BUSINESS MODELS APPLIED BY SUPERMARKETS OPERATING IN MOMBASA

BY

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DECLARATION

This research project is my original work and has not been submitted to any university or institution of higher learning for examination.

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

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I am grateful to God for giving me the grace and strength to complete this project.

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May the Lord bless you all.

DEDICATION

I dedicate this project to my family and friends who stood by me throughout this programme and inspired me immensely.

TABLE OF CONTENTS

LIST OF TABLES

Table **Page**

ABBREVIATIONS AND ACRONYMS

EU: European Union

GOK: Government of Kenya

ICT: Information Communication Technology

NPD: New Product Development

ABSTRACT

The main focus of the study was to investigate the business models applied by supermarkets in Mombasa and the factors influencing the choice of the business models. The study adopted a descriptive survey design that was both qualitative and quantitative. The study was carried out in 36 supermarkets classified into large, medium and small depending on the number of employees and the branch network. A total of 21 managers, 8 proprietors, 1 shelf stocker and 6 supervisors representing each of the 36 supermarkets in Mombasa participated in the study.

The main research instrument was the questionnaire. Reliability of the instruments was measured using the split halves method. Content validity, was done through a panel of experts. Data analysis involved both descriptive and inferential statistics. The Statistical Package for Social Sciences (SPSS) was used to prepare code books, tabulations and draw up statistical inferences. The study findings indicated that supermarkets in Mombasa applied a number of business models in their operations and that a variety of factors influenced the choice of model applied.

The main challenges faced by small and medium supermarkets were procuring financing from banks and unfriendly government policies. Additionally, the aforementioned have not invested in technology. Conclusions of the study were that supermarkets need to do an assessment of their vision, strategy and resources first before embarking on a specific model. The study recommended that the government should create a friendly environment for investment by working to reduce the cost of production.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In today's competitive and globalized world, organizational excellence is one of the preconditions for sustainable success (Sampaio, Saraiva & Monteiro, 2012). In most walks of life, it is a tough journey getting to the top, staying there can be even more difficult. Business is no exception. Finding what may be a winning formula now is no guarantee of future success. Having the right business model may hold the key to sustained growth and competitive advantage. Finding and applying new and innovative models can help a firm towards future prosperity. One recent development is that companies are simultaneously pursuing different models to capitalize on their distinct advantages (Talwar, 2011).

Business model consists of two elements: what the business does, and how the business makes money doing these things. It is simply a working description that includes the general details about the operations of a business (Weill, Malone, D'urso, Herman & Woerner, 2005). The business model approach has become popular in recent years (Osterwalder, Pigneur & Tucci, 2005) partly because continuously changing business processes, practices, and operations have to meet the needs of the marketplace. The types of value chains or business models are strongly dependent on the basic strategic choices made by companies, for example, cost leadership, differentiation, and focus strategy. The business model concept has become popular because today's managers have a wide variety of choices when it comes to defining their value proposition, configuring their value network, choosing their partners, looking for ways to reach the customer, and making many other similar decisions (Bask, Tinnila & Rajohonka, 2010).

A large number of methodologies have been developed over the years on different facets of strategy formulation. However, only a few organizations succeed in translating these methodologies into measurable performance results. It is therefore necessary to question why some organizations are able to achieve outstanding results in financial terms as well as nonfinancial performance, such as customer and employee satisfaction in competitive environments where both the speed of change and competitive pressures are enormous (Feurer, Chaharbaghi & Wargin, 1995). The key to competitiveness lies no longer in employing strategies that have been successful in the past or emulating the strategies of successful competitors: real competitive advantage results from a constant process of developing and implementing new strategies that will differentiate the organization from the rest of the industry in which it operates (Feurer & Chaharbaghi, 1995).

1.1.1 Concept of Business Models

Zott and Amit (2008) suggest that business models represent a broader conceptualization of value creation that captures the shift towards networked value creation. The business model construct has not yet received widespread attention in the marketing literature, even though the construct could considerably enrich the existing discussion on value co-creation. Business models are externally oriented and address questions like: How to connect with factor and product markets, which parties to link to the core actor, and what exchange mechanism to adopt, what resources and capabilities to deploy to enable exchange of goods or information, how to control the interaction, and what incentives to use (Zott & Amit, 2008). Storbacka and Nenonen (2011) argue that the focal firm's business model sets the limits of value co-creation within a network. As business models define the availability of resources in the network, the business model construct becomes central in explaining how value is created.

Most businesses focus on improving or replacing existing processes activities that are long standing and usually well understood. Yet experience teaches us that it is often the processes that we don't have for activities we need to be doing but we are not, that offer the greatest potential. Most organizations find that they have more competitors than ever before especially from companies based in other countries. In addition competitors are launching new products and services more often. Pricing is complicated by more frequent and larger currency shifts. Tastes and needs of customers seem to change all the time. These trends are expected to continue. In response some organizations have established elaborate processes for tracking and forecasting the environment and developing plans to respond quickly to unexpected shifts (Mitchell & Coles, 2004).

A business model can be viewed as the design or architecture of the value creation, delivery and capture mechanisms (Teece, 2010). Business models are typically designed around over-riding design themes (Zott & Amit, 2010) that define the main design principles, how resources are configured and how capabilities are utilized. Business excellence models are thus powerful tools to enable managers to understand which and how effectively strategies and supported approaches are being implemented, and what results they are leading to (Sampaio et al, 2012).

Ballon (2004) defines business models as a description of how a company or a set of companies intend to create and capture value with a product or service by linking new technological environments to business strategies. Closer attention should be paid in studying and applying business models, a concept that should not be considered as something that organizations will achieve in the short term, but as a management philosophy, a set of principles, criteria and approaches that will produce the best overall results in the medium and long term, providing therefore support to a sustainable development future. There are different business models, aimed at establishing guidelines and criteria for evaluation and improvement toward organizational excellence, both at national and international levels (Sampaio, et al., 2012). Having the right model may hold the key to sustained growth (Folorunso & Ogunseye, 2008).

1.1.2 Retail Industry in Kenya

With the increasing competitive pressures and progressing globalization, retail firms have to reduce costs and build new opportunities via optimized use of internal and external resources. For the fifth year running the National Economic Survey has identified the retail and wholesale trade sectors as key growth drivers of Kenya's economy. In 2011, the wholesale and retail trade sector showed a growth of 7.3%, beating the manufacturing, building and construction, agriculture, transport and communication sector. The retail sector was second after the financial intermediation sector after the transport and communication sector at 18.5% and 20% respectively (GOK, 2012).

There is an emerging recognition amongst the East African countries regarding the importance of the retail sector. For example, distribution is a strategic sector in Kenya's Vision 2030 the country's new development blueprint. In addition, distribution services were identified as a priority sector in the context of the East African Community Common Market Protocol and the negotiations with the EU on services in European Partnership Agreements by Kenya, Rwanda and Tanzania. The proliferation of supermarkets and large retail stores are among the most significant developments regarding the evolution of distribution services in the region. Supermarkets in Kenya have sustained impressive growth rates over the period 2006 to 2010. Despite the growth of the higher end supermarket segment, including in rural areas, the number of traditional small stores that sell local produce remains high in East Africa's retail market. In general, the distribution sector includes a small number of large supermarkets, a slightly greater amount of large to medium sized wholesalers and retailers, and a much larger number of independent and often informal small retail shops and street vendors (Dihel, 2011).

The retail sector in Kenya is dominated by a few large supermarkets and many small scale traders. Traditionally supermarkets were viewed as markets for rich consumers. For a long time they were only found in large cities of the developed world and middle income countries. However urbanization and increasing incomes in the developing world have inevitably invited supermarkets into the region. Supermarkets have been spreading rapidly in the East and Southern Africa region since early 1990's (Munyoki, 1997).

1.1.3 Supermarkets in Mombasa

Most of the supermarkets in Mombasa are located in the busy and densely populated estates. Supermarkets have also revolutionized the products they offer and are rapidly penetrating urban food retail in Mombasa and spreading well beyond their initial tiny market niche into food markets of lower income groups (Kiumbura, 2003).Having staple and processed food markets they have also made inroads into the fresh fruit fruits and vegetables category (Lagat,2011).

In Mombasa supermarkets have grown from a tiny niche at the turn of the millennium. Supermarket development in Mombasa is currently in the medium stage where changes are taking place fast. The growth is largely driven by growing middle class and a changing lifestyle, urbanization, growing economy and market liberalization. Mombasa has about fifty two (52) supermarkets, which can be classified as large, medium and small in terms of branch network and shopping traffic (GOK, 2011). There are four large owned Kenyan supermarkets in Mombasa; Nakumatt, Tuskys, Naivas and Budget supermarkets.

1.2 Research Problem

A business model encapsulates the way in which a firm endowed with a given technology can successfully configure an organizational structure and its relationships with external stakeholders. Many supermarkets have adopted various business models because they realize that those models promote the adoption of best practices and tools that allow the achievement of a strategy of quality, benchmarking of best practices and continuous improvement. Nakumatt Holdings for example, has created an internal innovation lab to bring the benefits of technology to the in-store shopping experience. They're able to rapidly develop applications that complement their existing store experience. The bigger supermarkets have installed eye-popping video screens that showcase the latest product lines and special collections. Their extensive use of technology and digital signage creates a sense of wonder. Most of the supermarkets are turning to outsourcing to reduce costs and establish consistency and quality. The supermarkets are trying to capitalize on the proliferation of new marketing channels such as social media and smart mobile devices. The key challenge is to have a value proposition for customers that will increase awareness as well as drive incremental traffic for the retailer.

The environment in the retail sector is facing relentless and rapid change. The increasingly competitive environment remains a dominant factor today and has been identified as a major influence leading to increased concern for performance improvement. The managers are finding it essential to understand the changing environment. Like any other business, the supermarkets are operated in a liberalized economy and competition among players is very stiff. The impact of these challenges is felt in the reduced market share and profitability. In view of these challenges, there is a dire need for supermarkets to realize that applying the correct business model is critical, particularly in translating the strategies into results. The supermarkets in Mombasa have enjoyed tremendous growth in recent years. Various changes have been witnessed in the legal environment, competitive field, consumer needs and also in the area of technology. The supermarkets are now being forced to develop greater operational efficiencies because of the pressure of competition. New entrants are also required to invest large financial resources in order to compete with the established supermarkets. There is also a high influx of sophisticated retailers creating extreme competition. Nakumatt has emerged as a clear market leader in this period and forced many traditional discounters out of business as their supply chain efficiencies and sophisticated use of IT provides them with an undisputed price leadership position.

Various studies have been carried out on the retail sector and supermarkets in Kenya. Wambui (2011) studied the influence of mobile phone usage on performance of supermarkets in Nairobi. Lagat (1995) studied the state of marketing negligence activities in Kenya's retailing sector while Munyoki (1997) did an analysis of the factors affecting pricing strategies of selected consumer goods in the retail market with a specific focus on supermarkets in Nairobi. Owalla (2011) studied employee performance management practices among major supermarkets in Kisumu, while M'Nthangi (2011) studied the strategic planning by mainstream supermarkets in Nairobi. Although these studies were in the same industry, no study has been carried out on the business models applied by supermarkets. The study was guided by the following question; what are the business models applied by the supermarkets in Mombasa and what factors influence the choice of these models?

1.3 Research Objectives

The objectives of the study were to:

i. Determine the business models applied by supermarkets operating in Mombasa.
ii. Determine factors influencing the choice of the business models.

1.4 Value of the Study

This study will provide invaluable propositions for the theory, policy and practice of business models by organizations. There is limited amount of research in this field, therefore the study will endeavour to add on to the knowledge and theory of business models in the context of supermarkets in Kenya. The study findings will therefore be important in helping established and upcoming firms in finding out important considerations in business models decision. This will guide them in making informed decisions on business models.

To the government the study will provide information that can be used to form policies to govern and regulate the use of business models. Some organizations may adopt strategies that hinder other companies from getting into the same industry and hence regulation would be required.

The study will also provide a platform for further research in the area of business models.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides literature review on the concept of business models that have been applied by businesses globally, regionally and locally. It will also provide literature on the role of business models in the firm, designing of business models, types of business models, the factors influencing business models and the criticism levelled against the concept of business models.

2.2 Concept of Business Models

The notion of business models is quite old; however, the proximate origin of the use of the term rather than the concept of business models may be traced to specialists in computing and systems modelling. They used the term to refer to computer simulations of business processes. It was argued that as the business environment became more complex, the potential value of business models would inevitably increase, and that as managers gain more knowledge in modelling techniques, computerized models should become an indispensable aid in many business functions. However, business model did not acquire prominence in the lexicon of the start-up community until the mid-1990s (Sako, 2012).

Business model represents a concept that has recently entered scholarly discussions within the fields of strategic management, innovation, and entrepreneurship. The framework has gained increasing importance as a novel concept illustrating a firm's core logic for creating and capturing value as well as the mechanisms underlying this logic (Hacklin & Wallnofer, 2012). The dramatic increase in the number of publications referring to the business model since the late 1990's and early 2000's illustrates the rise in the interest in the concept (Zott, Amit & Massa, 2011). The relevance of the business model, however, is not only limited to the academic debate. Recently practitioners have shown interest in the concept and have discovered the business model as a relevant locus of innovation that goes beyond traditional product and process innovations. Falk & Sheppard (2006) observed that, business model is a term that emerged rather recently in business vernacular. Business models gained reputation especially as a part of venture creation literature of the 1990's. These models were designed to be used as aids in utilizing an opportunity. With the bursting of the dot.com bubble in 2000, the business model concept suffered from a short period of inflation but has since maintained its use among practitioners and gained increased academic attention (Makinen & Seppanen, 2007).

A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences (Osterwalder, et al., 2005). Additionally, the business model has been referred to as a dynamic concept, which allows trial-and-error learning, adaptation and renewal as the external environment changes (Chesbrough, 2010). Again, this seems very well suited to analyze international entrepreneurial behaviour, which is often described as a cyclic process consisting of alternating periods of positive and negative development.

In recent years, the term business model has been used in the literature in various contexts and with different meanings (Cavalcante, Kesting & Ulhoi, 2011). In management literature, business models have attracted increasing interest since the end of the 1990's, in particular in relation to the transition from traditional commercial activities to e-commerce. More recently, business models have been broadened and discussed in relation to, for example, material efficiency services, innovation (Hwang and Christensen, 2008, Jorgensen and Ulhoi, 2010), small and medium-sized high-tech enterprises (Mets, 2009), strategy formulation and execution, and the creation and renewal of business in general.

Collins, Roman & Chan, (2011) stated that a firm's business model describes how it competes and makes money in its industry. A business model describes the fundamentals of how a firm plans to compete in a given industry and how it expects to make money. As noted by Grant (2008), a business model is a statement of the basis on which a business will generate revenues and profits and it is a preliminary to strategy. More specifically, the business model defines the specific value attributes that a firm offers to its customers in a product or service and which sets it apart from the competition. Zott and Amit (2010), however, suggest that business models represent a broader conceptualization of value creation that captures the shift towards networked value creation.

According to Osterwalder et al. (2005), a business model is a "blueprint" for how to run a business. This correctly expresses the notion that a model is an abstraction that describes a business not at the operational level, but at the conceptual level. A business model can be conceptualized as the sum of material, objectively existing structures and processes as well as intangible, cognitive meaning structures at the level of a business organization. More simply, the term business model is composed of the words 'business and model'. The expression business refers to the fact that a company does business with the purpose of making profit, while the term 'model' is a simplified description or representation of a system that is composed of different elements and the relationship between them (Singh, 2012).

Business model is a broader description of a business than just its plan or strategy. It is the purpose of the business, components of the business, the functions of the business, core values, and the revenues and expenses that the business generates (Falk & Sheppard, 2006). According to a business encyclopaedia, a business model is the totality of how a business selects its customers, defines and differentiates its product offerings, creates benefits for its customers, attracts and keeps customers, its promotion and distribution strategy, configures and optimizes its resources and captures profit. A firm's business model serves two interlinked purposes; to provide some stability for the development of a company's activities and, at the same time, to be flexible enough to allow for change (Cavalcante et al. 2011). Managers might fail to recognize, explore, seize and exploit valuable new technological and/or market opportunities in time, since this may require commercial approaches that are not consistent with the present business model.

Moreover, in determining the value creation and value capturing logic, the business model is considered to have a considerable influence on firm performance (Baden- Fuller & Morgan, 2010). Entrepreneurship scholars, however, stress the relevance of the business model as a cognitive device. They propose the business model as a cognitive framework endowing entrepreneurs with a template for integrating and organizing strategically relevant elements, in order to successfully exploit a business opportunity and to remain profitable in the long run (Baden-Fuller & Morgan, 2010).

2.3 The Role of Business Models in the Firm

Recently, scholars have suggested an emphasis towards comprehending the business model concept from a traditional perspective (Perkmann & Spicer, 2010). However, there is still a lack in the understanding of the pragmatic validity of the business model as a device for strategy making, in particular for creating a viable logic of value creation and capturing, as well as in the social dynamics activated within organizational actors through its application. The business model framework can equally serve as a potentially powerful device for mediating interactive strategizing practices, such as participatory decision-making. In particular, by reflecting the value creation and value capturing logic of a firm, the business model framework captures a novel heuristic logic and may thus have the capacity to break dominant cognitive frames by introducing a new perspective into strategic thinking (Hacklin & Wallnofer, 2012).

Accordingly, the business model does not only provide a useful framework for creating a new business model in the context of a newly founded firm, but might also serve as a facilitator for innovating the existing business model of an established firm. New Product Development is a complex and sizeable activity, with only a low rate of commercial success. In order to reduce new product development risks, a company needs to go through an extensive process before it can introduce a new product in the marketplace. Also, numerous new product models and methods have been developed over the years to make the NPD process more manageable. These models and methods generally serve to identify problems systematically and to improve on NPD outcome by obtaining specific insights into opportunities (Nijssen & Lieshout, 1995).

2.4 Designing Business Models

The business models construct attempts to deal with this issue by defining the practices by which an actor interacts with other actors in order to increase the density of resources for several actors simultaneously. Several business model definitions have been proposed (Nenonen & Storbacka, 2010). A business model can be viewed as 'the design or architecture of the value creation, delivery and capture mechanisms' (Teece, 2010,). Business models are typically designed around over-riding design themes (Zott & Amit, 2010) that define the main design principles, how resources are configured and how capabilities are utilized. Storbacka, Frow, Nenonen & Payne (2012) argue that a focal actor wishing to engage in value creation needs to design an 'open' business model that permits other actors to influence specific design elements. The business model should explain how the firm helps the customer to create value. Thus, it can be concluded that the business model should also explain the economic performance of the firm, both in terms of how the firm generates a profit from its operations, and in terms of how it creates returns for various stakeholder groups, including shareholders.

2.4.1 Design Principles

Design principles describe fundamental ideas or choices that actors have to make regarding the business model. Specifically, design principles exist, which relate to each of the four design dimensions: market, offering, operations and management. The market and customer definition principles answer to questions such as how the actor defines its market, how the actor is positioned within that market, what is the actor's go-to-market or channel strategy, who are the actor's target customers based on its customer definition and how the actor has segmented its existing and potential customer base (Storbacka, et al, 2012).

2.4.2 Resources

Resources are critical as a design component because they are the foundation for co-creation. Lack of focal key resources may make designing business models impossible, whereas the existence of attractive resources may be the reason for other actors to engage in specific co-creative practices (Storbacka et al., 2012). A firm's resources are the physical, for example specialized equipment, geographic location, human, that is skills and knowledge and/or relational, like relationships to suppliers, partners, alliances and customers. The main market resources are customers and brands. Both types of resources have received a fair amount of attention in the customer asset management.

The main resources associated with operations are the firm's infrastructure, suppliers and partners. In addition to the physical infrastructure of factories and machines, the firm's infrastructure also covers items such as information and communication technology (ICT) infrastructure and the geographical coverage area. In the current networked economy, the list of suppliers and partners may include various stakeholder groups, including raw material suppliers, channel partners, research partners, production partners and so forth (Phaal, Farrukh, & Probert, 2006).

2.4.3 Capabilities

Capabilities play a key role in business model design because they are manifested in the practices used by the firm in their value-creation processes. Morgan and Hunt (1999) define capabilities as a firm's ability to utilize its resources effectively to achieve a goal or fulfil a mission. The capabilities can be seen as complex bundles of skills and accumulated knowledge, exercised through organizational processes that enable firms to co-ordinate activities.

The main offering-related capabilities are offering management and Research and Design. Under offering management actors are engaged in practices such as product/service development, and product/category management. For instance, the R&D practices have become increasingly open during the past years leading to the development of collaboration capabilities in the area of R&D. Operations capabilities outline how the firm conducts its sourcing, production, and delivery processes. These capabilities relate to supply chain management, the capabilities needed for manufacturing and assembly, management of the delivery channel and invoicing of delivered offerings (Storbacka et al, 2012).

Capabilities related to management and leadership enables efficient and effective management of the business model. Management and leadership capabilities manifest themselves in, for example the firm's planning and control practices, human resource development practices and strategy practices. A business model designed for value creation is likely to require new types of capabilities such as flexible manufacturing and delivering, the ability to manage partners and alliances, a flexible supply chain management process, new invoicing practices.

2.5 Types of Business Models

Despite the large number of new product models and methods available to improve the success rate of new products, empirical evidence proves that only a few companies actually use them. This seems rather strange because today the pressure on companies to improve their new product development is high. A bottle-neck may be the extent to which companies are aware of these models and methods. Companies may also have abandoned their use already (Nijssen & Lieshout, 1995). A large number of models and methods have been introduced to improve a company's performance of new product development (NPD). These models and methods include brainstorming, focus group, in-home use test, and limited roll-out among others.

A range of business improvement models have been developed which can act as catalysts for developing and aligning measures and strategy (Dale, 1999). It is accepted that companies often fail to turn strategy into effective action due to inadequate or inappropriate measures. Models such as the balanced scorecard (Kaplan & Norton, 1996) and the business excellence model are seen as tools to enable the alignment of measures and strategy in a dynamic manner. These models can be used to monitor and control the characteristics essential to the future success of the organization and are able to look forward, rather than relying entirely on traditional measures that are historical in nature. The business excellence model and the process of self-assessment utilize a range of performance measures. These include financial, non-financial, perceptive, non-perceptive, lead and lag measures. However, if the model is used simply as a static auditing tool, then the inherent performance measurement framework will be used for operational reporting rather than creating a dynamic interplay with business strategy (McAdam & O'Neill, 1999).

Balanced score card model (Kaplan & Norton, 1996) is applied by the management team to clarify and codify high level strategy into business objectives. Within the model, performance measures and targets can then be applied and aligned with the objectives. Business improvement initiatives are then applied to achieve the objectives and targets. Thus, the scorecard assists in aligning performance measures and business strategy. There are four key quadrants in the model representing a "balanced" view of performance measures, namely financial, internal business processes, customer focus and learning and growth.

Zott and Amit (2008) argue that there are two generic types of business models, efficiency centred and novelty centred. Bienstock, Gillenson, and Sanders (2002) identified 40 possible business models based on differences in the number of buyers, number of sellers, price mechanism, nature of product offering, and frequency of exchange. Common among these approaches is the assumption that business models, as transaction structures, can be influenced by firms independently from other variables such as strategies, product strategies, or alliance models.

The excellence model was developed by the European Foundation for Quality Management (EFQM) to identify the relevant decision criteria for evaluating a set of business units. The relevant decision criteria for organizations measure where they are on the path to excellence help them understand the gaps, and then stimulate the best possible solutions (Nazemi, 2010). An organization's performance can be improved by altering its positioning characteristics regarding its customer value proposition, market segment, value chain, revenue generation mechanism, value network and competitive strategy (Sheehan & Stabell, 2007). Some of the models that add value are brokerage model and merchant model. Brokerage model requires a business to act as a commercial intermediary between buyers and sellers of a certain product. Merchant model allows a company to earn money by acting as a middleman for products (as a retailer) or offering products directly to consumers from their manufacturers (as a wholesaler).

Jansen, Steenbakkers & Jagers (2009) identified three types of business models; Chameleon, Innovator and Foyer models. Organizations that choose chameleon model will always provide a unique added value in order to achieve competitive advantage. This added value springs from the combination of customization and efficiency. Punctuality, fast service and convenience are also values in this type that are important to the customer. The business model is called chameleon because it describes a form of organization that does not change its core features. In Innovator model, value offered to the customer lies in the new, advanced and thereby the feeling of being ahead whereas in Foyer model, real personal relationships exist between the participants. The value the organization offers the client is the feeling of shared identity or being part of the group.

Low-cost approach involves a great deal more than merely offering current customers an opportunity to buy the same goods for less. Most important, it is a truly new value proposition that addresses both existing and new customers and is supported by a novel operating model. For example, offering a limited range of products without compromising on quality is a key element of many low-cost business models (Kachaner, Lindgardt & Michael, 2011).

2.6 Factors Influencing Business Models

The use of technology has played a major role in many strategic initiatives. E-business has played a significant role in the business-to business segment where it has grown significantly. This trend requires existing business models to be rethought to reflect the transformation required by organizations to take advantage of this environment. Furthermore, organizations are faced with a wide range of e-business models, with many factors influencing their ultimate choice (Ng, 2005). However, due to increasing global competition, rising cost of technological development and rapid technological diffusion, firms have been pushing for ever-shorter product and service life cycles. Thus, the acquisition of external technology through various inter-firm relationships has become a strategic issue, critical for the firms' survival (Ju, Chen Li & Lee, 2005).

In the development and application of business models, the importance of context cannot be underestimated. All business models are contextual as the environment within which business operates. As business models are only relevant within the context in which they are considered, a change in context requires a simultaneous change in business models Chaharbaghi, Fendt & Willis, 2003). External forces such as demands from customers and markets, and other larger demographic, social and economic drivers shape the business objectives of the company (O'Neill 2010). Customer's expectations have increased and performance improvement initiatives are being implemented. Many organizations are adopting business excellence models because they realize that those models promote the adoption of the best practices and tools that allow the achievement of a strategy of quality, benchmarking of best practices, self-assessment and continuous improvement (Sampaio et al., 2012).

Competitors are launching new products and services more often. Pricing is complicated by more frequent and larger currency shifts. Tastes and needs of customers seem to change all the time. These trends are expected to continue. In response, some organizations have established elaborate processes for quickly tracking and forecasting the environment and developing plans to respond quickly to unexpected shifts (Mitchell, & Coles, 2004). One driver of the search for low-cost innovation is the battle for market share in the rapidly developing economies of the world (Kachaner, et al., 2011). With the conversion of the world into a global village, more dimensions of quality are unfurling and forcing organizations to work on these to survive in business. Some of the emerging dimensions are human values, corporate social responsibility, corporate governance, inclusive growth, sustainability and harmony. Also, with the addition of ethical, social and environmental aspects, a global perspective of the organization is emerging, with increasing integration of various aspects of quality through business excellence models (Talwar, 2011).

The types of value chains or business models are strongly dependent on the basic strategic choices made by companies, for example, cost leadership, differentiation, and focus strategy (Bask, et. al, 2010). Competition, customers, resources and external organizational capability perspective, the capabilities of firms influence their ability and willingness to invest resources on alliance. Firms are limited by their organizational capabilities and experiences to do all the innovations by themselves (Ju, Chen Li & Lee, 2005).

2.7 Criticism of Business Models

According to Perkmann and Spicer (2010), existing work on business models is exciting, but it poses some significant problems. First, it is unclear how the concept fits with the existing literature on business strategy and organization. Some of the definitions of business models given in the practitioner-oriented literature are so broad that they include nearly every aspect of the business. It is unclear whether the concept can be meaningfully distinguished from other, already established concepts. For instance, ‘‘business model’’ is often used synonymously with ‘‘business strategy’’ even though some authors have attempted to establish the concept as stand-alone theoretical construct (Zott & Amit, 2008). As a result, the business model concept remains ambiguous.

The criticisms have addressed, for example, the unclear definitions assigned to business models, the opinion that the concept is underdeveloped (Makinen & Seppanen, 2007) and the concept is not theoretically grounded. Therefore, the business model concept has faced similar criticism as has been laid upon the management research in general lately.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter addresses the various steps that facilitated the execution of the study in order to achieve the set objectives. These steps include the research design, population of interest, data collection instruments and procedures and data analysis.

3.2 Research Design

The research design was a survey. It was the best design for this study because it involves more than one unit and many questions can be asked about the topic of study. This gave considerable flexibility to the analysis. The concept of business models is not well understood and minimal literature exists therefore this helped establish basic understanding to facilitate further research.

3.3 Population of Study

The population comprised all the supermarkets operating in Mombasa. There are fifty two (52) supermarkets comprising of large, medium and small in terms of branch network and turnover. This list was obtained from the Local Authority Integrated Financial Operations management systems, business register, Municipal Council of Mombasa (See Appendix 2).

3.4 Data Collection

Primary data was collected using questionnaires comprising both open ended and closed – ended questions. The questionnaire was preferred because the responses were gathered in a standardized way because questionnaires are more objective. The questionnaire was divided into three sections; Section one captured the supermarket's profile and general information. Section two gathered data on the business models applied by the supermarkets while section three was on the factors influencing the choice of a business model.

The questionnaires were targeted for administration to the operation managers of the supermarkets or the proprietors in the case of small size supermarkets through drop and pick method as they are the ones involved in all strategic issues affecting the supermarket.

3.5 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected. The data gathered was checked for completeness, collated and coded. The Statistical Package for Social Sciences (SPSS) was used for data entry and analysis. Further analysis was carried out using Chi-square statistics. The results were presented using tables, frequencies, Means and percentages for ease of interpretation.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The purpose of the study was to investigate the business models applied by supermarkets in Mombasa, Kenya, and the factors that influence the choice of these models. The chapter deals with the results of data obtained from the study. Data was collected from thirty six respondents out of the projected population of fifty two. The response rate was 69% which is significant to draw conclusions. Data collected was analyzed using the Statistical Package for Social Sciences (SPSS) and presented in tables, frequency distributions and percentages. Chi square test was done to test for significance. The findings of the study were presented and discussed based on the following specific objectives:-

i. To determine the business models applied by supermarkets operating in Mombasa.
ii. To determine factors influencing the choice of the business models.

4.2 General Information

4.2.1 Size of the Supermarket

Businesses vary in size and they can be categorized into different sizes according to how they measure against some factors or indicators commonly used in determining business size. The commonly used factors in determining the sizes of businesses are the amount of capital investment, number of employees and sales turnover. The size of the business greatly influences the kind of business model applied by the business. The study sought to establish the sizes of the supermarkets. Findings were presented in table 4.1.

Table 4.1 Size of the Supermarket

Size of supermarket	f	%
Large	4	11.1
Medium	23	63.9
Small	9	25.0
Total	36	100.0

Source: Research Data (2012)

It was found out that 4 (11.1%), 23 (63.9%) and 36 (25%) of the supermarkets in Mombasa were Large, medium and small respectively.

4.2.2 Number of Years in Business

The number of years in the business determines the level of experience in running a particular business. This means that the owners are able to tell which business model works best for them and which one does not. The study sought to establish the number of years the supermarket had operated in the industry. Findings were presented in table 4.2.

Table 4.2 Number of Years in Business

Years in business	f	%
Below 5	9	25.0
5-10	6	16.7
11-15	7	19.4
Above 15	14	38.9
Total	**36**	**100.0**

Source: research Data (2012)

A large number 14 (38.9%) had been in business for over 15 years compared to 9 (25%) which had been in business for under 5 years. An almost equal number of 6 (16.7%) and 7 (19.4%) had been in business for between 5-10 years and 11-15 years respectively. This is an indication that those supermarkets that had been in the business for long applied certain business model better than their competitors.

4.2.3 Ownership of Supermarkets

Companies face different levels of competition depending on the retail sector in which they operate. A large number of locally owned supermarkets will mean that the country has heavy restriction on foreign investment. The study sought to find out the ownership of the supermarket, whether locally or foreign owned. This was presented in Table 4.3.

Table 4.3 Ownership of Supermarkets

Ownership	**f**	**%**
Local	36	100
Foreign	0	0
Local/foreign	0	0
Total	**36**	**100.0**

Source: Research Data (2012)

From the findings presented in table 4.3, all the 36 supermarkets studied (100%) were locally owned.

4.2.4 Branch Network

The world has evolved into a global village. Businesses see the need to establish their presence in strategically important areas and gain form unique partnering and customer opportunities. The study sought to find out the branch network of the supermarkets. This was with a view to find out if the number of branches influenced the use of a particular model.

Table 4.4 Branch Network

Branch network	**f**	**%**
Less than 5	32	88.9
5-10	1	2.8
Above 20	3	8.3
Total	**36**	**100.0**

Source: Research Data (2012)

A majority 32 (88.9%) had less than 5 countrywide branches while 1 (2.8%) and 3 (8.3%) had between 5-10 and more than 20 branches countrywide respectively. Findings indicate that supermarkets do not have a wide reach of branches and could therefore be described as serving a regional clientele.

4.2.5 Number of Employees

The number of employees is one of the indicators of size of an organization. The study sought to find out the number of employees the supermarket had. The number of employees indicates whether the supermarket is operating on low cost or not. The results were presented in table 4.5

Table 4.5 Number of Employees

Number of employees	f	%
Below 10	11	30.6
11-20	16	44.4
21-50	4	11.1
Above 50	5	13.9
Total	**36**	**100.0**

Source: Research Data (2012)

Eleven (30.6%) of the supermarkets had under 10 employees, Sixteen (44.4%) had 11-20, four (11.1%) had 21-50 while five (13.9%) of the supermarkets had over 50 employees. The findings indicate that majority are small size supermarkets.

4.3 Business Models Applied by Supermarkets

A business model is the method of doing business by which a company can sustain itself, that is, to generate income. The business model spells out how a company makes money by specifying where it is positioned in the value chain. Examples of business models discussed below include; Low cost model, customization and efficiency model, Brokerage and Merchant model, Business excellence model and balanced scorecard model. The study sought to find out the business models that supermarkets in Mombasa applied. It was found out that a number of models were applied.

4.3.1 Low Cost Model

Businesses running on this model address both existing and new customers and are supported by a novel operating model. Such businesses offer a limited range of products without compromising on quality. Such businesses also strive to cut down on costs without compromising on quality. This study aimed to find out the number and type of supermarkets that preferred this model in addition to the reasons for the preference. The results were collated and presented in Table 4.6.

Table 4.6 Descriptive analysis of Low cost model

Statement	SA		A		NS		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Your supermarket strives to cut costs significantly	14	38.9	2	5.6	20	55.6	-	-	-	-	36	100
You engage the services of subcontractors	3	8.3	6	16.7	-	-	7	19.4	20	55.6	36	100

The study found out that 16 (44.5%) of the supermarkets agreed that they strive to cut down on costs. Twenty (55.6%) were not sure. However, only a few 9 (25%) agreed that they engaged the services of subcontractors in their business against 27 (75%) who disagreed. This finding seems to contradict the basic tenet of the model since subcontracting is one way of cost-cutting. It may appear that other perceptive concerns like the need for personal interactions with customers plays a key role. Mean and standard deviation for each of the variables was tabulated and presented in Table 4.7.

Table 4.7: Mean and Standard Deviation of variables in the Low Cost Model

Variables	N	Mean	Std. Deviation
Your supermarket strives to cut costs significantly	36	3.83	.971
You engage the services of subcontractors	36	2.03	1.424
Grand Mean		**2.93**	**1.20**

Source: Research Data (2012)

The findings reveal that cost-cutting (Mean = 3.83) was the most important driver for the application of this model. The implication here is that businesses that used this model targeted to cut costs for profit.

4.3.2 Customization and Efficiency Model

Businesses on this model also referred to as chameleon model do not change their core features. They provide unique added value in order to achieve competitive advantage taking advantage of values like punctuality, fast service and convenience to achieve efficiency. The study used both descriptive and inferential statistics in the form of frequency tables and means and standard deviations respectively. The results were presented in Table 4.8.

Table 4.8 Descriptive analysis of Customization and Efficiency Model

Statement	SA		A		NS		D		SD		Total	
	f	%	f	%	f	%	F	%	f	%	f	%
You purchase goods from various suppliers	36	100	-	-	-	-	-	-	-	-	36	100
You purchase goods both locally and across the border	26	72.2	-	-	2	5.6	8	22.2	-	-	36	100
You purchase your merchandise directly from manufacturers	7	19.4	8	22.2	21	58.3	-	-	-	-	36	100
Your supermarket invests heavily in research and design	8	22.2	-	-	7	19.4	20	55.6	1	2.8	36	100
Your supermarket is efficient and offers fast services	21	58.3	15	41.7	-	-	-	-	-	-	36	100

Source: Research Data (2012)

It was found out that all 36 (100%) supermarkets sourced goods from various suppliers while a majority 26 (72.2%) purchased goods both locally and across the border. It was also found out that supermarkets are making a deliberate attempt to source directly from manufacturers as evidenced by 15 (41.6%) of the respondents against 21 (58.3%) who were not sure. Additionally, all 36 (100%) agreed that they offer efficient and fast services to customers. However, it is only a few 8 (22.2%) of the supermarkets that reported having invested in research and design. The finding may be easily associated with the lack of capital than with the lack of desire to stay ahead of the competition. Further, means and Standard Deviation of the variables in the customization and efficiency model were computed and presented in table 4.9.

Table 4.9: Mean and Standard Deviation of variables in the Customization and Efficiency Model

Variables	N	Mean	Std. Dev
You purchase your goods from various suppliers	36	5.00	.000
You purchase goods both locally and across the border	36	4.22	1.290
You purchase your merchandise directly from the manufacturers	36	3.61	.803
Your supermarket invests heavily in research and design	36	2.83	1.254
Your supermarket is efficient and offers fast services	36	4.58	.500
Grand Mean		**4.048**	**0.796**

Source: Research Data (2012)

Findings indicate that three variables defined this model. Varying the suppliers (Mean = 5.00), efficiency in service delivery (Mean = 4.58) and purchasing goods both from the local and cross-border markets (Mean = 4.22) emerged as the variables with the strongest appeal in this model. The study found out that efficiency could be achieved by spreading wide the sources of merchandise so as to avoid a situation where delays hamper business. It is also achieved by investing in research and offering fast services.

4.3.3 Brokerage and Merchant Model

The choice of the Brokerage model requires a business to act as a commercial intermediary between buyers and sellers of a certain product while a Merchant model allows a company to earn money by acting as a middleman for products (as a retailer) or offering products directly to consumers from their manufacturers (as a wholesaler). The study aimed at finding out if supermarkets in Mombasa applied the model and what factors attracted them to the model. The results were presented in Table 4.10.

Table 4.10 Descriptive analysis of the Brokerage and Merchant model

Statement	SA		A		NS		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
You own all the merchandise that is in the supermarket	34	94.4	-	-	-	-	1	2.8	1	2.8	36	100
You act as a broker and charge commission on the sales	2	5.56	-	-	-	-	-	-	34	94.4	36	100

Source: Research Data (2012)

The study found out that a few large supermarkets preferred brokerage model by not owning the products on their shelves. It was found out that majority of the respondents 34 (94.4%) owned all the merchandise in their supermarkets against 2 (5.6%) who disagreed.

To further analyse the influence of the variables in the Brokerage and Merchant model, mean and Standard deviations (SD) were computed. The findings were presented in Table 4.11

Table 4.11 Mean and Standard Deviation of variables in the Brokerage and Merchant Model

Variables	N	Mean	Std. Deviation
You own all the merchandise that is in your supermarket	36	4.81	.822
You act as a broker and charge commission on the sales	36	1.11	.667
Grand Mean		**2.96**	**0.745**

Source: Research Data

The findings of the mean indicate that supermarkets owned the merchandise in their shops and that was the defining characteristic of the merchant model. Broking and charging commission was not a popular approach for supermarkets employing this model.

4.3.4 Business Excellence Model

Businesses running on this model involve themselves in setting goals and targets using a range of performance measures and self-assessing their success and failure in order to stay ahead of the competition. The study found out that such businesses had their activities aligned with their vision and strategy. This was aimed at enabling them to self-evaluate performance periodically to find out if in line with their core vision. The study sought to establish if the model was applied and the reasons behind its application. The results were presented in Table 4.12.

Table 4.12 Descriptive analysis of the Business Excellence model

Statement	SA		A		NS		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Your activities are aligned to your vision and strategy	10	27.8	-	-	26	72.2	-	-	-	-	36	100
Your supermarket is ahead in terms of competition	8	22.2	8	22.2	6	16.7	14	38.9	-	-	36	100

Source: Research Data (2012)

Ten (27.8%) of the respondents reported that their activities were aligned with their vision and strategy against 26 (72.2%) who were not sure. Because of the performance indicators, 16 (44.4%) of the respondents reported that their supermarkets stayed ahead of the competition against 14 (38.9%) who disagreed. Mean and Standard Deviation (SD) were calculated to find the effect of each variable in the Business excellence model. The results were presented in Table 4.13

Table 4.13 Mean and Standard Deviations of variables in the Business Excellence Model

Variables	N	Mean	Std. Deviation
Your activities are aligned to your vision and strategy	36	3.56	.909
Your supermarket is ahead in terms of competition	36	3.28	1.210
Grand Mean		**3.32**	**1.06**

Source: Research Data (2012)

The findings indicate that activities that were aligned with the core vision and strategy of a supermarket (Mean = 3.56; SD = 0.909) defined the business excellence model.

4.3.5 Balanced Scorecard Model

In the Balanced score card model, businesses strive to clarify and codify high level strategy into business objectives. Within the model, performance measures and targets are then aligned with the objectives. To achieve the objectives and targets, a number of business improvement initiatives are then applied. The study found out that monitoring of performance and benchmarking were core activities. The results were presented in Table 4.14.

Table 4.14 Descriptive analysis of the Balanced Scorecard model

Statement	SA		A		NS		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Your supermarket monitors organisational performance	3	8.3	7	19.4	20	55.6	-	-	5	16.7	36	100
Your supermarket benchmarks its performance against the other supermarkets	9	25.0	8	22.2	18	50.0	-	-	1	2.8	36	100

Source: Research Data (2012)

Ten (27.7%) of the respondents reported to be monitoring the performance of the organisation while 5 (16.7%) disagreed. A majority 20 (55.6%) were not sure. The responses could be an indicator of ill-defined systems where one department is not cognisant of the activities of the other rather than the reality that performance was not monitored. Additionally, almost half 17 (47.2%) of the respondents reported to benchmarking their performance against other supermarkets against only 1 (2.8%) who disagreed. This evidently works through the cut-throat competition within the sector where players compete for the unexpanding market. Benchmarking therefore becomes important for purposes of devising better strategies to stay ahead of the competition.

Mean and Standard Deviation (SD) were calculated to find the effect of each variable in the Business excellence model. The results were presented in Table 4.15.

Table 4.15 Mean and Standard Deviation of variables in the Balanced Scorecard Model

Variables	N	Mean	Std. Deviation
Your supermarket monitors organizational performance against strategic goals	36	3.03	1.108
Your supermarket benchmarks its performance against the other supermarkets	36	3.67	.956
Grand Mean		**3.35**	**1.032**

Source: Research Data (2012)

The findings indicate that the core of this model as applied by supermarkets was benchmarking performance against the business competitors (Mean = 3.67).

To further test the proposition that supermarkets in Mombasa applied a number of business models, a Chi square test was carried out and was presented in Table 4.16.

Table 4.16 Chi Square Analysis of Business Models Applied by Supermarkets

	Scores of Low cost model	**Scores on Chameleon model**	**Scores on Business excellence model**	**Scores on Brokerage and merchant model**	**Scores on Balanced scorecard model**
Chi-Square	10.389	27.111	10.667	32.111	8.722
df	4	7	4	1	4
Asymp. Sig.	.034	.000	.031	.000	.068

Source: Research Data (2012)

The Chi square analysis confirms the findings of the descriptive statistics save for the balanced scorecard model. The calculated Chi square figure (r=10.389) for low cost model is significant at df 4 and assumed significance 0.034 at 0.05 level of significance. The Chi square figure r for chameleon model (r=27.111) is also significant at df 7 and assumed significance 0.000 at 0.05 level of significance. A similar result is posted for the business excellence model whose Chi square figure (r=10.667) is significant at df 4, assumed significance 0.031 and 0.05 level of significance. The brokerage and merchant model of business is also significant (r=32.111) at df 1, assumed significance 0.000 and 0.05 level of significance. It is only the balanced scorecard model whose assumed significance value was higher than the set confidence level. The findings are confirmation that supermarkets in Mombasa apply a number of business models in their operation namely: low cost model, chameleon model, business excellence model and brokerage and merchant model. Finally, a comparison of grand mean and Standard Deviation for all the business models was done. The results were presented in Table 4.13.

Table 4.17 Comparison of Mean and Standard Deviation of Business Models

Business model	N	Grand Mean	SD
Low cost	36	2.93	1.20
Chameleon	36	4.048	0.796
Brokerage and merchant	36	2.96	0.745
Business excellence	36	3.32	1.06
Balanced scorecard	36	3.35	1.032

Source: Research Data (2012)

The findings show that the chameleon model was the most popular among supermarkets in Mombasa with a grand mean of 4.048. The brokerage model was the least preferred by supermarkets with a mean of 0.745.

4.4 Factors Influencing Choice of Business Model

Developing a business idea into a successful business can be quite a challenge. A good idea does not automatically mean it will grow into a viable business. For companies to succeed, smart business models have to be developed. The study sought to investigate the factors that influence the choice of business models adopted by the supermarkets. The study found out that supermarkets had a number of considerations based on prevailing internal and external factors.

4.4.1 Need to Retain Market Share

The study found out that supermarkets applied various methods to retain market share which was determined by the size of the business. Large supermarkets 4 (11.1%) were able to offer loyalty cards which were redeemable and credit facilities for corporate customers.

Additionally, large supermarkets offered competitive prices and all products under one roof. Medium and small supermarkets accounting for 23 (63.8%) and 9 (25%) of the respondents respectively sought to maintain their already existing customers while offering fair prices and maintaining personal relationships with customers.

Generally, it was evident across the board that supermarkets offered low prices and good and efficient service to retain their stead in the competition. The results were tabulated and presented in Table 4.18.

Table 4.18 Methods Applied by Supermarkets to Retain Market Share

Supermarket	N	%	Methods
Large	4	11.1	Loyalty cards; competitive pricing; all items available
Medium	23	63.8	Maintaining customers; personal relationships; fair price
Small	9	25.0	Maintaining customers; personal relationships; fair price
Total	**36**	**100**	

Source : Research Data (2012)

4.4.2 Technology

The choice of business model was determined by the level of technology the supermarket could afford and apply. Whereas large supermarkets were able to procure and install smart technology to monitor stock, the medium and small supermarkets either had not invested in technology or were stuck on the point of sale electronic system. Modern technology enabled large supermarkets to install visual advertisements and have their suppliers monitoring stock in order to restock when need arose.

4.4.3 Profit Margins and Operating Cost

The choice of model applied also depended on a supermarket's profit margins. The large supermarkets had departments which operated on set targets which were reviewed. Additionally, they were able to lease shops to partners and charge commission on sales of products owned by partners in their shops.

The small and medium supermarkets accounting for 32 (88.9%) of the sample made their profit by the difference between buying and selling price. The business model was also determined by the need to operate at minimum cost possible. This was achieved by buying merchandise from suppliers who offered low prices. All the respondents noted that they employed minimal staff to cut down on costs. One important finding from the large supermarkets was the outsourcing of non-critical services including security and pest control.

4.4.4 Meeting Increased Customer Demands

The challenge of customer demands was found to influence the choice of business model that was applied by supermarkets. While the large supermarkets 4 (11.1%) used continuous surveys on customer demands, small and medium supermarkets 32 (88.9%) had suggestion boxes and listened to customers. Some of the large supermarkets had dedicated customer care departments to deal with customer demands in addition to dedicating a manager for that purpose. All supermarkets 36 (100%) placed good service top of their strategies at meeting increased customer demands. The results were presented in Table 4.19.

Table 4.19 Approaches Employed to Meet Increased Customer Demands

Approach	f	%
Continuous surveys	4	11.1
Suggestion boxes	32	88.9
Good service to customers	36	100.0

Source: Research Data (2012)

4.4.5 Finances

The difficulty of sourcing for finances to run business was reported as a major determinant of the choice of business model adopted. All the large supermarkets 4 (11.1%) reported no difficulty in procuring finances. The other supermarkets 32 (88.9%) reported difficulties in procuring financing due to large collateral and security required by banks. They also reported a lengthy process involved in accessing such financing. The results were presented in Table 4.16.

Table 4.20 Difficulty in Funding

Difficulty in procuring funds	f	%
No difficulty	4	11.1
Difficult	32	88.9
Total	**36**	**100.0**

4.4.6 External Factors

The study sought to find out if there were other external factors such as political, sociological, ecological and legal that determined the business model the supermarket used. The results were presented in Table 4.21.

Table 4.21 External Factors Determining Business Model

External influence	f	%
High taxation	32	88.8
Not to stock pork	1	2.8
Alcohol Bill	4	11.1
Lengthy import procedures	4	11.1

Source: Research Data (2012)

All the respondents reported that external factors determined the business model they adopted. It was observed that majority of respondents 32 (88.9%) were affected by high taxation by the government. One (2.8%) reported that the type of customers influenced whether or not they stocked pork products on the shelves in one of their shops in Mombasa due to the huge number of Muslim customers. Four (11.1%) respondents also cited the effect of the new Alcohol Bill on sales of cigarettes and alcohol in addition to the lengthy and expensive import procedures at the ports of entrance.

4.5 Discussion

The purpose of this study was to determine the business models applied by supermarkets operating in Mombasa and the factors influencing the choice of the models. Business models depict how firms frame their position and activities within networks of exchange relationships. The analysis of the findings revealed the existence of six distinct business models that differ in their ability to provide a flexible approach to a continuously changing environment.

The firms adopting brokerage business model were firms that have been in business for a longer period of time, were large in terms of branch network and has a strong financial base. The firms adopting this model did not own the merchandize in their showrooms but leased the space to partners. This way they were able to avoid operating costs and at the same time earning profits. Delivering customer satisfaction, monitoring customer needs and creating customer value were associated with building relationships with customers and with the flexibility to react quickly to changing customer needs.

Firms that adopted customization and efficiency business models had a high level of customer focus and commented on the need to understand their customers through effective monitoring systems such as loyalty cards. Firms used consumer information to create and propose flexible solutions to end customer needs. The firms also seek to align not just their organization with the immediate market demands but also their organization's web of business relationships with suppliers and customers. The firms also realized the importance of research in order to be more efficient even though only a small number, 22% invested in research. This was due to lack of the necessary resources. Those forms that adopted low cost models share a strong coherence between the value proposition and the asset base, organization's and brands that support them and this coherence delivers high operational efficiency. Low cost innovators focused on price sensitive customer segments. They also design their offerings precisely to delight the chosen customers, keeping it simple and focused o key basics.

The factors that influenced the choice of a business model were varied. This depended on the size of the supermarket and also the capability of the supermarket to develop and apply a certain business model. The factors included, need to retain market share where it was noted that the large supermarkets were able to offer loyalty cards to its customers and also offer competitive prices. Technology was depended on the resources and what the supermarket could afford. The large supermarkets (11%) used customer surveys on customer demands while the medium and small supermarkets had suggestion boxes and listened to customers.

All business models address the question on how we sustainably deliver value to our customers. The literature provided very diverse interpretations and definitions of a business model. It was noted that all firms either explicitly or implicitly employed a particular business model that describes the architecture of value creation, delivery and capture mechanisms employed by the business enterprise. It was therefore widely held that there are different types of models being applied by the supermarkets and that the factors that influenced their choice depended mostly on the size of the supermarket, capabilities and external factors.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of the research findings, conclusions and suggestions for further research. The purpose of the study was to investigate the type of business models applied by supermarkets in Mombasa and the factors influencing their application.

Thirty six supermarkets were sampled from a population of 52 from which 21 (58.3%) managers, 8 (22.2%) proprietors, 1 (2.8%) shelf stocker and 6 (16.7%) supervisors participated in the study. The supermarkets were divided into 3 broad categories of large, medium and small depending on number of employees and branch network. Four (11.1%), 23 (63.8%) and 9 (25%) were large, medium and small respectively. The researcher used a questionnaire to collect data. Review of related literature revealed that there were a number of business models in operation.

5.2 Summary of Findings

Findings indicated that majority of the supermarkets were medium based on their number of employees and branch reach. Majority had been in business for over 15 years and a similar majority were locally owned. It was also found out that a number of business models were applied by supermarkets in Mombasa. The low cost business model was applied by supermarkets mainly for purposes of cost-cutting. It was found out from 16 (44.5%) of the supermarkets that that they strive to cut down on costs. Twenty (55.6%) were not sure. It was also evident that most of the small size supermarkets did not engage the services of subcontractors in their business as compared to the large supermarkets.

The customization and efficiency model also referred to as chameleon model was also found to be active among supermarkets in Mombasa. The basic aim of the model was efficiency and cost-cutting without changing the core features. It was also found out that supermarkets are making a deliberate attempt to source directly from manufacturers so as to cut costs further. Additionally, all 36 (100%) agreed that they offer efficient and fast services to customers. However, it is only a few 8 (22.2%) of the supermarkets that reported having invested in research and design. The finding may serve the contradictory purpose of increasing efficiency in the businesses.

The brokerage and merchant model is aimed at spreading risk. The model was least used by small and medium supermarkets. It was found out that majority of the respondents 34 (94.4%) owned all the merchandise in their supermarkets against 2 (5.6%) who disagreed. A similar minority 2 (2.8%) acted as a broker and charged commission on the sales of merchandise in their shops against 34 (97.2%) who disagreed with the statement. They allowed partners to display merchadize in their premises and were paid when the goods were sold. This meant that these supermarkets avoided the risk of breakage, returned items or items expiring on their shelves as this risk was borne by the owner of the merchandize.

The business excellence model targeted self-evaluation among businesses. The model sets performance criteria embedded in the business values, vision and strategy. It was sparingly used by supermarkets in Mombasa. Ten (27.8%) of the respondents reported that their activities were aligned with their vision and strategy against 26 (72.2%) who were not sure. Because of the performance indicators, 16 (44.4%) of the respondents reported that their supermarkets stayed ahead of the competition against 14 (38.9%) who disagreed.

The balanced scorecard model is based on monitoring and benchmarking. It was also applied by supermarkets in Mombasa, though not in entirety. Ten (27.7%) of the respondents reported to be monitoring the performance of the organisation while 5 (16.7%) disagreed. Additionally, almost half 17 (47.2%) of the respondents reported to benchmarking their performance against other supermarkets against only 1 (2.8%) who disagreed.

5.3 Factors Influencing Choice of Business Model

The following factors were found to influence the choice of business model. Need to retain market share. It was found out that large supermarkets offered loyalty cards which were redeemable and credit facilities for corporate customers. Additionally, large supermarkets offered competitive prices and all products under one roof. Medium and small supermarkets sought to maintain their already existing customers, offered fair prices and maintained personal relationships with customers. It was evident across the board that supermarkets offered low prices and good and efficient service to retain their stead in the competition.

The study found out that large supermarkets were able to procure and install smart technology to monitor stock, run advertisements and restock from suppliers while the medium and small supermarkets either had not invested in technology or were stuck on the point of sale electronic system. Profit margin and operating costs was also a major factor. The large supermarkets had departments which operated on set targets, leased shops to partners and charged commission on sales of products owned by partners in their shops. The small and medium supermarkets made their profit by the difference between buying and selling price. Cost-cutting was another pillar of this model. Seeking fair prices from suppliers, outsourcing non-essential services by large supermarkets and maintaining minimal staff were the strategies employed.

Large supermarkets used continuous surveys on customer demands and had dedicated customer care departments to deal with customers to meet their increasing demands. Small and medium supermarkets had suggestion boxes and listened to customers. All supermarkets put a premium on good service to their customers as one of the frontline strategies at meeting increased demands. Large supermarkets reported no difficulty in procuring finances while small and medium supermarkets reported difficulties in procuring financing due to large collateral and security required by banks. They also reported a lengthy process involved in accessing such financing. The external factors that influenced the choice of business model included high taxation by the government, customers' religion, the effect of the new Alcohol Bill on sales of cigarettes and alcohol and the lengthy and expensive import procedures.

5.4 Conclusions of the Study

Majority of supermarkets in Kenya do not have a wide branch reach. Supermarkets in Mombasa are stratified, large, medium and small with completely disparate business strategies, objectives, vision and operating structures. Competition within the sector demands that supermarkets have sound operational strategies. Small and medium supermarkets are yet to invest in research and modern technology and therefore run the risk of being subsumed under the large supermarkets. Supermarkets do not have specific criteria of applying any specific model and therefore apply a mix of the business models. Many factors influence the choice of business model and therefore each supermarket must pick its choice after a careful consideration of vision, strategy and resources.

The popularity of the concept of business model has grown at a steady pace with the opportunities for businesses to profit from the changing environment, developments in information technology and the internet. Business opportunities are there to be exploited if organizations opt for an effective business model, but the organizations remain unsure what type of business model to adopt and in which situations it will be effective. It is important to realize that there is not just one effective business model for any organization. Specific context, such as different organizational environments and strategies for added value may lead to different forms of effective business models.

The concept of business models is relevant for all organizations. A business model involves more than just the manner of revenue generation. The importance of the design of the internal organization and the network the organization operates in, the relationship with the customers and the strategic role of technology should be emphasized. A business model should not be seen as a tool or methodology that organizations use to solve the several daily problems they are faced with. Importantly, the results suggest that the strategic flexibility of a firm influences its capacity to design competitive business models, grounded in open innovation. Business models and business processes need to be aligned to provide value to customers efficiently. At industry level, a corporation positions itself by defining a portfolio of value offerings to its customers.

Companies with a sound Business Models know the value proposition, what the target client group is, which channels to use to approach them, what kind and type of relationship to maintain, what capabilities are required in-house or at a partner, how value is configured, and of course how cost and revenue stream flow. Having a proper Business Model not only clarifies things for you as a company; it helps to build and manage your reputation among your current and future clients.

5.5 Policy Recommendations

The government should create a favourable environment for investment by fast tracking handling and clearing of goods at ports of entry and removing unnecessary taxes. The Supermarkets should invest heavily in technology and research to be able to compete effectively in the widening field and be able to stay ahead of the competition.

Banks should avail credit to small and medium supermarkets and remove barriers like collateral and securities. The supermarkets should set aside funding for departments specially dedicated to customer service and development of requisite human resource. The twin issues of financing and unfavourable external environment encompassing government policies are the most urgent in need of attention.

5.6 Recommendations for Further Research

Business models help companies conceptualize their business relationships as they seek to adapt to continuously changing customer needs. Further research in this area would enrich knowledge on how companies initiate, test and develop business models. A study should be carried on the most effective, flexible and inspiring model.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

Please answer all questions as directed.

SECTION ONE: GENERAL PARTICULARS

1. Job title____

2. Name of supermarket_______________________________________

3. How many years has this supermarket been in business?

   a) Below 5 years ( )

   b) 5- 10 years ( )

   c) 10-15 ( )

   d) More than 15 years ( )

4. Who are the owners of this supermarket?

   a) Locally owned ( )

   b) Foreign owned

   c) Both locally and foreign owned

5. How many employees does your supermarket have?

   a) Below 10 ( )

   b) 10-20 ( )

   c) 20-50 ( )

   d) More than 50 ( )

6. How many branches does this supermarket have?

   a) Less than 5 ( )

   b) 5-10 ( )

   c) 11-20 ( )

   d) Above 20 ( )

SECTION TWO: BUSINESS MODELS APPLIED BY THE SUPERMARKET

To what extend do you agree or disagree that the following models are applied by your supermarket.

Use a scale of 1-5, 5 strongly agree, 1 strongly disagree (Tick appropriately)

Statement	Response ratings				
	1	2	3	4	5
Your supermarket strives to cut costs significantly					
You engage the services of subcontractors					
You purchase your goods from various suppliers					
You purchase goods both locally and across the border					
You purchase your merchandise directly from manufacturers					
Your supermarket invests heavily in research & design					
You own all the merchandize that is in your supermarket					
You act as a broker and charge commission on the sales					
Your activities are aligned to your vision and strategy					
Your supermarket monitors organizational performance against strategic goals					
Your supermarket benchmarks its performance against the other supermarkets					
Your supermarket is efficient and offers fast services					
Your supermarket is ahead in terms of competition					
Personal relationship exists between your supermarket and your customers					

Briefly explain any other means that your supermarket may be applying in order to make money and stay ahead of the competition____________________________________

SECTION THREE: FACTORS INFLUENCING CHOICE OF A MODEL

1. How does your supermarket ensure that they retain the market share?

2. What kind of technology are you currently using? Briefly explain

3. What is your relationship with suppliers?

4. How do you source for your merchandise?

5. How do you make your profit margins?

6. Who bears the risks in case of any breakages in your store or products returned by the clients?

7. Briefly explain how your supermarket ensures that it operates at the minimum possible costs

8. How is the competition in your industry?

9. How do you ensure that the increased customer demands are met?

10. Do you experience any difficulties while sourcing for finances from financial institutions? If yes. briefly explain.

11. Do external factors like government policies, culture and social factors affect the way you do business? If yes, briefly explain________________________________

____

____

____

12. What are some of the innovative ways that your supermarket is using to attract customers?

____

____

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13. Briefly explain any other factors that influence the choice of the models that you are applying____

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Thank you for participating.

APPENDIX 2: LIST OF SUPERMARKETS IN MOMBASA

1. Amal enterprises
2. A- One supermarket Ltd
3. Arassan Mini Market
4. Asin's supermarket
5. Bacchus Grocers Ltd
6. Barka Supermarket
7. Basma plaza
8. Buxton grocers
9. Changamwe supermarket
10. Chiquitas Ltd
11. City grocers Ltd
12. Dhanjee & sons Ltd
13. Cash Mini supermarket
14. Enigee traders
15. Finsbury Trading Ltd
16. Foodland supermarket
17. Foodland supermarket
18. F.R. Ganijee & sons
19. Gawaya grocers
20. General Mashala stores
21. Gopal traders
22. Green grocer
23. Hangral keshanji sons
24. Inspiration commodities
25. Mamujee stores
26. Morning Dew Green Grocers
27. Mtwapa supermarket Ltd
28. Mulla Okabhai & co
29. Mwafrika provision store
30. Nakumatt Holdings Ltd
31. Newmatt Ltd
32. Onestop supermarket

33. Rafiki grocers
34. Saimart self services
35. Samjo cereals
36. Shar- E- Punjab supermarket
37. Aly Grocers Ltd
38. Shoppers Mart Ltd
39. Corner Supermarket
40. South supermarket Ltd
41. Top supermarket Ltd
42. Travelex
43. Twiga wholesalers grocers
44. Valu-plus supermarket
45. Village hut Ltd
46. Nawal centre
47. West Mall supermarkets Ltd
48. Tusker Mattresses Ltd
49. Budget supermarket
50. Naivas Ltd
51. Cash Mini supermarket
52. Al Habib grocers