AN ANALYSIS OF FUNERAL INDUSTRY ATTRACTIVENESS: A STUDY OF FUNERAL SERVICE PROVIDERS IN NAIROBI

By:

Waithaka E. Wanjiru

A Management Project Report Submitted in Partial Fulfillment of the Requirements for the Award of Master of Business Administration (MBA) Degree of the University of Nairobi

August, 2001

DECLARATION

This project report is my original work and has not been submitted for a degree in any other institution of learning.

Signature: ____________ Date: 25/10/01

WAITHAKA E. WANJIRU

This project has been submitted for examination with my approval as the University Supervisor.

Signature: ____________ Date: 25/10/2001

J.K. MAALU

LECTURER, DEPT. OF BUSINESS ADMINISTRATION

Dedicated to my parents for their constant encouragement and support for which I shall always be grateful.

ACKNOWLEDGEMENTS

This work would not have been possible without the encouragement, moral support and assistance given by family, MBA colleagues, lecturers and workmates. In particular I would like to express my gratitude to my supervisor, Jackson Maalu who with knowledge, patience and persistence helped me to clarify ideas in my mind before putting them to paper. To my research assistant Julius Waithaka, thank you very much for all the hours and days spent in research and data collection. To Wainaina, Wahiu and Sifunjo Kithaka who were all involved in data analysis thank you. A special appreciation goes to Catherine Ngahu, Managing Director Strategic Business Options and my fellow employees for your faith in me; and for your understanding and support when I needed time off from work to study. To Andrew Waiyaki of Omega Funeral Home and Services thank you for your input in the questionnaire and for sharing some insights into the funeral industry. To CLARION, for their generosity in allowing me the full use of their extensive newspaper library for which I am deeply grateful. I would also like to recognize the contribution of Dr. Ogutu, Coordinator and lecturer MBA Parallel Programme for sharing his ideas when drafting the research proposal and later for his support when presenting the proposal to the Faculty for approval. And lastly to all my MBA colleagues for the time spent brainstorming and sharing ideas in order to improve this work. To all of you, thank you. It is with pride that I submit this work for an MBA degree knowing that I could not have done it without you. May God bless you always.

TABLE OF CONTENTS

APPENDICES

LIST OF TABLES

ABSTRACT

Organizational survival is dependent on the ability of the organization to adapt to a changing environment. For an organization to achieve its objectives, it needs to provide goods and services that are demanded by the market. A firm unable to do this will encounter the 'strategic problem', which is characterized by the mismatch of the output of the firm and the demands of the market place.

The type of industry that a firm finds itself in will influence the way it competes and the strategies it will adopt. Porter (1980) developed the five-force industry analysis model which advanced the theory that there are five forces that determine competition in an industry and hence its attractiveness. The 8-force model is a modification of Porter's model and made up the conceptual framework that was used to study the funeral industry in Nairobi, Kenya.

At the time of this study there were sixteen registered funeral service providers. Data was obtained from owners or managers of these companies using a semi-structured questionnaire administered through personal interviews. Data was summarized using frequencies and percentages and analyzed using partial correlation analysis and factor analysis.

The findings indicate that the funeral industry is very young and most companies in this sector are less than five years old. Most are either sole proprietorships or partnerships and operate in two countries, Kenya and Tanzania. Of the sixteen companies in Nairobi, only three have mortuaries. Africans locally own 94% of the companies. Anticipated high profits play a key role in motivating entry into the sector and to a small extent the desire to ease funeral transport problems. Hearse services form the mainstay of the industry and all companies offer this service. Other common services offered are provision of coffins, hire of lowering gear, repatriation, hire of public address systems, accessories and church trolley. The main entry requirement is capital to

purchase hearses. Whereas all companies indicated that a certificate of registration is required to enter the industry, the responses for other licenses required varied among respondents. Other licenses mentioned included a trade license, work permit from Nairobi City Council, TLB and license for display board.

Overall, prices charged are not fixed. 75% of the companies sampled indicated that they negotiate with customers and agree on a price. Among older companies however (over 5 years old) this figure drops to 67% and for those companies less than five years increases to 85%. It is difficult to compare pricing structures at present because of low levels of standardization. For example, for hearse services, some companies base their prices on mileage, others on the type of vehicle used and yet others charge per day. Advertising in the sector is mostly limited to word of mouth and the reputation of the owner of the company. The three companies perceived to be the largest are Montezuma, Umash and Lona in that order. The main entry barrier for new companies is the high capital outlay required to enter the industry and the length of time and money, which has to be spent so that the company can create high awareness of its services in the market. Co-operation among competing companies is almost non-existent except for occasionally recommending other companies to potential customers when a company was fully booked. Similarly most said there was no code of ethics governing the operations of companies in the sector. The three main problems facing the sector are poor roads/infrastructure which increases costs of operations considerably due to the high costs of maintaining hearses, lack of awareness among consumers of the funeral services offered by companies and unfair competition from unlicensed companies.

Companies in the sector need to grow the market by educating consumers on the advantages of using professional funeral service providers and creating increased awareness; petition the government to address problems facing the sector and develop a code of conduct for the industry.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Organizations of various types have been in existence for a long time. They have been created in order to serve the needs of the societies in which they exist. The key concern of these organizations has been and still is their continued existence and survival over time. For organizations to achieve their goals and objectives, they have to constantly adjust to their environment. This environment is constantly changing and so it makes it imperative for organizations to continuously adapt their activities in order to assure survival (Porter, 1980; Aosa, 1997; Pearce & Robinson, 1997; Hamel & Prahalad, 1999). Organizations that do not adequately adjust to meet environmental challenges will experience a big problem, which has been referred to as *the strategic problem.* It is characterized by the mismatch of the output of the organization (products and services), and the demands of the market place. Firms have developed and adopted different techniques over time to help them cope with the threat posed by this strategic problem.

A firm's performance and behavior is affected by who it is competing with and in what sense they compete. The degree of competitiveness of the market refers to the degree to which individual firms in the market have power to influence price or other terms on which their product is sold. Based on market characteristics like degree of product differentiation, presence or absence of entry barriers, mobility, exit and shrinkage barriers economists were able to classify industries (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce & Robinson, 1997). Before the 1930s there were two known industry types – monopoly and perfect competition. Then in the 1930s dissatisfaction with these two extremes led to the development and adoption of two other market structures namely monopolistic competition and imperfect competition. This framework is what was used to study industrial economies.

Prior to the 1950s, firms attempted to tackle the strategic problem by using such managerial techniques as long-term planning, budgeting and financial control (Porter, 1980; Pearce & Robinson, 1997; Aosa, 1997). At the time of their use, the level of environmental change was low. The future of the firms was expected to be reasonably similar to the past. Hence it was practical to use past experiences to predict the future (extrapolation). However, as time went by, firms realized they were not adequately adjusting to the needs of the environment. The techniques in use failed to solve the emerging strategic problem. Demand was stabilizing, substitute products were being offered as a result of new technological developments and foreign competitors were invading traditional markets.

Strategic Management is the most recent and most comprehensive of the approaches that have been developed to tackle the strategic problem (Pearce & Robinson, 1997; Porter, 1980; Aosa, 1997). Strategic planning evolved as an answer to these new challenges. It involved the rational analysis of the opportunities offered and threats posed by the environment and of the strengths and weaknesses of the firm. It entailed the selection of a strategy (match) between the two that best satisfied the objectives of the firm (Ansoff et al. 1976). The evolution and emergence of strategic management led to new thinking in the area of industry analysis. Porter developed the five-force industry analysis model, which advanced the theory that there are five forces that determine competition in an industry (Porter, 1979). These forces form the basic characteristics of an industry that shape the arena in which competitive strategy must be set. The strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation. For example, even a company with a strong position in an industry unthreatened by potential entrants will earn low returns if it faces a superior or lower-cost substitute product. In such a situation, coping with the substitute product becomes the number one strategic priority.

Different forces take on prominence in shaping competition in each industry. Each industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. The strategist, wanting to position his company to cope best with its industry environment or to influence that environment in the industry's favor, must learn what makes the environment tick. This view of the competition according to Porter pertains equally to industries dealing in services as well as those selling products. As competition has increased coupled with a changing dynamic environment, it has become increasingly important for firms to understand the industry they are in so as to develop effective strategies to compete and develop competitive advantage.

1.2 The Funeral Industry in Kenya

As more Kenyans come to grips with the reality of death, a new industry has emerged to ensure that those who pass on are given the best treatment. Literature on this industry is almost non-existent due to the relative newness of this industry. Information available from newspapers however seems to suggest that this industry is growing. Whereas most towns rely on council hearse services, Nairobi leads in the funeral industry. For many years, the city relied on two hearse services, the Nairobi City council and Lee Funeral Home. However, towards the end of the last decade, Montezuma Funeral Services joined the industry in what was then a fairly bold move. For the first time, an African was ignoring all the inherent taboos associated with the dead and going into the business of transporting and burying the dead for a fee (Daily Nation, 1999). Besides the two pioneering firms, a few individuals occasionally undertook such ventures as a service and responsibility to their close relatives, departed friends and associates. Newspaper reports over the past few years show that there has been an influx of funeral directors and today there are over 10 firms all of them except Lee, owned by Africans.

Today various stakeholders characterize the funeral industry. Kenya is the regional leader in the field of pathology and number of mortuaries according to Dr Richard Baraza, chairman of the Kenya Dentists and Medical Practitioner's Board (Daily Nation, 1999). Foreign missions in Tanzania transport their dead to Nairobi, which has superior preservation methods and better funeral homes (Daily Nation, 1999). Besides the City Mortuary, the dead can be preserved at the Lee Funeral Home and at Chiromo. All major hospitals – the Aga Khan, Mater, Masaba, MP Shah and Kenyatta – have their own morgues. Other stakeholders in this industry include the coffin and tombstone makers, gravediggers, funeral directors and crematoriums.

The influx by funeral companies into this industry may have been fuelled by among other factors the increasing rate of deaths in Kenya. This is supported by the grim statistics arising from Kenya's road carnage and the ever rising deaths from Aids. According to a report released by the World Health Organization in June 2000, Aids is now the leading cause of death in sub-Saharan Africa, far surpassing malaria, tuberculosis, pneumonia and diarrhea related diseases. Aids killed 2.2 million people in Africa in 1999 compared to less than 300,000 a decade ago (Daily Nation, 2000). In Kenya alone, Aids kills at least 500 people everyday (East African Standard, 2000). Cultural practices that dictate that the bereaved accord their departed relatives befitting burials may have also contributed to the rising cost of death and subsequent creation of a lucrative industry to exploit this trend. Some communities like the Luo of Western Kenya have traditions that dictate that members of that community must be buried in their home villages irrespective of where they died. This often translates into expensive funerals where the deceased have to be transported from distant towns or from abroad for burial.

At a time when most industries in the country are facing decline due to the state of the economy, the trend in the funeral sector where the influx of firms entering the industry continues unabated suggests that this industry is attractive to entrepreneurs. In addition, going by the fact that most firms are owned and run by Africans suggests that there has been a shift in cultural thinking making this business to be regarded like any other.

1.3 The Research Problem

Information available in Kenya has mainly focused on the cultural practices of various communities pertaining to the dead. Studies have been done which detail the customs that are followed in order to honor the dead in keeping with traditions established over several generations. Examples of such studies include Matsuzono (1978) and Nakabayashi (1978), which have explained in detail the cultural practices surrounding Gusii funerals and the Isukha of Western Kenya respectively.

For many years in post-independent Kenya, the task of preparing the deceased for burial, cremation and so on was largely left to Government run hospitals and mortuaries and a few large private hospitals that had their own mortuaries. In particular, transportation to burial sites, transfer between mortuaries, liaison with the police in the case of in-home death for example and all the attendant paperwork, sourcing coffins, tombstones, public address systems and other requirements for funerals were largely left to the deceased's relatives to handle. This changed in the last decade and private companies were formed to provide these services for a fee.

The funeral industry in Kenya is fairly new and still emerging. Growth in the industry is high. From only 2 registered firms in 1990 (Daily Nation, 1999) the industry has witnessed the entry of more than twenty players in the last five years alone. Unlike the western world where companies whose core business is 'death' have thrived and even spanned across countries and continents, for decades, cultural inhibitions prevented many people in Kenya from even considering a business of this nature. In addition, providing funeral services for a fee was almost taboo because it was perceived to be profiting from the dead, which went against the cultural norm.

The question therefore is what is attracting firms into this industry? Which characteristics of the funeral industry can explain this apparent attractiveness? And what are the factors that influence strategy in the industry?

1.4 Objectives of the Study

This study has two main objectives:

- To identify the key characteristics of the funeral industry.
- To identify the factors that influence strategy in the industry using the framework of the 8-force industry analysis model.

1.5 Significance of the Study

The study will be of value as follows:

- It will provide insights into shifts in cultural thinking and economic circumstances responsible for the rapid growth of the funeral industry previously considered to be taboo for many Kenyans.
- It will help to explain the trend in this industry, which has seen the industry growing instead of declining or stagnating as many sectors of the economy have done. This study hopes to highlight the differences in the industry that may have been responsible for this phenomenon.

- The research findings will be of value to the industry players who will have available information on the industry as a whole. This information will be able to help individual companies to formulate strategies once they know how the industry is performing.
- Potential investors into this industry will have a source of information that will help them in their entry decisions.
- The government will have information on the problems facing the industry that it is directly responsible for and will hopefully take steps to solve such problems.

1.6 Overview of the Report

The project report is presented in five chapters:

The report starts off with the introduction, which gives a background of the study, states the research problem, the objectives as well as the significance of the study. A review of the literature relevant to the study is contained in chapter 2. Chapter 3 describes the research design that was applied in the study including the selection of the study units, method of data collection and analysis while the results of data analysis and the findings of the study are presented in the subsequent chapter. The final chapter presents the conclusions, recommendations and limitations of the study and makes suggestions for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter starts by looking at competition generally and the forms of competition. It traces early attempts to classify industries then looks at Michael Porter's five-force industry analysis model. Existing literature on the funeral industry is presented as well as the conceptual framework for the study and tracing the basis of the 8-force industry analysis model.

2.1 Competition and the Industry

An industry is a collection of firms that offer similar products or services, that is, products that consumers perceive to be substitutable for one another (Pearce & Robinson, 1997; Kotler, 1998; Lipsey, 1987; Porter, 1980)). Individual industries may differ from each other according to the degree of competition among various buyers and sellers in each market (Lipsey, 1987). Kotler (1998) stated that there are four forms of competition based on the degree of product substitutability. They are brand competition between firms offering similar products and services to the same customers at similar prices; industry competition between firms making the same product or class of products; form competition between firms manufacturing products that supply the same service and generic competition between all firms competing for the same consumers' disposable income.

There are certain characteristics of a market in which a firm operates that are likely to affect a firm's behavior and performance. To decide who is competing with whom and in what sense they compete, it is necessary to distinguish between the behavior of individual firms and the type of market in which the firms operate. Economists use the term *market structure* to refer to the latter concept (Lipsey, 1987). The degree of competitiveness of the market structure refers to the degree to which individual firms have power over that market – power to influence the price or other terms on which their product is sold. Factors that have been used to classify industries because they influence behavior and therefore performance of firms include the number of sellers, degree of product differentiation; presence or absence of entry, mobility, exit, and shrinkage barriers. Others are cost structure; degree of vertical integration; and degree of globalization (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce & Robinson, 1997).

These market characteristics give rise to four known industry structure types, namely pure monopoly, oligopoly, monopolistic competition and perfect competition (Kotler, 1998; Lipsey, 1987; Brown, 1995). Pure *Monopoly* exists when only one firm provides a certain product or service, that is, whenever an industry is in the hands of a single producer. Monopoly can be a result of a regulatory edict, patent, license, scale economies or other factors (Kotler, 1998). A monopoly has the most power over the market compared to other industry structure types. A monopoly has power to influence the market price. By reducing its output it can force the price up, and by increasing its output it can force the price down.

The market structure of *Perfect Competition* is at the opposite extreme of a Monopoly. The theory of perfect competition is built on three critical assumptions, one about the behavior of the individual firm and two about the nature of the industry in which it operates (Lipsey, 1987). The firm is assumed to be a *price-taker*. This means that the firm is assumed to act as if it can alter its rate of production and sales within any feasible range without its actions having any significant effect on the price of the product it sells. Thus the firm must passively accept whatever price happens to be ruling on the market.

The industry is characterized by *freedom of entry and exit.* This means that existing firms cannot bar the entry of new firms and there are no legal prohibitions on entry or exit. An industry that is perfectly competitive consists of many competitors offering the same product and service (*homogeneous*). Since there is no basis for differentiation, competitor's prices will be the same. Sellers will enjoy different profit rates only to the extent that they achieve lower costs of production or distribution.

Before the 1930s economists mainly studied the two polar market structures of perfect competition and monopoly. Then in the 1930s dissatisfaction with these two extremes led to the development of a theory of a new market structure called *Monopolistic Competition or Imperfect Competition.* The theory was developed by British economist Joan Robinson and American economist Edward Chamberlin (Lipsey, 1987; Brown, 1995). The main difference between monopolistic and perfect competition lies in the assumptions of homogeneous and differentiated products.

Firms in perfect competition sell a homogeneous product which from a practical point of view means a product similar enough across the industry so that buyers cannot distinguish physically among the products sold by different firms in the industry. They thus regard these products as perfect substitutes for each other. Firms in monopolistic competition sell a differentiated product, which from a practical point of view means a group of commodities similar enough to be called a product but dissimilar enough so that buyers can and do distinguish among the products sold by different firms in the industry. Because consumers regard the various products as close but not perfect substitutes, the producer of each has some power over its own price. Monopolistic competition consists of many competitors able to differentiate their offers in whole or part. Many of the competitors focus on market segments where they can meet customer needs in a superior way and command a price premium.

Oligopoly is an industry structure in which a small number of (usually) large firms compete with each other and produce products that range from highly differentiated to standardized. Each firm has enough market power so that it cannot be a price-taker, but it is subject to enough inter-firm rivalry that it cannot control the market completely. There are two forms of oligopoly, pure and differentiated. Pure oligopoly consists of a few companies producing essentially the same commodity. A company in a pure oligopolistic industry would find it hard to change anything more than the going price unless it can differentiate its service. If competitors match on services, then the only way to gain competitive advantage is through lower costs. Differentiated oligopoly consists of a few companies producing differentiated products. The differentiation can occur along lines of quality, features, styling or services.

2.2 Industry Analysis

When Joan Robinson and Edward Chamberlin developed the theories of imperfect competition in the 1930s, they also provided what appeared to be a tight classification scheme for the analysis of industries and industrial economics. Economists had long since recognized pure competition and pure monopoly, and with the addition of two kinds of intermediate competition – oligopoly and monopolistic competition – they seemed to have all the bases covered. For much of the next 40 years, economists used this framework to study the industrial economy.

Since the 1930s and 1940s, the traditional approach to analysis of industries was the *structure-conduct-performance (SCP) model* (Brown, 1995). As the name implies, the SCP approach holds that there is an important relationship between structure, conduct and performance. According to this approach, firm and industry behavior depend on industrial structure, so once industrial structure is classified, conduct and performance can be readily deduced. The key components of an industrial structure are the number of firms in an industry, entry and exit conditions, and degree of product differentiation. Other important aspects are the extent of vertical integration, the amount and quality of information available to firms, and the amount of risk.

The structure of the industry determines whether firms are price-takers (pure competition) or price makers (all other market structures), whether they engage in advertising (firms in pure competition markets do not), whether there is competition or cooperation among different firms and so on. The important point is that conduct is associated with structure. Finally, conduct determines performance. Three of the most important elements of performance are profitability, economic efficiency, and consumer welfare. The various market structures are assumed to perform differently. For example, there are no long-run economic profits under pure competition and monopolistic competition; efficiency exists only under pure competition, and so on.

In the 1960s and 1970s, however, a number of economists began to find problems with the SCP approach leading to the birth of the new industrial economics. The most serious problem with the SCP approach is what has been referred to as the *endogeneity question*. 'Endogenous' means determined within the system. In the context of the SCP approach, the endogeneity question concerns whether industrial performance is completely determined by industrial structure. The basic premise of the SCP approach is that performance depends on conduct and structure. However, conduct is assumed to be dependent on structure and this implies that performance is determined by structure alone. The premise that industry structure determines industry performance implies that industry structure is predetermined ("exogenous") and that managers and entrepreneurs only passively respond to the industrial environment. This is inconsistent with what is known about businesspeople: they are constantly trying to shape the industrial environment to fit their needs. For example, large firms may try to drive rivals out of business by offering goods for abnormally low prices, a strategy known as *predatory pricing*. Another example is *limit pricing*. If a monopoly firm keeps its prices low to deter entry, the industry will remain a monopoly; if it charges higher prices, firms will enter, and the monopoly will evolve into an oligopoly. To the extent that this kind of strategic behavior does exist, industrial structure is a function of the activities of the firms and should not be treated as being exogenous.

Another problem with the SCP approach is that it does not say very much about the evolution of industrial markets. This is a key problem because competition is an evolutionary and historic process. By treating industrial structure as given, SCP analysis cannot take into account strategy and the multiple interactions among firms. According to Brown (1995), perhaps the key difference between SCP and the new industrial economics is the focus on strategy versus determinism. Traditional industrial economists believe that existing firms, markets, and production methods are a reasonable approximation of the most efficient adaptation of the existing technology that could be imposed by an external order. The important point is that this approximation comes about automatically without any intervention from policy makers, so there is little role for strategic behavior by businesspeople. New industrial economists hold a much different world view: instead of being driven by a deterministic force, the market economy evolves through the interplay of firms and policymakers, who try to control economic evolution – they innovate rather than yield to the industrial environment.

Porter (1980) argues that every firm competing in an industry has a competitive strategy, whether explicit or implicit and that the essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes.

He developed the *five-force industry analysis model* which advanced the theory that there are five forces that determine competition in an industry (Porter, 1979). These factors jointly determine the intensity of competition in an industry. Porter argued that even though there are other factors, like the fluctuations in economic conditions over a business cycle, which could influence profitability, they can only do so in the short run. The five competitive forces form the basic characteristics of an industry that could shape the arena in which a competitive strategy must be set.

Porter defined industry attractiveness as the high potential profitability of an industry measured in terms of long term return on invested capital. The industry attractiveness was determined by the degree of competition in the industry, which was in turn influenced by the collective strength of the forces. The collective strength of the forces also defines the strategic challenges facing companies in an industry. If collectively they are strong vis-à-vis the industry players, then the industry is not attractive and vice versa.

The first is *threat of entry* where new entrants to an industry often have the desire to gain market share and as a result can cause a drop in an industry's product prices. Besides they can cause incumbent members to be inflated leading to a decline in profitability. The second factor is *threat of substitute products or services*. Porter argued that a substitute product could perform the same function as the firm's product. These substitutes can reduce the returns of the rival firm. The competitive position of a firms product vis-a-vis its substitutes depends on an industry's collective action. For example, increased advertising done by one member firm may not be enough to bolster the firm's competitive position against a substitute that is produced by a new entrant, but heavily sustained advertising done by all members of an industry may well improve the firm's position.

Bargaining power of buyers is yet another factor. Buyers can influence the pricing decisions that are made by a firm/industry. They can increase the demand for higher quality commodities thereby playing competitors against each other. The more the purchased products are standardized the stronger the bargaining power of buyers because of the wide choice of similar products that each consumer has to choose from. It is also important to note that buyers are normally less price sensitive when the quality of the products that they sell is dependent on the quality of the products that they buy. The fourth factor is *rivalry among existing firms*. Intense rivalry can result in price competitions, advertising battles, new products and increased customer services or warranties. Rivalry can be initiated by an increase in a firm's market share relative to others' due to the firm's aggression in its attempt to tap opportunities or improve its product positioning.

The last factor is the *bargaining power of suppliers*. If an industry's products have high price elasticity, then the bargaining power of suppliers of its resources may increase because they can threaten an industry with an increase in price or a decrease in the quality of the raw materials being supplied. This is normally the case when the suppliers are well organized or when the companies in an industry are not major buyers of those resources that are necessary to them.

Pearce and Robinson built upon Porter's theory and postulated that designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition which involves defining the industry boundaries and structure, competitive analysis and operating environment

(Pearce & Robinson, 1997). They go on to define the industry structure as comprising of the industry concentration, which is the extent to which industry sales are dominated by only a few firms. It also involves the economies of scale, which are the savings that companies in the industry can achieve due to increased volumes, product differentiation or the extent to which customers perceive products/services offered by different firms in the industry as different from one another, and barriers to entry. Barriers to entry are tangible or intangible obstacles that a firm must overcome in order to enter the industry.

In Kenya various studies have been conducted on industries but most focused on competition and competitive strategies used by firms in the industry for example Shimba (1993) which sought to document how companies in the financial sector do their strategic planning. Studies have been done on the effects of liberalization on the strategies of companies in various industries. Researches carried out in the post liberalization era document that the reform process has led to stiff competition in key sectors of the Kenyan economy (Mohamed, 1995, Kombo, 1997). Since its liberalization in October 1994, the petroleum sub sector in Kenya has become very competitive (Abekah, 1999). To survive in such a competitive environment, the firms in the industry have had to adjust their strategic responses by developing various competitive strategies (Wamathu, 1999). The same was found to be true of the motor vehicle industry in Kenya (Mohamed, 1995) where companies in the industry adjusted their marketing mix elements in order to cope with increased competition from dealers of reconditioned and used imported motor vehicles.

2.3 The Funeral Industry

The funeral industry as it is in Kenya today is very young, only starting to attract private companies in the late 1980s. Most of the information documented is a description of the cultural rites that accompany death passage and which individual communities follow in order to honor their dead. Matsuzono (1978) and Nakabayashi (1978) have documented the cultural practices surrounding Gusii funerals and the Isukha of Western Kenya.

The funeral industry in Kenya is very different from the developed countries of the west where it has been in existence for decades and where some funeral service companies are over 60 years old (Funeral Service Journal, 2000). In the United Kingdom, the industry is well organized and regulated. Funeral companies have come together to form associations to cater for their interests and regulate the industry. These organizations include the Funeral Standards Council, the National Association of Funeral Directors, Society of Allied and Independent Funeral Directors (SAIFD), which is regulated by the Funeral Ombudsman's Code of Practice and the Funeral Furnishing Manufacturers Association. The funeral services offered are also more varied than in Kenya. Funeral planning services incorporating pre-paid funerals, counseling services and online memorials are some of the services not offered locally. Funeral Directors in the United Kingdom also have the opportunity to advertise their services on the internet, through national exhibitions like the FSE 2000 bringing together key UK and international suppliers, and in funeral journals.

2.4 Conceptual Framework

This study intends to use the *8-force industry analysis model* as a guide in trying to define the industry structure of the funeral sector. The 8-force model is a modification of Porter's five-force industry analysis model borrowing from the SCP Model discussed earlier. Porter's five-force model was advanced in developed country contexts, which are rather different from developing country ones. An issue that arose later is whether strategic management models developed in other countries can be applied in Africa. It has been postulated (Osigweh, 1989; Hussey, 1990;

Austin, 1991, Aosa, 1997), that management is sensitive to the context in which it is practiced. This suggests that strategic management models advanced in developed countries where strategic management originated may not be directly applicable to Africa.

Austin (1991) argued that the basics of managerial work were the same all over the world. The differences in developing countries lay in the context in which managers operated and the special challenges they faced. Hussey (1989) had earlier suggested that environmental and organizational differences across countries might affect the way strategic management was practiced. Osigweh (1989) stressed the importance of being sensitive to environmental influences. He suggested that studies carried out in one culture could not be assumed to apply in other cultures unless that was shown to be the case through research.

Wiseman and Macmillan (as quoted in Aosa, 1997) accepted Porter's model but grouped the five forces into three categories, namely suppliers, customers and competitors. This new classification did not alter Porter's propositions. Wheeler and Hunger (1990) also agreed with Porter but wanted inclusion of a sixth force, 'other stakeholders.' They argued that this new category would incorporate the relative power of unions, government and other interested parties not specifically mentioned in Porter's model. In addition, though Porter had included government as a potential entry barrier under threat of new entrants, they argued that government was very powerful and merited special mention as a separate strategic force.

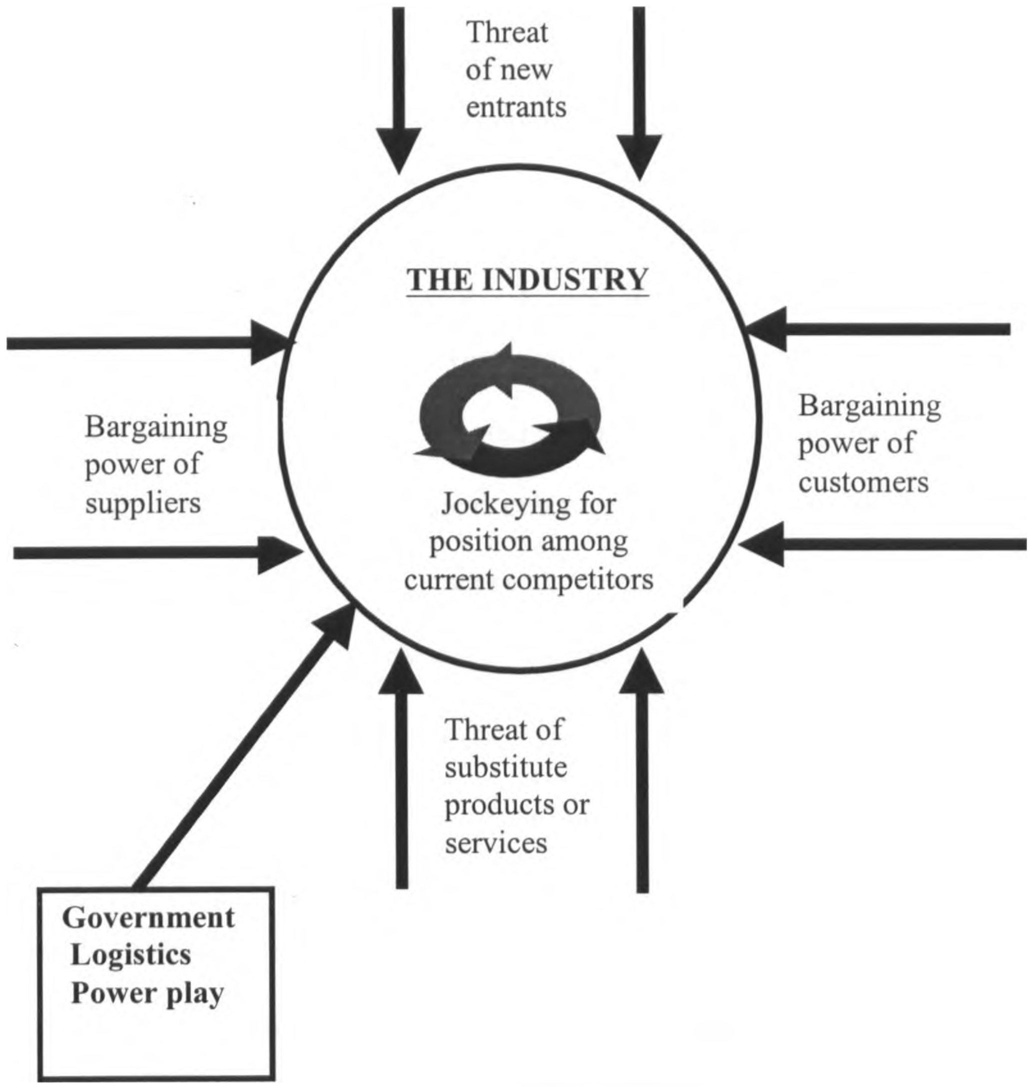
Palvia et al (1990) revisited the issue of the forces that drive competition in an industry. They acknowledged Porter's propositions and adopted Wiseman and MacMillan's classification of these forces. However, they argued that these forces were major determinants of industry competition in free market competitive economies. Developing countries did not have such economies and therefore in these countries Porter's model needed adaptation. New forces needed to be added to the model to reflect the extra challenges present in these countries. They suggested the addition of two other forces to the model, *government* and *logistics*. They pointed out that government in developing countries played very significant and dominant roles in the economy. In addition inadequate infrastructure is a problem that plagues many businesses.

While agreeing that the model suggested by Palvia et al holds true for Kenya, Aosa (1992) stated that the model is incomplete in one important respect. Aosa found that managers in Kenya complained of external interference and unfair treatment while carrying out their activities. There were reports of obstruction and illegal competition. All these factors cannot be attributed to government alone. He pointed out that in developing countries, individuals in high government positions could wield such power that they could flout government policies and controls at will. They did this when they individually stood to gain. It was his position that such individuals form a formidable strategic force and should be added to those suggested by Pavlia et al to better reflect industry challenges in Kenya. The new force is labeled *'power play.'*

Porter's model, modified for purposes of this study has eight forces. To the original five forces, three new ones have been added: *government, logistics* and *power play*. Aosa was of the view that the new model provides a more complete exposition of the additional challenges that have to be taken into account in formulating strategies for companies in Kenya. The researcher therefore feels that the 8-force model will provide a more comprehensive framework for defining the structure of the funeral industry in Kenya.

The 8-force model is illustrated below:[1]

FORCES GOVERNING COMPETITION IN AN INDUSTRY



[1] Adapted with some modification from Porter, M.E. (1979). *'How Competitive Forces Shape Strategy.'* Harvard Business Review. March-April 1979, Vol. 57, No. 2, pp. 141

CHAPTER 3: RESEARCH DESIGN

3.1 Population

The population for the study was defined as those companies that have made 'death' their core business. Only those companies offering funeral services like transport (hearse services), repatriation to and from abroad and related accessory products were included in the study. Companies specializing in manufacture of funeral products like caskets and coffins, urns etc and which do not offer any services were excluded. The study covered those firms operating in Nairobi and its environs. Sixteen companies were identified as actively operating in the funeral service sector in Nairobi during the period of the study from records at the Registrar of companies verified by City Council of Nairobi records and observation of the activities of the company vehicles at mortuaries in Nairobi. All the companies identified above were included in the sample for the study, because the number was so few that a complete census was warranted.

3.2 Data Collection Method

Data was collected using a semi-structured questionnaire served on respondents through personal interviews. The target of the study was owners/managers who are involved in the day to day running and decision making in the business. Personal interviews provide the interviewer with an opportunity to probe and obtain clarification where answers given to questions are unclear and this enhances the accuracy of information obtained. The response rate for personal interviews is also higher than with either mail or telephone interviews (Churchill, 1987). The questionnaire was divided into two parts. The first section was structured to obtain information on the company profile. The second part consisted of mainly closed questions, which sought information on the 8 forces to help the researcher define the industry structure.

3.3 Data Analysis

Statistical Package for Social Sciences (SPSS) was used to analyze the data. Data was cleaned, validated, edited, and coded and then summarized using descriptive statistics, frequency counts, percentages, and mean scores. Key characteristics of the industry like services offered; problems/challenges encountered; and pricing structure were identified. Analysis was then done to determine if relationships exist (and the strength of such relationships) between industry characteristics like services offered, licenses required and socioeconomic factors like age of the company, size defined by number of employees, and type of ownership. This was done using partial correlation analysis. Partial correlation coefficient provides a single measure of linear association between two variables while adjusting for the linear effects of one or more additional variables (that is, additional variables are controlled). It is a useful technique for uncovering spurious relationships, identifying intervening variables and detecting hidden relationships.

Based on the 8-force industry analysis model, 31 variables were identified which have the ability to influence strategy in an industry. Analysis was needed to determine the key factors out of the 31, which influence strategy in the funeral industry. All the factors needed to be analyzed simultaneously and the absence of a dependent and independent variables made factor analysis the most appropriate tool to use to achieve this objective. Factor analysis technique helped to identify factors that are not directly observable on a set of observable variables. The model for factor analysis is similar to a multiple regression equation. Each variable is expressed as a linear combination of factors, which are not actually observed. For example, the attractiveness index of the funeral industry is expressed as:

Attractiveness = $f\{C_1$ (New entrants) + C_2 (Bargaining power of customers) + C_3 (Bargaining power of suppliers) + C_4 (Substitute products) + C_5 (Logistics) + C_6 (Government) + C_7 (Power play) + C_8 (Industry rivalry) $\}$

C_i = Constants

This equation differs from the usual multiple regression equation in that new entrants, logistics, power play and so on are not single variables. Instead they are labels for groups of variables that characterize these concepts. These groups of variables constitute the factors. Usually, the factors useful for characterizing a set of variables are not known in advance but they are determined by factor analysis.

In general the model for the ith-standardized variable is written as:

$$X_i = f\{A_{i1}F_i + A_{i2}F_2 + \ldots + A_{ik}F_k + U_i\}$$

Where the F's are the common factors, the U is the unique factor, and the A's are constants used to combine the K factors. The unique factors are assumed to be uncorrelated with each other and the common factors. The factors inferred from the observed variables can be estimated as linear combinations of them. For example, the estimated power play factor is expressed as: -

$$\text{POWER PLAY} = f\{C_1\ (\text{NOASSOCIATION}) + C_2\ (\text{COST INCREASE}) + C_3\ (\text{UNFAIRCOMP}) + C_4\ (\text{NOGOVT})\}$$

Only a subset of variables indicated by large coefficients contribute toward POWER PLAY.

Factor analysis proceeded in 4 steps.

1. The correlation matrix for all variables was computed.
2. Factor extraction.
3. Rotation of the factor matrix.
4. Scores for each factor were computed for each case.

CHAPTER 4: DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter deals with data analysis, findings and discussions on the research findings. The data is summarized in the form of mean scores, percentages and tables where appropriate. Data was obtained from all the companies included in the sample.

4.2.1 Overview of the companies' characteristics

The majority (62%) are less than five years old. See table 1 below. 44% are sole proprietorships, 31% are partnerships, 13% are a parastatal and 6% each are limited companies and family owned companies respectively. See the details in table 2 below.

Table 1: Age **N=16**

Age	Freq.	%
Over 10 years old	3	19%
5-10 years old	3	19%
Less than 5 years old	10	62%
Total	**16**	**100%**

Table 2: Type of company **N=16**

	Over 10 yrs	5-10 yrs	Less than 5 yrs	Total
	%	%	%	%
Sole proprietorship	67%	33.3%	40%	44%
Partnership	-	33.3%	40%	31%
Limited company	3%	-	-	6%
Family owned	-	-	10%	6%
Parastatal	-	33.3%	10%	13%

3 funeral providers have mortuaries while 13 do not. Among those that have a mortuary 1 is a limited company and 2 are parastatals. 38% operate in Kenya only compared to 56% who operate in both Kenya and Tanzania and 6% who operate worldwide. The companies employ between one and thirteen people and have one to nine hearses each. See table 3 below for details.

Table 3: Size **N=16**

Number of employees	%
Less than 5 employees	63%
5-10 employees	31%
Over 10 employees	6%
Number of hearses	
One	25%
Two	37.5%
Three	6%
Four	12.5%
Five-Nine	19%

94% are locally owned compared to 6% that are foreign owned. 38% have key shareholders who are male, 19% female, 31% are family owned (usually means joint husband and wife ownership) and 13% have Government/public/university as key shareholders. Most (94%) are owned by Africans compared to 6% Europeans. See table 4 below.

Table 4: Ownership **N=16**

	%	**Sex**	%	**Race**	%
Local	94%	Male	37.5%	African	94%
Foreign	6%	Female	19%	Asian	-
		Family	31%	European	6%
		Government/public/university	12.5%		

4.2.2 Motivation for entry

44% were motivated to enter the industry because of the high profits involved and the need to supplement their income. 25% wanted to ease the problems in funeral transport, 19% because they indicated that poor services were being offered before their entry, and 13% because of the high demand for funeral services. Other reasons given for entering were the lack of government participation in the sector (6%), no competition in the business (6%), and entry as part of an expansion programme from manufacturer of coffins/caskets to provider of funeral services (6%).

It is worth noting that among the companies that are over 10 years old, none claim to have been motivated by high profits. This is different for those companies between 5-10 years old where 67% were motivated by high profits. For those less than 5 years old half (50%) were motivated by high profit. This would seem to suggest that the funeral industry is profitable and that this is what has mainly attracted companies to undertake this type of business.

4.2.3 Services offered

The mainstay of the funeral services industry is hearse services. All companies in the sample provide this service. See table 5 below for details of other services offered.

Table 5: Services offered N=16

Service	%
Transport (hearse services)	100%
Supply of coffins	69%
Hire of lowering gear	69%
Repatriation of bodies around the world	65%
Hire of public address system	63%
Accessories (ribbons, perfumes etc)	63%
Church trolley	56%
Embalming	44%
Cremation	19%
Counselling	13%

Some services like embalming; repatriation and cremation are more likely to be offered by older companies than less established ones and by those with mortuaries than those without. Embalming is offered by 67% of companies over 10 years old compared to 33%, which are 5-10 years and 40% which are less than 5 years old. All the ones that have mortuaries offer this service.

Repatriation is offered by 67% of companies over 10 years compared to only 20% by companies that are less than five years old. None of the companies, which are 5-10 years, offer this service. Cremation is also offered by 67% of companies over 10 years and by only 10% by companies less than 5 years old.

4.2.4 Entry requirements

63% indicated that to enter and operate in the funeral industry requires a "very good" vehicle (hearse). Other requirements include an office and telephone (31%), knowledge of dealing with bodies (25%), qualified staff/carpenters (19%), patience (19%), a mortuary or aspirations to own a mortuary (19%), a coffin workshop (13%), church trolley (13%) and public address system (13%).

A higher proportion (67%) of those with mortuaries indicated that knowledge of dealing with bodies was a requirement compared to only 15% who for those without mortuaries. This category also stated that qualified staff is a requirement by (67%) compared to those without mortuaries (8%).

Licenses required

All respondents were in agreement that a certificate of registration is required to enter the business. However, when it came to other licenses required, different companies gave varying responses. This is perhaps due to the lack of standards and regulation in the industry. 88% indicated that a trade license is required, work permit for the company from city council (81%), TLB license for hearses (81%), license for display board (50%), and parking license and office license (6% each).

4.2.5 Number of companies in the business

The actual number of licensed businesses in the funeral industry at the time the study was carried out was 16. When asked, 25% of respondents indicated that there were 17 companies, 19% felt there were 10 companies, and 13% 22 companies. Others gave varying figures between 3 and 30 companies. This suggests that only a few have good knowledge of their competition and the industry players in general.

4.2.6 Influence of mortuaries on sector

56% indicated that mortuaries offered the same kind of services they did compared to 44% who said mortuaries did not offer the same kind of services. Opinion was divided on how much control mortuaries have over which company gets to operate in its area. Overall while 50% feel mortuaries have some influence, 50% also feel they have little or no influence at all. See table 6 below for details.

Table 6: Influence of mortuaries N=16

	%
Have complete control over who operates	12%
Have a lot of influence	38%
Not sure	-
Have a little influence	12%
Have no influence at all	38%

Younger companies are more affected by mortuaries. Among those, which are less than 5 years old, 20% indicated that mortuaries have complete control and 50% that mortuaries have a lot of influence. 10% indicated that mortuaries have a little influence. Compare this with only 20% who said mortuaries have no influence at all.

This is the opposite for older companies where majority indicated that mortuaries have little or no control. Among those which are 5-10 years 33% felt mortuaries have a little influence and 67% that they have no influence at all. Among those companies older than 10 years, 33% felt mortuaries have a lot of influence but majority (67%) said they have no influence at all.

Mortuaries dealt with

There are 8 major mortuaries in Nairobi. All the companies surveyed dealt with Lee Funeral Home, Chiromo, Aga Khan, Mater, Kenyatta and City Mortuary. 94% dealt with MP Shah and 88% with Masaba. All the ones that have mortuaries dealt with all other mortuaries in Nairobi.

4.2.7 Prices

Overall, the majority (75%) do not offer fixed prices compared to 25% who do. Among the established companies (those over 10 years old) however, the trend is different as the majority (67%) offer fixed prices for their services compared to 33% who are flexible on pricing. This is also true for those that have mortuaries and by the same proportion. For those without a mortuary only 15% have fixed prices compared to 85% who are flexible. The flexibility in pricing is reflected in the prices charged for various services, which varied quite significantly.

Charges for transport within Nairobi varied from Kshs. 4,000 to 15,000. Transport out of Nairobi ranged from Kshs. 15,000 to 70,000. Supply of coffins ranged between Kshs. 4,000-50,000, lowering gear between Kshs. 3,000-14,000 although one company indicated that it supplies lowering gear free of charge as part of the service. Embalming varied between Kshs. 2,500-30,000, and cremation between Kshs 90,000-150,000.

4.2.8 Advertising

Only 19% of the companies surveyed advertise their services mainly through newspapers and the telephone directory. 81% do not. The ways in which companies in the sector obtain clients is indicated in table 7 below.

Table 7: How they obtain clients N=16

	%
Word of mouth	81%
PR/Reputation of the owner	81%
Onsite sign board/walk in customers	56%
Branded company vehicle/hearse	50%
Advertising	19%
Salesmen	6%

4.2.9 Companies' perception of the largest players in the industry

Montezuma was perceived to be the largest in the industry by 81% of respondents. See table 8 for details.

Table 8: Largest companies N=16

Company	%
Montezuma	81%
Umash	63%
Lona	50%
Lee	38%

Those with a mortuary voted Montezuma and Omega the largest companies (65% each). Those without voted Montezuma (85%), Umash (69%), Lona (54%) and Lee (39%).

4.2.9 Requirements for success N=16

- Charge less for services/less than competition 44%
- Handle customers with care/comfort mourners 44%
- Servicing vehicles regularly 38%
- Combine with coffin business 31% (with mortuary (67%) without (23%)
- Offering excellent/better services 25%

- Have clean/well behaved/spiritually rich staff 25%
- Have enough assets/capital 19%
- Be fair to customers 13%
- Be courageous and determined 13%

For those with a mortuary a key requirement was refrigeration facilities for preservation (67%).

4.2.10 Table 9: Barriers to entry N=16

	% *
A lot of capital is required	94%**
Takes a longtime and a lot of money before a new company is known	69%
Government bureaucracy/red tape in obtaining licenses	19%
Rules and regulations by City Council which dictate how business should be run	19%
Companies in the industry which exert influence over who can enter	13%
A lot of competition	13%

* Each evaluated separately out of 100%

**100% for those without a mortuary.

4.2.11 Co-operation among competitors in the industry

There is not much co-operation in the industry. Mostly companies co-operate only when they are unable to provide services to clients when they are fully booked and in such cases do refer them to other companies in the same industry.

4.2.12 Code of practice

There is no code of practice governing the funeral industry in Kenya.

4.2.13 Table 10: Problems facing companies in the sector N=16

Problem	Mean Score Highest=5 Lowest=1
Poor roads/infrastructure	4.9
Lack of awareness among consumers about our services	4.6
Unfair competition from unlicensed companies	4.6
Lack of regulations and standards in the industry	3.5
License fees are not standard	3.3
Cultural taboos about death	3.2
No designated (set aside) areas for putting mortuaries/funeral homes	2.6
Harassment from City Council	2.1
Misuse of hearses to transport food, drugs and other unauthorized items	1.4

Among established companies that are over 10 years old, the most serious problems are perceived to be unfair competition from unlicensed companies, license fees are not standard and poor roads/ infrastructure (each has mean score of 5.0). For those which are 5-10 years old, the most serious problem is poor roads/infrastructure (mean score 5.0). For those that are less than 5 years old, the major problems are perceived to be poor roads/infrastructure (4.8), competition from unlicensed companies (4.8) and lack of awareness among consumers about them (4.6).

4.3 Discussion of the Forces in the Funeral Industry

4.3.1 Threat of entry

Capital requirements are a barrier to entry. A lot of capital is required to enter the industry (mean score 4.7. Highest score is 5.0 and lowest is 1.0). However, most were agreed that it is easy for a new company to enter the industry (mean score 4.4). In terms of profitability it would seem that this comes after some time due to the fact that a new company needs to build awareness of its services. The statement that a company needs to spend money to advertise scored 3.9. This is supported by the fact that most said that companies that have been in the industry a long time have special advantages that other companies do not have (mean score 4.4). However, most companies in this industry offer very similar services (mean score 4.0) so differentiation is not a barrier to entry. Economies of scale are not a barrier to entry. Costs reducing as experience increases scored only 3.2 meaning there is no significant reduction in costs over time.

4.3.2 Bargaining power of suppliers

The main suppliers in this industry are the manufacturers of coffins/caskets, tombstones, and providers of accessories like ribbons, perfume and so on. Mortuaries and funeral homes are also major suppliers. Other suppliers depending on the service offered are newspapers where companies advertise their services and airlines for those who offer repatriation.

Mortuaries generally do not have significant influence over companies in the funeral industry. Influence of mortuaries scored only 2.1 mean score, which means that they rarely determine which companies get to do business with them. This is inspite of the fact that some offer the same services as funeral companies (mean score 3.3). Some players expressed interest in establishing mortuaries or funeral homes in the future (mean score 3.1). From previous data where it was established that companies in this sector rarely advertise (only 19% do) diminishes the power that the media would have on the industry. Some companies have also started making coffins instead of sourcing them from other suppliers (mean score 3.6). This strategy can be described as backward integration and implies that companies can reduce costs by making coffins themselves. This in effect increases the industry's power over suppliers of the same.

4.3.3 Bargaining power of buyers

The findings indicated that most have individual customers as opposed to organizations (mean score 4.8). Customers in this industry are price sensitive and do have some power over the industry. When asked if their customers are more interested in quality not price, most disagreed (mean score 3.1). Most companies (75%) offer opportunities for customers to bargain and set a mutually agreeable price. When asked if customers rarely bargain when told the price of the service, most respondents disagreed with this statement (mean score 2.4). Most do negotiate price with their customers (mean score 3.8). The fact that customers exert downward pressure on prices in the industry is consistent with the fact that companies in the sector offer very similar services. To a large extent they are not able to differentiate their service from those of competitors, which would give them more leeway to price higher.

4.3.4 Substitute services

The alternative to funeral services in Kenya is disposing of the dead the way it has always been done even before the phenomenon of funeral companies appeared in the market. African society and Kenyans in particular have always come together as a community to bury their dear departed. The extended family usually takes care of the funeral arrangements and makes decisions on where to bury, provides transport, buys the coffin and so on. Most (50%) disagreed with the statement that the demand for funeral services will increase because people have no alternatives to use (mean score 3.1). This implies that they are aware that people do not have to use their services and can do everything themselves.

Traditionally also, Africans have always buried their dead instead of cremating. If cremation increased/became more popular, this would reduce the demand for funeral services especially hearse services, which is the mainstay of the industry. According to most companies however, this threat is not very significant yet. When asked if more people are demanding cremation as opposed to traditional burial most disagreed (mean score 1.4).

4.3.5 Rivalry among existing firms

Most respondents indicated that competition in the industry is very stiff (mean score 4.9). This has had pricing implications and most try to charge the same price as their competitors (mean score 3.4). When the large companies in the business reduce price this has the effect of making other companies follow suit (mean 3.4). This supports earlier findings that customers are price sensitive. The industry is growing however and most indicated that they have registered growth in their own business (mean score 3.6). Most are also positive that demand for funeral services will increase in the next five years (mean 4.2). The untapped potential in this industry seems to be further illustrated by the fact that new companies entering the market do not result in reduced profits for incumbents. When asked if their profits reduce when a new company enters the business most disagreed (mean score 1.6).

50% felt that even if the industry became unprofitable they would make bigger losses if they left the business than if they stayed and earned only low profits (mean score 3.1). Only a few felt they could easily sell their businesses without incurring a loss if the business became unprofitable (mean score 2.1). This is probably due to the capital outlay required in order to succeed in the business and would be an exit barrier that could lead to unhealthy price competition if the industry experienced over capacity in the future.

4.3.6 Government and logistics

Influence by government is minimal in this industry (0.8 mean score). However, some felt that the industry is too unregulated. There are no standard rules/regulations defining what a funeral company is and what it should be involved in (mean score 3.1). Most approved the idea of establishing an association to define the standards and rules that should govern how companies should behave in the industry (mean score 4.1).

Illegal competition is a major factor in the industry. Unfair competition by companies without licenses is a big problem according to most respondents (mean score 4.4). Another problem is competition from companies that do not pay taxes yet they are allowed to continue operating (mean score 3.8). Such companies are able to make higher profits and undercut others through lower pricing which gives them an unfair advantage in an industry where customers are price sensitive. Although this factor seems to suggest that power play is a factor, it is primarily influenced by the failure of government to enforce city bylaws governing businesses and so is better classified under government.

A big problem in this industry is the poor state of the roads and infrastructure, which increases costs significantly due to the high costs of vehicle maintenance (mean score 4.8). This is due to the fact that hearse services (transport) are the mainstay of the industry.

4.4 Relationships between industry characteristics and company profile

Analysis was carried out while controlling for effects of unfair competition, tax evasion and government interference. See table 11 below for findings regarding the relationship between services offered and profile of companies in this industry.

Age

The findings indicate that there is a positive correlation between age of the company and counseling (0.39), repatriation (0.22), public address system (0.16), and embalming (0.12). This means that the older the company is, the more likely it is to offer these services. There is negative correlation between age and transport (-0.68), funeral planning (-0.47), church trolley (-0.45), cremation (-0.31) and hire of lowering gear (-0.1). This means that younger companies are more likely to offer these services.

The findings on embalming and repatriation are consistent with the researcher's expectations because a company would need a significant capital outlay and experience to be able to offer embalming and repatriation. More established companies are also likely to be perceived more credibly and hence able to offer counseling services. However, the findings on transport, funeral planning and cremation are inconsistent because one would expect that the older the company, the more likely it would be to offer a more comprehensive package of services. The high negative correlation coefficient for transport can probably be explained by the fact that most of the companies are quite young (62% are less than five years old) and all companies offer hearse services which as seen earlier is the mainstay of the funeral industry.

Table 11: Services vis-à-vis company profiles **N=16**

Services offered	**Age**	**Market**	**Size (employ)**	**Owned by**	**Race**	**Bus. Type**
Transport (Hearse services)	-0.68	0.61	0.89	0.26	0.77	0.01
Hire of lowering gear	-0.1	0.41	0.21	-0.38	0.15	-0.14
Embalming	0.12	0.25	0.24	0.48	0.34	0.78
Accessories (perfume, ribbons etc)	0.001	0.28	0.28	-0.3	0.18	-0.46
Counseling	0.39	-0.05	-0.19	-0.2	-0.09	0.08
Repatriation	0.22	0.31	0.33	0.54	0.45	0.57
Supply of coffin	0.01	0.49	0.22	-0.38	0.15	-0.26
Hire of public address system	0.16	-0.36	-0.34	0.12	-0.50	0.07
Hire of church trolley	-0.45	0.13	0.44	0.37	0.26	-0.03
Cremation	-0.31	0.38	0.55	0.94	0.69	0.65
Funeral planning	-0.47	0.68	0.79	0.39	1.0	0.29

Markets served and size of the company

All the services are positively correlated with markets served except counseling (-0.05) and public address system (-0.36). These findings imply that companies operating both in Kenya and elsewhere are more likely to provide most of the services listed. The relationship is strongest for funeral planning (0.68) and hearse services (0.61). The low correlation coefficient for counseling means there is almost no relationship between this service and the markets that a company is in. The relationship between the size of the company and the services offered follow a similar pattern as that between markets served and services offered. All the services are positively correlated with the size of the company except counseling (-0.19) and public address system (-0.34). Likewise, the relationship is strongest for transport (0.89), funeral planning (0.79), and cremation (0.55).

These findings are consistent with other industries where history has shown that as the company becomes bigger it expands to other markets outside the domestic market or country of origin. Similarly, as the company expands in size and markets served, it is more likely to offer more services as part of its product mix.

Ownership

There is a high positive correlation between ownership of the company and cremation (0.94), and repatriation (0.54). Ownership is also positively correlated to embalming (0.48), funeral planning (0.39), church trolley (0.37) and transport (0.26) among others. It is negatively correlated with coffins and hire of lowering gear (both –0.38) accessories (-0.3) and counseling (-0.2). The high positive correlation between ownership and cremation, repatriation and embalming can be explained by the fact that these services are mainly offered by companies with morgues and which are mostly owned/run by organizations, public or government. For example, cremation is offered by 67% of those with morgues compared to only 8% of those without. Repatriation is offered by 67% compared to 15% respectively while for embalming it is 100% compared to 31%.

Business type

The relationship between business type and the services offered follows a similar pattern to that between ownership and the services. For both, cremation has high positive correlation coefficient (0.65 for business type). Embalming is 0.78 and repatriation is 0.57. This can also be explained by the fact that most firms offering these services have morgues and are parastatals or limited companies as opposed to being sole proprietorships or partnerships most, of which do not have morgues.

Race

All the services are positively correlated to race except public address system (-0.5), and counseling (-0.09). This can probably be explained by the fact that most companies (94%) in the industry are owned by Africans.

Table 12: Licenses vis-à-vis company profiles **N=16**

Licenses	Age	Market	Size (employ)	Owned by	Race	Bus. type
Trade license	0.07	0.38	0.31	-0.29	0.18	-0.53
License for display board	0.43	-0.05	-0.17	-0.26	-0.23	-0.14
Certificate of registration	-	-	-	-	-	-
Work permit	-0.20	0.06	0.44	-0.11	0.25	-0.49
TLB license	0.00	-0.23	-0.22	-0.56	-0.39	-0.84

There is zero correlation between company characteristics and certificate of registration meaning the former have no influence over the latter. This is explained by the fact that in Kenya, businesses have to acquire a certificate of registration in order to be allowed to operate. The other licenses do not seem to follow any significant pattern in the way they relate to company characteristics.

Table 13: How they get customers vis-à-vis company profiles N=16

How they get customers	Age	Market	Owned by	Race	Bus. type
Word of mouth	0.38	0.46	-0.1	0.04	0.14
Advertising	-0.07	0.24	-0.14	-0.13	-0.27
Branded company vehicles	0.03	0.06	0.23	-0.26	-0.11
On site notice/walk in customers	0.66	-0.09	-0.13	-0.40	-0.32
PR/Reputation of the owner	-0.43	-0.16	0.32	0.19	-0.22

The relationship between company characteristics and the way they get customers is not very strong in most cases except for the significant positive correlation between on site notice/walk in customers and age of the company. This is consistent with common knowledge where older more entrenched companies are more likely to be well known in the market and can get customers coming to them. New and younger companies on the other hand have to work very hard to increase awareness of their services in the market and gain market recognition.

This conclusion is strongly supported by the findings in table 14 below, which looks at the relationship between company characteristics and the problems the companies face. A key problem faced by younger companies is lack of awareness among consumers about the services they offer (correlation with age of –0.73). There is a very significant positive correlation between race and problems faced (0.91). Considering that majority of the companies are owned by the same race (Africans), this finding suggests that most companies feel that this is a problem for them.

Table 14: Problems faced vis-à-vis company profiles N=16

Problems faced	Age	Market	Owned by	Race	Bus. type
Harassment from City Council	0.37	0.13	-0.31	-0.16	-0.18
Lack of regulations and standards	-0.17	0.12	-0.39	0.91	-0.49
License fees are not standard	0.12	0.51	0.11	0.24	0.40
No designated areas for putting up a mortuary or funeral home	0.12	-0.004	-0.43	-0.28	-0.4
Unfair competition from unlicensed companies	-0.1	0.37	-0.17	0.03	-0.37
Poor roads/infrastructure	-0.17	0.09	-0.58	0.14	-0.23
Lack of awareness among consumers about our services	-0.73	0.20	-0.19	0.19	-0.32
Cultural taboos about death	0.39	0.23	-0.20	-0.004	-0.22
Misuse of hearses to transport food, drugs and other unauthorized items	0.29	-0.2	-0.06	-0.43	0.11

4.5 Factor Analysis

The communality of a variable is the total variance accounted for by common factors. The *eigen value* is the total variance explained by each factor. Appendix 1 shows that 91% of the total variance is attributable to the first ten factors. The remaining 21 factors together account for only 9% of the variance. Thus a model with 10 factors may be adequate to represent the data. Only factors with an eigenvalue of 1 or more were chosen.

Appendix 2 contains the coefficients that relate the variables to the ten factors. The findings show that the ease of entry index can be expressed as:

$$\text{ENTRY} = f\{0.0037\ F_1 - 0.007\ F_2 - 0.006\ F_3 + 0.926\ F_4 + 0.0875\ F_5 + 0.101\ F_6 + 0.137\ F_7 + 0.033\ F_8 + 0.0348\ F_9 - 0.197\ F_{10}\}$$

Each row in appendix 2 contains coefficients used to express a standardized variable in terms of factors. Factor 4 has the highest coefficient for the entry variable. If the factors are uncorrelated, the values of the coefficients are not dependent on each other. They represent the unique contribution of each factor and the correlations between the factors and the variable. In factor extraction phase, the number of common factors needed to adequately describe the data is determined. This decision is based on Eigen values and the percentage of total variance explained by different numbers of factors.

The first factor shows a strong positive correlation with high capital outlay required to enter the industry (0.9). It is also positively correlated with cost increase due to poor roads (0.88), most customers are individuals not organizations (0.79) and high costs of advertising to gain recognition in the industry (0.69). This factor shows a negative correlation with profit reduction due to new entrants (-0.5). This factor can be interpreted as measuring *threat of entry*. The high capital requirement to enter the industry is a significant barrier to entry. In addition, new companies have to spend a lot on advertising in order to build awareness of their services in the market. The poor state of Kenyan roads contributes significantly to operational costs given that the mainstay of the industry is hearse services. The industry is growing and is able to absorb new entrants without causing a decline in the profitability of existing players.

The second factor is positively correlated with similar services offered by mortuaries (0.7) and unfair competition from unlicensed companies (0.6). It shows negative correlation with price reduction in response to similar moves by large competitors (-0.88) and price negotiation (-0.7). This factor is measuring the *bargaining power of customers* and is related to the ninth factor, which shows a strong positive correlation with the statement that customers rarely bargain (0.88). These findings indicate that there is no price leadership in the industry and that customers do not exert too much power over the price set by companies in the sector. However, the power of companies to charge premium prices is controlled by the presence in the industry of unfair competition from unlicensed companies that can afford to undercut their rivals as they do not pay tax. There is also a significant threat of mortuaries integrating forward into the industry and a number have done this and offer similar services as companies in the industry. Examples include Chiromo, Lee Funeral Home and Kenyatta.

The third, fourth and eighth sets of variables are related and can be interpreted as measuring *intra-industry rivalry or jockeying for position*. The third factor shows a positive correlation with easy divestment from the industry without loss (0.57), similar services offered by different companies (0.43), cost reduction with experience (0.38), company making coffins in-house (0.4), charging same price as competitors (0.35) and presence of stiff compeition in the industry (0.3). [Note the very strong negative correlation (-0.87) with stiff competition for factor eight]. Factor three shows a very strong negative correlation with no rules/regulations from city Council (-0.98) and increase in demand for funeral services because people have no alternatives to use (-0.68).
The fourth factor shows a very strong positive correlation with ease of entry (0.9). Also shows positive correlation to; charge same price as competitors (0.8), substantial increase in my business over the previous year (0.77), and cost reduction with experience (0.5). This factor shows negative correlation to my company makes the coffins we supply to customers (-0.32).

The funeral industry is easy to enter for new companies and different companies offer similar services. There is an element of price competition, which is expected due to the relatively undifferentiated nature of the services offered by different companies. However, the low exit barriers and the fact that a company can wind up its operations without incurring great losses has the effect of reducing the intensity of intra industry rivalry. Industry growth and profitability is high and there is still room for more expansion. At present therefore, the funeral industry in Kenya is unlikely to suffer from overcapacity and unhealthy competition arising from unprofitable companies hanging on and competing to the detriment of all players in the industry. There is low backward integration at present and the little there is, takes the form of industry participants making their own coffins instead of sourcing them from elsewhere.

The fifth factor exhibits a significant positive correlation with more people choosing to cremate than traditional burial (0.88). There is also positive correlation between this factor and most customers interested in quality not price (0.63). This factor represents *threat of substitute services*. The demand for cremation is on the increase and this is likely to affect the demand for funeral services. For example, hearse services, which are the mainstay of the industry, would be demanded less especially if more mortuaries offer this service as part of their service package.

The sixth factor has high positive correlation with companies allowed to operate without licenses (0.8), companies that do not pay tax and yet are untouched (0.69) and government interference in the business (0.61). This factor describes *government*. Unfair competition from unlicensed companies which do not pay tax and hence are able to charge lower prices and undercut legitimate companies is a significant threat in the industry. Majority of the companies obviously feel that the government has neglected to perform its role of leveling the playing field and unfair competition is a phenomenon that affects most industries in Kenya not just the funeral industry.

The seventh and tenth factors are related. The seventh factor shows a strong positive correlation with the desire of companies to establish a funeral home in future (0.73). It shows positive correlation with similar services offered by different companies (0.52). It shows a strong negative correlation (-0.87) to the statement that a company would suffer a bigger loss if it divested from an unprofitable funeral industry than if it stayed and earned low profits. The tenth factor shows a very strong positive correlation with increased demand for funeral services in the next five years (0.87). These two factors represent the *future attractiveness* of the industry and specifically prospects for expansion. There is a strong desire for companies to integrate backward by establishing a funeral home and thereby offering a more comprehensive package. This is probably due to the fact that companies in this industry at present offer very similar services. Integrating backward would enable a company to differentiate itself and create competitive advantage over its competitors. Future growth prospects are also high and the low exit barriers will help to prevent over capacity in the industry in future.

These results indicate that the key factors that are currently affecting strategy in the funeral industry are threat of entry, bargaining power of customers, intra-industry rivalry, substitute services, government and future attractiveness of the industry. The industry is in the *emerging stage* of industry evolution or life cycle, which is normally characterized by the presence of many competitors, the characteristics of services offered are in a state of flux meaning there is little standardization, the business system of the industry has not yet stabilized, and the use of price as a strategic tool has not yet acquired importance.

The companies in the industry are in the process of developing a service mix that would appeal to the market. At present the service offering is varied with different companies offering different service components. Take hearse services for example. Although this service is the mainstay of the funeral industry as seen in the findings elsewhere in this report, the service components that make up hearse services vary from one company to the next. This variation is also reflected in the pricing structures used by different companies. Whereas some companies base their prices on distance or mileage, others charge fixed rates per day and yet others base their price on the type of vehicle used be it a minibus, Nissan van and so on. These kinds of differences in the services offered are also prevalent for the other types of services and show clearly that standardization of services in this industry is a long way off. Standardization is important as it enables customers to be able to compare services from different companies as they try to weigh the value for price offered by each. Lack of standardization means individual companies would also find it difficult to gain competitive advantage based on high-perceived value, which is possible after comparisons with other companies, by potential customers.

There is no clear market leader in this industry, which is another characteristic of mature industries and those in the rapid growth stage. The bargaining power of customers is not very high. Ordinarily one would expect the companies in such an industry to have the freedom to enjoy premium prices for their services and indeed some do if the pricing structure indicated earlier is anything to go by. However, the Kenyan phenomenon of unfair competition from unlicensed companies, which are nevertheless allowed to continue operating despite the fact that they evade taxes and use other unfair business practices, has curtailed this freedom to some extent. These companies are able to charge low prices to undercut their competitors and to compete effectively the affected companies are forced to charge lower prices. The uneven playing field in the funeral industry has thus distorted the role of price as a strategic tool. The low prices are not evidence of industry evolution where companies in the industry strive to gain competitive advantage through low cost leadership and pass on this benefit in form of lower prices to customers, which is common in industries which have moved from the emergence stage to the growth stage and which follows standardization of products/services.

Vertical integration, which is another characteristic in mature industries as companies try to reduce costs, reduce the influence of suppliers and buyers and increase their profitability, is not significant. Although many companies in the funeral industry desire to eventually integrate backward by investing in funeral homes/mortuaries, none have been able to do this at present. A few companies have done a second form of backward integration, which is making coffins instead of outsourcing them, but they are in the minority. This reinforces the argument that the industry is still in the emerging stage and the business system is not yet stabilized.

As industries grow and mature, marketing takes on increased importance. Innovations in marketing can raise brand identification or otherwise differentiate the product or service, which is crucial in building relationships with customers and forging loyal relationships. Marketing of services in the funeral industry in Kenya mainly takes the form of word-of-mouth endorsements. Advertising, Public Relations, Branding and other sophisticated marketing tools are not widely used and in most cases are not used at all. This has implications in creating awareness in the market of an individual company's services. The fact that different companies offer similar services with little differentiation makes it difficult to command a premium and also makes it difficult for companies to create a unique identity for themselves that can be a source of competitive advantage.

From the above it is quite clear that the funeral industry is in the emerging stage. The strongest forces that influence strategy are relatively easy entry into the industry, low bargaining power of customers, moderate intra-industry rivalry, moderate - strong threat of substitute services, in this case cremation, the government's inability to provide a level playing field for all companies in the industry thus contributing to unfair competition and very good future growth prospects for the industry.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The funeral industry is very young and most companies in this sector are less than five years old. Most are either sole proprietorships or partnerships and operate in two countries, Kenya and Tanzania. Of the sixteen companies in Nairobi, only three have mortuaries. Africans locally own 94% of the companies. Anticipated high profits play a key role in motivating entry into the sector and to a small extent the desire to ease funeral transport problems. Hearse services form the mainstay of the industry and all companies offer this service. Other common services offered are provision of coffins, hire of lowering gear, repatriation, hire of public address systems, accessories and church trolley. The main entry requirement is capital to purchase hearses. Whereas all companies indicated that a certificate of registration is required to enter the industry, the responses for other licenses required varied among respondents. Other licenses mentioned included a trade license, work permit from Nairobi City Council, TLB and license for display board.

Overall, prices charged are not fixed. 75% of the companies sampled indicated they negotiate with customers and agree on a price. Among older companies however (over 5 years old) this figure drops to 67% and for those companies less than five years increases to 85%. It is difficult to compare pricing structures at present because of low levels of standardization. For example, for hearse services, some companies base their prices on mileage, others on the type of vehicle used and yet others charge per day. Advertising in the sector is mostly limited to word of mouth and the reputation of the owner of the company. The three companies perceived to be the largest are Montezuma, Umash and Lona in that order. The main entry barrier for new companies is the high capital outlay required to enter the industry and the length of time and money, which has to be spent so that the company can create high awareness of its services in the market. Co-operation among competing companies is almost non-existent except for occasionally recommending other companies to potential customers when a company was fully booked. Similarly most said there was no code of ethics governing the operations of companies in the sector. The three main problems facing the sector are poor roads/infrastructure which increases costs of operations considerably due to the high costs of maintaining hearses, lack of awareness among consumers of the funeral services offered by companies and unfair competition from unlicensed companies.

Market needs and competitive conditions vary markedly over the several stages of market or industry growth, affecting the attractiveness of the market both to existing competitors and new potential entrants and conditioning the kinds of strategies one might develop and pursue. The funeral industry is in the emerging stage and the key factors that have the strongest influence on strategy are easy entry, low bargaining power of customers, moderate intra-industry rivalry, moderately strong threat of substitute services (cremation), the government's inability to prevent unlicensed companies from operating leading to unfair competition and good future growth prospects for the industry. Marketing strategies in the early stages typically stress market education, that is, communicating with potential buyers the uses and advantages of the service/product over conventional services/products it is intended to replace. Pricing and market selection is also important. Companies in most industries in the emerging stage would use a skimming strategy that entails charging high prices to customer groups for whom the product/service has high value. At this stage, the market is relatively insensitive to price if the new product/service offers significant advantages over what it is intending to replace. The basic objective is to create primary demand, that is, maximize total demand for the new product/service category by supplanting as fully and as rapidly as possible the share of market volume held by trade products with which the new product competes.

As has already been seen, the funeral industry in Kenya is profitable and future growth prospects are high. Whereas entry is relatively easy, exit barriers are low which means companies can easily divest when they become unprofitable. Entry of new players does not cause the profits of existing companies to dip, which means that the industry potential has not been fully exploited and there is room for new companies to enter and operate profitably. However, the services offered by different companies are similar making it difficult for the companies to differentiate themselves in order to gain competitive advantage.

5.2 Recommendations

- To grow the market for funeral services and increase the total or primary demand for the services, companies in the sector need to educate consumers on the advantages of using professional funeral service providers as opposed to making and handling all internment or cremation arrangements themselves. Emphasis should be placed on communicating clearly significant benefits that would accrue to users of the services. Companies in the sector should begin to cooperate and pool their resources to ensure that information on funeral services reaches as many consumers as possible.
- Co-operation between companies would strengthen the industry position and enable the industry to petition the government to address problems directly attributable to it like allowing unlicensed companies and those which do not pay tax to continue operating to the detriment of honest, legitimate companies which contribute to government revenue through tax.
- Many companies in the sector also indicated that one of their main problems is lack of awareness in the market of the services they offer. Clearly word of mouth alone will not lead to high awareness in the market. Companies should therefore explore other ways of informing consumers of the range of services offered. Examples include radio and print media

advertising, which is cost effective with more reach than television. Those companies that succeed in clearly differentiating themselves are the ones that will be able to command premium pricing and build loyalty in the market.

- Due to the peculiar nature of funeral services which are normally required by consumers when they are grieving after the death of their loved ones and are vulnerable, the industry needs to develop a code of ethics to govern how companies provide funeral services to prevent potential exploitation of consumers by unscrupulous companies. In the long run this will enhance the professional image of funeral service providers in the market.
- The industry needs to standardize the basis of pricing which companies use. This will facilitate easier comparisons between the services offered by different companies and encourage more efficient companies to reap the benefits of more cost effective pricing. The pricing structure as it is now makes it difficult for consumers to decide which companies are offering better value for their money, a situation that can very easily lead to consumers being ripped off or exploited. In the long run this would hurt the industry collectively because it would erode the trust and confidence that consumers have in the industry.

5.3 Suggestions for future research

- This study has provided an understanding of the characteristics of companies in the funeral industry and the main factors that strongly influence strategy. Further research is needed to explore the competitive behavior of companies in the industry and the strategies companies use to compete against each other.
- The study was limited to Nairobi and although Nairobi has the lions share of funeral companies in Kenya, it would be an assumption to conclude that companies in other Kenyan

towns are similar. A nationwide study is recommended in order to negate or validate the findings in this study as being relevant to all funeral companies in Kenya.

5.4 Limitation of the study

- The study was limited to Nairobi and its environs. A national study is required to confirm these findings.

APPENDIX 1

TOTAL VARIANCE EXPLAINED

		Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Component	1	4.770	15.386	15.386	4.770	15.386	15.386	4.040	13.032	13.032
	2	4.371	14.101	29.487	4.371	14.101	29.487	3.321	10.714	23.745
	3	3.652	11.779	41.266	3.652	11.779	41.266	3.097	9.989	33.735
	4	3.232	10.427	51.692	3.232	10.427	51.692	3.009	9.706	43.441
	5	2.864	9.237	60.930	2.864	9.237	60.930	2.690	8.677	52.118
	6	2.398	7.734	68.664	2.398	7.734	68.664	2.660	8.581	60.700
	7	2.262	7.298	75.961	2.262	7.298	75.961	2.571	8.294	68.993
	8	2.051	6.616	82.577	2.051	6.616	82.577	2.443	7.882	76.875
	9	1.483	4.785	87.362	1.483	4.785	87.362	2.320	7.483	84.358
	10	1.185	3.822	91.184	1.185	3.822	91.184	2.116	6.826	91.184
	11	.798	2.574	93.758						
	12	.746	2.406	96.163						
	13	.525	1.693	97.856						
	14	.365	1.176	99.032						
	15	.300	.968	100.000						
	16	8.800E-16	2.839E-15	100.000						
	17	7.054E-16	2.275E-15	100.000						
	18	5.767E-16	1.860E-15	100.000						
	19	3.719E-16	1.200E-15	100.000						
	20	2.935E-16	9.467E-16	100.000						
	21	2.122E-16	6.846E-16	100.000						
	22	1.440E-16	4.645E-16	100.000						
	23	1.420E-17	4.580E-17	100.000						
	24	-7.726E-17	-2.492E-16	100.000						
	25	-1.775E-16	-5.725E-16	100.000						
	26	-3.760E-16	-1.213E-15	100.000						
	27	-4.480E-16	-1.445E-15	100.000						
	28	-4.841E-16	-1.562E-15	100.000						
	29	-6.415E-16	-2.069E-15	100.000						
	30	-7.100E-16	-2.290E-15	100.000						
	31	-9.405E-16	-3.034E-15	100.000						

APPENDIX 2

ROTATED COMPONENT MATRIX

	Component									
	1	2	3	4	5	6	7	8	9	10
ENTRY	-3.750E-02	-7.400E-03	-6.142E-04	.926	8.726E-02	.101	.137	3.388E-02	3.486E-02	-.197
CAPITAL	.907	-7.880E-02	.190	1.346E-02	5.884E-02	5.669E-02	-7.387E-02	7.829E-02	-8.920E-02	-.103
COSTEXP	3.032E-03	-.193	.380	.506	.393	6.750E-02	.109	-.430	-6.568E-02	.347
SPRODUCT	-.238	-.118	.430	.196	9.554E-03	-.336	.516	.464	8.778E-02	-.106
ADVERTC	.692	.362	-.114	.173	-.127	.315	.150	4.963E-02	2.212E-02	-2.579E-02
SADVANTA	.324	.375	-.275	6.921E-02	-.420	.220	-4.167E-02	-.415	.265	.232
CUSTCHOI	.220	.219	.111	.184	.453	.102	-.223	.510	.331	-.449
NEGOTIAT	.196	-.701	-6.465E-02	-.114	.201	.239	-5.465E-02	1.157E-02	-9.517E-02	-.508
SSERVICE	-1.691E-02	.709	.249	-5.954E-02	-.106	.293	-6.214E-02	8.104E-04	-.439	.216
MCOFFIN	.309	5.860E-02	.369	-.322	-6.717E-02	.108	.125	.421	.398	-.264
BARGAIN	.100	.115	6.676E-02	-5.921E-02	.221	-3.185E-02	-.275	-.165	.822	.162
ICUSTOM	.793	-.261	-.188	-.220	.147	1.000E-02	.286	1.352E-02	-3.242E-02	.274
QUALITY	-.190	.515	.197	.135	.627	-.335	2.128E-02	-5.460E-02	.129	1.479E-02
ESTFHOME	6.967E-02	.272	-.297	3.380E-02	-8.041E-02	7.564E-02	.732	.162	-4.441E-02	-.418
BUSIGROW	8.587E-02	.127	-.278	.767	.105	.163	.108	.157	.419	8.342E-03
CREMATE	-1.850E-02	-.129	-6.543E-02	1.350E-03	.880	8.761E-02	9.403E-02	-9.893E-02	.127	7.370E-03
INCRDEMA	.186	.141	-7.645E-02	-.117	-7.938E-03	.271	-.155	-2.417E-02	2.921E-02	.865
SCOMPETI	-.150	9.498E-02	.300	-.167	.143	-7.116E-02	4.778E-02	-.874	7.255E-02	-2.788E-02
SPRICE	-8.531E-02	-4.801E-02	.353	.822	-.175	-.110	-.145	8.179E-02	-.277	7.693E-02
PRICERED	-.167	-.880	.140	.173	-8.136E-02	.209	-.164	-4.171E-02	-.101	.181
PROFITRE	-.521	-1.022E-02	-.256	-6.264E-02	8.428E-02	.322	-.441	.381	-.369	.101
SUBSTITU	-.458	-5.190E-03	-.680	.112	-5.785E-02	.251	1.066E-02	.242	.112	7.476E-02
EXITBARR	-6.226E-02	-9.484E-02	-.138	-5.374E-02	-.325	7.697E-02	-.869	.192	.122	-5.434E-02
GOVINTER	4.864E-02	-.187	.297	5.889E-02	-.311	.609	.533	-1.397E-02	1.494E-02	9.927E-02
NOLIC	.291	-3.479E-02	-.147	3.784E-02	-9.740E-02	.822	-.192	.169	6.897E-02	.144
UNFCOMP	.185	.619	8.018E-02	.352	.168	.405	5.936E-02	-.370	-1.063E-02	-4.066E-02
TAXEVADE	-.307	1.983E-03	-7.352E-02	.194	.408	.687	6.028E-02	-.210	-.346	8.433E-02
COSTINCR	.881	.208	.222	-3.632E-02	-.148	2.122E-02	-.127	5.814E-02	.182	.101
ASSOCIAT	-.286	-.401	.101	.234	-7.922E-02	-9.400E-02	.270	.302	.658	-.159
NCCREG	-4.290E-02	-4.084E-02	-.948	-.140	-1.316E-02	-7.641E-02	-4.221E-02	9.824E-02	-.142	-3.097E-02
RESALE	.232	.230	.558	4.939E-04	.558	-.242	.127	7.394E-02	-5.083E-02	-.381

APPENDIX 3

MEANING OF ABBREVIATIONS

ENTRY	Easy for a new company to enter industry.
CAPITAL	A lot of capital required to enter industry.
COSTEXP	Costs reduce with experience.
SPRODUCT	Similar services offered by different companies.
ADVERTC	New companies need a lot of money to advertise.
SADVANTA	Established companies have special advantages.
CUSTCHOI	Mortuaries determine which companies do business with them.
NEGOTIAT	I set price by negotiating with customers.
SSERVICE	Mortuaries offer same services as I do.
MCOFFIN	We make our own coffins.
BARGAIN	Customers rarely bargain on price.
ICUSTOM	Most of my customers are individuals not organizations.
QUALITY	Most customers are more interested in quality not price.
ESTFHOME	In future would like to establish Funeral Home.
BUSIGROW	Business has increased substantially over the last year.
CREMATE	More people choosing cremation.
INCRDEMA	Demand for funeral services will increase in the next 5 years.
SCOMPETI	Competition in industry is stiff.
SPRICE	Charge same price as competitors.
PRICERED	When one of the large companies reduces price I do the same.
PROFITRE	When a new company enters industry my profits reduce.
SUBSTITU	Demand will increase because people have no alternatives.
EXITBARR	If industry became unprofitable would suffer bigger loss if I left.
GOVINTER	Government interferes very much in my business.
NOLIC	Some companies allowed to operate without licenses.
UNFCOMP	Unfair competition from unlicensed companies is a big problem.
TAXEVADE	Some companies do not pay tax yet they are untouched.
COSTINCR	Poor state of the roads increases my costs significantly.
ASSOCIAT	An association should be set up to define rules/regulations.
NCCREG	City Council has no rules/regulations governing funeral services.
RESALE	If business becomes unprofitable can easily sell assets without loss.

APPENDIX 4

QUESTIONNAIRE

Interviewer's name .... Date ....

Interviewee's name .... Questionnaire No ....

Position held .... Name of company ....

Location .... Address .... Telephone ....

INTRODUCTION:

Good morning/afternoon. My name is Wanjiru Waithaka. I am an MBA student at the University of Nairobi conducting a research on funeral services in Nairobi as a requirement for my final degree. May I ask you a few questions? Any information you provide will be treated with confidence and your name and that of your company will not be mentioned in the report.

PART 1- COMPANY PROFILE

1. (a) How old is your company? **(Tick only one)**

Over 10 yrs ☐

6-10 yrs ☐

1-5 yrs ☐

Less than 1 yr ☐

(b) Which areas in Kenya do you operate in?

____

2. (a) Number of employees ___________ (b) Number of hearses ___________

3. (a) Is your company a?

Sole proprietorship ☐

Patrnership ☐

Limited company ☐

Other (specify) ____________________________

(b) Ownership of the company?

Locally owned ☐

Foreign owned ☐

Other (specify) ____________________________

(c) Are the key shareholders?

Male ☐

Female ☐

African ☐

Asian ☐

European ☐

Other (specify) ________________________

4. What motivated you to start this business?

____

____

____

____

5. What services do you offer? **(Tick as many as are applicable)**

Transport (hearse services)	☐	Supply of coffin/casket	☐
Hire of lowering gear	☐	Public address system	☐
Embalming	☐	Church trolley	☐
Accessories (ribbons, perfume etc)	☐	Cremation	☐
Counselling services	☐	Funeral planning	☐
Repatriation of bodies around the World	☐		

Other (specify) ______________________________

6. (a) In your opinion what are the basic /minimum requirements needed in order to enter and operate in this business?

(b) Which licenses did you obtain in order to start the business? **(Tick as many as are applicable)**

Trade license	☐
License for display board	☐
Certificate of registration	☐
Work permit for company (from City Council)	☐
TLB license for hearses	☐

Other (specify)

7. In your opinion how many companies are in this business?

____

PART II

8. In your opinion, do mortuaries offer the same kinds of services that you do?

Yes ☐ No ☐

9. (a) To what extent do mortuaries influence which companies will operate in their area?

Have complete control over who operates ☐

Have a lot of influence ☐

Not sure ☐

Have a little influence ☐

Have no influence at all ☐

(b) How many mortuaries do you deal with in Nairobi?

Lee Funeral Home	☐	Masaba	☐
Chiromo	☐	MP Shah	☐
Aga Khan	☐	Kenyatta	☐
Mater	☐	City Mortuary	☐

Other (specify) ___________________________________

10. (a) How do you set your prices?

My company offers fixed prices ☐

The customers and I bargain and agree on price ☐

Other (please specify) ______________________________

11. How do you get most of your customers?

Word of mouth ☐

Advertising ☐

Branded company vehicles ☐

On site notice/walk in customers ☐

PR /reputation of owner ☐

Other (specify) ____

12. Which are the 3 largest companies in this business?

(a) ________________________________

(b) ________________________________

(c) ________________________________

13. What does your company do so that it can perform better than others can in the same business?

____

____

____

14. What prices do you charge for the services you provide?

Transport (hearse services) Within Nairobi __________ Outside Nairobi _________

Supply of coffin/casket ________________

Hire of lowering gear ________________

Public address system ________________

Embalming ________________

Church trolley ________________

Accessories (ribbons, perfume etc) ________________

Cremation ________________

Counselling services ________________

Funeral planning ________________

Repatriation of bodies around the ________________

World ________________

Other (specify) ________________________________

15. (a) Do you advertise your services?

Yes ☐ No ☐

(b) If yes, how?

Newspapers ☐

Radio ☐

Television ☐

Magazines ☐

Other (specify) ____

16. (a) When you started this business how many other companies were in the same business? __

(b) How many are there today? ______________

(c) Since then how many other companies have joined this business? _____________

17. What are the specific barriers companies face in trying to enter this business today?

A lot of capital is required ☐

Government bureaucracy/ red tape in getting licenses ☐

Rules and regulations by city council which dictate how business should be run ☐

Rules and regulations by government which dictate how business should be run ☐

Takes a long time and a lot of money before a new company is known ☐

Companies in the industry exert influence over who can enter the industry ☐

Other (specify) ______________________________

18. Which three things must a company do to succeed in this business?

(a) ______________________________

(b) ______________________________

(c) ______________________________

19. How do you cooperate with other companies in this industry?

____

____

____

20. Is there a code of practice that companies in this industry follow when doing business?

Yes ☐ No ☐

If yes, can you briefly explain what it is?

____

____

21. How serious are the following problems to your company? Rank in order of importance from 1-5 with a very serious problem being no.5 and the least serious no. 1

	Problems faced	**Very serious 5**	**Fairly serious 4**	**Not sure 3**	**Not serious 2**	**Not serious at all 1**
1	Harassment from city council					
2	Lack of regulations and standards in the industry					
3	License fees are not standard					
4	No designated (set aside) areas for putting up a funeral home or mortuary					
5	Unfair competition from unlicensed companies					
6	Poor roads/ infrastructure					
7	Lack of awareness among consumers about our services					
8	Cultural taboos about death					
9	Misuse of hearses to transport food, drugs, and other unauthorized items					
10	Other (please specify)					

22. Below are a number of statements that describe the state of the funeral industry today. Please rate the extent to which you agree or disagree with each statement on a scale of 1-5 where1= strongly disagree and 5= strongly agree.

Strongly disagree	**1**	**2**	**3**	**4**	**5**	**Strongly agree**

						CODE
A	It is very easy for a new company to enter this industry	1	2	3	4	5
B	A lot of capital is required to enter this industry	1	2	3	4	5
C	As my experience has increased in this industry, my costs have reduced	1	2	3	4	5
D	The services offered by different companies are similar	1	2	3	4	5
E	A new company must spend a lot of money to advertise before it can become profitable	1	2	3	4	5
F	Companies that have been in the industry for a long time have special advantages that other companies do not have.	1	2	3	4	5

23.

						CODE
G	In this industry mortuaries determine which companies do business with them.	1	2	3	4	5
H	I set prices by negotiating with customers	1	2	3	4	5
I	Most of the mortuaries also offer the same services that I do	1	2	3	4	5
J	My company makes the coffins/caskets which we supply to our customers	1	2	3	4	5
K	Customers rarely bargain when we tell them the price of our services	1	2	3	4	5
L	Most of my customers are individuals not organizations	1	2	3	4	5
M	Most of my customers are more interested in quality not price	1	2	3	4	5
N	In future I would like to establish a mortuary or funeral home	1	2	3	4	5

24.

						CODE
O	My business has increased substantially over the last one year	1	2	3	4	5
P	More people are choosing to cremate than traditional burial	1	2	3	4	5
Q	I expect that the demand for funeral services will increase in the next five years	1	2	3	4	5
R	Competition in this industry is very stiff	1	2	3	4	5
S	I try to charge the same prices as my competitors	1	2	3	4	5
T	When one of the large companies reduces price, I do the same	1	2	3	4	5
U	When a new company enters the industry my profits reduce	1	2	3	4	5
V	The demand for funeral services will increase because people have no alternatives to use.					
W	Even if this industry became unprofitable, I would suffer a bigger loss if I left than if I stayed and earned very low profits	1	2	3	4	5

25.

						CODE
X	The government interferes very much in my business	1	2	3	4	5
Y	Some companies in this industry are allowed to operate without licenses	1	2	3	4	5
Z	Unfair competition by companies without licenses is a big problem in this industry	1	2	3	4	5
AA	Some companies in this business do not pay tax yet they are not touched	1	2	3	4	5
BB	The poor state of the roads increases my costs significantly	1	2	3	4	5
CC	An association should be set up to define standards and	1	2	3	4	5

	other rules and regulations to be followed by all companies in this industry					
DD	The City Council has no standard rules/regulations defining what a funeral company is and what business it should be involved in	1	2	3	4	5
EE	If this business becomes unprofitable I can easily sell the company assets without incurring a loss.	1	2	3	4	5

<u>CLOSE INTERVIEW AND THANK RESPONDENT</u>

REFERENCES

Abekah, J. (1996). "Strategic Responses to change in the Business Environment: A Case Study of the Kenyan Petroleum Industry after Liberalization." Unpublished MBA Project Paper, United States International University –Africa, Nairobi. Kenya.

Aosa, E. (1997). "Contextual Influence on Strategic Planning: Porter's Industry Analysis Model in the Kenyan Setting." Moi University Business Journal, Issue 1, Vol. 1, No. 1, pp. 4-5.

Aosa, E. (1992). "An empirical investigation of aspects of strategy formulation and implementation within large, private manufacturing companies in Kenya." Unpublished PhD. Dissertation, the University of Strathclyde, Glasgow.

Austin, J. (1991). "The Boundaries of Business: The Developing Country Difference." Harvard Business Review, July-August 1991, pp. 134-137.

Brown, W.S. (1995). "Principles of Economics." West Publishing Company.

Churchill, G.A. (1987). "Marketing Research: Methodological Foundations." Dryden Press International Edition.

Daily Nation, June 11th, 1997. "It's a business just like any other."

Daily Nation, April 6 & 7, 1999. "Kenyan Way of Death."

Daily Nation, June 6, 2000. "Lifespan Shock for Kenyans."

East African Standard, July 14, 2000. "Kenyans Count the Cost of Dying."

Funeral Service Journal, May 2000, Volume 115, No. 5

Hamel, G. and Prahalad, C.K. (1994). "Competing For the Future." Harvard Business Review on Management Uncertainty. Harvard Business School Press (1999).

Hussey, D.E. (1990). "Development in Strategic Management." In Hussey, D.E. (ed.), International Review of Strategic Management, John Wiley and Sons, Volume 1.

Kenya Times, October 13, 1997. "Luo Funerals Too Expensive – Okullu."

Kombo, H.K. (1997). "Strategic Responses By Firms Facing Changed Environmental Conditions: A Study of Motor Vehicle Franchise Holders in Kenya." Unpublished MBA Project Paper, University of Nairobi, Kenya.

Kotler, P. (1998). "Marketing Management: Analysis, Planning, Implementation and Control." Prentice Hall of India.

Lipsey, R.G. (1987). "An introduction to positive economics." ELBS/Weidenfeld & Nicolson.

Luck, J.D. and Rubin, S.R. (1992). "Marketing Research." Prentice Hall of India.

Matsuzono, M. (1978). "A Preliminary Description of Gusii Funerals." In University of Nairobi, 1978, Institute of African Studies Discussion Papers, No. 98.

Mohamed, M.A. (1995). "An Investigation into the effects of the Reconditioned and Used Imported Motor Vehicles on the Marketing Mix of Franchise and subsidiary Motor Vehicle Companies in Kenya." Unpublished Dissertation, University of Nairobi, Nairobi, Kenya.

Nakabayashi, N. (1978). "The Isukha Funeral and the aftermath." In University of Nairobi, 1978, Institute of African Studies Discussion Papers, No. 97.

Osigweh, C. (1989). "The Myth of Universality in Transnational Organizational Science." In Osigweh, C. (ed.), Organizational Science Abroad: Constraints and Perspectives. Plenum Press.

Palvia, P., Palvia, S. and Zigli, M. (1990). "Models and Requirements for Using Strategic Information Systems in Developing Nations." International Journal of Information Management, 17.

Pearce, J.A. and Robinson, R.B. (1997). "Strategic Management: Formulation, Implementation and Control." Irwin McGraw-Hill 6th Ed.

Porter, M.E. (1979). "How Competitive Forces Shape Strategy." Harvard Business Review, March-April 1979, Vol. 57, No. 2, pp. 137-145.

Porter, M.E. (1980). "Competitive Forces: Techniques for analyzing Industries and Competitors." The Free Press.

Wamathu, S.K. (1999). "Strategic Postures and Action Evaluation in the Kenya Oil Industry." Unpublished MBA Project Paper, United States International University – Africa, Nairobi, Kenya.

Wheeler, T.L. and Hunger, J.D. (1990). "Strategic Management." Addison Wesley Inc.