

**DIVERSIFICATION AS A COMPETITIVE STRATEGY IN  
RADIO AFRICA LTD**

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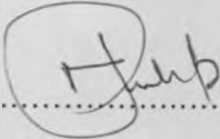


**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION  
SCHOOL OF BUSINESS  
UNIVERSITY OF NAIROBI**

**NOVEMBER 2011**

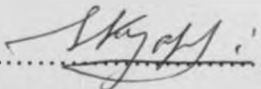
## DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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

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## DEDICATION

This research is dedicated to my parents who encouraged me all through to finish the MBA programme without breaks and to full completion

## ACKNOWLEDGEMENTS

I would want to thank my supervisors Dr. John Yabs who guided me all through from the topic formulation to the last chapters of the project offering his wisdom and guidance immensely. Secondly, I thank the panel involved during the defence of the project chaired by Dr. Martin Ogutu and the panelists consisting of the Faculty chairman Dr. Munywoki, Dr. Mududa and Dr. J. Yabs. The panel guided me immensely and brought fresh ideas not covered at the proposal level. These are great brains!

I am very grateful to my boss at work who always gave me permission to sit for my exams and time off to study and project consultation.

Lastly, I give thanks and glory to the Almighty God for seeing me through the whole course including this research project.

## ABSTRACT

Kenya has had one of the fastest growing media industries in East Africa both in terms of numbers of players, revenues and even in technological advancement as indicated in the digital migration plan. According to industry regulator CCK, there are approximately 106 radio stations in the market, about 20 TV stations and about 8 newspapers. Total advertising revenues to the industry stood at approximately KShs 30 billion as measured by media consultancy firm, Synovate-Kenya. However, this measurement accounts for all the media exposure of the advertising brands without considering discounts or bonuses hence may overestimate the actual value of the industry. With a CAGR of about 31.2%, this has been one of the fastest growing sectors of the economy.

With the liberalization of the economy, many players were licenced by the industry regulator, CCK, and the government as a result fierce competition in the media industry. In order to survive, some of the competitors have opted for diversification strategy. Radio Africa Ltd has adopted this strategy. Other notable players that have adopted this strategy include media houses like The Nation Media Group, The Standard Group Ltd, and Royal Media Service. The aim of this study was to determine how diversification has been applied as a competitive advantage for Radio Africa Ltd. The study has studied various strategic management issues among them competitive advantage, diversification, SWOT and PESTEL analysis. All these strategies have been worked alongside the study's objective of determining how diversification has been applied as a competitive advantage for Radio Africa Ltd.

This study will be beneficial to various groups .Firstly the study will help the shareholders determine whether it is worthwhile to diversify. Secondly, the study will be used by the government and its agencies especially CCK in determining and setting of rules on diversification and allocation of extra frequencies to any one particular media house. Thirdly the study will also aid the competitors in establishing the competitive advantages gained through diversification. This study will also benefit researchers because it will contribute to the existing literature in strategic management and stimulate a basis for further research. The study will aid financial institutions make sound decisions when lending funds to media houses.

Being a primarily qualitative study data was collected through in –depth interviews and interview guides from four senior managers of Radio Africa Ltd, and the responses taken through content analysis in order to measure the semantic content and main themes. The results of the study show that diversification is a strategy that can drive a company towards achieving a competitive advantage and or benefits. However, diversification can only be fruitful if the environment under which the organization is operating within is enabling. The limitation of the study was the sensitivity of the information and unwillingness of the managers interviewed to disseminate some information.

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## **LIST OF ABBREVIATIONS**

**CAGR – Compound Annual Growth Rate**

**SWOT – Strength, Weaknesses, Opportunities, Strength**

**TV – Television**

**CCK – Communication Commission of Kenya**

**PESTEL –Political, Economic, Social, technological, Environmental and Legal**

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Today's business world is characterized by dynamic and rapidly changing environment.

Changing customer values, increased global competition, liberalization and a host of other economic, political and social dynamics cannot be overlooked. It is generally accepted in the business environment to talk about constancy of change and that the old, certainties of planned growth, predictable sales and stable markets no longer exist. The secret to a company that will last in such turbulent environment is its ability to manage both continuity and change. Such companies are capable of responding with nimbleness to these environmental drivers. Pearson and Robinson (1997), state that in order for organization to achieve their goals and objectives, it is necessary for them to adjust to the environment.

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment leads to strategic mismatch between what the organization offers and what markets demand. Executives have to make strategic choices that are concerned with decisions about an organization's future and the way in which it needs to respond to these environmental pressures and influences. Designers of planning systems have agreed on the critical role of grand strategies in achieving a lasting competitive advantage.

Grand strategies, often called master or business strategic choices provide basic direction for strategic options. They are the basic coordinated and sustained efforts directed toward achieving long-term business objectives, a comprehensive general approach that guides a firm's major actions. These include specific options concerning both direction, for example, products and market diversification; and the method, for example, internal merger or acquisition and alliances. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player. Diversification has enabled Radio Africa Ltd to successfully implement strategies that has lifted it to superior performance by facilitating the firm with competitive advantage which has enabled it to outperform current and potential players in the radio and media industry at large.

### **1.1.1 Competitive Strategies**

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. Firstly in cost focus a firm seeks a cost advantage in its target segment, while secondly in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Porter, 1985).

### 1.1.2 Diversification Strategy

Diversification is a form of growth strategy that is typically defined as a strategy which takes the organization away from its current markets or product or competencies (Johnson and Scholes, 2008). Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Many organizations pursue one or more types of growth strategies. The media industry in Kenya has been strategic in its operations and thus has some players within the industry implement the diversification strategy for various reasons. Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. Diversification involves directions of development which take the organization away from its present markets and its present products at the same time (Johnson and Scholes, 1999).

The main strategic concern for a leader revolves around how to defend and strengthen its leadership position, perhaps becoming the dominant leader as opposed to just a leader.

However, the pursuit of industry leadership and large market share is primarily important because of the competitive advantage and profitability that accrue to being the industry's biggest company (Thompson, Strickland and Gamble, 2003). Porter (1985) suggests that a firm can gain a competitive advantage if it has skills and resources that can transfer into new lines of business and markets. Diversification strategy is a risky strategy though it has been embraced by leading media houses in Kenya. The media industry in Kenya has diversified by getting into related business units and by developing the new business and buying on-going business.

According to Strickland and Gamble (2003) diversification is based on the view held by many investors and executives that bigger is better. Growth in sales is often used to measure performance in that even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow. The authors continue to argue that top managers also favour diversification in a company so long as the conditions under which the company is are favourable and the environment is enabling as well. Diversification as a strategy brings about improved linkages with other stages within the firm. Better links with suppliers may be attained through large orders which may produce lower costs (quantity discounts).

Knowledge gained in one business unit is applied to problems being experienced in another business unit through sharing of information. According to Grant (1998), the critical issue in diversification is for managers to avoid the errors of the past mistakes through better strategic analysis of diversification decisions. In pursuing the diversification strategy, various challenges such as change of the organizational structure are experienced. If the corporate management does not deal with the implementation issues and challenges adequately, then the objectives desired shall not be realized.

### **1.1.3 Competition as a strategic concept**

Competition is the process of striving against others to win or achieve something. Competition is both complex and sophisticated (Pettinger, Richard 1996). The capability to compete is essential for the business to gain customers and potential customers. This is the ability to satisfy that part of wants and needs to the exclusion of others who are in direct competition.

Competition exists where there is choice. Choices are taken in varied and sophisticated ways, according to the means, circumstances and preference, quite apart from any inherent or supposed nature and strength of the choices offered. Competition has also to be seen as competing for scarce, limited and definite resources. This scarcity largely defines the nature and level of competition. Levels of disposable income and the extent to which the offerings are essential, desirable, non-essential, luxury, general, peripheral and marginal therefore affect it. For any firm to gain the most, it needs to create a differential advantage position from its rivals hence the concept of competitive advantage. Business competition is very much like sports. In business, teams face each other in competition for employment, customers, product innovations, and profits among other goals.

The three generic strategies for achieving competitive advantage as outlined by Porter (1985) are cost advantage, differentiation and focus. What Porter gave us was the firm's proper setting: its industry, and a structured way of looking at it. It is true that he raised as many questions as he answered. (For instance: what constitutes an industry? How does one define an exit barrier? He simply stated that creating competitive advantage is a simple process, and by implication, that competition was better avoided than sought. Formisino (2004) says strategy is the selection of ideas and assets to meet long-term business goals. On the contrary, the complexities in the business world are increasing everyday making it difficult to apply these strategies. It is difficult to achieve an advantage using these strategies in their raw form. This has prompted the use of secondary means e.g. diversification and information difference to achieve competitive advantage.



According to Bennet (1999), numerous empirical studies that have investigated whether diversification leads to higher profitability has given conflicting conclusions. This has increased the complexity of this strategy with several gaps in the existing literature. Diversification as a strategy of creating value has been highly questionable and has been regarded as a remote way of achieving competitive advantage (Njoroge, 2002). The failure rate of those firms adopting this strategy is alarming considering it is aimed at creating an advantage to the firm and by extension value to the owners. However, some success stories exist. Firms such as IBM, Kodak, GE, DuPont and Proctor & Gamble have successfully exploited diversification. Porter (1985), Makides (1987) and Rumelt (1982) define diversification move as an entry into a new product-market activity or market that requires, or implies an appreciable increase in the available managerial competence within the firm. On critical analysis however, one can perceive a 'thin line of difference between successful and unsuccessful firms. This line is the competitive advantage. This may be the reason why Porter (1985) argues that diversification does not create competitive advantage, it should not be used. The study therefore seeks to establish competitive advantages in diversified firms.

#### **1.1.4 Media Industry in Kenya**

An industry is a group of firms producing the same principle product or more broadly, a group of firms producing products that are close substitutes to each other (Johnson and Scholes, 2003). The media industry in Kenya plays very important roles of providing information, news, entertainment, and economic growth through advertising. Media industry in Kenya consists of the print media which includes newspapers, magazines, and brochures among others.

There is also the broadcasting media that entails radio stations, TV stations broadcasting. Other forms of media include outdoor media, and lately the IT based media platforms such as the web, SMS and mobile media.

The media industry in Kenya today is very vibrant and commercial. Gone are the days when Kenyans relied only on one Radio station, one TV station and a newspaper. Kenyans can access Information of all kind through various media. Since the liberalization of the airwaves and easing of licensing by the government in the 1990s, many radio stations, newspapers, magazines, TV stations among others have come up. With this then, the media industry in Kenya is very competitive and commercial. According to Oganga (2009) there were ninety commercial and non-commercial radio stations in Kenya by September 2009. The government however still controls the media to an extent.

The Kenya Communications Amendment Bill was assented to by the government in January 2009. The bill was introduced to streamline and introduce regulatory provisions in electronic transactions as well as broadcasting which were considered weak. Some aspects in the bill were vehemently broadcasted by the media fraternity and other sectors such as non-governmental organizations. Media Owners Association is a body that has representatives from various media houses that works with the government in handling various issues that affects the media industry and other sectors that involves the media. Media houses generate revenue through advertising of products, services and even government information. The government has become a major player in generating revenue for the various media houses through disseminating paid for information by use of media.

Advertising agencies buy media on behalf of most corporate clients while some clients prefer to negotiate directly with the media houses. From this background, the management of media has also changed. Various media houses in Kenya have embarked on a strategic way of managing their businesses. Most media houses started by operating one core product. Down the line, the media houses have grown by embracing diversification strategy as a way of remaining competitive in the market. The aspect of cross-media ownership has been embraced where a media house owns radio station(s), TV station(s) and newspaper(s) among others. The media houses use both SWOT and PESTLE analyses in the media industry in determining positions to take in the industry. Some of the media houses that have diversified are the Nation Media Group, The standard Group, Royal Media Services and Radio Africa which this study has focused on.

### **1.1.5 Radio Africa Ltd**

Radio Africa Limited is a company that started its operations in Kenya in July 2000 by launching Kiss 100 Fm radio station. Then, the business of radio was very conservative and not very competitive. Most advertisers relied on TV advertising to launch and educate the market about the various products. At the inception of Kiss 100 Fm, the vision of the management then was to be the leading radio station in terms of listenership and revenue generation. Kiss 100 Fm did achieve this by differentiation in the way the radio station executed its programming in terms of hiring talented presenters who could connect with the target market and giving superior content compared to the competitors. Within a short period of existence in the market, Kiss 100 Fm did get a lot of listeners especially for the 18-35 year old.

Within a period of two years, almost all corporate organizations, small medium size and even entrepreneurs wanted to have their products advertised on Kiss 100. With this background, Kiss 100 became the most listened to radio station within its target market and thus attained a competitive advantage in terms of revenue generation and listenership. It did adopt the strategy of premium pricing of its programmes. It also expanded its listenership by setting up transmitters countrywide so as to reach listeners in all major towns in Kenya. Based on intense consultations with leading research firms, Radio Africa's management strategic think tank started Classic 105.5 Fm six years ago. Classic 105.5 Fm targets mainly 25-45 years old and a secondary target of 18 -25 years old and 45 and above listeners.

The profits within the six years it has been operational have outgrew expectations. Based on the success of Classic Fm, the company wanted to venture into more untapped business in the media industry and in particular Swahili radio stations. On the basis of this, Radio Jambo was born in 2007 but was launched in year 2009. Radio Jambo's core business and format is sports and talk oriented and its content executed in Kiswahili. Radio Africa also owns an exclusive rock music radio station. With the Asian market looking very lucrative, Radio Africa acquired East fm which targets the Asian market in March 2007. The radio stations gained a substantial market share in their niche markets and thus have and are still generating revenues for the respective business lines.

The top management shifted their thinking towards diversifying the business. By identifying its strategic advantages, the group ventured into the newspaper business and started the Nairobi Star in July 2007. Starting off Nairobi Star posed a big challenge but due to its association with Kiss 100 and Classic 105, the two big radio stations were able to push the product in terms of its content and uniqueness from the other very detailed newspapers.

Nairobi Star which changed its name to The Star now has a countrywide distribution. Two years ago, Radio Africa started Classic TV and Kiss TV. Kiss TV and Classic TV were later merged into one TV station to enable it sell and appeal more. The products are very exclusive in the market and various programming changes take place from time to time. Radio Africa Ltd has thus implemented the related diversification strategy to diversify and to remain competitive in the competitive media industry.

## 1.2 Research problem

Intense competition has led to erosion of market share while traditional forms of competitive advantage and specialization are being copied and demolished. Radio stations have continually reviewed their strategic operations in the light of this challenging environment to ensure competitiveness. Threats to their core business and the presence of numerous opportunities leads almost inevitably to consideration of diversification strategies, either product or geographical in order to strengthen their revenue mix and find new sources of bottom lines and also minimization of cost either through economies of scale or subsidies.

Kenya's economy has experienced drastic changes in the last few decades. Increased competition due to economic liberalization and globalisation has resulted in market having more players fighting for the same customer. The Communication Commission of Kenya in conjunction with the Ministry of Information has gone ahead to allocate as many radio and television frequencies to as many applicants as possible. This has led to having dormant frequencies which lie unused. The licensing of many players has led to an influx of many players in the Radio Industry. This has led to stiff competition, as the fight for customers seems to be never-ending war.

Diversification may be reasonable choice if the high risk is compensated by chance of high returns. Kotler and Kevin (2000) stated that diversification growth makes sense when good opportunities can be found outside the present. This is when the industries are highly attractive and the firm has the mix of business strengths to be successful.

A number of studies have been done on diversification and building competitive advantage but none has been done on diversification as a competitive advantage in the media industry. Some of the local studies on diversification include studies on the extent of application of Ansoff's growth strategies. Studies in the financial sector have included a survey of the product diversification strategies adopted by firms in the banking industry in Kenya (Wakwoma, 2007). Studies have also been done in Small and medium enterprises on diversification like a study on patterns of diversification in the Small and Medium Enterprises (SMEs) sectors and that of the retail sub-sector.

Most of the studies have focused on the financial sector, Small and Medium Enterprises and local government. None of the above studies has focused on the building of competitive advantage through diversification in the media case in point Radio Africa Ltd. This study therefore sought to determine the industry's experience with diversification and it aims at answering the questions; whether Radio Africa Ltd has attained competitive advantage through diversification and if there has been any benefits of using diversification strategies at Radio Africa Ltd and also if any growth was reported at Radio Africa Ltd because of diversification and more diversification was feasible.

### **1.3 Objective of the study**

The study aimed at determining how diversification has been applied as a competitive strategy by Radio Africa Ltd.

### **1.4 Value of the study**

This study will be beneficial to the to various groups .Firstly the study will help the shareholders determine whether it is worthwhile to diversify more in terms of more radio,tv and print and if diversification has helped improve its profitability. Secondly, the study will be used by the government and its agencies especially CCK in determining and setting of rules on diversification and allocation of extra frequencies to one media house. The government plays key roles in the media industry. The government regulates the allocation of media frequencies and licenses to the media. This study is important to the government since it shows the change of the environment within which the media industry operates and thus it shall give the players in the media industry an enabling environment to pursue their objectives. Thirdly the study will also aid the competitors in establishing the competitive advantages gained through diversification. This study will also benefit researchers because it will contribute to the existing literature in strategic management and stimulate a basis for further research.

This study can also be used by competitors as a basis to decide whether to diversify or to concentrate on their core business in strategic planning. The challenges and benefits that have been brought in the study shall be a base for decision making. The competitors can also use the study to plan on how to avoid the challenges if they strategize to diversify

The study is important since it can be used by those in the media business to acquire funds from financial institutions in order to facilitate the implementation of the diversification strategy. The study will show that the financial institutions can also use the study to analyze and acquaint themselves with the various benefits that are experienced by a diversified media house and thus make sound decisions on whether to give funds to media houses or not.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter surveys scholarly articles, books and other sources like dissertations, journals among others relevant to a particular issue, area of research or theory, providing a description, summary and critical evaluation of each work. The purpose is to offer an overview of significant literature published on a topic.

### 2.2 Concept of Strategy

All organizations are an open system. They depend on the environment for their provision of inputs and their disposal of their outputs and they are an integral part of the environment. Thus for an organization to achieve its objective and ultimately success, realistic approaches that are considerate of the environment must be taken into account (Rue and Holland, 1986). Organizations cannot survive if they cannot match their capability to the environmental requirements.

The framework that links an organization's capability to its environment is referred to as strategy (Ansoff, 1990). Strategy as the framework of choices that helps an organization to respond appropriately to environmental requirements to achieve success. Therefore, one can say that strategy defines an organization, in terms of its future, nature and direction (Johnson and Scholes, 2003). If strategy were defined as above, corporate strategy would then be seen to be concerned with the purpose and scope of an organization as a whole.

## 2.3 The concept of competitive advantage

Porter (1985) a competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Following on from his work analyzing the competitive forces in an industry, Michael Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

The strategy of differentiation involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. Examples of Differentiation Strategy: Mercedes cars; Bang & Olufsen

In cost leadership strategy, the objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed minimizing costs. If the achieved selling price can at least equal (or near) the average

for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share. Examples of Cost Leadership: Nissan; Tesco; Dell Computers.

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants. Examples of Differentiation Focus: any successful niche retailers; (e.g. The Perfume Shop); or specialist holiday operator (e.g. Carrier)

In cost focus strategy, a business seeks a lower-cost advantage in just one or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's". Examples of Cost Focus: Many smaller retailers featuring own-label or discounted label products. In an effort to be competitive Radio Africa Ltd has adopted all the above four competitive strategies.

## 2.4 The concept of corporate strategy

Drucker (1955) made the distinction, in the practice of management, between tactical and strategic decisions, not perhaps quite in the way that we do today, but perhaps quite close for us to recognize certain gaps that still exists, requiring further research.

Business strategy may be defined as the totality of management decisions that determine the purpose and direction of the enterprise and hence its fundamental goals, activities, and the policies it selects in order to attain its objectives (Bennett, 1999).

Businesses depend on the environment for their provision of inputs and dispose of their output to the same. If nothing ever changed in our world and markets, then we could rely on market adjustments to current performance, to map the future (Formisano, 2004). In light of this, it is understandable that, organizations cannot survive, let alone succeed, if they cannot match the environmental requirements. To be able to do so, organizations require strategy, which becomes a link between the organization and its environment (Ansoff, 1990). Strategy describes the way an organization will pursue its goals, given the threats and opportunities in the environment and the resources and capabilities of the organization (Rue and Holland, 1986). Strategy is a detailed plan for achieving success, the bundle of decisions and activities that we undertake to achieve long term goals (Formisano, 2004).

Corporate strategy is a pattern of decisions which a company makes that determines shapes and reveals its objectives, purposes and goals. When competitive domain and the growth potential starts to shrink, strategic options are either to attempt a more intensive implementation of the current line of business, or to begin to search for more opportunities in other industries or markets (Thompson and Strickland, 2003).

To achieve competitive advantage in diversification, three ways have been suggested; the use of market power, competence transfer and economies of scope. The most general argument concerning the benefits of diversification focuses on the presence of economies of scale in common resources (Grant,1998).Economies of scale occur by eliminating duplication of facilities between businesses and creating a single facility thereby spreading the costs.

## **2.5 Diversification as a competitive strategy**

Johnson and Scholes (2003) define diversification as a strategy that takes the organization away from its current market or products or competences. It is a corporate level strategy, which is based on task of crafting and implementing action plans to improve on the attractiveness and competitive strategies of a company's business product portfolio.

According to Ansoff and McDonnell (1990), there are key reasons why firms think of or opt to pursue product diversification. These include: First, when their objectives cannot be achieved by continuing to operate with the existing products. Secondly, the business environment changes, both threatening the future of current strategies and throwing up new opportunities.

There appears to be better opportunities presented to the firm by new products than they accrue from the existing ones. Finally, a business tends to have excess financial resources beyond these necessary to satisfy its existing plans hence it sees it fit to invest these resources in new products rather than retaining liquid cash. Expectations of powerful stakeholders may also drive diversification. For instance investors may press for excess cash to be invested somewhere even if the current product and market development opportunities seem limited.

## **2.6 Dimensions of product diversification**

Johnsons and Scholes (2003) have highlighted different product diversification options available for most organizations. These include: strategies for entering new industries, related diversification strategies, unrelated diversification strategies, divestiture and liquidation strategies, corporate turnaround, and retrenchment and restricting strategies and lastly multinational diversification strategies. The proposed study intends to focus on two categories of product diversification; related and unrelated diversification.

### **2.6.1 Related diversification strategies**

A related diversification strategy involves diversifying into the business that possesses some kind of "strategic fit". Strategic fit exists when different businesses have sufficiently related value chains that are important opportunities, for example transferring skills and expertise from one product to another or combining related activities of separate businesses into single operation and reducing costs. A diversified firm that exploits these value-chain interrelationships and captures the benefits of strategic fit achieves a consolidated performance greater than the sum of what the businesses can earn pursuing independent strategies, (Porter, 1985).

Strategic fit relationships can arise out of technology sharing, common labour skills and requirements, common suppliers and raw material sources, the potential for joint manufacture of parts and components, similar operating methods, similar kinds of managerial know-how, reliance on same types of marketing and merchandising skill, ability to share a common sales force, ability to use same wholesale distributors or retailers (Strickland, 1989).

Concentric diversification also known as related product diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. 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. Breweries have been able to achieve marketing synergy through national advertising and distribution. By combining a number of regional breweries into a national network, beer producers have been able to produce and sell more beer than had independent regional breweries.

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. 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. 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 situations. Perhaps a manager's experience in working with unions in one company could be applied to labor management problems in another company. Caution must be exercised, however, in assuming that management experience is universally transferable. Situations that appear similar may require significantly different management strategies. Personality clashes and other situational differences may make management synergy difficult to achieve. Although managerial skills and experience can be transferred, individual managers may not be able to make the transfer effectively.

## **2.6.2 Unrelated product diversification strategies**

Unrelated diversification is an organization moving beyond its current value system or industry (Johnsons and Scholes, 2003). Despite the benefits of strategic fit that is associated with related product diversification, a number of companies opt for unrelated product diversification strategies. Strickland (1989) suggests that in unrelated diversification, the corporate strategy is to diversify into any industry where top management spots good opportunity. There is no deliberate effort to seek out business where strategic fit exists. While firms pursuing unrelated diversification may try to ensure that their strategies meet the industry attractiveness and cost entry tests, the conditions needed for better -off test are either disregarded or relegated to secondary status.

Unrelated diversification is fundamentally a finance-driven approach to creating shareholder value whereas related diversification is a strategic approach to building shareholder value. The added competitive advantage a firm achieves through related diversification is the driver for building greater shareholder value.



In contrast, unrelated diversification is principally a financial approach to creating shareholder value because it is predicted on astute deployment of corporate financial resources and executive skill in spotting financially attractive business opportunities. Unrelated diversification also called conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. Synergy may result through the application of management expertise or financial resources, but the primary purpose of conglomerate diversification is improved profitability of the acquiring firm. Little, if any, concern is given to achieving marketing or production synergy with conglomerate diversification.

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. 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.

Probably the biggest disadvantage of a conglomerate diversification strategy is the increase in administrative problems associated with operating unrelated businesses. Managers from different divisions may have different backgrounds and may be unable to work together effectively. Competition between strategic business units for resources may entail shifting resources away from one division to another. Such a move may create rivalry and administrative problems between the units.

Caution must also be exercised in entering businesses with seemingly promising opportunities, especially if the management team lacks experience or skill in the new line of business. 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 some form of strategic fit, the combined performance of the individual units will probably not exceed the performance of the units operating independently. In fact, combined performance may deteriorate because of controls placed on the individual units by the parent conglomerate. Decision-making may become slower due to longer review periods and complicated reporting systems.

## 2.7 Benefits of product diversification

It allows a firm preserve a degree of unity in its business activities, reap competitive advantage benefits of skills transfer or lower costs because of economies of scope and spreading of risks over a broader business base. Diversification brings about strategic fit across value-chain activities. When the value chains of different business overlap such that the products are used by the same customers, distributed through common dealers and retailers, then the businesses enjoy market related strategic fit.

Unrelated diversification can balance the cash flows of strategic business unit (SBU) entities. A firm with many SBUs that merit investment might buy a firm with cash cow products to provide source of cash. This reduces the need to raise debt or equity over time. Unrelated product diversification has appeal in several financial angles. First, business is scattered over a variety of industries, making the company less dependent on any one business. Second, capital resources can be invested in whatever industries offer the best profit prospects. Third, company profitability is somewhat more stable because hard times in one industry may be partially offset by good times in another.

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. 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. Diversification is a form of growth strategy. Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executives that "bigger is better." Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow.

Rewards for managers are usually greater when a firm is pursuing a growth strategy. Managers are often paid a commission based on sales. The higher the sales level, the larger the compensation received. Recognition and power also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed and written about by the press than are managers of companies with greater rates of return but slower rates of growth. Thus, growth companies also become better known and may be better able, to attract quality managers.

Growth may also improve the effectiveness of the organization. Larger companies have a number of advantages over smaller firms operating in more limited markets. Large size or large market share can lead to economies of scale. Marketing or production synergies may result from more efficient use of sales calls, reduced travel time, reduced changeover time, and longer production runs.

Learning and experience curve effects may produce lower costs as the firm gains experience in producing and distributing its product or service. Experience and large size may also lead to improved layout, gains in labor efficiency, redesign of products or production processes, or larger and more qualified staff departments (e.g., marketing research or research and development).

Lower average unit costs may result from a firm's ability to spread administrative expenses and other overhead costs over a larger unit volume. The more capital intensive a business is, the more important its ability to spread costs across a large volume becomes.

Improved linkages with other stages of production can also result from large size. Better links with suppliers may be attained through large orders, which may produce lower costs (quantity discounts), improved delivery, or custom-made products that would be unaffordable for smaller operations. Links with distribution channels may lower costs by better location of warehouses, more efficient advertising, and shipping efficiencies. The size of the organization relative to its customers or suppliers influences its bargaining power and its ability to influence price and services provided.

Sharing of information between units of a large firm allows knowledge gained in one business unit to be applied to problems being experienced in another unit. Especially for companies relying heavily on technology, the reduction of R&D costs and the time needed to develop new technology may give larger firms an advantage over smaller, more specialized firms. The more similar the activities are among units, the easier the transfer of information becomes.

Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shipping and freight charges, and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location.

## **2.8 Whether to grow or buy in diversification**

Diversification efforts may be either internal or external. Internal diversification occurs when a firm enters a different, but usually related, line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification may achieve the same result; however, the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification.

## **2.9 Internal diversification**

One form of internal diversification is to market existing products in new markets. A firm may elect to broaden its geographic base to include new customers, either within its home country or in international markets. A business could also pursue an internal diversification strategy by finding new users for its current product. For example, Arm & Hammer marketed its baking soda as a refrigerator deodorizer. Finally, firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

Another form of internal diversification is to market new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appear to have good market potential. Johnson & Johnson added a line of baby toys to its existing line of items for infants. Packaged-food firms have added salt-free or low-calorie options to existing product lines.

It is also possible to have conglomerate growth through internal diversification. This strategy would entail marketing new and unrelated products to new markets. This strategy is the least used among the internal diversification strategies, as it is the most risky. It requires the company to enter a new market where it is not established. The firm is also developing and introducing a new product. Research and development costs, as well as advertising costs, will likely be higher than if existing products were marketed. In effect, the investment and the probability of failure are much greater when both the product and market are new.

## **2.10 External diversification.**

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms.

Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. (Mergers are usually "friendly.") Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased (Amit and Livnat, 1988).

## **2.11 Vertical or horizontal diversification**

Diversification strategies can also be classified by the direction of the diversification. Vertical integration occurs when firms undertake operations at different stages of production. Involvement in the different stages of production can be developed inside the company (internal diversification) or by acquiring another firm (external diversification). Horizontal integration or diversification involves the firm moving into operations at the same stage of production. Vertical integration is usually related to existing operations and would be considered concentric diversification. Horizontal integration can be either a concentric or a conglomerate form of diversification (Amit and Livnat, 1988).

## **2.12 Vertical integration**

The steps that a product goes through in being transformed from raw materials to a finished product in the possession of the customer constitute the various stages of production. When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a backward vertical integration strategy.



Avon's primary line of business has been the selling of cosmetics door-to-door. *Avon* pursued a backward form of vertical integration by entering into the production of some of its cosmetics. Forward diversification occurs when firms move closer to the consumer in terms of the production stages. Levi Strauss & Co., traditionally a manufacturer of clothing, has diversified forward by opening retail stores to market its textile products rather than producing them and selling them to another firm to retail.

Backward integration allows the diversifying firm to exercise more control over the quality of the supplies being purchased. Backward integration also may be undertaken to provide a more dependable source of needed raw materials. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and serviced. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and servicing its equipment.

Since servicing is an important part of many products, having an excellent service department may provide an integrated firm a competitive advantage over firms that are strictly manufacturers.

Some firms employ vertical integration strategies to eliminate the "profits of the middleman." Firms are sometimes able to efficiently execute the tasks being performed by the middleman (wholesalers, retailers) and receive additional profits. However, middlemen receive their income by being competent at providing a service.

Unless a firm is equally efficient in providing that service, the firm will have a smaller profit margin than the middleman. If a firm is too inefficient, customers may refuse to work with the firm, resulting in lost sales. Vertical integration strategies have one major disadvantage. A vertically integrated firm places "all of its eggs in one basket." If demand for the product falls, essential supplies are not available, or a substitute product displaces the product in the marketplace, the earnings of the entire organization may suffer (Amit and Livnat, 1988).

### **2.13 Horizontal diversification**

Horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewelry through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of horizontal integration that Avon has also undertaken is selling its products by mail order (e.g., clothing, plastic products) and through retail stores (e.g., Tiffany's). In both cases, Avon is still at the retail stage of the production process (Amit and Livnat, 1988)

### **2.14 Diversification strategy and management teams**

Ensuring a firm's diversification strategy is well matched to the strengths of its top management team members factored into the success of that strategy. For example, the success of a merger may depend not only on how integrated the joining firms become, but also on how well suited top executives are to manage that effort.

The study also suggests that different diversification strategies (concentric vs. conglomerate) require different skills on the part of a company's top managers, and that the factors should be taken into consideration before firms are joined.

There are many reasons for pursuing a diversification strategy, but most pertain to management's desire for the organization to grow. Companies must decide whether they want to diversify by going into related or unrelated businesses. They must then decide whether they want to expand by developing the new business or by buying an ongoing business. Finally, management must decide at what stage in the production process they wish to diversify (Amit and Livnat, 1988).

## **2.15 Summary of literature review**

The current change in environment has caused firms to adapt to its environment. The framework that links an organization's capability to its environment is referred to as strategy (Ansoff, 1990). Strategy is composed of three strategies, i.e, stability, entrenchment and growth. Growth strategies focus resources on seizing opportunities for profitable growth. One of the growth strategies available to the firms is product diversification. This entails deployment of resources across lines of product either related or unrelated. Efforts have been made to assess the extent to which product diversification is related to company success with the evidence that a more diversified firm grows faster than less diversified firms (Bennet, 1990).

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Research Design

A case study was used to gauge and justify diversification as a competitive strategy in Radio Africa Ltd. More emphasis was placed on the full contextual analysis of fewer events or conditions and their interrelations which entailed in-depth examination of the two phenomenons of diversification and competitive advantage gained. Data was more detailed, varied and extensive.

### 3.2 Data Collection

Data required for this study was entirely primary. Primary data was collected using interview guide. In-depth interviews was carried out with four top managers in Radio Africa Ltd, The General Manager-Radio & TV, General Manager-Print, Group Financial controller and Group News editor –Electronic using interview guides. Interviews and interview guides were used because of their interactive nature and because of it being able to go in depth as the interview proceeds.

The research objective of this study of diversification as a competitive advantage strategy in Radio Africa Ltd was considered in choosing interview guides and in-depth interviews as methods of data collection.

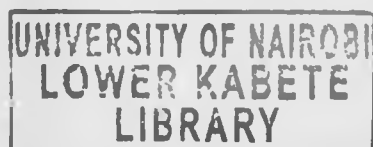
Interview guides and in-depth interviews were chosen because of no costs being involved or their less costly nature, high speed of gathering data and high response rate. This method of data collection was desired because of greater flexibility, greater control of the interview situation and also the opportunity to probe and ask the respondents questions to get required answers.

The interview guides were unstructured, this allowing flexibility in all aspects of the research process. It was more appropriate to explore the nature of a problem, issue or phenomenon without quantifying it. The unstructured interview guides described the variation in phenomenon, situation and or attitude.

### **3.3 Data Analysis**

After collection of data from the in-depth interviews, they were analyzed, presented and well interpreted. Processing and analysing of data involved a number of closely related operations which were performed with the purpose of summarizing the collected data and organizing these in a manner that they answered the research questions (objectives).

Data processing operations included editing, a process of examining the collected raw data to detect errors and omissions and to correct these when possible. Classification on the other hand involved arranging data in groups or classes on the basis of common characteristics, (Kothari, 1985)



Accumulated data from the interviews was reduced to manageable size in order to develop credible summaries. The analyzed data was interpreted in line with the research objectives of diversification as a competitive strategy in Radio Africa Ltd. The responses from the interviews went through content analysis in order to measure the semantic content and the main themes that emerged from the responses given by the respondents or the what aspect of the message collected through in-depth interviews. Content analysis looked at the overriding thematic issues in the qualitative data with final responses arising from the analysis later grouped into themes.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS.**

### **4.1 Introduction**

This chapter has dealt with qualitative data as opposed to quantitative. Interview guides were used for the in-depth interviews and analysis and interpretation done to the answers by the interviewees. Answers provided by the various managers were used to analyze and model data to show how a competitive advantage has been achieved because of diversification at Radio Africa.

### **4.2 Strategies used by Radio Africa Ltd**

Radio Africa started ten years ago and just celebrated its 10th anniversary this year. The flagship company of the Radio Africa group was Kiss 100 started in year 2002. Radio Africa was spreading its wings to the untapped Radio industry in Kenya having successfully outgrown its Uganda market through Capital Radio, Uganda. Radio Africa had a strategy of being the most successful media house in East Africa.

Competitor analysis in strategic management is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats.

Competitor profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment

Competitor analysis is an essential component of corporate strategy. It is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called “informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives.” As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis.

Radio Africa Limited was able to carry out a detailed competitor analysis and saw that diversification was the only way to survive in the competitive media industry which has already 106 on-air radio stations and 18 on air TV stations. Due to diversification Radio Africa has generally gained an edge or advantage over other media houses by, Increasing sales and market share, improving profit margins for a given period of time in new or existing markets, ensuring survival in the extremely competitive media market and lastly developed hard-to-copy marketing mixes.



### **4.3 Determining the competitive advantage gained by Radio Africa Ltd because of diversification strategy**

Upon and during the in-depth interviews with the four managers at Radio Africa Ltd in order to determine the competitive advantage gained by the company through the diversification strategy, a number of competitive advantages and benefits were encountered and these are discussed at length below:

Diversification has enabled there to be quick growth in listenership and readership for new brands of the company, which has been a competitive advantage for the company. Radio Africa Ltd has been in existence for the last ten years and the new brands introduced in the later years like Radio Jambo, X Fm, Relax Fm, Kiss Tv and The Star quickly gained high listenership and readership due to the marketing, advertising and exposure by the older brands, Kiss FM, Classic FM and East FM, and in the process gained quick growth in listenership. The new brands have gained growth in listenership and readership as opposed to the competitors introducing new stations in the market with no avenues for marketing and advertising.

Cross selling has been witnessed because of diversification at the company. New brands have benefited from the older brands when it comes to selling for advertising space. Whenever the sales team go out to sell the already established brands like Kiss Fm and Classic Fm, they sell the new brands as well, presenting one sales pitch and tabling all the rate cards as group, thus increasing the group's sales revenues.

There has been easy representation in Media Owners Association due to the large size of Radio Africa Ltd enabled by the many radio stations, Tv station and a newspaper line. Radio Africa Ltd has been able to get easy representation in the Media Owners Association with its senior executives and directors always being at the helm of the prestigious association. The managing directors of both the broadcast division and print have all been at one time or the other elected directors of MOA in succession while the groups General manager held the position of vice chairman in Year 2009/10 and the current vice chairman is the group's Chairman. Members of Media owners association are able to easily lobby with the government to its advantage.

Radio Africa has been able to attract the best human resources in the media industry due to the size of the company, especially in the programming department (presenters). Presenters see growth opportunities working at Radio Africa Ltd. Top presenters and comedians for instance, have found their way to the company, choosing it ahead of its competitors. Others have grown in their other careers due to their association with Radio Africa Ltd.

Radio Africa as a group has been able to alter the advertiser's rate card with ease and to its advantage due to the size of the group. There has been stiff competition in the media industry due to proliferation of many radio stations in the country and as such, advertiser's rate cards have been very competitive. Some media houses have been under selling by lowering their rate cards/price lists and in the process winding up because of overheads exceeding the revenues generated. Some of the new brands in Radio Africa Ltd like East Fm on the other hand, have easily lowered their rate card and still survived, its overheads being covered by the parent company.

There has been ease of bargaining power with financial institutions due to the size of the company's balance sheet. The expansion and diversification process has enabled Radio Africa Ltd grow its entire fixed assets and assets and as such growth in its balance sheet. The size of the balance sheet has in turn enabled Radio Africa Ltd attain credit facility with ease and as such get quick and easy funding for its diversification and development processes.

Due to the big size of Radio Africa Ltd, the company has over the years maintained an edge over other media houses in terms of invites to news conferences and news leads, due to the high position held in the media industry by virtue of its size.

News gathering and news department is one major department in a media industry. Due to the size of Radio Africa Ltd, the group has been able to have an edge over other media houses in terms of invites to news conferences and news leads, leading to quality news compared to most of its competitors in the media industry. Good news increases a station's listenership and thus growth in advertising and competitiveness.

There have been higher chances of sponsorships and exchange programmes by international media houses like BBC and Deustwelle News Network among others to Radio Africa's staff members, largely due to the size of the group and high recognition of its quality news as compared to other media houses in the industry.

The benefit of Synergies has enabled the various new brands ride on the infrastructure of the much established stations. As such the various stations have been able to save on mast rentals, mast maintenance and broadcast satellite services. The Limuru transmitters for instance, are shared by all the Radio and Tv stations saving on infrastructural cost while broadcast satellite services are also shared by all the stations under the Radio Africa stable.

The group has also been able to maximize on its employees where for instance a news anchor voices for all the station and one CEO serves all the stations.

Diversification has allowed Radio Africa Ltd preserve a degree of unity in its business activities, reap competitive advantage benefits of skills transfer or lower costs because of economies of scope and spreading of risks over a broader business base. Economies of scale is one big benefit of diversification for Radio Africa Ltd. Due to high volumes ordered from suppliers, Radio Africa has been able to enjoy quantity discounts and as such save on costs. There has also been a huge savings in terms of utility bills since all the stations and brands are housed under one roof and as such a huge saving for the various individual stations.

Diversification has brought about strategic fit across value-chain activities. When the value chains of different business overlap such that the products are used by the same customers, distributed through common dealers and retailers, then the businesses enjoy market related strategic fit.

Diversification has brought balance in the cash flows of strategic business unit (SBU) entities. A firm with many SBUs that merit investment might buy a firm with cash cow products to provide source of cash. This reduces the need to raise debt or equity over time. This has happened with the rich in cash flow, East Fm, Classic Fm and Kiss Fm which have continually supported other stations.

Diversification has had an appeal in several financial angles. First, business is scattered over a variety of music genres and businesses, making the company less dependent on any one business.

Second, capital resources were invested in whatever line of business that offered the best profit prospects. Third, company profitability was somewhat more stable because hard times in one line of business were partially offset by good times in another.

Diversification in Radio Africa Ltd enabled the company lock out potential entrants by strategically setting up stations to cater for all genres of music including the niche markets like Asians.

# **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

## **5.1 Introduction**

This chapter presents the summary of the findings study, conclusions drawn by the researcher and the corresponding recommendations based on the research results. It also gives policy implications of the study on the current practice by the government, media houses and the various stakeholders within the media industry.

The study was taken with the general objective of determining diversification as a competitive advantage in Radio Africa Ltd.

## **5.2 Summary of the study**

This study was done to bring out the competitive advantage gained by Radio Africa Ltd because of diversification. It was a qualitative study where content analysis was done from the four managers interviewed to analyse the various competitive advantages gained because of diversification. Based on the findings of the study, the various competitive advantages encountered due to diversification were growth in listenership and reader ship for new brands due to high marketing and advertising by the older brands. There has been cross selling between the various brands increasing the group's total sales revenues. There were easy representations to various media organizations like Media Owners Association due to the big size of the company and number of the many stations.

The company was able to attract the best human resources in the media industry due the big size of the company especially in the programming departments (presenters).Radio Africa has been able to alter its advertiser's rate card with ease due the size of the group.

Additionally, due to expansion and diversification, the company has had more bargaining power with financial institutions due to the size of the company's balance sheet. Due to the big size of Radio Africa Ltd, the company has over the years maintained an edge over other media houses in terms of invite to news conferences and news leads, due to the high position held in the media industry. The size of the company has also created high chances of sponsorships and exchange programmes by international media houses. Due to diversification, the benefit of Synergies has enabled the various new brands ride on the infrastructure of the much established stations or brands.

Diversification has allowed Radio Africa Ltd preserve a degree of unity in its business activities, reap competitive advantage benefits of skills transfer or lower costs because of economies of scope and spreading of risks over a broader business base. Diversification has also brought about strategic fit across value-chain activities. When the value chains of different business overlap such that the products are used by the same customers, distributed through common dealers and retailers, then the businesses enjoy market related strategic fit.

Diversification has also brought balance in the cash flows of strategic business unit (SBU) entities. Due to diversification there has been a number of financial appeals- business has been scattered over a variety of music genres and businesses, making the company less dependent on any one business. Capital resources were invested in whatever line of business that offered the best profit prospects.

Company profitability was somewhat more stable because hard times in one line of business were partially offset by good times in another. Lastly, diversification in Radio Africa Ltd enabled the company lock out potential entrants by strategically setting up stations to cater for all genres of music.

### **5.3 Conclusion**

Based on this study, we can conclude that to achieve long term prosperity and dominance in the market share of the business, strategic managers plan the establishment of objectives that drive the organization towards achieving them. Diversification is a strategy that can drive a company towards achieving all the above mentioned aspects. However, diversification can only be fruitful if the environment under which the organization is operating within is enabling. The strategic planners must do a thorough background study of the environment within which the company wishes to diversify. Some challenges are encountered though in implementing the diversification strategy for instance the challenged of acquiring the frequencies by the government through CCK and off course the challenge of mobilizing capital resources. However the benefits of diversification especially the benefits of synergy out weight the challenges and it can be said diversification for Radio Africa has been a success and the reason for growth of the company fulfilling the company's vision of being the biggest media industry in East Africa.

The government should also be involved in the media industry and as such should provide a conducive environment to enable those companies which are strategically well placed to diversify. Punitive laws like the Media Bill which proposed that in efforts to diversify, associated companies should not support new brands should not see the light of day.



Diversification has been such a success and growth in Radio Africa and as such there has been more brand awareness for all the brands owned by Radio Africa Ltd including the new young brands like Xfm, Relax Fm, Radio Jambo and The Star. Diversification has enabled the company to be able to improve its masts infrastructure instead of renting and co-sitting with competitors like the Nation Media Group. Evidence of growth from media research companies has ranked Classic Fm, Kiss Fm and Radio Jambo among the top five Radio stations in terms of listenership and The Star is ranked as the third read newspaper after Nation and The Standard.

Growth due to diversification has also been evidenced in rise in the group's revenues and profitability for the last ten years. More growth due to diversification has been witnessed in the group's young brands, Kiss Tv and X Fm which have achieved footing in the market with monthly sales revenue on the growth trend and now the group could be focussing in more geographical diversification in untapped markets like Tanzania, Rwanda, Zambia and new states like South Sudan.

#### **5.4 Limitations of the study**

Being a case study, it was not easy to get the information required to complete this study. It took a very long time to finally convince the managers interviewed to part with some information which they considered company's secrets and which could be leaked to the current and potential competitors.

There was also an element of time constraint as some of the managers interviewed and being some of the senior most managers of the company were not willing to be taken through all the questions in the interview guide, due to their busy schedules.

## **5.5 Recommendations**

This study has brought various aspects that should be factored by various stakeholders within the media industry in pursuit of diversification strategy. The various stakeholders that this study should be recommended to are the media strategic planners, the government, the media industry as a whole and the advertisers.

The strategic managers of various media houses within the media industry need to realize that the application of strategic management practice is very important for survival of the media business. It is important to have a vision and a mission statement that should guide the operations of the business. Whichever strategy that the organization takes up, proper planning is key to the success of the strategy. Adequate SWOT and PESTLE analysis must be done before introduction of project in the market. The various competitive advantages or benefits brought out by this study are very important aspects to note for any media house that has a dream of diversifying its business.

The strategic planners should be bold enough to reposition from the initial strategy if it has been rejected by the market targeted. This should be done without hesitation since the product will have undergone testing by the target market. The media industry has become very competitive especially for the radio industry. The media industry has become commercial and thus needs to be adequately managed.

The needs of the various stakeholders within the industry change at a very fast pace due to technology. It is vital for each media house to create a competitive advantage for itself by identifying its core competencies and using its success factors to enable the organization to work towards its vision. Media houses should also realize that the error of being everything to everyone is long gone and thus need for segmentation of the various products to target different markets.

The media industry has become a revenue generating sector for the government through paying of taxes. Thus, the government should provide an enabling environment for the media industry to grow. This should be done by limiting the barriers that have been created as far as frequencies and license allocation are concerned. The government should also consult with media experts so as to ensure that the various budgets provided by the government for media business is adequately handled.

The advertisers and media buyers are spoilt for choice by the competitive media industry. It is important for the advertisers to identify what they need out of advertising and book media that can help them achieve their objectives. The advertisers should have an ethical way of dealing with the various competitors within the media industry to avoid vices such as bribery by media houses in favor of business. The government should also regulate the operation of various media houses so as to avoid dominance by one agency in the industry. The advertisers should however take advantage of the diversification of media houses and ask for group discounts as a result of buying media across all the business lines.

## **5.6 Recommendations for further research**

This study has exclusively focused on the various competitive advantage and benefits encountered by a media house in implementation of the diversification strategy. Further studies should be done to survey the various challenges that are encountered by media houses that have diversified. Another study can be done to determine how the various media houses or a particular media house has responded to the various challenges encountered in pursuit of the diversification strategy. Another study can also be done to bring out the various reasons why media houses have strategically diversified to other lines of related business. It is also recommended that a detailed study be undertaken on the limitations and challenges faced by companies diversifying geographically across international borders. Additionally, a detailed study should also be undertaken on the competitive advantage and benefits for companies diversifying geographically across international borders.

## **5.7 Implications on policy and practice**

The media industry is a very important industry in Kenya and all over the world. This is because the media plays the role of disseminating information to the humanity through different kinds of media. The media informs, entertains and contributes to economic growth through advertising. Media houses have diversified so as to provide different services within one roof. The conclusion from this study is that diversification strategy is always a success for media houses in order to remain competitive in the extremely competitive media industry with 106 radio stations and 18 TV stations.

It is advised that potential investors and the various stakeholders should not shy away from diversification, a high return on investment is guaranteed.

These stakeholders include the financial institutions, the government, advertisers and the competitors, employees and the media owners association should also be involved in the planning of diversification strategy and in so doing implementation will always be a success.

The government's involvement in the media industry is through its agency, the Communications Commission of Kenya (CCK), which was established in February 1999 through the Kenya Communications Act, 1998, to license and regulate telecommunications, radio communications and postal services in Kenya. In this regard, CCK has been charged with issuing and regulating the technical aspects of the broadcast industry in Kenya. The government also regulates the licensing of print media business in Kenya. The government should give the media industry an enabling environment in its pursuit of diversification if it wishes to increase its market share. Oganga (2008) asserts that CCK has also in the recent past proposed legislations which would further reduce the attractiveness of the industry such as the Kenya Communications Amendment Bill (2007) that was assented to in January 2009.

The bill was introduced to help streamline and introduce regulatory provisions in electronic transactions as well as broadcasting which were considered weak. However, certain aspects of the bill such as powers giving the Minister for Communications powers to shut down a station considered to broadcast undesirable content were vehemently opposed by broadcasters with the government finally giving in and reversing the provisions of the section. Recently in 2009 also, CCK also proposed the Kenya Communications (Broadcasting) regulations which amongst other regulations proposed that, the commission will not only regulate content of radio stations but also that all licensees, except the public broadcaster shall not be assigned

more than one broadcasting frequency. This proposed regulation will also have a negative impact on the industry growth and thus hindering diversification. The firms already hold more than one frequency for broadcasting to other geographic regions and also for developing new stations targeting different segments of audiences. This study is expected to help inform policy change by the government when negotiating with stakeholders on the proposed new regulations (Oganga, 2009)

The financial institutions should give the media industry an enabling environment in terms of doing business. The media industry has become very commercial and various media houses make profits through advertising. The financial institutions should allow media houses to borrow funds to be able to undertake projects that they intend to venture into.

The Media Owners Association should also work with the various media houses to ensure that the media efficiently performs its roles to the public. It should also set rules that will guide the operation of responsible journalism and media buying from various clients. The advertisers and media buying professionals should educate the sales force on the various needs of the clients. They should also do business in a professional way and reject temptations of being bribed while media buying.

This study is important to those involved in general strategic management for various businesses. This is because various strategic management elements have been discussed as far as diversification and implementation are concerned. The study has brought out the various competitive advantages that are encountered during implementation of the diversification strategy. It is important for the managers to do an intense background study under which it is operating before making any strategic move.

The management should make sure that the team involved in the implementation is action oriented. It should be brave enough to change the strategy if need be within a set time frame. Usually change in the initial strategy is done when the results are not forthcoming within or after a set period, and upon realization of a failed strategy, the company could for instance relaunch or rebrand to give it fresh impetus. The management should also be able to identify various challenges that are being encountered during the implementation process and come up with mechanisms that will adequately deal with the challenges.

A number of key broadcast issues concerning regulation of the media sector that have arisen in year 2010 and 2011, and are indications that upon full implementation of the new constitution will be more fundamental in highlighting changes in the way the Communications Commission of Kenya regulate the broadcast industry. The key changes that have affected Radio Africa Limited both financially and operationally include CCK universal fund levy, Music copyright issues, filter installation and location violations, mast construction facility, new media law, digital migration. Some of these broadcast related issues have a significant and financial implication to the company and its competitors in its diversification strategy, and if not lobbied well, will create significant overheads for the companies and it is up to the management to solve them well in advance.

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## Appendix 1: Interview Guide

### QUESTIONS TO THE GENERAL MANAGER –BROADCAST DIVISION

1. What is the vision, mission and objective of Radio Africa
2. When was Radio Africa started and how long has it been in existence
3. Who are the major competitors
4. Has diversification given Radio Africa a competitive advantage over its competitors
5. How many Radio stations and TV stations are owned by Radio Africa
6. What is the uptake and ranking of all these stations
7. Do you have an advertiser's rate card/price list
8. How expensive is Radio Africa rate card compared to competitors and the industry
9. Is there any representation in media organizations like Media Owners Association and Media Council of Kenya
10. Do you have an Human Resources Department
11. Where are all the stations located
12. What are the benefits of having all the stations under one roof
13. Do you get proposals for buyouts, mergers and acquisitions
14. Are the future plans for Radio Africa listing in the stock exchange
15. Is Radio Africa willing to continue with the diversification strategy
16. Is Radio Africa going diversify geographically
17. How long is Radio Africa strategic plan and how often is it reviewed
18. Where do you rank Radio Africa in the media industry
19. What is Radio Africa relationship with Communication Commission of Kenya
20. Where do you see Radio Africa in the next 5 Years

## **QUESTIONS TO THE GENERAL MANAGER –PRINT DIVISION**

1. What is the vision, mission and objective of The Star
2. When was The Star started
3. Is The Star part of Radio Africa or operates independently
4. Does The Star have a printing press
5. Is the printing press used commercially
6. Who are The Star major competitors
7. Is The Star distributed countrywide
8. Why was the newspaper changed from Nairobi Star to The Star
9. Are there any synergies of working as a group with the broadcasting division
10. How is the readership and ranking of The Star in the country
11. Does The Star receive any support from broadcast division in terms of advertising

## **QUESTIONS TO THE HEAD OF NEWS –BROADCAST DIVISION**

1. How big is the electronic news department
2. Do all the stations gather news separately or collectively as a group
3. Are there any synergies of working as a group
4. How often do you get invites to news conferences and news leads
5. Do you have any exchange programmes with other media houses in the world
6. How does news add to the growth in listenership and ranking of a radio and TV station

## QUESTIONS TO THE GROUP FINANCIAL CONTROLLER

1. How profitable is Radio Africa
2. Who are your major bankers
3. Has diversification lead
4. Has diversification given Radio Africa a competitive advantage over its competitors
5. How expensive has been the diversification process
6. How much have the banks helped in the diversification process
7. With all the stations, how does Radio Africa manage its cash flow
8. How many masts does Radio Africa have
9. Do you share masts with competitors and how expensive is it
10. How expensive is it running the many transmitters owned by Radio Africa
11. Is Radio Africa Ltd registered and subscribed with Kenya Advertisers Research Foundation or Steadman
12. How expensive is it maintaining the many frequencies held by the group with Communications Commission of Kenya