on any one of the following basis, where is your firm?

   (a) Targeting many segment or the market in general

   (b) Targeting only one or a few market segments

9. a. Do you find it effective? Why do you feel it is effective?

   b. Why do you consider it a better basis than the other?

10. What other approach does the firm use to compete?

11. To what extent has your firm employed cost leadership to counter competition in the dairy industry?

12. To what extent has your firm applied cost focus strategy in enhancing its competitive advantage?

13. Do we have any uncontrollable factor in the external environment that has adverse impact on the application of strategies? Comment on the nature and source.

14. How would you describe the available communication systems support to the application of strategies?

15. Is the senior management of the institution in the forefront in providing leadership to enable application of the strategies?