COMPETITIVE STRATEGIES ADOPTED BY THE MEDIA INDUSTRY:
A CASE STUDY OF MEDIAMAX NETWORK LIMITED

BY

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DECLARATION

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

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

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DEDICATION

This research project is dedicated to my Husband William and sons Melvis, Charles and Alex, for their commitment and support during the tough times I had to juggle between work, family and study.
ACKNOWLEDGEMENTS

I thank the Almighty God for seeing me through the entire period of my studies. My gratitude goes to my university supervisor Dr. W. Gakuru and moderator Z.B. Awino, for giving me guidance and focus on how to go about the research project. Also acknowledged are all my lecturers at the School of Business who imparted great knowledge and insight into my life.

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LIST OF ABBREVIATIONS

CNBC – Cable News Broadcasting Corporation

FM – Frequency Modulation

FTA – Free to Air

KBC – Kenya Broadcasting Corporation

K24 – Kenya 24

KTN – Kenya Television Network

NTV – Nation Television

TV – Television
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ABSTRACT

The media industry in Kenya is presented with dynamic changes that affect the state of competition in the industry. The degree of competition is manifested not only amongst the industry players, but also in the form of potential new entrants, customers, suppliers and substitute products. There are also other issues that affect the industry such as; liberalization, greater freedom of speech, higher literacy levels, political issues and the ever growing entertainment industry. All these have led to an increase in demand of high quality products and services.

The objectives of the study were to determine the extent of competition faced by Mediamax Network Limited and to establish the competitive strategies adopted to cope with the challenges of competition from the other media houses. The research design was a case study, and it was the most appropriate as the researcher was looking for in-depth information on the variables the media house uses to achieve its set objectives. The design provided insights into the research problem by describing the variables of interest in detail. The respondents were selected across the management level, as the researcher needed key people who had the necessary information that were in line with the objectives of the study.

The research established that in terms of TV broadcasting, Mediamax faces competition from four key stations; KTN, NTV, Citizen and to some extent KBC. In Vernacular FM radio, the main competitors are two FM stations: Inooro FM and Coro FM. The daily newsprint People daily has been their biggest problem as it still trails behind the other three dailies; The Daily Nation, The East African Standard and the Star. The level of competition is determined mostly by the type of programmes and content offered and the geographical coverage of the media house. The extent of competition for Mediamax includes, competition for content, advertising revenue and sales for newsprint. The competitors are Free to air TV channels, Pay TV channels, Radio, Newsprint, Internet and Mobile telephony. Mediamax employs low cost leadership as a competitive strategy in radio and print media, and a differentiation strategy in their free to air TV and Pay TV stations. They use their high technology and marketing strength to offer products and services to different market segments.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations exist as open systems that are in continuous interaction with the environment in which they operate. All organizations operate in an environment that is highly dynamic, turbulent and unpredictable. This ever changing environment continuously presents opportunities as well as challenges to an organization. Firms, therefore, need to develop capabilities to manage the threats, and also fully exploit the emerging opportunities promptly. One of the challenges presented by a dynamic environment is increased competition. It is, therefore, necessary for a firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1985).

The essence of strategy is highlighted by Judge and Zeithmal (1990) who stipulate that strategy is a learning action, a behavioral, holistic and continuous process. Pearce and Robinson (2003) concludes that the definition of strategy is a reflection of a company's awareness of how to compete, against whom, when, where, and for what. Many Kenyan companies have adopted several strategies when dealing with challenges that are brought about by globalization and liberalization. For instance KBC (Channel 1) provides unique programmes that focus on current affairs information, education and entertainment, K24 offers a 24-hour channel that is geared to promoting local content (Synovate Media Report, 2009). Many companies have resulted in forming mergers, alliances, acquisitions or partnerships as current strategies to gain competitive edge over their rivals. Threats to a typical media house emerges from the fact that protection of traditional markets, previously created by regulation and bilateralism is quickly dwindling, and new entrants into the market have become forces to reckon with. Profitability over the long term is paramount to a firm's sustainability, and thus the need to formulate appropriate strategies.
1.1.1 Competitive Strategies

Competitive strategies comprise of all those moves that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Strickland, 2002). It concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1985) argues that strategy is about seeking a competitive edge over rivals while slowing the erosion of present advantages. Few advantages can be sustained indefinitely, for time eventually renders them obsolete. Strategy serves as a guide to the organization on what it is trying to do and to achieve (Johnson and Scholes, 1999). According to Johnson and Scholes (1999), strategy helps to position a firm in the wider external environment. It also defines the obligation of the firm to its stakeholders. Strategy therefore helps to define the specific business of the firm in terms of products, market and geographical scope.

All successful strategies have some common elements. They are based on simple, consistent and long term objectives. They are also based on a profound understanding of the competitive environment and objective appraisal of available resources (Grant, 1998). According to Porter (1980), there are three approaches to competitive strategy; One is striving to be the overall low cost producer, therefore being a cost leader, another is seeking to differentiate ones product offering from that of one’s competing rivals, which is differentiation strategy, while the third involves focus on a narrow portion of the market, which is the focus or niche strategy.

Firms need competitive strategies to enable them overcome the competitive challenges they experience in the environment where they operate. A competitive strategy therefore enables a firm to gain competitive advantage over its rivals and sustain its success in the market. A firm that does not have appropriate strategies cannot exploit the opportunities available in the market and eventually fails. A competitive strategy is therefore a critical factor for success in any market, and a firm’s management needs to craft it carefully to ensure a proper fit within the environment in which it is operating. Assessing a firm’s competitive position improves its chances of designing strategies that optimize its environmental opportunities. Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the
many discreet activities a firm performs in designing, producing, marketing, delivery and supporting its product or services. Value chain analysis is one of the systematic ways of analyzing the sources of competitive advantage. The value chain disaggregates a firm into its strategically relevant activities, in order to understand the behaviour of costs and the potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors (Porter, 1985).

In a competitive environment Porter (1980) notes that the essence of formulating competitive strategy is relating an organization 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 behaviour of current competitors. In a dynamic environment Ansoff (1987) asserts that competition has forced many companies to change their strategies and tactics in order to achieve their objectives and maintain their competitive advantage. The coming up of global competition has led to creation of opportunities for many multi-national corporations. The usefulness of strategy was equally entrenched further by Aosa (1992) in his argument that strategy is of value to managers when dealing with problems that are potential to their companies.

1.1.2 Overview of the Kenyan Media Industry

An industry is defined as a group of firms that offer products that are close substitutes of each other to a market (Porter, 1980; Kotler, 1998). A media house refers to a company that is in the business of electronic media (such as television stations or radio Stations) or of print media (such as newspapers or magazines). The media industry in Kenya dates back to 1920, during the British colonial government rule in Kenya. The first radio English service station started in 1928 and the main target market was the white settlers who watched the news from their homes. VOK now KBC was established in 1964 by an act of Parliament. It being a state corporation, it enjoyed monopoly status for over three decades. Liberalization of airwaves in the 90’s saw the licensing of more broadcast stations thus introducing competition in the industry. Radio has grown from 3 stations in 1990 to 140 in 2010. There are 18 fully
operational TV stations (though the registered companies are 58) and five major daily newspapers. Other than increased competition, the industry has undergone changes of political, social, economic and technological nature. Competition is much more intense in TV because most stations have a similar product offering. The media industry in Kenya still lacks clear guidelines on issuance of licences and provision of legal parameters within which the stations need to operate. Currently there is a pending media bill that is supposed to give clear policy guidelines and possibly consider provision for an independent media regulatory body. According to the Kenya Communication Act 2, 1998 Section 88 part 1, the dominance and monopoly of KBC ended with the coming up of liberalization of the airwaves, thus regulation of media houses has since changed. The fundamental regulatory functions, supervision and endorsement of broadcasting that used to be under the control of KBC have now been transferred to CCK. These changes have in turn created a fertile ground for competition, and these calls for managers and other stakeholders to come up with strategies that will help survive the stiff competition.

The strategies crafted should aim to satisfy the needs and wants of customers. Another new pattern that is emerging is the cross-media ownership. This is where a media house owns different types of media businesses like radio, television, news print daily and so on. Mediamax is one of such companies that operate in the cross-media ownership business. The restrictive trade practices, monopolies and price controls (Laws of Kenya, Cap 504) of 1996 considers monopolistic tendencies undesirables since it makes it possible for a company to take exclusive control of information. Without a mechanism to check media excesses it would be dangerous and inconsistent to the spirit of political pluralism and democracy. All the same, it is extremely necessary to recognize the synergistic returns and the operational economies of scale arising from cross media operations.
1.1.3 Mediamax Network Limited

Mediamax Network Limited is a new entrant and a leading multimedia house in the East African Region. The company comprises of two Television channels; K24 which is a 24 hour news channel, STV which is a Pay Television channel, Kameme FM vernacular radio station and the People daily newspaper. The company operates both print and electronic media. The company was formed as a result of an acquisition by TV Africa Holdings in October 2007, which saw the acquisition of Regional Reach Network that owned Kameme FM radio station and K24 Television station, The People daily Newspaper owned by Kalamka Holdings and STV Pay Television which had South African ownership. TV Africa acquired all the four businesses and formed the Mediamax Network Limited.

The radio station Kameme FM aims to educate, inform and entertain while pursuing a spirit of creativity and the highest level of professionalism. The radio station encourages the pursuit, respect and development of Kenyan culture, highlighting Kikuyu, Embu and Meru cultures in particular and the African culture in general. The Kikuyu speaking people account for 38 percent of the population of Nairobi City and 65 percent of the population of Greater Nairobi. The estimated population of Greater Nairobi area is 6 million people, which gives Kameme FM radio a potential audience of 3.9 million people. K24 is a 24 hour news station that provides programming with 100 percent African content. It aims at providing timely news reports and programmes, and targets the wider national and regional audience. It broadcasts its programmes in the English and Kiswahili language, and its programming content covers the East African Region. STV is a Pay Television channel and its main target is the up market urban class audience. Its products and services are highly priced and its programming content covers mostly international content. The People daily newspaper is sold countrywide and also covers local as well as regional matters. Mediamax’s core target audience is age group 25 - 45 years male and female, in the middle income socio-economic classes. Although relatively westernized in taste and life style, they are keenly interested in learning more about their culture and language. They are in formal or informal employment or are self-employed. They are based in the urban and semi-urban areas and are regular purchasers of fast moving consumer
goods and other household products. The secondary target audience is based in the rural areas in the country.

1.2 Statement of the Research Problem

Firms respond to competition in different ways. Some may opt to move into product improvements, some into diversification and divesture, while others enter into new markets, others merge or buy out competitors. Porter (1980) postulates that, the essence of strategy formulation is coping with competition. Porter (1985) asserts that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead. Competitive strategy is therefore vital to the adaptation of an organization to the changing environment.

Mediamax market share is under threat from competition offering substitute products. This competition is not just in the product offering and advertising revenue, but competition for human capital as well. There are too many stations chasing very few talented presenters and programme hosts. It is therefore important to study how Mediamax has responded to these competitive pressures. The media industry in Kenya has in the past years witnessed phenomenal growth, and this was brought about by liberalization of the media waves and new media friendly government policies. To maximize on the market opportunities, most media houses have had to be flexible in their business strategies in reaction to the market signals. Competition has been very intense, leading to firms employing different competitive strategies in order to remain competitive. The media industry in Kenya faces common challenges such as stringent government policies, for example the media bill which seeks to curtail the media freedom currently enjoyed in the country. There also has been an upsurge in the number of players entering the market, all due to the government’s relaxation of conditions and rules for acquiring licences for both print and electronic media and also due to the growing advertising opportunities available in the country. The industry is thriving in competition and it is imperative that the players change their operational strategies, in order to gain a competitive edge over their rivals.

The media houses play a central role in the country’s social economic development by linking the people together to share information that is geared towards economic growth. Mediamax is an independent media player in Kenya, whose key operations
are supported by advertising revenue and sales of the newspaper print. Its continued presence as a key player depends a lot on its profitability. The profitability is threatened by strategic moves by competitors. In Kenya, various studies have been conducted on competitive strategies firms adopt in response to different challenges. Although research has been done on the media houses, none seems focused on competitive strategies adopted by specific media houses. Previous researches have been carried out on various sectors of the economy; however these studies were done under totally different contexts.

Sang (2001) focused on competitive intelligence by radio FM stations and his study exclusively looked at the FM radio stations only, but did not touch on other media segments like TV, newsprint, internet and mobile telephony. His study also only focused on competitive intelligence which is a one of the tactics in gaining competitive advantage over rivals, but did not look at other competitive strategies adopted by the specific media houses. Njau (2001) focused on East African Breweries Limited facing competitive conditions and identified the strategic responses the company uses to compete, thus this study is useful in the beer industry, but can not be used to fully represent the competitive strategies in the media industry or a specific media house like Mediamax . Thuo (2002) carried out a study on diversification strategy of Nation Media Group, which looks at the different ways the company uses to broaden their market segments and diversify their risks. This research though of a media house, looked at only one example of a competitive strategy, which is diversification, and lacks in content as it covered only one aspect of competitive strategies adopted by a media house. Mbuthia (2003) focused on advertising agencies and their response strategies to competition, and thus lacks the breadth of information required in analyzing competitive strategies adopted by media houses. Kiptugen (2003) shows the effects of environmental changes in petroleum industry, and this research only focuses its scope to environmental changes affecting the petroleum industry and whose context cannot be applied to the media industry, and specific media houses. Kaburu (2008) looks at the effect of market strategies on financial performance to media houses and his study mainly looks at whether effective strategies always lead excellent financial performance, thus the study does not look at the competitive strategies adopted by specific media houses. None of these studies
have tackled in totality the issue of competitive strategies the company Mediamax Network Limited has adopted to contend with the competitive forces affecting it.

This research aims at looking at the various competitive strategies adopted by Mediamax in its bid to successfully compete with other big media houses in Kenya like, Royal Media Service, The Standard Group and The Nation Media Group. The researcher is unaware of any study on competitive strategies adopted by Mediamax, and that is why this study needs to be conducted to fill this information gap, since competitive strategies employed in one industry need not be the same in another industry. It is in this light that the research seeks to carry out this investigation in this area of study and answer the question: What competitive strategies does Mediamax adopt to cope with competition in the Kenyan media industry?

1.3 The Research Objectives

The research study has two main objectives.

   i. To establish the competitive strategies adopted by Mediamax to cope with increased competition in the media industry in Kenya.

   ii. To identify the extent of competition Mediamax faces in the Kenyan media industry.
1.4 Value of The Study

The study will be of importance to the following:

The management of Mediamax and other media houses
The study aims to provide information concerning the general state of competition in the media houses and will assist the managers in understanding better, the kind of competitive strategies they will need to adopt in order to be successful. The study also aims to promote the managers thinking in response to competition and will be valuable in helping them assess their competitive strategies, thus re-evaluate their competitive position.

Investors and potential entrepreneurs
Those intending to venture into the media business will find this study important as it will guide them in understanding the challenges facing the media houses already operating, and therefore prepare them accordingly before venturing into the industry.

AcademiCians/Scholars
The study will form a basis upon which further research may be carried out, to build and bridge the knowledge gap on competitive strategies adopted by different media houses. It will also be useful as a reference to current and potential scholars as they carry out further and related research.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Competitive strategy comprises of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Strickland, 2002). It concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) asserts that there are three approaches to competitive strategy. One is striving to be the overall low cost provider, therefore being a cost leader. Another is seeking to differentiate one’s product offering from that of rivals, which is the differentiation strategy, while the third involves focusing on a narrow portion of the market, which is the focus or niche strategy.

2.2 The Concept of Strategy

Strategy can be defined as the establishment of long term goals and objectives of an organization including the taking of action and allocation of resources. The strategy that is chosen should be one that optimizes these resources in the pursuit of the organizational goals and objectives (Chandler, 1962). Quinn (1980) identifies strategy as a plan that puts together an organization’s major goals, policies and action sequences. A well formulated strategy enables an organization marshall and allocate its resources in a unique way on the basis of its relative internal competencies and limitations, expected changes in the environment and contingent actions by competitors.

Strategy can be seen either as the building of defenses against competitive forces or as the finding of positions in the industry where competitive forces are weakest (Pearce and Robinson 1997). Basically a strategy is a set of decision making rules for guidance of organizational behaviour and there are different distinct types of such rules, yardsticks by which the present and future performance of the firm is measured. The quality of these yardsticks is usually called objectives, and the desired quality,
goals. There are a set of rules for developing the firm's relationship with its external environment. This helps determine what products the firm will develop, where and to whom the products are to be sold and how the firm will gain advantage over the competitors. This set of rules is called the product market or business strategy. Rules for establishing the internal relations and processes with the organization, are called the organizational concept. The rules by which the firm conducts its day to day business are called operating procedures (Ansoff and McDonell 1990). Strategy relates a firm to its environment. There are three levels of strategies in an organization: Corporate strategy, Business market strategy and Operational strategy. Research has shown that in the face of competition, firms have adopted various competitive strategies within their industrial sectors. The firm must consider its internal capabilities in relation to external opposition and threats. The success or failure of a strategy will depend on the skillful formulation and effective implementation. All successful strategies have some common elements. Strategy is the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder's expectations (Johnson, Scholes and Whittington 2005).

Strategy is concerned with the long term direction of an organization. Therefore the future of an organization is determined by the strategic direction taken. Strategic decisions are likely to be concerned with the scope of an organization's activities. This is important in determining the organization's boundaries, which could include decisions about a product range or geographical coverage. Strategic decisions are normally about trying to achieve some advantage for an organization over competition. This involves providing better value than content to customers through offering better prices or quality. Strategy can be seen as the research for a strategic fit with the business environment. This could require major resource changes for an organization in the future. For example the decision to expand geographically may have significant implications in terms of the need to build and support a new customer base. The strategy of an organization is affected not only by environmental forces and strategic capability, but also by the values and expectations of those who have power in and around the organization (Johnson et al, 2005).
Strategy is about understanding an industry structure and dynamics, determining the organization’s relative position in that industry, or taking action to either change the industry structure or the organization’s position, in order to improve organisational results. Industry structure and dynamics determine the broad parameters of growth and earnings potential, and delimits what is realistically possible to achieve. The firm’s relative position in a given industry structure sets its specific achievement profile and the scope of its strategic options. The industry or organizational change defines the specific responses to its strategic circumstances and aspirations (Oliver, 2001).

2.3 Competition and the Industry Structure

Competition has intensified over the last decade in virtually all parts of the world. The Kenyan business environment is no exception. Organisations have to constantly change their activities and internal configurations to reflect the external realities, and failure to do this may put the future success of an organisation in jeopardy (Aosa, 1998). Gone are the days of protected markets and dominant market positions. The increase in competition has played a major role in unleashing innovation and driving progress worldwide (Porter, 1980). No company can afford to ignore the need to compete, and each must therefore try to understand and master competition in the best way possible to enable them respond accordingly. The business world is never static (Brown and Eisenhardt, 1998). Achieving competitive advantage has been recognised as the single most important goal of a firm (Porter, 1980). The environment can be relatively stable or turbulent. Each level of turbulence has different characteristics and requires a different strategy. The strategy has to be matched by appropriate organization capability for survival, growth and development (Ansoff and McDonnell, 1990). According to Miller (1998), organizations exist in a complex, commercial, economic, political, technological, cultural and social environment. These environmental changes are most complex to some organisations than to others. For survival, an organisation must maintain a strategic fit with the environment. Schendel & Hofer (1979) noted that for firms to be effective and hence successful, they should adopt appropriately to changes that occur in their respective environment. They refer to such adaptation to as the strategic responses.
An industry is a collection of firms that offer similar products or services, that is products that consumers perceive to be substitutes for one another (Pearce & Robinson, 1997). Industries influence the behaviour and performance of firms, due to a number of factors. These factors include the number of sellers, degree of product differentiation, presence or absence of entry, mobility, exit and shrinkage barriers. Others are cost structure, degree of vertical integration and degree of globalization (Kotler, 1998; Lipsey, 1987). These factors give rise to four industry structure types, namely; pure monopoly, perfect competition, oligopoly and monopolistic competition (Kotler, 1998; Brown 1995).

Pure monopoly exists when only one firm provides a certain product or service. Monopoly can be as a result of regulatory edict, patent, license or economies of scale (Kotler, 1998). A monopoly has the power to influence the market price. By reducing output, a monopoly can force the price up, and by increasing output it can force the price down. Perfect competition is the opposite of a pure monopoly. In this, the industry is characterized by freedom of entry and exit. This means that existing firms cannot bar the entry of new firms and there exists no legal prohibitions on entry or exit. A perfectly competitive market consists of many competitors offering the same product or service. Since there is no differentiation, competitors prices tend to be the same. In this, companies operating enjoy different profit rates only to the extent that they achieve lower costs of production or distribution. Firms from a perfect competition sell a homogenous product.

Brown (1995) argues that Oligopoly is an industry structure in which a small number of large firms compete with each other and produce products that range from highly differentiated to standardized. Each firm has enough market power so that it can be a price taker, but it is subject to inter-firm rivalry that it cannot control the market completely. There are two forms of oligopoly, pure and differentiated. Pure oligopoly consists of a few companies producing essentially the same commodity. Differentiated oligopoly consists of a few companies producing differentiated products. The differentiation can occur along lines of quality, features, styling or services.
Monopolistic competition consists of many competitors able to differentiate their offers in part or in whole. Lipsey (1987) asserts that many monopolistic competitors focus on market segments where they can meet customer needs in a superior way and command a premium price. Firms under a monopolistic market structure sell a differentiated product, which from a practical point of view means a group of commodities similar enough to be called a product, but dissimilar enough so that buyers can distinguish among the products sold by different firms in the industry.

2.4 Competitive Strategies

There are a variety of routes to competitive advantage that organisations can adopt, but the aim of all is to provide the buyers with what they perceive to be of superior value at a low price, a superior service that is worth paying more for, or a best value offering that represents an attractive combination of price, features, quality, service and other attributes buyers find attractive (Thompson and Strickland, 2003). Competition is critical to the success or failure of firms. It determines the appropriateness of a firm’s activities that can contribute to its performance such as innovation, a cohesive culture or good implementation. Competitive strategy is thus the search for a favourable competitive position in an industry.

There are two major types of business strategies; Cost leadership and Product differentiation (Porter, 1980). The aim of cost leadership strategy is to gain competitive advantage by achieving an overall lower cost than competitors without reducing comparable product or service quality. To achieve this, a firm requires a high volume sales in order to enjoy the advantages that are achieved by economies of scale. According to Porter (1980), strategy requires an aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development, services, sales force and so on. According to Ansoff (1988), a differentiation strategy is based on achieving an industry wide recognition of different and superior products and services compared to those of suppliers. Firms attempt to gain advantage by increasing the perceived value of the products and services they provide to customers. This value can be
accomplished through the design of special brand images, technology features, customer service or higher quality, all of which have implications on the structure and operations of the company.

Firms may however seek to adopt a hybrid strategy. This strategy seeks to simultaneously achieve differentiation and a price lower than that of competitors. The success of the strategy depends on the ability to deliver enhanced benefits to customers, together with a low price, whilst achieving sufficient margins for reinvestment to maintain and develop the basis of differentiation (Johnson, Scholes and Whittington, 2005). Focussed differentiation is a strategy that seeks to provide highly perceived product or service benefits justifying a substantial price premium usually to a selected market segment or niche market. The core of a company’s competitive strategy lies on its internal initiatives to deliver superior value to customers. It also includes offensive and defensive moves to counter the manoeuvring moves of rivals, actions to shift resources around to improve the firm’s long term competitive capabilities, and tactical efforts to respond to whatever market conditions prevailing at the moment (Thompson & Strickland, 2003).

2.5 Porter’s Generic Strategies

Generic strategies were initially used in the 1980’s and they are still popular to date. The key determinant to a firm’s profitability is the attractiveness of the industry in which the firm operates. A secondary determinant is the firm’s position within that industry. Even though an industry may have below the average profitability, a firm that is well positioned can generate superior returns in the long run. A firm’s positioning determines its leveraging strength. Porter (1980) argued that a firm’s strength ultimately falls into two headings: Cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies emerge; Overall cost leadership, differentiation and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent.
The figure 2.1 below illustrates Porter’s generic strategies.

### Figure 2.1: Porter’s Generic Strategies

<table>
<thead>
<tr>
<th>Market Target</th>
<th>Broad Market</th>
<th>Overall low-cost provider strategy</th>
<th>Differentiation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow Market</td>
<td>Focussed low cost strategy</td>
<td>Focussed differentiation strategy</td>
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</tbody>
</table>

**Type of competitive advantage being pursued**


#### 2.5.1 Cost Leadership Strategy

Striving to be the industry’s overall low cost provider is a powerful competitive approach in markets with many price sensitive buyers. A company achieves low cost leadership when it becomes the industry’s lowest cost provider rather than just being one of perhaps several competitors with comparatively low costs. For maximum effectiveness companies employing a low cost provider strategy need to achieve their cost advantage in ways difficult for rivals to copy or match. If rivals find it relatively easy or inexpensive to imitate the leader’s low cost methods, then the leader’s advantage will be too short lived to yield a valuable edge in the market place. Porter (1980) asserts that this strategy requires the “aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development, services, sales force and so on”.

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The cost leadership strategy usually targets a broad market. Some of the ways in which the firms acquire cost advantage include improving efficiencies, taking advantage of learning/experience curve effects, using online systems and sophisticated software to achieve operating efficiencies, gaining unique access to a large source of raw materials, optimal outsourcing and vertical integration. According to Thompson & Strickland (2002), a company has two options for translating a low-cost advantage over rivals into an attractive profit performance. One option is to use the lower cost edge to underprice competitors and attract price-sensitive buyers in great numbers in order to increase profits. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership. The other option is to maintain the present price, be content with the present market share, and use the lower-cost edge to earn a higher profit margin on each unit sold, thereby raising the firm’s total profits and overall return on investment. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. It is important to note that a company might be a cost leader, but that does not necessarily imply that the company’s products would have a low price. In certain instances, the company can for instance charge an average price while following the low cost leadership strategy and reinvest the extra profits into the business (Lynch, 2003).

Success in achieving a low cost edge over rivals comes from outmanaging rivals in figuring out how to perform value chain activities most cost effectively and eliminating or curbing non essential value chain activities. A low cost provider is in the best position to win the business of price sensitive buyers, set the floor on the market price, and still earn a profit. It is important to note that a low cost provider’s product/service offering must always contain enough attributes to be attractive to prospective buyers, as low price by itself, is not always appealing to buyers. The greatest pitfall of a low cost strategy provider is getting carried away with overly aggressive price cutting and ending up with lower, rather than higher profitability. Another pitfall would be not to emphasize sustainability in avenues of cost advantage that can be kept proprietary or that relegate rivals to playing catch-up. Each strategy has its own risks including the low-cost strategy. Cost saving like breakthroughs, emergence of other low cost rivals or newer low-cost value chains can nullify a low cost leader’s advantage.
2.5.2. Differentiation Strategy

The essence of a differentiation strategy is to be unique in ways that are valuable to a wide range of customers. According to Thompson and Strickland (2002), differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or service or by sellers with identical capabilities. A company attempting to succeed through differentiation must study consumer needs and behaviour carefully to learn what the consumer considers important, what they think has value, and what they are willing to pay for. The company has to then incorporate the consumer-desired attributes into its product or service offering that will clearly set it apart from rivals. The value added by the uniqueness of the product or service may allow the firm to charge a premium price for it. According to Ansoff (1988), a differentiation strategy is based on achieving an industry wide recognition of different superior products and services compared to those of other suppliers.

Differentiation enhances profitability whenever the extra price the product commands outweighs the added costs of achieving uniqueness. The uniqueness should also translate into profit margins that are higher than the industry's average. To support differentiation, there are some conditions that should exist and they include; creative personnel, strong marketing capabilities, good product engineering, research capabilities and a good firm reputation. Harvey (1988) asserts that achieving differentiation is likely to result in insulation against competitive rivalry due to securing customer loyalty. Easy to copy differentiating features cannot produce sustainable competitive advantage. Differentiation based on competencies and capabilities tends to be more sustainable, and companies adopting this strategy reap a lot of competitive advantage. The differentiation strategy can also fail for any of the several reasons; One is the rapid imitation by rivals on most or all of the appealing product attributes a company comes up with. It is important to note that any differentiating feature that works well is a magnet for competition. Rapid imitation means that no rival achieves differentiation, since whenever one firm introduces some aspect of uniqueness, fast following copy cats quickly re-establish familiarity. The second reason for failure is that a company's differentiation produces a lukewarm
reception because buyers see little value in the unique attributes of a company’s product or service. Thus even if a company sets the attributes of its brand apart from that of its rivals, its strategy fails on the basis of failing to deliver adequate value to the buyers. Another pitfall is overspending on efforts of differentiation thus eroding profitability. The core concept in crafting a differentiated strategy can be thus summarised as pursuit to deliver superior differentiated products or services to buyers, in order to achieve a sustainable competitive advantage.

2.5.3 Focus Strategy

A focus strategy aims to deliver competitive advantage either by achieving lower costs than rivals in serving a narrow target market, or by developing specialized ability to offer niche buyers an appealing differentiated offering than rival brands. Porter (1985) argues that a focus strategy involves targeting a particular market segment. A focused strategy based on either low cost or differentiation becomes increasingly attractive when the target market niche is big enough to be profitable and offers good growth potential. A firm using focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Firms pursuing a narrow focus however have lower volumes and therefore less bargaining power with their suppliers.

According to Thompson and Strickland (2002) successful use of a focused strategy depends on the existence of a buyer segment that is looking for special product attributes or seller capabilities and on a firm’s ability to stand apart from rivals competing in the same market or niche. Firms pursuing a differentiation focus strategy may be able to pass higher costs on to customers since close substitute products do not exist. The advantages of focusing the company’s entire competitive effort on a single market niche are considerable, especially for smaller and medium-sized companies that may lack breadth and depth of resources to tackle going after a broad customer base. There are however risks associated with the focus strategy. One is the chance that competitors will find effective ways to match focussed firm’s capabilities in serving the target niche market. Rival firms could also decide to carve out sub-segments that they can serve better. Companies employ this strategy by
focusing on areas in the market where there is the least amount of competition (Pearson, 1999). Organizations can make use of the focus strategy by focusing on a specific niche in the market and offering specialized products for that niche (Lynch, 2003). Another risk is the potential for the preferences and needs of niche members to shift over time towards the product attributes desired by the majority of buyers. An erosion of the differences across buyer segments lowers entry barriers into a focuser's market niche and provides an open invitation for rivals. The company that uses the focus differentiation strategy can make use of the cost leadership or differentiation approach. A company opting for the cost leadership focus approach would aim at achieving a cost advantage in its target market segment. The company using the differentiation focus approach aims at differentiated offerings for its target market segment, but not the overall market.

2.5.4 Limitations of Porters Generic Strategies

According to Porter (1980), a company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. Therefore there is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance (Porter, 1980). However there is a disagreement between scholars on this aspect of the analysis. Kay (1993) and Miller (1992) have cited empirical examples of companies such as Toyota and Benetton, which have adopted more than one generic strategy. Both these companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of the companies. During the 1980's the generic strategies were regarded as fundamental to strategy and the ideas suggested by Michael Porter were used extensively. It later became clear over time that in reality there were some shades of grey in the distinction between differentiation and cost, compared to the black and white that is projected in the theory. It is very difficult for most companies to completely ignore cost, no matter how different their product offerings are. Similarly, most companies will not admit that their product is essentially the same as that of competitors (Macmillan et al, 2000). It should be kept in mind that Porter's generic strategies should be considered as part of a broader strategic analysis.
The generic strategies only provide a good starting point for exploring the concepts of cost leadership and differentiation. Perhaps a major limitation of the generic strategies is that they may not provide relevant strategic routes in the ever growing case of fast growing markets.

From the literature above, it is clear that the competitive environment is dynamic. Such dynamic changes have led to increased competition, thus forcing many firms to respond by adopting strategies that ensure a sustainable competitive advantage. A sustainable competitive advantage leads to long term success for firms. This study therefore seeks to establish the dimensions of competition faced by Mediamax and the competitive strategies adopted in response to increased competition in the media industry in Kenya.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

A research design is defined as the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to purpose with the economy in procedure (Mugenda and Mugenda, 2003). A case study is an ‘empirical enquiry that investigates a contemporary phenomenon with its real life context, especially when the boundaries between the phenomenon and context are not clearly evident’ (Yin, 1994). A case study allows the researcher to understand the nature and complexity of the process that is taking place and answer the ‘how’ and ‘why’ questions (Mugenda and Mugenda, 2003).

3.2 Research design

A case study approach was used to gather indepth information on the extent of competition in the media industry in Kenya, and the competitive strategies adopted by Mediamax Network Ltd to deal with the competition. The design was ideal because it provided insights into the research problem by describing the variables of interest in detail. The classified data and statistics were obtained from Mediamax, for exceptional use in this study only.

3.3 Research Setting

The study was conducted in Nairobi at the Mediamax offices located at seventh floor Longonot Place Building, and at the People Daily offices at Norwich Towers Moi Avenue, as most of the corporate and strategic decisions are made at the two offices. The study focussed on getting the information from departmental managers who represent different functional units and are the key decision makers.
3.4 Data Collection

Mugenda and Mugenda (2003) notes that there are two types of data; Primary data that is made up of facts, assumptions or premises obtained directly from the field, and Secondary data which is applied facts, assumptions or premises contained in documentary sources. Both primary and secondary data were used. Personal interviews were conducted and were guided by an interview schedule (Appendix II). Primary data was collected from the eight managers across the organizations’s functional areas. The respondents were selected based on the departments they headed. The managers interviewed were expected to give details of the extent of competition known to them and the strategies the company adopts to deal with them. In addition relevant secondary sources of information such as the company’s annual reports, company’s website and archival records were used to gather more information. Document review was also used and it involved the use of internal reports. The following heads of departments were interviewed; Finance Manager, Technical Sales Manager, Marketing manager, Supply Chain Manager, Human Resource Manager, Operations Manager, I.T Manager and the Business Development Manager. The data collection methods ensured that all the relevant pertinent information required is captured in line with the objectives of the study. Content analysis of the website and archival records served to ensure reliability, representativeness and validity of the information collected.

3.5 Data Analysis and Presentation

The data collected was analyzed as per the set objectives using content analysis. Content analysis is the systematic qualitative description of the composition of the objectives or materials of study. It helps determine the presence of key words and concepts within texts. This tool helps researchers quantify and analyze the presence, meanings and relationships of words and concepts and make inferences about the messages. Content analysis was used to objectively identify specific characteristics of messages. This being a case study, the responses were expected to be qualitative in nature and the researcher sought to make statements on how the themes of data were relating.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION
OF RESULTS

4.1 Introduction

The liberalization of the media industry in Kenya ushered in an influx on the number
of players, thus impacting heavily on the industry. Liberalization led to the emergence
of private broadcasters, Pay TV channels and community broadcasters. Currently we
have eighteen fully operational TV channels, one hundred and forty radio stations,
and five main daily newspapers.

4.2 The Extent of Competition

The rapid expansion in the media industry has led to cut throat competition for
advertising revenue, programming content and newspaper print sales. The customers
are looking for diversity, thus a company needs to align its services and products to
suit the needs of its target market. Programme content, geographical coverage as well
as competitive prices are what determine the attractiveness of a firm's offering to the
customer. Mediamax faces stiff competition from other Free to Air TV stations, pay
TV Channels, Radio and the Newsprint media.

4.2.1 Radio

The radio line of business is the greatest revenue earner for Mediamax. Radio
programmes take the largest share in terms of customer base and revenue generation.
Radio is much more accessible and affordable thus more attractive to the advertisers
due to its mass market audience. Due to its wide geographical coverage and reach,
radio attracts more audiences and thus takes the lion's share proportion in advertising
spends.

The customers are able to talk and connect with radio presenters as opposed to the TV
presenters who are beyond reach. Strong radio personalities attract a huge following
in terms of loyal audience which then translates into higher revenue. Radio is much
more versatile than TV as a consumer does not have to stop what they are doing in order to listen to the radio. Radio mixes well with the consumer’s day to day activities as opposed to TV programmes that require a user to sit and watch the programme. In terms of news content, radio news are short, precise and go straight to the main point and this is what attracts most listeners.

Mediamax operates its vernacular FM station Kameme. This is the organisations’ cash cow as it generates the highest revenue in the group. Their main target markets are the Bantu speaking Mt Kenya region consumers. It has a wide geographical coverage and this has made it the leading vernacular FM radio station in Kenya. It offers the lowest cost of advertising in the market thus attracts a lot of advertising companies. The company reaps it returns through economies of scale achieved from the high sales turnover. The main threat in this segment is Royal Media’s Inooro FM as it also has a wide geographical coverage. However Kameme still has the early entry advantage as it was the first vernacular station to be launched in Kenya. The other players came in after they saw Kameme reaping a lot of profits from the untapped vernacular station segment. The main challenge Mediamax faces in the radio business is reaching out to the mass market with a broad product profile. Kameme focuses on a narrow target market, the Bantu speaking Kikuyu, Embu and Meru, and thus loses out on returns from other non Bantu speaking segments, of which Royal media has the greatest share as they have FM stations in all dominant languages in the country.

4.2.2 Free to Air Television

This is the most popular and easily accessible form of TV viewer ship. There are 14 FTA TV stations in Kenya. The broadcasters support their operations through advertising revenue. K24 is Mediamax’s free to air channel. The main competitors in this segment are KTN, NTV Citizen and KBC. The level of competition depends solely on the genre and content of programming being offered by a station. In terms of news and current affairs K24 is the leading station as it is a 24 hour news channel. The stations that pose the greatest level of threat is NTV, followed by KTN, Citizen and to a small extent KBC.
In terms of geographical coverage, KBC and Citizen pose the greatest level of threat due to their wider geographical reach, though K24 has played the catch up game and is now available in almost all major parts of the country. On the other hand, K24 enjoys some competitive advantage over KBC and Citizen as the two suffer from challenges of viewer perception as they are viewed as pro-government voices, and sometimes viewers doubt the integrity and independence of their content. NTV and KTN are predominantly found in just the major upmarket towns, thus do not pose a big threat to K24 in terms of geographical dominance. K24’s news are perceived as being bold and independent. Their daily talk show programme “Capital Talk” that features prominent leaders and opinion makers has become a favourite to many viewers thus giving K24 a high rating in talk show interviews.

Local programming content is another source of competitive advantage for K24. A recent survey carried out by a local Media Monitoring agency; Steadman, shows that consumers prefer local content in favour of foreign content. The advertisers in turn shift their focus to where the consumer preferences are, thus stations offering local content are currently enjoying higher advertising revenue. K24 is an all Kenyan FTA TV channel offering 100 percent local content. All the same Citizen TV still leads in terms of local content and diversity in terms of local programme offerings. Citizen TV offers not only local news but also a lot of interesting local programmes after the news broadcast. The fact that K24 is an all news station has affected it as viewers tend to switch to other channels offering entertainment and other programmes immediately they watch the K24 news. Other stations offer captivating local and foreign programmes immediately after the news thus take the bulk of the consumers. Advertisers follow the consumers’ viewership and this has impacted negatively on K24’s advertising revenue. However they still enjoy a wider national reach than KTN and NTV thus advertisers seeking to reach the mass market use K24, KBC or Citizen as their advertising platforms.

### 4.2.3 Pay TV Channels

There are currently 4 main Pay TV channels in Kenya and Mediamax operates the STV Pay TV channel. The other competing channels are DSTV CNBC and ZUKU.
The high cost of Pay TV has rendered it non-competitive as compared to the free to air TV channels. There has not been any significant rise in viewership of the Pay TV channels in Kenya. STV mainly targets the high end market in its Pay TV market and offers international programme content that is appealing to this kind of segment. The Pay TV consumers are willing to pay a premium price to acquire the best international programming content thus leading to an upsurge in cost of the international programmes. Pay TV channels also buy exclusive rights for high viewership programmes such as football and athletics, thus locking out FTA stations from these competitive programmes. By offering high premium content, Pay TV channels attract high spending advertisers of blue chip companies thus boasting their profitability.

4.2.4 Newsprint

The newspaper market is dominated by five major players; The Daily Nation, The East African Standard, The Star and the Kenya Times and Mediamax operates the People Daily newspaper in this market segment. The People Daily lags behind in terms of market share, and this part of the group has been the managements’ biggest challenge. The People Daily has a credibility problem as it was once owned by a political individual, and its content then were biased and based on the owner’s political inclination. When it was acquired by Mediamax in 2007, it was at the verge of collapse, and a lot of investment and effort has been put to salvage the paper’s poor image. The retail price of the People Daily is very low, and retails at almost half the price of the other dailies. This low cost strategy has worked against it as consumers tend to associate the low price of the paper to its lack of content and relevance. Advertisers shy away from it too and a lot of marketing and re-branding strategies are being crafted in order to reposition the newspaper back to the market segment it should serve.

4.2.5 Threat of Substitutes

The fast growing new alternative media is further complicating the competition in the media industry. Mobile telephony, Facebook and other social networks are proving to be a force to reckon with. Young audiences spend more time on social networks than
on radio and TV. The internet also allows one to interact with other people and provides an interactive platform for people to share ideas and communicate. A good example is YouTube that provides whatever content a user desires. A consumer does not have to wait for a programme that is aired at a particular time, and can dictate what and when to view over the internet. iPhones also allow a user download movies and music from the internet and watch it on computers. In the long run, this affects advertising revenues as it is difficult to convince advertisers that people will watch programmes, which are available on demand on the alternative media. On the positive side, interactivity provided by the internet and mobile telephony helps to support programming on TV and radio. Short messaging services (SMS) and e-mail are being used to create viewer interactivity on TV and radio programmes. Breaking news alerts on mobile phones also create demand for TV and radio news programmes as consumers turn on their TV’s and radios to get more details on the breaking news they received on their mobile phones. The internet also provides a good source of research material for programme producers and newsprint editors.

4.3 Competitive Strategies

The media industry in Kenya is highly competitive and goes through dynamic and turbulent times. With 18 fully operational television stations, 140 radio stations and 7 daily newspapers, the competition for consumer audience, advertising revenue and newspaper sales is very intense. Mediamax is competing with other players for content market, geographical coverage and advertising revenue. To succeed in such a turbulent and competitive environment, companies require efficient utilization of resources, effective competitive strategies and overall far sighted management.

4.3.1 Cost Leadership

Mediamax uses low cost strategy to compete in the radio and newspaper business market. They have maintained their lead position in low cost leadership in radio and newsprint segment. To achieve this low cost, the company’s managers scrutinize each cost-creating activity to determine what factors cause costs to be high or low. They then use this knowledge to keep the unit costs of each activity low, exhaustively
pursuing cost efficiencies through out the value chain. The company focuses on minimizing costs on its internal processes. These are: The cost of production and cost of programmes.

4.3.1.1 Cost of Production

Mediamax is a low cost producer as compared to its competitors like KTN, NTV Citizen and KBC. Its production budget is much lower than those of it competitors. This is achieved by adopting cost efficient management of value chain activities. Mediamax takes full advantage of the learning and experience curve. They use the experience learnt over time to reduce the cost of performing an activity. They combine this experience with new technologies to come up with low cost activities thus maintain their cost leadership position. Hence for them to come up with a new programme, a lot of resources are not needed as they have experienced personnel who know how to achieve high quality at a minimal price. Another reason for their low cost production is their use of bargaining power to suppliers in order to gain concessions. Mediamax use their bargaining clout and purchase large volumes at good prices from their suppliers. Having a greater buying power than rivals is an important source of cost advantage for Mediamax. Outsourcing is also done for specialized creative talent that may be lacking in the company. Outsourcing is used as a means to reduce cost since some specialized programmes are seasonal and outsourcing reduces the costs of having permanent personnel on the payroll. A company should generally not perform any value chain activity internally that can be performed more efficiently or effectively by outsiders.

4.3.1.2 Cost of Programming

Mediamax often works with advertisers to develop local content programming which is cheaper to develop than foreign content. The cost of producing local content is low yet the demand for local content is very high in Kenya. Currently, stations offering local content have a higher viewer following than those offering more foreign content. Programme acquisition decisions are mostly based on the need to acquire a low cost differentiated product. Sometimes the company makes a trade off between the cost and quality based on the demand for the programme in market. If a programme is in
high demand yet expensive, the company at times airs the programme and tries to recover the costs from other areas for example, getting more advertisers on the said programme. For example, airing the Barclays Premier League Football championship on K24, was very expensive as lot of money had to be paid to get the exclusive rights. All the same the returns started coming back after advertisers noticed that most people were interested in the football matches being aired, and thus took their advertisement spend to K24.

4.3.2 Differentiation

The competitive nature of the media industry is clear with the presence of fourteen FTA TV stations, four Pay TV channels, one hundred and forty radio stations and the latest entrant the new media, product and service differentiation is critical to the success of any media house. The most appealing approaches to differentiation are those that are hard or expensive for rivals to duplicate. Attractiveness of a company’s offering is determined by unique programming and relevant content, provision of communication solutions for advertisers, use of the right human capital and adopting the right technology.

4.3.2.1 Programming and Relevant Content

In the Kenyan broadcast market, TV viewers and radio audience prefer local programming content. Mediamax aligned its programming schedules to offer the consumer 100 percent local content in both FTA TV and radio. The challenge for Mediamax was on how to generate local content that would fit its Pay TV channel STV, as it target the high end market segment. K24, Kameme FM and the people daily all are geared towards local programming content, but STV has not been strong in local programming. Generating local premium content is however very expensive and takes a lot of time. Advertisers on the other hand are not very patient with the slow pace Mediamax is taking to develop its local content and thus some of their advertising budgets are taken up by other stations like Citizen TV which has a variety of local content.
Mediamax delivers value to customers by differentiating on the basis of competencies and competitive capabilities that rivals do not have, or cannot afford to match. K24 TV station has the capability to devote more air time to breaking news stories and get reporters on the scene very quickly compared to the other major networks, thus many viewers turn to K24 when a major news event occurs. Kameme FM has the best and highly rated radio presenters who offer dynamic and hard to copy presentation styles that are always attracting new customers. They also use marketing, sales, and customer service activities that result in superior and faster services to the customer. Both K24 and Kameme have invested in technology that records any client calls during a talk show. In case the presenter finishes the show without answering all the client calls that came through, the presenter goes through the call log and calls back the customer. This call later service has led to the company’s retention of its client base and also attracts a lot of new clientele who later remain loyal as they feel that the company values their calls.

In terms of international programming, there are too many stations chasing very few high premium titles, thus giving the suppliers more bargaining power, and this has led to a hike in prices for the international programmes. Mediamax has not been strong in international programming on K24, Kameme radio and the People daily, and other stations like KTN and NTV have enjoyed the greatest returns that come with international programming. Their pay TV station STV is the one that offers international programming and they also face a lot of competition not only from other Pay TV channels, but also in the FTA TV market. STV’s strength is in the international programmes. The competition here lies with other stations purchasing similar genres of programmes and airing them on the same time as STV. These competing moves undermine the essence of differentiation that Mediamax adopts. The company is thus forced to acquire other top notch programmes whose cost of acquisition is also high. The major problem with such competitive moves to the Pay TV channels such as STV is that when a FTA TV station provides the same content as the Pay TV, viewers tend to shift their preferences to the FTA TV station and feel that the Pay TV stations are charging them for a service that should otherwise have been free.
Mediamax has expanded geographically to cover a wider range of consumers for its TV and radio market. They cover wide geographical areas and penetrate deeper into the remotest part of the country than NTV and KTN. However KBC and Citizen have a wider geographical coverage and they pose as the greatest threats in terms of coverage. This is because advertisers prefer those who have a mass market product and prefer stations that have the widest reach. A limited national reach in the TV segment has led to loss of revenue in terms of not attracting a lot of advertisers. Their FM radio station however compensates for this as it has a very wide geographical reach.

News and current affairs is one area where Mediamax has a competitive edge over its competitors. K24’s style of news reporting is seen as brave, independent and intrepid. The specialized programmes are geared towards bridging the gap between the topics that are considered hard or taboo. An example is K24’s Capital Talk that brings in high profile people that are not easily accessible to discuss matters that are of importance to the Kenyan people. The station’s real time round the clock news and talk shows are highly rated by viewers. Its main differentiating strength is it’s in depth coverage of local news and the quality of production that gives it a distinguishable professional look. The production team pays a lot of attention to small details as the impact of the pictures they are broadcasting, the quality of sound, the quality of lighting and the camera work, the quality of print, the size and legibility of the print etc. Mediamax produces high quality services to its target market.

4.3.2.2 Advertising

Mediamax is a profit making organization and most of their revenue comes from advertising. The company competes for advertising revenue with other television broadcasters, radio and prints media, as well as below the line advertising such as billboards. The advertising battles are sometimes so intense that at times companies go against their ethical behaviour to protect and retain an advertiser. Advertisers have a great bargaining power and can at times use that power to coerce a media house into reporting positively about them and threatening to withdraw advertising spend, in case they are covered negatively. Client monopoly amongst advertising agencies also means that an advertising agency can decide where an advertiser puts their money.
They charge large commissions for the advertising spend on any media, and because broadcasters do not collaborate, advertising agencies have a high bargaining power over the media owners.

Advertisers would want to buy commercial spots around or within news programmes or on highly rated documentaries and shows thus crowding the programmes, and compromising the editorial integrity of news and programme content. The market shift towards local programming content means that advertisers are now spending more money within and around local programming content. This is a plus for Mediamax as its ratio for local programming content on the programming schedule is very high. Moreover, Mediamax offers huge discount margins and charge lower prices for their air time. To advertise there are three levels of pricing in TV and Radio; Platinum which is the most expensive to advertise in as it targets the prime time on TV and Radio. Gold rate which is moderate pricing, and the silver rate that is the lowest and is for off prime advertising. The biggest advertising companies include communications companies like Safaricom, Zain and Spin Knit with their Tuzo fresh milk.

Radio poses a serious threat to TV advertising as it has a wider reach and market penetration. Mediamax benefits from this threat as they are operating in both the radio and TV market. Radio adverts are far much cheaper than their TV and newsprint counterparts. Advertisers are turning more to radio to market their products as it reaches more people. Radio is also cheaper to acquire and it is also portable as opposed to TV. With mobile telephony on the increase, more people are able to access the radio anywhere and anytime. Listeners tend to connect more with radio personalities, while TV personalities are perceived to be too detached and out of reach. Radio and newsprint are more versatile in terms of content, non-intrusive and it is easier for the consumer to connect with them. They allow the user easy access in the car, office or in the farm. This provides an attractive platform for advertisers.

The mobile and internet telephony is another competitor that is taking the advertisement spend away from the media houses. Mediamax however uses various strategies to attract advertisers; these are; relationship marketing, pricing strategies, innovative products and services and aggressive selling. According to the Synovate
Group, a media monitoring research agency, Radio commands 46 percent of the total advertising spend, TV 33 percent, Print 20 percent and other media 1 percent, as shown on table 4.3 below.

**Table 4.3 Media Advertisement Buying Trends**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>RADIO</td>
<td>47%</td>
<td>47%</td>
<td>49%</td>
<td>45%</td>
<td>46%</td>
</tr>
<tr>
<td>TV</td>
<td>27%</td>
<td>28%</td>
<td>28%</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td>PRINT</td>
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<td>24.2%</td>
<td>22.1%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>OTHERS</td>
<td>0.7%</td>
<td>0.8%</td>
<td>0.9%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: The Synovate Research Group

### 4.3.2.3 Human Capital

In terms of human capital, Mediamax invests in employing the best presenters, news anchors and reporters. Some of the human capital has been developed internally from experience, though some of them are head hunted from other leading media houses. Staff head hunting is popular in the media industry and this has significantly increased the cost of human capital, as the talented workforce is limited and the demand from the industry is high. Mediamax's reporters, news anchors and newspaper editors are constantly targeted for recruitment by competitors. The staff head hunting practice has led to an increased cost of human capital as each media house tries to out maneuver the other rivals by offering better salaries and higher perks. To counter staff turnover, Mediamax has taken up new strategies that encourage staff retention. They include; promoting from within, offering training opportunities and rewarding performance. There is also a clear succession plan that ensures lower level staff the skills to take up more responsibility should the need arise. They also encourage recruitment of young and fresh talent rather than keep a few targeted staff at higher costs, thus this helps in keeping the cost of human capital low.
4.3.2.4 Technology

Technology is changing rapidly and Mediamax has to adopt to the changes. In Kenya, all TV broadcasting is expected to migrate to a fully digital system in the next three years. Mediamax has to this effect started investing in the latest technologies which include the Digital Virtual Studio systems and the Portable Studio Systems that will help it migrate its transmission from analog into digital. The cost of migration is very high and is greatly affecting the rate of return on investment at Mediamax. Although Mediamax has invested in some of the latest studio technologies, on the field, it still gathers its news in tape based systems that require a lot of human intervention and are prone to damage in the production process. This adds to the cost of human capital needed to operate these tapes. Tapeless technological systems in the country are still in the testing stages, and the industry players are yet to adopt them.

4.3.3 Focus

Mediamax focuses on the middle class market in FTA TV radio and newsprint and high class up market in its Pay TV. This mix of target market ensures that they get advertisers whose target market is in this socio economic segment.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter the research findings have been summarized and discussed in relation to the objectives of the study. Included also are the limitations of the study, and suggestions for further research.

5.2 Summary

The media waves industry was liberalized in 1998. This effectively removed government controls and regulation and opened the market to competitive forces. This has led to an influx of new players. This study set out to find out what competitive strategies are adopted by Mediamax to cope in the turbulent competition. The study done was a case study and primary data was collected by use of an interview guide. Secondary data used was collected from the organizations relevant secondary sources of information such as the company’s annual reports, company’s website and archival records. Document review was also used and it involved the use of internal reports. The data collected was analyzed as per the set objectives using content analysis.

The researcher’s first objective was to establish the competitive strategies adopted by Mediamax to cope with the increased competition in the industry. The study established that Mediamax uses cost leadership and differentiation as strategies to gain competitive advantage. Mediamax employs a cost leadership strategy in their Radio and Newsprint line of business by offering the lowest advertising prices and also selling the newsprint at a very low price. They use Focused Differentiation strategy in their FTA TV and Pay TV line of business. To achieve this, they use modern technology to give clarity and good quality production in programmes and retain the best human capital to offer differentiated products to their target market. The most important competitive strategy used is keeping advertising prices lower than competitors. Having a wide geographical coverage is also seen to be an important aspect of maintaining competitive advantage. Other strategies include providing
differentiated products and offering local programming and editorial content. Radio commands the biggest share of the advertising spend with 46 percent, TV and Print command 33 percent and 21 percent respectively.

The researcher’s other objective was to identify the extent of competition Mediamax faces in the Kenyan media industry. The extent of competition for Mediamax includes competition for advertising revenue and programming content in FTA TV, Pay TV, Radio, Newsprint sales, and new media such as Internet and Mobile telephony. Human capital is another source of competitive pressure for Mediamax. Radio and TV presenters drive customer loyalty, and any good presenter is often targeted by competitors for recruitment. This has led to an increase in cost of maintaining human capital.

The study found out that Mediamax’s K24 TV station faces stiff competition in the FTA segment from Citizen, KTN, NTV and KBC. The level of competition in the FTA segment is determined by the programming content and the geographical coverage. K24 has established itself as a channel that offers local programming content. The greatest threat and market leader in terms of local programming content is Citizen TV. There is a general shift in favour of local programming content and advertisers will always move with the audiences. This trend promises a bright future in the long term for K24, and should this market shift continue, K24 will attract a large market and advertising spend. In the TV news viewership, K24 remains the market leader in news and current affairs programmes, as it is 24 hour news broadcasting channel. This position is currently compromised by the fact that K24 does not offer other programmes, but concentrates on news and current affairs programmes, thus does not attract the big share of the advertising spend as compared to KTN, Citizen and NTV. This is due to the fact that viewers tend to switch to the other stations immediately after the news, so as to watch soap operas, movies or drama shows being offered by the other rival channels, and the advertisers follow the audiences taste.

On radio, Royal Media and KBC have a wider national reach that gives them the ability to reach more people on radio than Mediamax, and thus attract advertisers whose main target customers are in the mass market. Mediamax operates in this line
of business through their vernacular station Kameme FM. Citizen is the main competitor in radio as it has FM radio stations in all major vernacular languages thus has a larger number in terms of customer base. Advertisers spend more of their budgets on radio, as it is much cheaper and reaches more people than TV and print media. In Pay TV Mediamax’s main competitor is DSTV which has an edge over them as it offers more superior international programmes and entertainment. The competition for premium international content drives up the cost of programmes, as suppliers have a higher bargaining power. STV has been forced to spend more to acquire popular programme titles in an attempt to differentiate its product offering and retain its customers. In the newsprint segment, Mediamax operates the People Daily newspaper. This particular line of business has been trailing in performance as it suffers perception issues and its independence and credibility has been questioned by customers. This was occasioned by it being initially owned by a political figure, and most customers are yet to understand that the newsprint daily changed ownership, and is currently owned by Mediamax. The management has been working hard to reposition the paper back to its standing.

5.3 Conclusion

The study concludes that the strategies used by Mediamax have been successful because they have ensured that the organization though a new entrant in some segments like FTA TV have a considerable market share of a customer base that is loyal in its viewership and listening. The image of the organization is also strongly improving and the company is taking its rightful position in the market. The study has all through provided useful insights into the dynamics of competition in the media industry.

5.4 Limitations

The study had some limitations one of which was the time constraint. The researcher had to collect data from senior managers through interviews which took a lot of time
since some of the respondents were busy, and the researcher had to conduct some interviews in more than one sitting. This greatly disrupted the flow of data. Additionally some employees had been in the organization for a relatively short period of time and were unable to highlight all significant strategies adopted by the organization.

5.5 Recommendations

From the findings of the study it would be recommended that a census research be done to include all the media houses and find out what other strategies are adopted by the other media houses to cope with competition.

5.6 Implications on Policy and Practice

From the findings of the study, I recommend that more emphasis should be given to promotion of locally produced programmes as this will help promote growth in our local talent. The government should also look for ways of subsidizing the cost of digital virtual systems that are currently very high, thus enable media house to migrate from analog transmission to digital transmission. There is also an urgent need to formulate and implement a code of conduct for the media industry, while at the same time, trying to encourage and promote professionalism.
REFERENCES


APPENDICES

Appendix I: Letter of Introduction

August 2010.

Dear Sir/Madam,

I am a Postgraduate student at the University of Nairobi, School of Business. I am conducting a management study on the extent of competition in the media industry, and the competitive strategies adopted by Mediamax Network Limited to cope with the challenges of competition.

In order to undertake the research, you have been selected as one of the respondents. This letter is therefore to request your assistance in collecting information, to enable me carry out the research. The information provided is purely for academic purposes and will be treated with strict confidence. A copy of the Final Report will be available to you upon request. Your assistance and cooperation will be highly appreciated.

Yours Sincerely,

Ellen Waithira Karuga
MBA Student.

DR. Gakuru W.
Department of Business Administration
School of Business, University of Nairobi
Appendix II: Interview Guide

Introduce yourself and the subject, make the respondents feel comfortable and free to contribute freely without fear.

1. Extent of Competition

- If you were to list media houses in the order of the level of threat, how would you rate them starting with the one that poses the greatest challenge?

- What challenges do you face from your competitors?

- How has competition influenced your programming structure.

- How has competition influenced you in terms of human capital

- How has your organization responded to staff movement?

- Has competition affected your profitability? If yes to what extent?

- How has competition from other alternative media, like internet and mobile telephony affected you?
2. Competitive Strategies

Cost leadership

- Is your organization a cost leader in advertising as compared to competition?

- How about in programming and content, how competitive are you in cost?

- Do you create use you own resources to provide services or do you outsource?

- What strategy do you use to attract advertisers

Differentiation

- How different are your programmes in Radio & TV as compared to the competition?

- What differentiates your content in the daily newsprint?

- What is your target market?

- What is the ration of local content versus the International content in your programmes?

- How does the cost of production affect your content?

- How do you react when rivals imitate your products or services?
Focus

- What is your company’s market segment in TV, Radio and Newsprint?

- Why did you choose this kind of market?