USE OF UNRELATED DIVERSIFICATION STRATEGY TO RESPOND TO IDLE CAPACITY: A CASE STUDY OF NATION MEDIA GROUP

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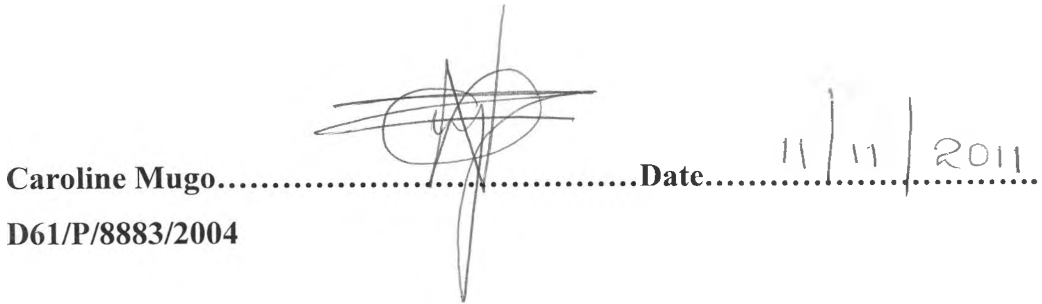
DECLARATION

I hereby declare that this research is my own original work and it has not been presented for a degree in any other University.



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Supervisor

DEDICATION

To my amazing Parents, infinitely supportive and my Siblings, wise beyond their years And

To Alfred, an ever present friend.

// ACKNOWLEDGEMENTS

Sincere gratitude is hereby extended to the following people who never ceased in helping until this paper was complete.

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ABSTRACT

Although much work has been done on Strategy formulation in organizations, significant gaps exist in the body of research regards strategies purposefully formulated to take up Idle or Excess capacity. Few explicit connections have been made among research studies between unrelated diversification and Idle or Excess capacity. This research paper explores this crucial relationship and introduces a view that firstly idle capacity is a resource and secondly, that unrelated diversification can be used as a strategy to utilize idle capacity where this idle capacity cannot reasonably be used to produce the core product or its close variants.

The paper begins by conceptualizing Capacity along three dimensions; Capacity Management, Complexity of Capacity Management, How Idle Capacity arises and how idle capacity can be taken up using an unrelated diversification strategy. The study goes on to discuss how Nation Media Group's transport Division has utilized its idle capacity through the use of unrelated diversification strategy. The findings reveal that there is a direct and distinct positive consequence of this strategy.

The research summarizes the findings in a way that provides great insight into how an organization's performance can be greatly impacted by the uptake, or lack of it, of idle or excess capacity making it a double edged sword. The findings also provide insights into how uptake of idle capacity impacts on revenue and contribution within a business. Further, a bigger idea emerges that; an entire business line can be founded on idle capacity.

The research supports the Strategic Management theory that unrelated diversification is for financial gain and pursuing strategic fit relationships assumes a back-seat role in the case of unrelated diversification. To the extent that corporate managers are astute at spotting external opportunities with big profit potential, shareholders wealth can be enhanced greatly by analyzing the existing value chain for hidden opportunities which manifest as idle or excess capacity.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Issues relating to unused/idle capacity have gained significant importance in the recent years as organizations throughout the world face acute fluctuation in consumer demand, intensified global competition and radically new product technologies. Idle/ unused capacity refers to the difference or variance between available and applied capacity. This variance is measured in hours using the same measure as actual production cost and many organizations account for it by having its total resultant burden being passed down to the actual units produced. In turn, this drives up the per unit cost of these units making them more expensive and less competitive. The seasonal nature of products, the rapid spread of product innovations around the world, the increasing rate of new production technologies, shorter products life cycles, speed to market, cutting edge information technology, increasing knowledge intensity and the global financial crisis which have been destabilizing world markets, have all contributed to the occurrence of huge amounts of idle capacity in many organizations. Idle capacity can occur within literary any industry whether dealing in goods or services. Further, idle capacity can occur in any function within an organization. It can occur within production, logistics, financial administration, marketing and sales, distribution or even in general administration. Organizations can no longer sustain profitability where there is a high proportion of unused capacity. This makes the subjects of unused/idle capacity to be of importance to managers at all levels and functions, calling on them to take a closer look at its management.

Unused/idle capacity has been a topic widely researched by many authors. Some unused capacity is needed to ensure flexibility in an organization, but an excess of it unnecessarily weakens the utilization rate of resources. Some research studies have presented strong evidence that a high quantity of idle capacity exists within companies (Brausch and Taylor, 1997), (Cokins, 1996). Most of this research has focused on measuring production department capacity but overlooked capacity measurement of non-

production and service departments, where the costs of unused capacity could seriously impact on profit.

The resource based view of the firm is an influential body of research within the field of strategic management, whose elements can be traced as far back as 1959 through the contributions of scholars like Edith Penrose. The theory argues that a firm is a collection of productive resources, the disposal of which is an administrative decision. According to Penrose (1959), the performance of a firm is best gauged by the measure of the productive resources it employs as well as the strategic choices a firm applies in the process of identifying, developing and deploying these resources and capabilities to maximize returns. The theory goes further to focus on the attributes and characteristics of resources that build and sustain competitive advantage and enumerates them as being those that are valuable, rare, not easily imitated and above all, firm specific. Viewing organizations through the resource based perspective, allows organizations to guage the magnitude of importance placed upon its internal firm resources and capabilities and their relationship with competitive advantage and performance (Johnson & Scholes, 2002).

Resources are inputs into a firm's production process to create goods and services. When we move across firms and industries, the range of what is defined as a resource differs significantly depending on the nature of the goods or services that the firm offers. For some firms, storage, logistics, distribution networks and the strength of the brand are considered as resources. A firm's capability is the capacity of the set of resources a firm has, to perform a task or an activity all factors held constant (Hitt, 2007).

The strategy selected by any one firm therefore, is one that guarantees resources and capabilities are fully employed and optimally utilized. Utilization of resources refers to the percentage of time that a component of resource or available installed capacity is actually occupied. A typical resource component undergoes different degrees of demand through-out its operating cycle. Peak loads during the operating cycle whether a day, a week, a month or a year, can have significant impact on its utilization. Resource planning is therefore the process by which resources are allocated to planned production (Hitt,

2007). This is also referred to as resource scheduling. Close monitoring of the degree of utilization and conformance to planned production helps to determine if there is stress from over-use or there is slack available as a resulting from under utilization of resources within a firm.

Despite the most skillful and careful planning however, there is always the presence of unused capacity due to the inability to forecast accurately certain elements in the environment eg. Weather, climate, political unrest and breakthrough technology. Another major cause of idle capacity is the indivisibility property of some of a firm's resources. Some idle capacity is therefore always going to be present within an organization, making it a phenomenon that must continually be addressed in order to keep attempting to manage its size and cost.

1.1.1 Idle Capacity

One of the most used definitions of operational capacity is the ability to produce within a given time period with an upper limit imposed by the availability of space, machinery, labor, materials or capital. Operational capacity is similar to planned capacity. It is the level of operation that is sufficient to fill the expected demand for the companies' products or services for a given time span, taking into consideration seasonal and cyclical demands and increasing or decreasing trends in demand. It differs from actual capacity which is based on actual demand (Bryman A. & Bell, 2003). Another way of defining operational capacity is the extent to which a firm uses its installed productive capacity. Thus it refers to the relationship between actual output that is produced with the equipment and the potential output which could be produced with it if capacity was fully used. This definition has more of a technical undertone (Boccardo, 2004). Implicitly, the capacity utilization rate is also an indicator of how efficiently the factors of production are being used. This rate is also referred to as operating rate. If market demand grows, capacity utilization will rise. If demand weakens, capacity utilization slackens (Perelman, 1989). Capacity represents a company's profit potential.

Resources management entails planning, organizing, directing and co-coordinating the resources of an organization in order to derive maximum the benefit at the least cost. Nevertheless, even with the most skillful and careful planning, there is always the presence of unused capacity. Idle capacity is the part of the budgeted capacity within an organization that is unused. It is measured in hours using the same measure as production (Boccardo, 2004). Idle capacity occurs when the market is not able to absorb the maximum possible output at a price exceeding the variable cost of production or when all capacity that is potentially available cannot currently be used, for reasons such as market pressures from competition, distribution constraints, or management policy (such as union contract laws, holidays and overtime rules). On the other hand, increased idle capacity may represent the rewards and evidence of improved productivity and efficiencies by operations. Idle capacity may also arise when we cannot predict accurately seasonality or demand. Seasonality may be related to the time of day, the day of week, the month of the year or particular holidays, a change in weather etc.

1.1.3 Diversification Strategy

Diversification can be defined as the process by which a firm, without entirely abandoning its old lines of products, embarks upon the production of new products, including intermediate products, which are sufficiently different from the other products it produces.

Diversification can be summarized as the design, invention, development and/or implementation of new or altered goods or services or entry into new markets or radical changing of business models for purposes of creating new value for customers and financial returns for the firm (Maloney, 1988).

Diversification may take place within a firm's existing areas of specialization or it may result in a firm going into new areas of specialization. Diversification within the same area of specialization refers to the production of more products based on the same technology and sold in the firm's existing markets. Diversification that involves a departure from the firm's existing areas may be one of three kinds (1) The entry into new

markets using the same production base; (2) Expansion in the same market with new products based in a different area of technology; and (3) entry into new markets with new products based in a new area of technology. Firms therefore diversify; to grow, to fully utilize existing resources and capabilities, to escape from undesirable or unattractive industry environments and to make use of surplus cash flows. Therefore there are fine distinctions between diversification in response to specific internal and external opportunities, diversification to solve specific problems of demand and diversification as a general policy for growth (Penrose, 1959).

1.1.4 Idle Capacity and Diversification

The presence of excess/idle production capacity is one of the most important single factors leading to product-line diversification. Idle capacity may be caused by cyclical fluctuations in sales, secular shifts in markets tastes and changes in consumer buying habits, leaving the firm with underutilized capacity and know-how. Changes occurring in the overall economic, political, technological or social environment in which the company operates may also cause idle capacity (Lyon and Ferrier 2002).

There is a link between capacity and diversification. Further there is a link between idle capacity and diversification. Firms diversify in part to utilize productive resources which are surplus to current operations. Knowledge of these resources allows a firm to make decisions pertaining to diversification. These excess physical resources, most knowledge-based resources and external financial resources are associated with more related diversification, while internal financial resources are associated with more unrelated diversification. (Chatterjee, 2006)

1.1.5 The Nation Media Group (K) Ltd.

The Nation Media Group (NMG), one of the leading multi-media houses in the East African region was founded by His Highness the Aga Khan in 1959. Today NMG has become one of the largest independent media houses in East and Central Africa. The

company operates print and electronic media. It has been quoted on the Nairobi Stock Exchange since the early 1970s. In 2009, the company grossed an income of 12 billion shillings with a before tax profit of 2 billion shillings.

The company has a number of divisions in all the East African countries. These include Nation Newspapers Division, Nation Broadcasting Division, Nation Carriers Division and Nation Marketing and Publishing Division. It also owns Monitor Publications Ltd Uganda which also runs a radio station. Further, the Nation Media Group has controlling interest in Mwananchi Communications Limited (MCL) of Tanzania which publishes Kiswahili papers (Mwananchi and Mwana Spoti) and English daily, the Citizen.

Nation Media has invested heavily in its 3 printing plants in Kenya, Uganda and Tanzania and in its TV and Radio stations in Kenya and Uganda. Also notable is its distribution fleets in all the 3 countries of close to 200 vehicles. This implies a large amount of resources are in place to ensure capabilities in all across the region and with this huge investment comes the potential of a large amount of capability not always being fully utilized creating vast amounts of opportunities for innovation and diversification using the idle or spare capacity.

1.2 Statement of the Problem

Better utilization of capacity means better utilization of resources. It is an important consideration for cost determination and cost reduction. According to Hayes and Wheelwright (1984), capacity utilization depends on the interaction of various resource constraints, such as equipment, labor, storage space, demand and management policies. Idle capacity and nonproductive capacity creates costs that distort product costs and lead to inefficiency within an organization. The end result is that an organization incurs costs which it is not able to justify. Minimization or elimination of idle capacity will save money for the organization and improve its efficiency. Capacity utilization decisions are thus important and appropriate for the organization. (Randiki, 2004).

The fact that Nation Media Group (NMG), which is the focus of my case study, does not outsource its core functions and services means that there is a lot of capacity available and with it, some capacity is not always fully utilized. Through diversifying, NMG has come up with an entirely new product line, sufficiently different from the other products it produces, without entirely abandoning its old lines of products. However, it's the need to know the benefits of this diversification strategy on NMG's performance that has prompted this case study.

In Kenya, literature on diversification and a firm's idle capacity is limited. The only notable study on this field is by Randiki (2004), who did a study on Capacity Utilization in Micro and Small Enterprises (MSEs)-A Case Study Small Garment Enterprises in the Nairobi City Council Markets. The study by Randiki (2004) looked at capacity utilization and identified the presence of idle capacity within the subjects of the study, but did not extend it to cover the diversification potential that idle capacity carries. This research paper attempts to show how an organization can exploit any opportunity to utilize excess or slack capacity that occurs due to business or operational cycles. It further attempts to show that in some cases an organization's excess capacity, unused or not fully employed resources may actually allow it to create new value by innovatively developing new products and creating new business opportunities. Therefore an organization may not just look for external gaps and opportunities for growth, but rather by evaluating its resources and activities within its value chain, it can identify plenty of opportunity to use the same value chain and the same resources to diversify. This approach greatly reduces the cost and risk associated with diversification for the organization while carrying the potential for creating successful new products to achieve growth. None of the previous studies on the subject of unrelated diversification has addressed the effect of unrelated diversification using idle capacity on a company's overall performance. The proposed study presents an attempt to bridge this gap in knowledge.

The most prompting question is; how and why did The Nation Media Group adopt unrelated diversification strategy to deal with its idle capacity and what effect has this strategy had on its performance?

1.3 Research Objective

The objective of the study is:

To determine the use of unrelated diversification strategy as a response to idle capacity at The Nation Media Group.

1.4 Importance of the Study

Intense competition has put pressure on firms to look for sources of competitive advantage from unconventional sources. Idle capacity is one of these sources. It is against this backdrop that this research is conducted. The research will assist presently structured industries in the Kenya and the region in general, who have experienced capacity underutilization by showing there is significant room for increasing revenues and improving performance with no additional capital required.

The study is extremely useful to companies who are not achieving their target rate of return on existing capital. Managers will gain from the insights that, idle/excess capacity utilization is one of the ways to achieve full employment of resources resulting in improvement in the return on capital. Managers will also understand how this uptake of idle capacity may generate into new or unrelated product lines whose impact on the corporate image must be anticipated. The study will be useful in helping managers who are seeking to achieve the ever increasing budgeted organic growth without necessarily committing extra capital.

The study will add to the body of knowledge of strategic management, both in the public and private sectors, where the value chain can begin to be looked at more critically and analyzed for what else it can yield over and above its planned capacity.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

In this chapter, literature on utilization of idle capacity through diversification strategies is reviewed. Under the empirical review, the study focuses on the works of scholars who have done practical research.

2.2. Firm's Resources and Growth/performance

Economic theory describes resources as productive factors required to accomplish an activity, or as a means to undertake an enterprise and achieve desired outcome. Three most basic resources are land, labor and capital. Other resources include energy, entrepreneurship, information, knowhow, the skills of individual employees, patents, finance, all fixed assets, capabilities, organizational processes, firm attributes, information and talented managers (Crook, 2008). These are the inputs or the factors available to a firm which help it to perform its operations or carry out its activities in order to derive revenue and in turn a profit which subsequently increases shareholders wealth. Resources can be categorized as tangible and intangible. Resources may also be described as all that is controlled by a firm that enables it to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983).

Individual resources may not yield competitive advantage as resources in themselves confer no value to the organization. It is only when you put them to some productive use that value is yielded. It is through the synergistic combination and integration of sets of resources that competitive advantages are formed (Hitt, 2005). According to Hitt (2005), whereas an organization would typically look to it resources, capabilities and core competencies for advantage, a very new competitive landscape is developing as a result of the technological revolution and increasing globalization. This new competitive arena is putting pressure on firms to begin to improve their resource allocation and efficiency levels. Conventional sources of competitive advantage such as economies of scale and huge advertising budgets are not as effective in the new competitive landscape. (Ansoff,

1965). In the new competitive landscape, firms are viewed as collections of evolving capabilities that are managed dynamically in pursuit of above average returns. When the external environment is subject to rapid change, internal resources and capabilities offer a more secure basis for strategy (Hitt, 2005).

Penrose (1959) provides a theory of effective management of firm's resources, productive opportunities and diversification strategy. There is a close relation between the various kinds of resources with which a firm works and the development of the ideas, experience and knowledge of its managers. Experience and knowledge affect how productive services available from resources are viewed by the firm. Unused productive services are, for the enterprising firm, at the same time a challenge to innovate, an incentive to expand and a source of competitive advantage. Unused capacity facilitates the introduction of new combinations of resources within the firm. (Penrose, 1959, p. 85)

Penrose (1959) goes on to explain that the drivers of the rate and direction of firm growth are the current knowledge bases and underutilized resources within the firm. These two factors largely influence the direction of firm's growth. Not only why and how these drivers shape the rate and direction of growth, but also argues that ignorance of these factors results in inefficiencies and loss of competitive advantage. There is a link between resource-based relatedness and firm level of performance. The choices that lead to an optimal growth pattern have direct consequences for economic rents (Rugman and Verbeke (2002, p. 771).

Firms are faced with immense pressure to increase their revenues as well as their bottom lines with a less than proportionate increase in their costs (Ansoff, 1965). In these lean economic times, firms are finding it difficult to achieve the desired rate of return on the existing capital so much so that they will not commit additional capital for purposes of growth. They are seeking to grow organically literary from the same existing capital. Rather than invest fresh capital , firms are looking to the existing infrastructure for any spare capacity that can be utilized to make further gains for the firm. Therefore as firms become highly efficient to try to keep up with the extreme competition, they may develop excess capacity in particular functional areas.

According to Penrose (1959), excess capacity arises because some resources are inherently indivisible. Put another way, if resources are not perfectly divisible, then excess capacity will occur. But excess capacity also occurs as a result of the learning effect. The alternative of shutting down idle capacity is often not an option due to high transaction costs of changing the infrastructure or the operational system of an organization. At times the idle or spare capacity is also not large enough or lengthy enough to produce the same product as a firm's core product. The combination of the learning effect and resource indivisibility, coupled with the undesirability of shutting down this idle capacity, suggest an opportunity for diversification. The view that diversification is one way to utilize excess capacity is actually one of the arguments for the growth of the firm according to one of the pioneers of the resource based theory, who put particular emphasis on the use of excess capacity in managerial resources.

The literature is not exhaustive as regards to this possible link between diversification and excess capacity. Previous work and data has studied the efficient scheduling of resources to production and have shown how efficient utilization leads to higher productivity and growth. There is lack of sufficient information however concerning how any idle/excess capacity as a result of cyclical changes in demand is utilized through diversification to add value to the total firm (Boccardo, 2004).

Services are by nature perishable. As such, managing a service firm's capacity to match supply and demand has been touted as one of the key problems of services marketing and management practice. Based on a review of current literature and an exploratory study, there is a divergence between what literature suggests and what firms actually practice with regard to reducing the occurrence of unused service capacity. Most service firms approach capacity management only from the standpoint of operations management and very rarely from the standpoint of idle capacity utilization. (International Journal of Service Industry Management-Vol 10).

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2.3. Production Capacity

Capacity of a firm is the highest quantity of output possible in a given time period with a predefined level of staffing, facilities and equipment (Lovelock, 1992). Capacity is the ability of the set of resources a firm has, to perform a task or an activity all factors held constant (Hitt, 2007). Utilization of resources refers to the percentage of time that a component of resource or available installed capacity is actually occupied. One of the most used definitions of operational capacity is the ability to produce within a given time period with an upper limit imposed by the availability of space, machinery, labor, materials or capital. Operational capacity is similar to planned capacity. It is the level of operation that is sufficient to fill the expected demand for the companies' products or services for a given time span, taking into consideration seasonal and cyclical demands and increasing or decreasing trends in demand. It differs from actual capacity which is based on actual demand (Bryman A. & Bell (2003). Another way of defining operational capacity is the extent to which a firm uses its installed productive capacity.

2.3.1 Capacity Management

During the current decade's economic recession, many firms went out of business due to decreasing market shares and huge losses (Mulligan, 2004). The key to survival lies within effective capacity management (McNair, 1994; Klammer, 1996; Paranko, 1996). Unfortunately, traditional measures of capacity in management accounting literature do little to highlight idle capacity (Klammer, 1996, p.28). In a competitive economy, idle capacity costs can significantly affect an organizations performance (Klammer, 1996; Dodd, Lavelle, & Margolis, 2002). During economic recessions therefore, utilization of idle capacity is often the key to survival.

Capacity among service firms has one commonality. For each day a service is not put to profitable use, it cannot be saved (Bateson, 1977). This perishability suggests a need for careful planning and management, as idle capacity due to slack demand, as well as turning away customers due to insufficient capacity, are serious problems critical to the success of many service firms.

There is substantial literature on how to cope with supply and demand imbalances (Heskett, 1986; Lee, 1989; Lovelock, 1988 and Orsini 1988). The literature suggests two ways of dealing with excess or idle capacity. The first is to manage supply to fit demand. Such strategies include scheduling the service so as to match the peaks and the troughs, taking on sub-contracted jobs and even reducing fixed costs such as renting office space or equipment. The second means is to manage demand to fit supply. This includes offering discounts, lowering prices, increasing advertising, conducting cold-calls, diversifying to segments where demand is less fluctuating, selling services under barter arrangements, offering different services, positioning a service differently, accepting reservations and even using idle staff as walking advertisements. However, if a firm chooses not to deal with the problem, it can take the option to stay with a fixed capacity that is capable of handling peak business. In sum, the current literature mainly proposes reducing/scheduling capacity and increasing selling and promotion activities ("chasing" demand) or stay with a "level" capacity. Yet despite such techniques suggested by literature to alleviate the problem, capacity management remains complex and troubling in management practice and serves as one of the principal problems in services marketing (Zeithaml, 1985).

2.3.2 Complexity of Capacity Management

Capacity management is one of the most complex and troublesome areas in management practice. A review of many research studies in this literature reveals that capacity management is a twofold problem (McNair, 1994). First, no generally accepted definition of capacity and capacity management currently exists. Second, traditional costing systems fail to measure the costs of unused productive capacity (Dodd, 2002; Buccheit, 2001; Klammer, 1996). Consequently, as Braucch and Taylor (1997) found, very few of their sampled firms seek to measure the extent or costs of unused productive capacity.

Traditionally, the dynamics of capacity management have been relegated to the domain of logistics and operations management, a legacy of its counterpart in goods manufacturing. It is apparent, however, that service capacity management is far more

complex. This complexity is underlined in a service firm's inability to inventory its service as opposed to goods manufacturers who are able to do so. Furthermore, many services require the customer to be present for a service to be performed (Berry, 1987; Lovelock, 1983). Consequently, capacity management for services would affect the customer more than in the case of a manufacturing plant, since issues such as quality, waiting times and unavailability are linked intricately to capacity.

Typically, the objective for many firms is to develop a capacity profile to such an extent that it matches its demand profile and yet retains its economic viability. In a perfect situation, a firm is able to cut capacity during low season and increase capacity during peak season. However, despite an optimum choice of capacity to the extent that there may be a close fit to the demand profile, demand forecasting is a skill rather than an exact science (Dilworth, 1992). Disequilibrium from other extraneous factors may blunt such forecasts' predictive capabilities. Finding use for idle capacity in such situations is every manager's conundrum.

Not all firms are able to fit capacity to their demand profile. This is because of the quality of non-divisibility of some resources (Dilworth, 1992). When demand fluctuations are intermittent and too short in duration and there exist constraints to scaling capacity up and down so that many of the proposed techniques may not be workable. This is often true with many service companies within the leisure industry, for example hotels and car rental companies. Many of these service firms experience high fixed capacity and high perishability and their profitability is largely tied to utilization (Allen, 1988).

For certain services, idle capacity is required to make room for the variability of services to target to different market segments. Indeed, some estimates show that the quality of a service drops rapidly when demand exceeds even as low as 75 per cent of the service firm's capacity (Heskett, 1986). This is because the comfort of other service users may be compromised, if the capacity of the service firm is used to the hilt. Likewise, other firms especially service firms, maintain some idle capacity if the availability of the services on-demand is necessary to establish and maintain service quality and the firm's

differentiation efforts. Examples of these services would include tow truck services, lift maintenance and other emergency services, or service companies that differentiate themselves through quality and short waiting times. For such services, unavailability or waiting for the service is invariably poor service and many firms will set capacity utilization to as low as possible to provide near instant service, or at least, where the level of service is competitive and satisfactory against industry standards. In such cases, excess capacity is deliberately maintained to justify its employment during peak times (Hope and Muhlemann, 1997). The question then arises as to what can be done about the excess capacity during low periods.

Capacity resources are lumpy, requiring upfront investment. It is not economical to adjust continually their levels to demand so they are neither idle nor in short supply. Investments in capacity are undertaken based on expectations about demand, balancing the costs of excess and insufficient capacity. Once acquired, idleness cannot be avoided unless the capacity installed is enough only to meet minimum demand. Nor can shortfall be avoided unless capacity acquired can accommodate maximum possible demand. Many textbooks suggest that in periods of lean demand, the opportunity cost of idle capacity is zero and therefore, any alternative use of these resources that promises a positive contribution margin is desirable as a short run decision (Mahoney, 1992). This assertion is true only if the benefits of unused idle capacity are lost forever. The assumption does not hold for all kinds of capacity resources.

Understanding the complexities of capacity management is only a start. To actually propose a means of handling unused capacity is a different issue altogether, which as demonstrated above, exists in some form or another in almost all firms. In tough economic instances, competition often intensifies, price wars are created and profitability is compromised (Porter, 1985). Although the strategies to take up idle capacity suggested in the current literature have some virtues, the defensive undertones of such strategies suggest an inclination toward mitigating losses and do not adequately assist companies in tackling beneficially the problems of unused capacity.

The above highlights two major issues that are pressing concerns of excess capacity management. First, unused capacity will exist, in some form or another. Second, techniques that are suggested by current literature are too limited to provide meaningful solutions.

2.4 Diversification Strategies

Diversification is a form of corporate or business unit growth strategy which implies expansion into a new segment of the industry or entering into a business outside of the scope of the existing unit (Amit and Livnat, 1988). Strategies of diversification can include internal development of new products or markets, acquisition of a firm, alliance with a complementary company or licensing of new technologies. Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations (Kerr, 1985). Companies diversify to compensate for technological obsolescence, to distribute risk, to utilize excess productive capacity, to reinvest earnings, to obtain top management and so forth. In deciding whether to diversify, management should carefully analyze its future growth prospects. It should think of market penetration, market development and product development as parts of its over-all product strategy and ask whether this strategy should be broadened to include diversification.

There are two broad types of diversification strategy namely concentric (or related) and conglomerate (or unrelated) diversification. When the new venture is strategically related to the existing lines of business, it is called concentric diversification. Conglomerate diversification occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated (Marlin, 2004).

2.4.1 Concentric (Related) Diversification

Concentric diversification occurs when a firm adds related products or enters into related markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy (St. John and Harrison 1999). In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. Synergy may be achieved by combining firms with complementary marketing, financial, operating, or management efforts. Financial synergy may be obtained by combining a firm with strong financial resources but limited growth opportunities with a company having great market potential but weak financial resources synergy (St. John and Harrison 1999). For example, debt-ridden companies may seek to acquire firms that are relatively debt-free to increase the lever-aged firm's borrowing capacity. Similarly, firms sometimes attempt to stabilize earnings by diversifying into businesses with different seasonal or cyclical sales patterns. Strategic fit in operations could result in synergy by the combination of operating units to improve overall efficiency. Combining two units so that duplicate equipment or research and development are eliminated would improve overall efficiency. Quantity discounts through combined ordering would be another possible way to achieve operating synergy. Yet another way to improve efficiency is to diversify into an area that can use by-products from existing operations (Marlin, 2004). For example, breweries have been able to convert grain, a by-product of the fermentation process, into feed for livestock.

Management synergy can be achieved when management experience and expertise is applied to different situation (St. John and Harrison 1999). Perhaps a manager's experience in working with unions in one company could be applied to labor management problems in another company.

2.4.2 Conglomerate (Unrelated) Diversification

Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. (Amit and Livnat 1988).One of the most common reasons

for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited. Finding an attractive investment opportunity requires the firm to consider alternatives in other types of business. Philip Morris's acquisition of Miller Brewing was a conglomerate move. Products, markets and production technologies of the brewery were quite different from those required to produce cigarettes. Firms may also pursue a conglomerate diversification strategy as a means of increasing the firm's growth rate. As discussed earlier, growth in sales may make the company more attractive to investors (Amit and Livnat 1988). Growth may also increase the power and prestige of the firm's executives. Conglomerate growth may be effective if the new area has growth opportunities greater than those available in the existing line of business.

There are some disadvantages associated with unrelated diversification strategy the major one being the increase in administrative problems associated with operating unrelated businesses. Without some knowledge of the new industry, a firm may be unable to accurately evaluate the industry's potential. Even if the new business is initially successful, problems will eventually occur. Executives from the conglomerate will have to become involved in the operations of the new enterprise at some point. Without adequate experience or skills (Management Synergy) the new business may become a poor performer. Without proper management of a new business carrying out an unrelated trade, the combined performance of the individual units may probably not exceed the performance of the units operating independently (Marlin, 2004). In fact, combined performance may deteriorate. Decision-making may become slower due to longer review periods and complicated reporting systems. Caution must therefore be exercised in venturing the unrelated diversification strategy even with seemingly promising opportunities, if the management team lacks experience or skill in the new line of business (Luxenber, 2004).

Diversification efforts may be either internal or external depending upon the objectives of the company. Internal diversification is a situation where a company ventures into a different but related business line. It involves increasing the company's product or market base. The external diversification on the other hand is used to achieve similar results with a difference that the line of business is drastically different and not related to the parent

company (Amit and Livnat 1988). There are many reasons why a company may opt for a diversification strategy, but main objective always being that companies are looking to grow and increase profitability. It is imperative that they decide whether they want to diversify by starting a related or unrelated business line.

2.5 Diversification as a Response to Idle Capacity

The resources-based approach to viewing a firm is concerned with efficiency, economic profit, competitive advantage and profitable growth (Penrose's, 1959). These are the cornerstones of a resource-based view of strategic management. (Teece, 1982). Werner felt, (1984) has insightfully made connections between Penrosean ideas and the modern resource-based view. These connections have contributed to the ongoing development of resource-based view into a theory of generating and sustaining competitive advantage. Montgomery and Wernerfelt (1988) building on Penrose (1959) and Teece's (1982) argument that firms diversify in response to excess resource capacity subject to market frictions show that such diversification can lead to economic profit and therefore companies may diversify in part to utilize idle capacity.

This reason for diversification enables a company to profit from supplies for which it has already paid regardless of the diversification. Seasonal and cyclical fluctuations in demand or movement in the overall economic, political or social environment in which the company operates may give rise to periodic under-utilization of resources (Halmen, 2006).Diversification is thereby seen as a solution to some of the problems that may be created for the individual firm by unfavorable movement in the external environment. These conditions stimulate a firm to search for new products which will permit fuller utilization of their resources (Maloney, 1988). Better utilization of capacity means better utilization of resources. But if we assume that firms are primarily interested in profits, neither the full use of resources, nor the stabilization of earnings is sufficient to justify diversification unless total expected profits are increased thereby. For a firm looking to address the problem of under-utilization of capacity, the nature of diversification should not conflict with the maximum exploitation of the old product and there ought to be a

clear gain. In such a case therefore, part of the purpose of the diversification is to permit a fuller utilization of the firms' fixed resources and to help meet over head costs. Under such circumstances firms look for fields where entry is easy and no special skills are required (Penrose 1959).

2.6 Idle Capacity as a Reason for Expanding Business-line

Idle capacity may occur for several reasons. It may be the result of an unduly over-optimistic estimated market for the firm's products. In such a case, if anticipated level of demand is not forthcoming, the firm develops idle capacity within its production process with people or machines lying idle or being only partly utilized. Idle capacity may be due to seasonal variations in demand also, the latter being a result of weather and custom, e.g. greeting cards, ice-cream, etc. According to Homburg, Krohmer and Workman (1999), companies faced with seasonal demand for their products would certainly find it advisable to add to their product-line in off-season a new product to make up for the loss because of idle capacity. The existence of an idle capacity may also be the result of vertical integration. (Homburg, Krohmer and Workman, 1999). To utilize resultant unused capacity, some organizations have added to their product lines.

When considering the role of existing resources in determining the direction of diversification that is sought for its own sake, plant & equipment, skills and knowledge, peculiar productive specialties are key success factors (Munk, 1999). In product-line decisions, the management should also keep in view, the following points: first, the management should not introduce a new product if an even better new product is available. Before taking a final decision, all the available opportunities and alternatives should be explored and examined and the best one chosen. In other words, the opportunity costs of alternative uses of idle capacity must be estimated. Secondly, the management should also appraise the impact of the new product on the products already manufactured. If the product complements the product-line, it will increase the sales of other products. In such a case, the contribution to overheads and profits by introducing

the new product will be greater than the direct contribution of the product itself (Marlin, 2004). If however the product competes with existing items of the product-line, the contribution estimates will have to be adjusted downward. Third, if the idle capacity is temporary, management must look whether the product can be abandoned when demand for other products recovers. For it may well be preferable to accept temporary idle capacity than to create production bottlenecks when the excess capacity situation reverses. Lastly, the management must examine whether it has the requisite know-how to produce and sell the new product. Due to reputation spillover effect, mismanagement of the new product in the market may severely undermine the company's other products and consequently its corporate image.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter addresses the methodology adopted to carry out the study. The chapter also presents the population of study, the methods used to sample it, the instruments used in data collection and procedures used in data analysis.

3.2 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. This is a case study of the Nation Media Group. A case study was preferred as the research is focusing on an issue that is unique to the group.

3.3 Data Collection Method

The study involved the collection of both primary and secondary data. To achieve this, an interview guide (see Appendix 1) was used to collect the primary data. Secondary data was obtained from Nation Media Group's policy/strategy documentations as well as management and statutory accounts. Secondary data comprised of financial data and market share information and equivalent data within the courier industry.

3.4 Respondents

The study targeted a total of 4 managers from Nation Media Group. These are; Group Finance Director, Group Business Development Manager, Group Financial Controller and General Manager Nation Carriers Division. These were selected because of their involvement in strategic decisions within the group.

3.5 Data Analysis

Given the fact that both the primary and secondary data is qualitative in nature, content analysis was the best suited method of analysis. It is through this method that data collected was developed and verified through systematic analysis. The data is presented in tables and charts where necessary and is based on the study objectives.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Findings

4.1.1 Introduction

This study adopted personal interview as the method of data collection and recorded the responses by way of noting down. The study aimed to achieve one main objective: To analyze the use of unrelated diversification strategy as a response to idle capacity at The Nation Media Group. The data collected has been analyzed and interpreted in line with this objective using content analysis. Content analysis involves the analysis of insights and implications emanating from respondents' discussion in conjunction with the secondary data collected. The findings have been presented using descriptive statistics such as tables where appropriate. The respondents in this study comprised of senior managers who have been majorly involved in strategy formulation and implementation for the various functions and divisions within Nation Media Group. The interview questions (see Appendix 1), revolved around the Nation Media Group's operations and capacity management issues, specifically at the Carriers Division (the transport division for the group) and around the formed Nation's Courier Business.

4.1.2 An analysis of the Nation Newspaper Business

Nation Media Group is the largest media company in East Africa in terms of turnover. It consists of two major businesses, the newspaper business (Print media) and the TV/radio business (Electronic media). For this discussion, the focus will be on the newspaper business. Any Newspaper business derives its revenue from 2 streams; Advertising and Circulation. Advertising business from the point of view of a newspaper means the selling of space on a page within an issue to a third party who then places an advert and pays by the size of the space. Circulation means the selling of the actual copies themselves at the cover price indicated on the top right corner of each copy of a

newspaper. A newspaper contains 2 types of content; Advertising content and Editorial content (News). On average, the ratio of advertising to editorial content in a single issue is 60:40. At the same time the average daily circulation volume is approximately 200,000 copies. This means that each of the streams of income is critical to the success of any newspaper. Advertisers look at the volume of copies that a newspaper sells in a given period, when choosing which newspaper to place their adverts in. They also look at the geographical coverage of the distribution network as well as the degree of penetration of the distribution network for the same reason. Thus, far from being a revenue stream on its own, the circulation aspect of a newspaper is also the main driver behind advertising revenue. For purposes of this research however, the focus will be on the circulation aspect of a newspaper business.

4.1.3. Nation Carriers Division

Nation Media Group has divisionalized its business into 3; there is the Newspaper Division which handles advertising and editorial, the Broadcasting Division that deals with TV and radio and the Carriers Division which handles the transport of newspapers. For purposes of this study, the focus will be on the Carriers (Transport) Division. The Nation carriers Division is the division charged with the responsibility of transporting newspapers for the Newspaper division. It has its own General Manager who is the head of the Division, its own Fleet Manager, Operations Manager, Workshop Manager and Dispatch Manager. The bulk of the staff (about 99%) is made up of drivers and loaders in equal numbers. The balance of the staff establishment is made up of vehicle maintenance staff, fleet operation supervisors and few support staff.

Nation Carriers Division was never formed to be a profit centre; rather all its costs are passed to the Newspaper Division as an inter-company charge. A single book entry is done each month on the last day of the month within the accounting system that takes the entire cost figure from within the Carriers division books and cross-charges it to the Newspaper Division books. In the books of Nation Carriers, this is credited to revenue but which only just exactly nils out the costs leaving it with zero profits. In the books of Nation Newspaper Division this entry is wholly taken as an expense called Newspaper

Freight. This is how Nation Carriers Division was formed to operate. The division is left to develop the most efficient model that ensures newspapers are delivered at the right time, in good condition and at the lowest cost.

4.1.4 Newspaper Distribution Model at Nation Media Group

The newspaper distribution model at NMG is both intricate and extensive. It constitutes of wholesaler, retailers, agents, bulk drops, road vendors and subscriptions. The distribution chain starts at the printing center and ends at, to the various wholesale and agency depots countrywide. At these depots, the bulk is broken up and sent out to the hundreds of retail outlets and road vendors in time for the commuter rush. The bulk of newspapers are sold via the wholesalers' (also referred to as distributors) and agents' outlets. The rest are sold through the subscriptions delivery networks via door to door distribution teams. The study revealed that, different from wholesaling in many other sectors of the economy, NMG and indeed all newspaper companies also collects unsold copies from retailers and distributors. Only a specified percentage of returns are allowed however. Distribution of Newspapers is done mainly by road. The most common vehicle used for this process is vans or pickups. These vehicles typically range between 0.5 tons and 3 tons each in capacity. Nation Media Group, through its Carriers Division, has invested in its own fleet of vehicles and employed its own drivers and maintenance staff and has invested in spare parts inventory to a great extent. This brief background enables one to appreciate the scope of The Nation Newspaper's distribution function.

4.1.5 Perishability of Newspapers

One of the most unique factors in newspaper distribution process is the speed to market. A newspaper is one of the most perishable products perhaps in any economy with a shelf life of just 2-3 hours after daybreak. This means that every minute along the distribution chain counts. The study revealed that, Nation newspapers are delivered to approximately 2,000 outlets (including road vendors) nationwide every day. However and uniquely so, the content will have all but expired by lunchtime on the day of sale. This makes the process of getting a newspaper from printer to consumer, substantially different from

other products in the economy. The time between production and consumption is the riskiest time and any interruption can cause massive losses as it means missing the rush hour window. Newspapers therefore call for a distribution system that is largely dedicated to that one product. What makes their quality as perishable to stand out more than other that of other perishable products such as freshly prepared foods is the vast distances involved in newspaper distribution over an extremely short period of time from printers to consumer. A copy of Nation newspaper can be printed and transported 600 kilometers all in a span of 6 hours to reach its readers.

The study also found that at NMG, the printing process normally takes several hours from around 22:30 or 23:00 until around 03:00. Copies printed early in the time window are typically transported to those wholesale depots which are furthest away from the print. This are distances of 500 kilometers and over and would most likely be to the Coast province. Those printed after that are schedules to be delivered to distances of 300 kilometers and over, which would be Western and Nyanza Provinces. Those printed later are transported over shorter distances- Eastern and Central provinces and finally, those printed last, to nearer wholesale depots. Expected arrival time in all depots is 05.00 to 05.30. By 06.00 the road vendors and other key retail outlets are supposed to be already selling the daily. The majority of sales take place in the morning. By late morning very few additional sales are made as the newspaper quickly becomes out-of-date during the day. The study found that 70% of newspaper sales take place by 10:00.

This implies that, there is a very limited period of time in which to receive the copies in dispatch section from the print, pack them according to the route and strip list (this is the list showing the number of copies per wholesaler/ distributor, agent, bulk drop or vendor), load the delivery vans and deliver the newspapers in time for wholesalers to meet the delivery times for all retailers. This explanation clearly illustrates how absolutely critical an efficient delivery system is to a newspaper company. Other studies done have shown that arrival times of a newspaper have a significant and direct relationship to the number of copies sold on any day.

4.1.6 Unpredictability of Demand for Newspapers

Another factor unique to newspaper business is the volatility of demand from one day to the next. One can hardly plot a chart that accurately forecasts day to day sales volumes because the factors underlying the demand for newspapers are far too complex and diverse for anyone to claim to understand. The content of each new issue of a newspaper is substantially different from the last, such that to some degree each issue is in actual fact a new product. Consequently, demand for newspapers can vary significantly from issue to issue. For example, newspaper sales can be significantly higher if they cover an exclusive story. Understanding how different content drives circulation or the likely fluctuations in demand between issues is by no means an easy task as this study found. At the same time, printing and delivering additional copies later to satisfy demand is hardly ever an option. Further, the study revealed that NMG place heavy reliance of distributors' experience on the ground to assist in predicting the demand of the next day's issue. Distributors have considerable expertise in approximating the print order required and the appropriate allocation across retailers of the copies printed. But even with the best years of experience, the study found that, it is virtually impossible to determine the exact demand in terms of copies for a newspaper on any given day. Thus there will always be situations of sell outs and situations of returns. As a matter of policy, NMG has allowed returns along the chain of distribution but limited to only a certain percentage.

The implication of this unpredictability manifests in the rate of utilization of the resources within the chain of distribution. The resources majorly impacted are the fleet itself and permanent staff. On any day, the utilization ratio differs from any other. On a certain day the vans are filled to capacity while on other days they are half full. Despite this however, each individual route must be serviced daily and the arrival times must be adhered to whether the vans are full or half empty. The vans must also have 2 permanent on board daily whether the van is filled to capacity or less than full to capacity. This is a clear example of the indivisibility property of some resources within an organization.

4.1.7 The Complexity of Capacity Management at Nation Carriers

Given this two limiting factors of perishability and unpredictability of demand, one begins to understand the utter complexity facing newspaper distribution. For NMG, establishing a division solely dedicated to the distribution of its newspapers indicates the degree of importance it places on the distribution aspect. Circulation is primarily a question of logistics. Newspaper distribution as the study found, involves a huge amount of risk because of the degree of perishability and the volatility in demand. These two unique elements make outsourcing of the distribution function extremely unlikely.

An outsourced resource may not be able to service the needs of such a delicate and high risk route-to-market. The fluctuation in demand would also mean that a third party service may be greatly inconvenienced in terms of revenue forecasting. At the same time, an outsourced resource would not find it prudent to take up the risk of missing arrival times as it would most likely result in a liability on its part equivalent to the missed sales. The Nation Media Group averages a circulation volume of 250,000 copies daily. The advertisers keep a close watch over this statistic. Any significant decline from this average would see the advertisers shift their business. The risk involved in the newspaper sales business is both high and not easily transferable; At least not at a reasonable cost. The need to keep its circulation numbers within a certain average is extremely critical, while all the while facing the daily volatility in demand as well as the ever present risk of perishability. The option of outsourcing is not attractive either to NMG or to the third party due to the likely exorbitant costs, inherent risks and the need to have direct control over the distribution chain. This brief background enables one to appreciate why NMG has chosen to maintain its own distribution fleet vis-à-vis outsourcing this function.

4.1.8 High Fixed Costs and Low Variable Costs in Newspaper Distribution

The Nation Media Group formed a division called The Nation Carriers Division whose core business was to provide transport and distribution services for its local dailies, to the editorial division of the group-Nation Newspaper Division. At the time, the division ran 2 main departments; The Operations department that did route scheduling and transport

logistics and Workshop department that maintained the distribution fleet. Nation Carriers went ahead to register its own private fleets to distribute the local dailies. By maintaining its private fleet, one of the issues that came up in the study, was the characteristic of the distribution division as having substantially high fixed costs and only a small proportion of variable costs. Fixed costs include the cost of the vehicles themselves, salaries for permanent staff (drivers and distribution assistants), fuel, tires, fleet management software and annual insurance. Variable costs on the other hand include short term leasing (when fleet was short due to breakdowns), maintenance, casual wages, and municipality permits. Costs such as support staff, driver uniforms, training, log books, meals, and lodging were not overlooked. The fixed costs are those that did not vary with the volume of distribution.

The study found that the reasons for such a high proportion of fixed costs vis-à-vis variable costs was because of the fixed schedule of delivery. All resources were fully engaged daily regardless of the print order. This means that the same number of vehicles was dispatched each night regardless and the same amount of fuel was dispensed daily and the same number of drivers and loaders were at work each day despite the volume of circulation. This fixed schedule was what made most costs which would ordinarily be variable to become fixed in this case.

When all these costs are aggregated within a specified time period e.g. a month, and then expressed as a fraction of the total kilometers covered within the same time period, the resulting static is referred to as Cost Per Kilometer (CPK). This statistic is then measured against the acceptable industry average or against the best practice standard, usually set by the Automobile Association of Kenya (AA). In 2006, the AA standard CPK for a one ton vehicle stood at Ksh.30. Within the same year, Nation Carriers Division was averaging a CPK of Ksh 37. This was a good reason for management to review the distribution chain for areas of cost saving or value addition to bring the CPK standing down to acceptable levels.

4.2 Rationale for using Idle Capacity to run an Alternative Business

4.2.1 Analysis of Available Capacity before Diversification

By NMG running a private fleet, it manages its extremely risky distribution model, while ensuring transportation availability during peak circulation periods. Security, regulatory concerns and ensuring the availability of sufficient capacity have thus been the key reasons behind ownership of a private fleet. According to fleet records of 2008, Nation Media Group had a fleet of 38 motor vehicles consisting of ½ ton and 1 ton pickups. Their aggregate one way carrying capacity was in excess of 38,000 kilogrammes (38 tons). Altogether the fleet covered round trip distances (Nairobi-Destination-Nairobi) of close to 15,000 kilometers every 24 hours, everyday of the year except for Christmas day. There were also 93 permanent staff on various routes each day of the year. The establishment of the fleet and staff looked like this.

Table 1: Fleet and Permanent Staff Establishment and Daily Mileage

ROUTES	NO.OF VEHICLES	NO.OF STAFF	KILOMETERS COVERED (RETURN TRIP)
COAST ROUTE			
MOMBASA/MALINDI	1	2	1,300
MOMBASA EXPRESS	1	2	1,000
MOMBASA DROP	1	2	1,056
VOI	1	2	660
NAMANGA	1	2	320
WESTERN ROUTE			
HOMABAY	1	2	662
KISII	1	2	941
KAKAMEGA	1	2	950
KISUMU / BUSIA	1	2	894
KISUMU / SIAYA	1	2	894

ROUTES	NO.OF VEHICLES	NO.OF STAFF	KILOMETERS COVERED (RETURN TRIP)
ELDORET / KITALE	1	2	945
ELDORET / MALABA	1	2	943
EASTERN ROUTE			
EMBU /MERU	1	2	646
MACHAKOS	1	2	150
KANGUNDO 1 & 2	1	3	225
CENTRAL ROUTE			
MURANGA	1	2	254
KARATINA	1	2	295
NAKURU –MOLO	1	2	544
NAKURU	1	2	462
GILGIL	1	2	393
MAI – MAHIU	1	2	240
THIKA EXPRESS	1	2	120
THIKA DROP	1	3	120
FLY OVER (Njabini)	1	2	240
KAMITI	1	2	75
KIKUYU	1	2	169
CBD 1	1	3	80
CBD 2	1	3	73
CBD 3	1	3	72
CBD 4	1	3	69
KAGWE	1	2	225
NGONG	1	2	150
NGONG / KISERIAN	1	2	151
EASTLANS 1 & 2	1	3	75
KAWANGWARE	1	2	40
VENDER VAN 1	1	3	40
VENDER VAN 2	1	3	40
SUBSCRIPTION	1	2	116
TOTAL	**38**	**93**	**14,525**

4.2.2 Analysis of Idle Capacity before Diversification (Empty Miles)

'Empty miles' is defined as the distance that a commercial vehicle travels without carrying any load. Usually, this happens on the return trip after a delivery. The longer the one-way length of haul, the greater the empty mileage ("White Paper on Backhaul Networking" 2008). Empty miles create tremendous exposure but at the same time create tremendous opportunity for a hauler. From the findings of the study it was revealed that, Empty miles was a phenomenon that existed in NCD in all the years that the Division has been in operation.

The analysis in table 1 above revealed that though Nation's private fleet supported very well peak demand, at any time, with the exception of the small amount of the allowed returns, there were 7,000 idle kilometers, 45 idle staff (loaders), and approximately 40 idle tons on each return journey. Computed at the AA standard Cost Per Kilometer of 30Ksh/Km, the cost of this 'empty miles' per day was Ksh. 210,000. In a month, this cost was valued at Ksh. 6.3 Million.

The problem of empty miles was first brought up by the Operations Manager at Nation Carriers. But the problem did not present itself initially as explicitly as analyzed above that but rather it manifested itself by way of numerous cases of vehicles carrying goods and passengers illegally and against company policy on their way back from deliveries. It slowly emerged that the reason behind this rampant abuse of vehicles was the obvious idle capacity. The idea that this idle capacity could be taken up strategically for the benefit of the Division thus became the rationale for considering an alternative strategy to utilize this idle capacity in a way that was beneficial to the group.

4.3 Establishing the Viability of the Alternative Business Line

The study found that, as a matter of Nation Media Policy, any new product was an item to be approved at board level. One consideration by management of dealing with the idle capacity as reflected in the cost of empty miles was to offer back haul services of a courier nature. This idea was tabled at board level before an approval was given. The study found that many factors were put into consideration in arriving at the decision to

enter into the courier business as an unrelated diversification strategy to take up the empty miles and the spare capacity. The process began with an identification of which costs were relevant and which ones were irrelevant. The analysis is presented in table 2 below.

Table 2: Incremental cost analysis

COST	RELEVANT	IRRELEVANT	SEMI-RELEVANT	REMARKS
Fuel			✓	Will vary slightly due to return weight
Driver salaries		✓		
Loader wages		✓		
Bank charges	✓			
Tagging & packaging material	✓			
Insurance	✓			
Licenses	✓			
Advertising	✓			
Customer care	✓			
Wear & Tear			✓	Will vary slightly due to return load
Bad debts	✓			
Depreciation		✓		
Fleet management system		✓		
Weighing scales	✓			
Stationery	✓			

The study found (as presented in Table 2 above), that the key justification tabled to the board for the new Courier business were the minimal entry costs. The justification tabled that there was not going to be any purchase of additional vehicles, there was absolutely no need to redesign the routes previously used neither modify the scheduling of vehicles, there was no need to build additional offices upcountry to handle the new business and

lastly, there was no need to employ additional drivers or loaders. The existing vehicles, drivers and loaders, routes, schedules and distributor premises were more than sufficient for the startup.

Tabled before the board however were some cost requirements. There was need to re-brand some of the newspaper drop-off points more specifically at major distributors', to act as advertisement for the new additional business line. It also showed there would be a cost of employing a Courier Manager and other Courier support staff. There would also be an incremental cost of training the existing territory managers about handling the new product. Together with that, there would also be an agency cost if the existing distributor's and retail outlets were going to accept to take up the extra role of being the collectors and custodian's of the parcels until the vans arrived in the morning. There was also an additional requirement for appropriate licensing, separate incorporation as Nation Courier Ltd. and uniquely branded stationery for use by the new business line but under the main brand 'Nation'. There was also, as presented in table 1 above, an expectation that fuel costs would rise slightly as well as wear and tear costs. The incremental costs identified in Table 1 needed to be carefully and realistically estimated and it needed to be proved that these costs were not going to outweigh the expected incremental revenue.

Financial analysis and market research findings presented to the board also considered the time value of money. They presented an estimated income budget, which calculated the net cash inflows (cash inflows minus cash outflows for the life of the investment) and discounted them, using the company's minimum acceptable rate of return on new investments. The sum of these discounted cash flows was then compared with the initial capital requirements to determine if the investment is financially sound in terms of payback period and rate of return on investment. These were also other factors considered, for instance, corporate image, competition, effect on employees and unions, management skills required to develop and control the system, potential for growth and corporate policies regarding nature of business. The shareholder's willingness to assume the risk associated with the new business was ranked high at the decision table. In mid 1999 the board gave its approval for the establishment of the Nation Courier Ltd.

4.4 The creation of Nation Courier (K) Ltd.

Nation Courier (K) Ltd was incorporated in 1999. It was incorporated as a subsidiary of the Nation Media Group Limited through its transport division (Nation Carriers Division). It received its ISO 9001:2000 certification in 2005. Subsequently is became a members of CIAK- the Association Courier companies in Kenya. The set up of Nation Courier constituted unrelated diversification. What stood out in this use of unrelated diversification strategy is how the new business model was strategically deigned to map 100% onto the newspaper distribution model. The degree of ingeniousness seen in this strategy cannot be over emphasized. The new business, while adding value to the group did not disrupt the newspaper distribution model one bit. Its ability to piggy-back on the newspaper business without disrupting it, while taking up the idle capacity and raking in millions of shilling and minimal incremental costs was what makes Nation Courier business as an unrelated business a classic case.

The delivery vans left the printing plant location at the same time as they did before the courier service. They went making their drops as they did along the designated route before the courier business. What made all the difference was, rather than drive right through the route on the way back, they re-traced their drop points and in certain designated drop points, they now stopped to pick up parcels and documents which had been collected, packaged, tagged and recorded the previous day. In the end, the vehicle was packed with 3rd party courier items. These parcels were then dropped at a central location in the heart of the Nairobi's CBD for collection by the registered consignees. This is basically the model adopted by the Nation Courier Business.

4.5 Performance of Nation Courier Business

Table 3: Sales Profile: Nation Courier vis-à-vis Total Carriers Division Revenue

YEAR	REVENUE FROM NEWSPAPER TRANSPORT	REVENUE FROM COURIER BUSINESS	CONTRIBUTION TO TOTAL DIVISION'S REVENEW
2004	169,117,000	47,990,000	22%
2005	189,560,000	54,799,000	22%
2006	182,137,000	64,239,000	26%
2007	185,337,000	71,504,000	28%
2008	189,968,000	77,348,000	29%

Table 4: Cost Profile: Nation Courier vis-à-vis Total Division Costs

YEAR	COSTS FOR THE NEWSPAPER TRANSPORT	COSTS FOR THE COURIER BUSINESS	PERCENTAGE OF COURIER COSTS TO DIVISION COSTS
2004	114,999,000	37.949,000	25%
2005	128,900,000	43,826,000	24%
2006	123,853,000	42,110,000	25%
2007	128,394,000	38, 596,000	26%
2008	125,475,000	41,783,000	25%

Table 3 and 4 above shows that as a business, the Courier Company has given substantial contribution to the Division as a whole from the incremental revenue, averaging at about 25% for the 5 years between 2004 and 2008. At the same time, there have been incremental costs averaging about 25% of the total Division costs over the same period.

The gross margin for the business over the 5 years from 2004 to 2008 averaged 32%. This shows that the unrelated diversification strategy in this case, has yielded a clear financial gain from this basic analysis.

Table 5: Market Information/ Share Analysis of competing firms: 2005

Company	Market Share	Monthly Turnover
Securicor (G4S)	37.92%	45.50M
Akamba	9.25%	11.10M
EMS	8.58%	10.30M
Silver Star	7.50%	9.00M
Roy	7.08%	8.50M
Nation Courier	3.08%	4.50M
Wells Fargo Courier	5.25%	5.90M
Others/Bus and Parcels company-	21.33%	25.60M
Total	100 %	120.0M

Table 4 above shows the market reports of year 2005. It put the total local courier business in Kenya at Kshs. 120 Million monthly. G4S Courier attracted the highest turnover with Kshs.45 million monthly. Akamba was second highest with a turnover of Kshs. 11.1 million monthly. Nation Courier Services in the same year commanded a monthly turnover of 4.5 million. This represented 3.08% of total monthly industry revenue, a very significant market share to a company for which Courier is not it core business.

4.6 Competitive Strategies Adopted by Nation Courier Business

Achieving a competitive advantage over within your chosen industry sector relies upon developing a strategy that will differentiate your business in the minds of the consumer. This differentiation can be targeted at cost/price reduction, quality and product superiority or customer service. Competitiveness depends on the ability of firms to anticipate and meet buyer demands, take advantage of end-market opportunities, and respond to or influence changes in market demand. An organization can enhance its ability to compete by improving product differentiation, operations or branding. A

company can gain competitive advantage if it delivers products or services at a lower cost or higher quality than its competitors, or when it has unique characteristics that cannot easily be replicated elsewhere.

According to Porter (1980), the essence of formulating competitive strategy is relating a company to its environment. He observes that the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economic structure and goes well beyond the behavior of current competitors. The findings shed light on the Nation Courier's aspiration to position itself within a fierce competitive environment. It is against this backdrop that this study sought to investigate and establish the competitive strategies adopted by the Nation Courier as it grapples with the challenges presented by the ever-turbulent, dynamic and chaotic competitive environment.

4.6.1 Cost Leadership Strategy

According to Porter (1980), cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions initiatives, and tight cost control in various functions. Nation Courier pursues this strategy through annual budgeting process where budgetary needs for the year are scrutinized. This process is vigorous and leaves no room for wastage of financial resources. The study also revealed that, each department i.e. Operations and maintenance etc. puts in a number of measures to ensure high levels and effectiveness and cost savings at the beginning of each year and these are tracked throughout the year.

4.6.2 Differentiation strategy

In order to distinguish itself from its parent company as well as other players in the market, The Nation Courier Company set out to write its own mission statement to be the courier of choice that offered a high level of practical experience, know-how, and an extensive network. Also as being one-stop shop for logistical solutions countrywide at the highest quality service possible. The findings of the study have revealed that the Nation

Courier has adopted a number of competitive strategies in its bid to gain a competitive edge in the market. Respondents were asked to describe the competitive environment It was established the environment is one which is highly volatile and with many participants, hence presenting enormous challenges. However, through their specific strategies and/or action programs, the divisions and/or departments, they have been able to place Nation Courier at a competitive advantage. In order to differentiate themselves and their products, Nation Carrier has a clear Value proposition, a clear positioning statement and clearly differentiated services.

Service Products

- **Overnight Nation Courier Service Door to Door**

  Nation Courier offers overnight express door to door service, collecting and delivering mails and parcels for corporate organizations, private firms and individuals to all parts of the country. It operates seven days a week including public holidays.

- **Dedicated courier services**

  The customer hires the service on dedicated terms to facilitate delivery of mails and parcels on monthly basis. For this, the vehicle goes via the client's premises as opposed to the client dropping off his consignment at the local office for collection.

- **Same Day Intra-City Service**

  All items collected from clients are delivered within the same day. The vehicle collects the items within a certain town and drops them within the same town, then proceeds to Nairobi.

The differentiated products place NMG at a competitive advantage It was also established that the company has unique and distinctive competencies which place it at a better competitive edge in executing its strategies.

4.7 Discussion of findings

Unlike other courier companies that have their core business as strictly that, Nation Courier has some unique advantages that have contributed to its growth. It's very existence as a product of strategic thinking has played the biggest role in placing it at an advantage over other companies. Being that only a certain proportion of total division costs is attributed to courier, it makes very lean its cost structure. It is able to ride on the back of Newspaper distribution thereby absorbing very limited costs, which has aided in its cost leadership strategy explored in the previous section. The other factor is the extremely aggressive distribution model borne of the original newspaper distribution model. Newspapers in general have an extremely intricate distribution model designed to get the product to the most remote part of the country. This in turn has enabled the Nation Courier service to pick parcels from the deepest parts of our country thereby raising its popularity, contributing to its success. The third factor is the fact that Newspapers keep a very strict time schedule. The importance of arrival times in a newspaper company cannot be emphasized enough. Nation Newspapers in particular have a 'First to Market' strategy, essentially meaning they are always first in the market before any other newspapers in the market. By extension, the Courier service follows the same strict schedules thereby increasing reliability of the brand and subsequently its popularity and success. Nation newspaper's reputation of being a truthful paper has also been a major strength behind the Courier Company. This strength has been passed on to its other ventures, TV, Radio and Courier has not been left out either. This is due to the reputation spillover effect.

The findings of the study reveal that the business adopted various competitive strategies which are in tandem with the different markets in which it operates. Therefore, in discussing the findings of the study, reference must be made to the renown competitive strategies advanced by various authors, key among them Porter (1980); Pearce and Robinson (1997), Ansoff (1990) among others. Its cost leadership strategy has been made possible because of certain elements being absent within other firms in the same industry. These elements include the fact that, its costs are heavily discounted by the core business of newspaper transportation. Only a proportion of fuel, maintenance, depreciation, staff

& administrative costs are allocated to Courier. This is one of the greatest advantages the business has and if used strategically can greatly be use to enhance the market share and revenues.

The Strategy of unrelated diversification involves diversifying into whatever industries and businesses that hold the promise for attractive financial gain, pursuing strategic fit relationships that assume a back-seat role. In unrelated diversification, the corporate strategy is to diversify into any industry where top management spots a good profit opportunity (Bright, 1969). Unrelated diversification has the following appeal from several financial angles: business risk is scattered over a variety of industries, making the company less dependent on any one business (Dowling, 1994). While the same can be said for related diversification, unrelated diversification places no restraint on how risk is spread. Capital resources can be invested in whatever industries offer the best profit prospects. Corporate financial resources are thus employed to maximum advantage; Company profitability is somewhat more stable because hard times in one industry may be partially offset by good times in another. Ideally, cynical downswings in some of the company's businesses are counter balanced by cynical upswings in other businesses the company has diversified into and shareholders wealth can be enhanced.

Opinions differ greatly regarding the merits of unrelated diversification. Four merits have been used to justify unrelated diversification and its effect on corporate performance. One is risk reduction; by spreading investments across several industries a firm is subject to less risk and cash flow is more stable over time. Second justification is economies in corporate services; even where there are no operational linkages between businesses, there may be opportunities for cost savings through pooling common services with the diversified company (Gillan et al; 2000). Third is economizing on transaction costs within the diversified company. Lastly is the issue of exploiting inefficiencies in value chain or in the various key processes within an organization. Diversified companies are characterized by the active way in which they exploit available resources. All the above arguments point to an enhanced bottom line as the main advantages associated with unrelated diversification.

The Findings in the case of Nation Courier Limited's performance support rather than contradicts substantially this theory and the merits given. The positive outcome in terms of financial performance shows that unrelated diversification works and has clear gains. While entry into an unrelated business can often pass the attractiveness and cost-of-entry test, unrelated diversification has in theory been found to have drawbacks: It is seen as placing on corporate-level management a higher responsibility to make sound decisions about fundamentally different businesses operating in fundamentally different industry and competitive environments (Marlin et al, 2004). In theory, the greater the number of businesses a company is in and more diverse they are, the harder it is for corporate managers to oversee each subsidiary and spot problems early. The findings in the case of Nation Courier Limited, contradicts this assumption. In this study, the Courier revenue increased year on year as so did the newspaper circulation revenues. There was no evidence of any difficulty in the simultaneous management of the two businesses. Both were ran in an efficient way and were both gainful from an economic point of view.

Another drawback sited against unrelated diversification is its impact on corporate image via the reputation spillover effect in case the new business did not perform as well as the core business. In this study, there was no evidence that any negative perceptions that may have occurred in regards to then courier business affected in any way the perception of other core products within the group. Newspaper sales continued to grow as well as TV and radio businesses. However, the reputation spill over theory was evident in the way that the courier business picked up. The off take of the new business strongly indicate that there was an element of the umbrella branding that affected positively the courier business. This then means that there is a possibility of the converse occurring, even though that did not emerge in this study.

Other perceived benefits since the strategic uptake of empty miles are; Reduced abuse and misuse of empty vehicles on the return trips, reduced road accidents, Increased brand awareness among customers, Increased revenue for the division and group as a whole.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

As has been shown in all the preceding sections, the uptake of idle capacity can greatly influence growth of a business by bringing in extra revenue and saving on costs. The discussion has moved forward from the issues of Capacity management, its complexity, Occurrence of idle capacity and finally to recognizing that idle capacity in itself is a resource. Due consideration should be made of the relationship between idle capacity and unrelated diversification. NMG has identified the existence of “a Market for its idle capacity” by way of Courier. How a firm is organized and how it uses its resources and capabilities to create unique products or services determines its ability to create excellent value for its customers and higher profits for itself.

5.2 Conclusion

This research does tell us that growth can be achieved from an existing value chain. The potential for growth comes from two sources. First, generation of incremental income and secondly reducing on costs. It shows the true benefit of Value Chain Analysis. Value chain analysis is a process for understanding the systemic factors and conditions under which a value chain and its firms can achieve higher levels of performance. When using value chains as a means for fostering growth, the analysis focuses on identifying ways to contribute to two objectives: i) Saving costs within the chain and ii) expanding the depth and breadth of benefits generated. Whichever way, there are massive benefits of analyzing the value chain from end to end.

5.3 Limitations of the Study

During the process of literature review, it became apparent however that there is a definite lack of statistical data as relates to idle capacity usage within firms both in Kenya and outside Kenya. Its led to the conclusion that either organizations have not taken the time to quantify their existing idle capacity , if any, or if they somehow utilize it, then

they have not done it as a separate business line. There may well be other examples of good practice of taking up idle capacity available but which did not reveal themselves during the research phase due to lack of deliberate documentation of the same.

5.4 Recommendations

Nation Courier has so much potential in the market well earned by the parent company. It then should ride on this goodwill to go fully operational as its own stand alone business and enhance their business prospects within the region and overseas. Since courier is not part of the core business of the Nation Carriers Division, there is need to justify its existence by building a business case making it a separate entity and a section on its own. To achieve this unitary status, there are certain elements of the business that need to be scrutinized and improved on

5.4.1 Business Process Improvement

There is the need to come up with strategies and objectives that will ensure not only minimization of costs each year and a renewed focus on quality and efficiency services that can effectively be monitored and value quantified. The processes should be based on 'best practice' among leading courier operators in the region.

5.4.2 Learning and Growth

There is need for a major consideration in performance improvement involving creation and use of performance measures or indicators such as deadlines in delivery process benchmarked against courier companies that do not 'piggy back' on newspaper or other product delivery.

5.4.3 Customer Focus

A comprehensive set of performance indicators tied to learning and growth with a key focus to customers. Focus should not only be on the incremental revenue of carrying parcels but on the actual clients being served. Some of the elements of customer focus include; improved customer satisfaction and; Reduced returned parcels due to wrong addresses.

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APPENDIX 1:

INTERVIEW GUIDE

1) **How much idle capacity existed in terms of 'empty miles' before the introduction of the nation courier and what were the cost implication per kilometer of these empty miles?**

2) **How was the decision to start Nation Courier Business arrived at? Was it a board level decision?**

3) **Was a market research done prior to the introduction of this service and if so what were the findings?**

4) **Why did you decide to diversify specifically into courier as opposed to any other?**

5) **What has been the Financial Impact from this business-line?**

6) **What have been the other benefits accrued since the strategic uptake of the idle capacity other than those mentioned specifically?**

7) **What is Nation Media doing to increase the competitiveness of the Courier Business?**

8) **If that decision were to be made today given the experience, would it be in any way different.**

9) **Generally is the organization happy with this strategy?**

Thank you