A SURVEY OF THE NATURE OF COMPETITION IN THE SOFT DRINK INDUSTRY IN KENYA

BY

NYANG'AU, D.O

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DECLARATION

This Management Project is my original work and has not been presented for a degree in any other university.

Signed: ____________________

Daniel Omosa Nyang'au

Date: 30/10/03

This Management Project has been submitted for examination with my approval as University Supervisor.

Signed: ____________________

Mr. Jackson Maalu

Business Administration Department

Date: 4/11/03

DEDICATION

To my family: my dear wife **Robina** who encouraged me to complete this program and bore the brunt of the long hours that I put into ensuring that I completed it in time; daughter **Nyakerario** whose expected date of delivery became my expected date of submission of this project.

To my parents, **Mr. and Mrs. Nyang'au** who gave me the foundation upon which to further pursue my education.

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ABSTRACT

This study was conducted between July and October, 2003 the population of interest was made up of soft drink marketing organizations in Kenya. The focus was more on the formal soft drink industry which was described as consisting of carbonated soft drink bottlers, juices, cordials and bottled water.

The study had two main objectives

1. To determine the nature of competition in the industry.

2. To determine the relative importance of Porter's competitive forces in the industry and therefore the key drivers of industry competitiveness.

A semi-structured questionnaire was used to collect data (Appendix 1) and the key findings were as follows:-

The nature of competition is such that players in the various sectors do consider themselves to be in competition with each other either directly or as close substitutes of each other. There is intense rivalry among the various industry players with the only way for growing being through market share in a stagnated economic environment. Many of the firms in the industry have over the past three years introduced new products outside the stable of their core product range. This has in effect increased the amount of competition and driven down margins.

An interesting finding was that government has a greater impact on the firms' success than suppliers. Rivalry among competitors (Impact of existing competitors) was found to be the most influential of Porter's forces on the industry with the least influential factor being the bargaining power of suppliers.

Success in the industry can be achieved by a firm through protecting itself from the adverse effects of intense rivalry by differentiating itself in the hope that its products can demand price premiums in the market. It would also need to ensure that the buyers of the products (retailers) support its products by extending superior margins.

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CHAPTER 1: INTRODUCTION

1.1 Background

The Environment within which a firm operates is perhaps the largest determinant of the strategies it adopts. Porter 1980 observes that the essence of formulating competitive strategy is to relate an organization to its environment. Organizations are environment dependent. No organization can exist without the environment. They must scan the environment in order to spot budding trends and conditions that could affect the industry and adapt to them (Thompson and Strickland, 1993). Failure to do this could lead to a serious strategic problem characterized by the maladjustment of the organization's output and the demands of the external environment (Ansoff, 1984)

The soft drink industry in Kenya does not operate in a vacuum and is therefore also affected by environmental changes. Understanding these changes facilitates the understanding of the behaviour of firms in an industry. This study will look at the changes that have been taking place in the Kenyan soft drink industry that has for long been dominated by a few large players.

1.1.1 The Kenyan Soft Drink Industry

The Soft Drink Industry was defined for the purposes of this study as the grouping of organizations that are involved in the manufacture and marketing of non-alcoholic beverages other than tea, coffee, and the dairy products. It therefore included carbonated soft drinks, juices and nectars, water and fruit flavored drinks. Carbonated soft drinks are drinks that are bottled and preserved with the help of carbon dioxide. The base for all these is carbonated water. Near juice and nectars are fruit juices including those that are 100% juice products. These have nutritional value whereas fruit flavored juices are of little or no nutritional value. Fruit flavored drinks are basically water with a coloring and flavoring of different fruits. A cordial is a fruit flavored product that requires to be mixed with water before it can be taken.

The Kenyan soft drink industry is dominated by a few players most notable among these being the Coca-Cola Company which produces carbonated soft drinks (CSD), Del-Monte Company which produces juice, Kuguru Food who produce the Softa range of CSD, Keringet mineral water, and Picanna Juices. The Pepsi-Cola Company, which is another international player pulled out of the Kenyan market during the difficult trading environment of the early 1980s (Abdalla, 2001).

Growth in the soft drink industry in terms of liters of beverage sold has been varied across the various soft drink categories. A study undertaken by Tetra Pak Kenya Limited in 2000 estimated growth in the industry (vs. 1999) as follows: Juices/Nectars 86%, Fruit Flavored 70%, Water 8%, and Carbonated 1.5%.

The same study estimated the market shares of the various categories in the soft drink Industry in terms of volumes of beverage sold in the year 2000 as follows:

Juice/Nectars 4%, Water 10%, CSD 73%, and Fruit flavored drinks 13%. These statistics indicate that the growth in the carbonated soft drink sector has stagnated. The CSD share of the total market is large at 73% but this is declining steadily because of the high growth registered by the other products. This probably best explains why CSD companies are moving into the fast growing fruit flavored drinks category. Their carbonated brands may have hit the maturity stage of the product curve.

The estimated market size in millions of liters of beverage sold in 2000 as estimated in a Research International (RI) study was as follows: Water 33, Juice/Near Juice 13, Fruit flavored drinks 40, CSD 235 to give a total of 321 million liters of beverage.

According to the 2002 statistical abstract of the CBS Ministry of Planning and National Development (pg. 147), the soft drink Industry has grown in terms of quantities of sales from 130 million in 1993 to 175 million 2001. These figures though understated as shown by the RI study, show that growth in the Industry has been steady. Beer consumption over the same period fell from 340 million to 200 million. Similar declines were registered in the sugar, tobacco, and paints industries. The only other manufacturing sector that recorded growth was soap manufacturing.

The products produced by the Industry serve various needs for consumers. Consumers take the product for refreshment, rejuvenation (in the case of energy drinks which will not form a part of this study), health and nutrition, and refreshment. Any market players that simultaneously seek to satisfy the above needs will most probably consider themselves to be in competition against one another.

The number of new entrants into the Industry in a declining economy would seem to point to some Industry peculiarity. The going has however not been smooth for some of the new entrants as can be inferred from the closure in 2002 of Anspar Beverages who were the franchise holders of the Schweppes brand in Kenya. Other industries have mostly seen firms closing down their production facilities.

The Industry players have until recently always concentrated on a particular category within the Industry. Lately however Companies like highlands that were originally solely in the juices category have entered the water segment. The Coca-Cola Company has been busy testing new products outside their carbonated soft drinks stable. This trend has probably arisen as a result of the increasing realization that their products are indeed in the same industry serving the same customers. The growth of one category in a declining economy can therefore lead to the decline of other products. The Nairobi Bottlers for instance sold 5% less quantities of CSD in 2002 than they did in 2001. In total however the quantity of beverages sold increased 2% riding on higher sales of their new fruit flavored drinks (NBL management report Jan 2003).

The players in the industry find themselves in a Kenyan environment that not only provides competition but also a myriad of economic, political, technological, legislative and other external environmental pressures.

1.2 Statement of the Problem

The Finance Minister in exercise of the powers conferred by section 23 of the Restrictive Trade Practices, Monopolies and Price Control Act, Cap 504, Laws of Kenya, this year ordered an investigation into the carbonated soft drink sector (GOK, 2003). The main purpose of the commission was to determine whether there was undesirable concentration of economic power in the Industry. It would seem that the Minister having quoted the "The Restrictive Trade Practices, Monopolies and Price Control Act Cap 504 Laws of Kenya", had reason to believe that there were monopolistic tendencies in the industry. However, certain peculiar characteristics of the company, that seems to be the target of the investigation, make the situation more interesting. The pricing of Coca-Cola products has for instance been very stable over time. Further, the company has been amongst the heaviest spenders on advertising, again a peculiar behaviour from a "monopoly".

The industry has been attracting new entrants, most notable Schweppes and Softa. There is also evidence that another global player is preparing to re-enter the industry (The regional office has been set up in Nairobi). Further, importation of soft drinks has become big business as can be seen from the large presence of imported drinks on supermarket shelves. All this has happened on the backdrop of an economy that has been repelling organisations in other industries. Nyanjom, (2002) gives examples of Uniliver who sold their Kimbo brand and the transfer of bottling license by Castle Brewing to East African Breweries.

Although other studies of the soft drink industry have been undertaken, these have focused on sub-sectors of the larger soft drink industry as defined for purposes of this study. Abdalla (2001) for instance limited his study to the carbonated soft drink sector while Kisese (2002) studied only the bottled water sector. It is also clear that these studies were focused on marketing strategy as opposed to overall industry competition. The proliferation of new drinks, most notable being water and juices, is an interesting phenomenon that needs to be studied in order to understand the underlying forces.

This poses the question: "What has motivated the above competitive changes in the Kenyan Soft drink industry?"

1.3 Objectives of the Study

These were twofold:

1. To determine the nature of competition in the industry.

2. To determine the relative importance of Porter's competitive forces in the industry and therefore the key drivers of industry competitiveness.

1.4 Importance of the Study

Potential entrants / prospective investors can use the results of the study to gauge the attractiveness of the industry so as to make decisions on whether or not to enter/invest.

Industry members may find the results of the study important as input for strategy formulation (Exploitation of opportunities and minimization of threats).

Government can use the findings to determine the best way of regulating the industry. The ministers' order for an investigation points to the need for such a study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This section will review literature on the broad subject of strategic management. It will also specifically review literature on competition, with regard to strategic management, including the economist's perspective of competition.

Soft drinks can be classified as convenience goods. These are generally frequently bought low priced goods that entail low consumer purchase involvement (Aldershot, 1980). These goods are usually branded and low priced and the consumer does not visit many stores to compare prices. Retailers usually carry several competing brands of convenience products and are unlikely to promote any particular brand hence the burden falls on the manufacturer and the firm must advertise extensively to develop consumer acceptance of its products (Assael, 1993). Since such goods must be readily accessible when consumer demand arises, manufacturers must be prepared to distribute widely and rapidly (Aldershot, 1980).

2.2 Studies on the Soft Drink Industry and other Related Studies

A number of studies, with their main focus as the soft drink industry, have been done in Kenya. Abdalla (2001) studied the strategic marketing practices applied by the CSD industry in Kenya. Kisese (2002) studied the issue of brand equity in the bottled water sector. Other scholars have also studied the strategic responses and choices of Kenyan organisations to the changing environment. Among these are Gakombe (2002) on private hospitals, Sheikh (2000) on Insurance Companies, Karanja (2002) Real Estate firms, Chune (1998) on food manufacturers, Owiye (1998) Kenyan sugar firms and Kombo (1997) on the motor vehicle industry.

The studies have uncovered interesting trends. The marketing environment facing Kenyan firms has been found to be very dynamic over the past decade. "The general trend has been a shift from a stable, non-volatile, predictable and uncompetitive environment to one that is volatile, unpredictable, and quite competitive" (Kisese, 2002). The main target of the soft drink industry are the youth who have been hard hit by the dismal economic performance of Kenya as indicated by the declining per capita consumption of soft drinks (Abdalla, 2001). According to Chune (1998), food manufacturing in Nairobi declined because of the influx of imported food products as a result of economic liberalisation.

The players in the industry have in the past not focused attention on each other as the market has been growing. Abdalla (2001) points out that the market leader has not been aggressive in supermarkets compared to sellers of fruit juices, spirits and other soft drinks. This seems to be changing as indicated by the company's recent foray into the near juice category. The company has set up a production unit in Nairobi's industrial area to produce non-carbonated soft drinks that seem to be eating into its market share.

The water producers have also been facing stiff challenges with the proliferation of water bottling outfits. In 2001 there were fifty-four bottled water producers in the country and the number has been growing since then (Tetra-Pak survey). It is for this season that Keringet has begun to provide cooling equipment to its key customers to control this competition. Kisese (2002) points out that competition has been stiff in this sector and whereas some players have succeeded, others have pulled out of the market e.g. Bufallo brand and Maarufu brand. He observes that this particular sector emerged as a result of failure on the part of the City Council of Nairobi to provide clean drinking water.

2.3 Strategic Management

All studies mentioned above studied the environment within which the firms operated. Ansoff and McDonnel (1990) noted that strategic responses involve changes in firms' strategic behaviours to assure success in transforming future Environment. The key element of the firm's environment is the industry or industries in which it competes. An Industry has been defined as "a set of companies that provide closely related products/or services to a common group of customers". The Companies will in many instances rely on similar technology to produce the products or services (Newman, 1989). Porter (1980) defines an industry as a "group of firms producing products that are close substitutes for each other".

2.3.1 The Process of Strategic Management

David (1998) has identified the key stages of the strategic management process as follows:

Strategy Formulation

This involves the senior management deciding on what the vision and mission of the organization are. The vision answers the question: "Where would we want to be seen in the very long term?" They must then decide on the mission which would be a description of the core business of the organization in both market and product terms. Good mission statements also carry a statement of desired business values to guide behaviour.

The management must then make an attempt to understand the external environment. There are many tools that may be applied in accomplishing this. Some of the most popular are the performance of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, the use of Porter's five force model and performance of general environmental audits. The purpose of these techniques is to clearly identify the key elements of the environment and their impact on business and industry in general and the organization in particular. The purpose for this analysis would be to leverage the strengths against the threats and to exploit the opportunities while at the same time minimizing the negative impact of the weaknesses.

The management must then decide on the long-term objectives of the organization. These will be objectives that are aligned to the vision of the organization while taking cognizance of the results of the SWOT.

Once objectives are determined, alternative strategies must be identified that can deliver the stated objectives. A decision must then be taken on which of the alternatives can be taken to optimize organizational performance. This would mark the end of the strategy formulation stage.

Strategy Implementation

The next stage would be the implementation stage that is predominantly concerned with the internal environment of the firm. This entails making the strategy selected in the first phase a part of normal organizational activities. Some of the activities that need consideration in this include; 1) Breaking down the long-term objectives into operational annual objectives and policies. 2) Structure follows strategy and it therefore must be adjusted to support the selected strategy. 3) The systems in the organization must then be aligned with the strategy. 4) Lastly, the culture and the behaviours will have to be changed through conscious efforts.

Strategy Evaluation

The third major stage will be the strategy evaluation phase. At this stage actual performance must be measured against the objectives. This implies that the set objectives should be measurable to facilitate control. Management must initiate appropriate action where performance gaps are identified.

2.3.2 The Various Perspectives of Strategic Management

The following four perspectives (Generic approaches) will capture most of the thinking behind strategic management. These are the rational, the fatalistic, the pragmatic and the relativistic approaches. These are discussed below:

The Classical Theory – 1960s

The key authors here are Ansoff, Chandler and Porter. Profitability is the supreme goal of business and rational planning the means to achieve it. The basic premises of classical thought as given by Mintzberg are as follows: 1) Strategy formulation is a controlled and conscious process of thought – deriving from the notion of rational economic man. 2) Formulation of strategy rests with the CEO ('THE strategist') – Individualism of economics and military notion of a solitary general at the top. 3) Implementation is a distinct phase in the strategy process – The General dispatches the order to the front and it is executed because of military discipline and obedience.

The focus for managers is the maximisation of profit for the organization using long-term planning.

Processual Approaches to Strategy – 1970s

The major authors are Mintzberg and Cyert & March. These are also skeptical about the rational approach to strategy and are less confident about markets ensuring profit maximising outcomes. Strategies emerge in small steps as organisations and markets are messy phenomena.

The fundamental of processual thought are as follows: 1) The cognitive limits on rational action. Rational economic man is fiction as people are only 'boundedly rational'. Thus, the analysis that classicists believe to be rational is actually flawed by the very nature of humans. 2) Micro-politics of organisations - there is lack of unity of objectives. Coalitions of individuals each bringing in their own objectives and biases must bargain in order to set joint goals.

Strategic behaviour is entrenched in routines and standard operating procedures imposed by political exigency and cognitive limits rather than by perfectly rational strategies, organisations opt for 'adaptive rationality' – gradual shifting of routines as environmental messages force themselves on managers' attention. Strategy is discovered in action.

The Evolutionary Perspective – 1980s

The major authors here are Williamson, Hannan and Freeman. Rather than the reliance on managers to deliver profit, this view expects the markets to secure profit maximisation.

It draws heavily from Darwinian Theory stating that through natural selection only will the best performers survive and maximise profit. There is no need for rational planning in this approach because the environment is very volatile. Whatever methods are used to determine a strategy, only the best firms will survive.

The most appropriate strategies within a given market emerge as competitive processes allow relatively better performers to flourish while the weaker ones are shoved out. Thus, markets not managers choose the prevailing strategies within a particular environment. Where the future can be foreseen with accuracy, the strategies selected by management may be the same as those chosen by the environment. In a competitive environment, elaborate strategies offer temporary success before they are imitated by competition. Markets are too efficient to allow for the creation of sustainable advantage.

Systemic Perspective – 1990s

The key authors here are Marris and Granovetter. They contend that rationales underlying strategy are peculiar to particular sociological context. Managers are rooted in densely interwoven social systems. Economic behaviour of people is embedded in social relations including the network of families, the state, professional background, religion etc. Thus, social context determines rationality.

Norms that guide strategy stem from cultural rules of local society. Firms in different environments will therefore have different strategies because of the difference in social systems that they may find themselves in. Power broking is for instance very important for organisations operating in Kenya. This would mean that Kenyan organisations would have to factor this into their strategy processes.

Recent Developments in Strategy

The Art of Hypercompetition

Is the idea of sustained competitive advantage dead? Richard D'Aveni, professor of business strategy at the Amos Tuck School at Dartmouth College, believes it is. According to Mr. D'Aveni, business has entered a new era of hypercompetition, shifting dramatically from slow-moving stable oligopolies to an environment characterized by a quick-strike mentality on the part of companies aimed specifically at disrupting the competitive advantage of market leaders.

Mr. D'Aveni says he discovered in his consulting work that traditional strategic concepts were making companies weaker, not stronger. "The old structure was: define an industry, reduce the level of competition and then avoid competition where possible," he says. "But I found that successful companies were not doing any of these things. The best performers were disrupting markets, acting as if there were no boundaries to entry."

In his book, "Hypercompetition: Managing the Dynamics of Strategic Maneuvering" (Free Press), Mr. D'Aveni argues that competitive advantage is no longer sustainable over the long haul. Advantage, instead, continually created, eroded, destroyed and recreated through strategic maneuvering. For a company to sustain its success in the hypercompetitive era, it must be willing to take more risks than ever before. The old business model that focused on such issues as culture, human resources, structure and infrastructure, objectives and strategy may now be outmoded, he says. Instead, what is needed is a new set of guidelines that provides a vision for generating the next market disruption.

Hamel's Revolutionary Strategy

The aim of strategic management now is to help companies create revolutionary strategies to keep them permanently ahead of competition. This requires a depth of insight that most companies depend on when they are young but lose when they age. In Mr. Hamel's view, even highly competitive companies can develop blind spots. When that happens, they can lose out to newer challengers.

In an increasingly non-linear economy, incremental change is not enough. Organizations must build a capacity for strategy innovation, one that increases their ability to recognize new opportunities. Seeing the future has nothing to do with speculating about what might happen. Rather, one must understand the revolutionary potential of what is already happening.

The first perspective is to systematically deconstruct the orthodoxies and dogmas that rule a business. The second perspective is to develop a deeper sense of self, one that frees a company to do something that it would not have conceived of doing or making before, because it was imprisoned within a narrow definition of its market. The third fundamental lens entails understanding the discontinuities in the environment that can be leveraged for the remaking of an industry to the organisation's advantage.

Hamel's new approach seems to be aligned with the concept of continuous learning or the learning organization. This study will embrace Porter's view of strategic management that entails obtaining a sustainable competitive edge over the competition. The next sub-section will consider in detail Porter's method of analyzing industries in readiness for strategy formulation.

2.4 Porter's Framework of Analysing Industry competition

Porter's framework can be used to identify what the crucial structural features determining the nature of competition in a particular industry are. This would then focus any efforts toward strategy formulation (Porter, 1980).

2.4.1 Structural Analysis of Industry

Porter's five forces are the key considerations in any attempt to analyse competitiveness within any given industry. According to Porter (1980), structural analysis by focusing today on competition well beyond existing rivals should reduce the need for debate on where to draw industry boundaries. Any definition of an industry is essentially a choice of where to draw a line between established competitors and substitute products, between existing firms, suppliers and buyers.

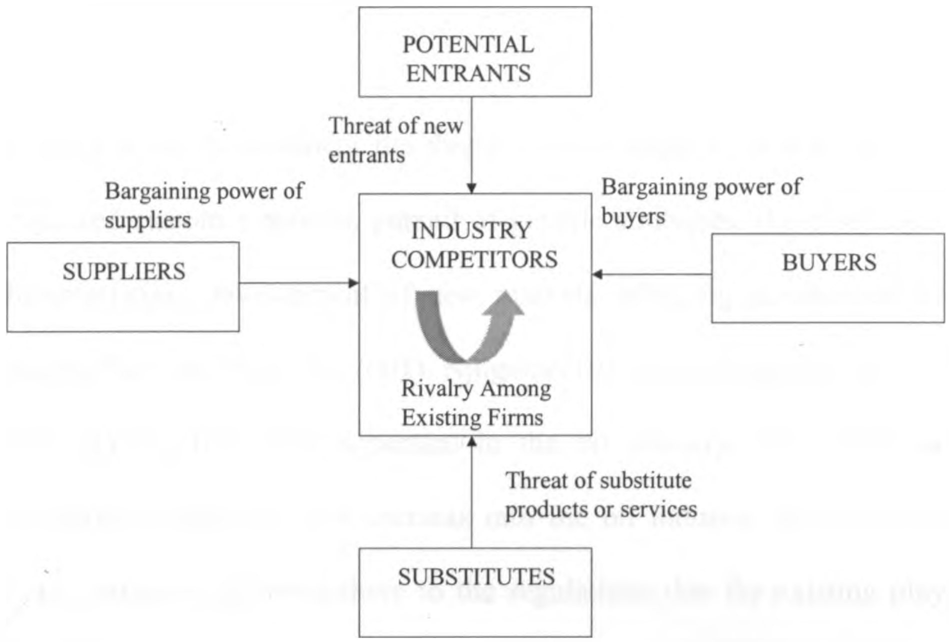
Drawing these lines is a matter of degree that has little to do with the choice of strategy. Latent forces of competition will not be overlooked and the result of the analysis can still be useful to strategy formulation (Porter, 1980).

It is for this reason that the soft drink industry has, for the purpose of this study, been confined to non-alcoholic beverages like fruit flavored drinks, fruit juices/near-juice, carbonated soft drinks and water.

2.4.2 Forces Driving Industry Competition

According to Porter, Competition in an industry serves on 5 basic competitive forces. These are reflected in the diagram below:

Diagram 1



Source: Porter M.E, Competitive Strategy, pg. 4 (New York: Free Press, 1980)

The forces can either be intense leading to low profit margins or mild allowing for handsome margins. Understanding sources of competitive pressure highlights the critical strength/weakness of a Company and clarifies areas where strategic changes may yield greatest payoff. The five forces are discussed in greater detail below:

i) Threat of Entry

New entrants to an Industry lead to additional capacity, the desire to gain market share and also usually come with substantial resources. The threat to entry depends on barriers to entry that are present coupled with the expected reactions from existing competitors. With high barriers and extreme retaliation expected, the threat of entry is low (Porter 1980).

In the Kenyan environment the threat of new entrants has been tackled through improved customer service, pursuit of generic strategies like cost leadership and differentiation, development of new markets, lobbying government for a level playing field etc. (Isaboke, 2001). Njuguna (1986) found that the issue of having a level playing field was important in the oil industry. The study focused on competition posed by new entrants into the oil industry. These competitors in many instances did not adhere to the regulations that the existing players were bound by and thus presented unfair competition.

Some of the barriers to entry are economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, Government policy and expected retaliation.

ii) Intensity of Rivalry among Existing Competitors

Rivalry takes the form of jockeying for position using tactics like price competition, advertising battles, product introduction, increased customer service etc. Rivalry arises where competitors see opportunities to improve their position.

Some of the factors that determine the intensity of rivalry do change in time. Industry maturity can for instance lead to such a change. As an industry matures its growth rate declines, resulting in intense rivalry, declining profits, and (often) a "shake-out" (Porter, 1980). Intense rivalry can result from a number of factors among these being: (1) Numerous or equally balanced competitors where an industry is highly concentrated/dominated by one or a few firms, the leader(s) can impose discipline as well as play a coordinative role in the industry through devices like price-leadership. Where firms are equally balanced in terms of size and resources (perceived), instability can be the result. (2) Slow industry growth as firms fight for share. (3) High fixed costs- firms may strive to utilize full capacity by increasing production. The resulting oversupply could result in pricing wars. (4) Lack of differentiation or switching costs. (5) Capacity augmented in large increments. This serves to increase capacity leading to oversupply. (6) High strategic stakes – this occurs where a given business is of strategic importance leading to a situation where a company is willing to spend "anything" to protect it. (7) High exit Barriers that may result for instance from the inability to put expensive machinery to any alternative use. There could also be tax credits that can only be recovered through continuing operations.

iii) Pressure from Substitute Products

All firms compete with industries producing substitute products. Substitutes limit the potential return of an industry by placing a ceiling on the prices of firms in the industry. The more attractive the prices offered by substitutes, the firmer the lid on the industry profits. According to Abdalla (2001), the prices of soft drinks in supermarkets have been shifting downwards. This is attributable to the fact that

Coca-Cola and other soft drink producers which have traditionally not placed much emphasis on the supermarket channel have now began to do so. This has offered greater choice to consumers.

iv) Bargaining Power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality, playing competitors against each other at the expense of the industry's profitability. The power of buyer groups depends on the characteristics of its market situation and on the relative importance of its purchases from the industry compared with other businesses.

Buyer groups are powerful where: (1) They purchase large volumes relative to seller sales. (2) Products purchased represent a significant fraction of buyers' purchases (buyers become price sensitive). (3) Products are standard or undifferentiated. (4) Buyers pose a credible threat of backward integration.

v) Bargaining Power of Suppliers

Suppliers can exert bargaining power over other participants in an industry by threatening to raise price or reduce quality of purchased goods/ services. Powerful suppliers can squeeze profitability out of an industry. The conditions that make suppliers powerful tend to mirror those making buyers powerful.

Suppliers can be powerful where: (1) The industry is dominated by few companies and is more concentrated than the industry it sells to. (2) There are no substitute products for sale to the industry. (3) The industry is not an important customer of the supplier group. (4) The product is essential input to the buyer business. (5) Suppliers' products are differentiated.

vi) Government as a force in Industry Competition

Although Porter does not have Government as one of the five forces, he does mention that it can have a substantial impact on the nature of competition in an industry. In Kenya, "The restrictive trade practices, monopolies and Price Control Act", Cap 504 of the Laws of Kenya, deals with the issue of investing of too much economic power in entities. This factor can have a heavy impact on competition in an industry in countries where government intervention in market dynamics is heavy. This is the kind of situation that exists in Kenya. Examples of how the government can impact on competition include intervention through government legislation or direct involvement of government in business.

According to Section 23 (1) b of the Act, there may exist unwarranted concentration of economic power where "a person, by virtue of controlling two or more physically distinct units which manufacture substantially similar products, supplies more than one-third of the value, at ex-factory prices, of the domestic market for the category of goods". The Act vests in the minister for Finance powers to order an investigation into any industry which may have such concentration of economic power. According to section 24 (2) of the Act, remedial action may include an order for disposal of one or more units in a group or chain of manufacturers or distributors or supplies of services controlled by the person.

2.5 Economists' different states of competition

In the face of the Finance Minister's investigation into the soft drink industry for monopoly-like tendencies, it was important that this study considered the conditions that should exist for an organization to be termed a monopoly. This section will also consider the different types of competition that may exist in an industry.

2.5.1 Monopoly

A monopoly has been defined by economists as "...a market or industry in which only one firm produces a product for which there are no close substitutes" (Karl and Fair, 1989).

In order for a Monopoly to be sustained, there must be some formidable barrier to entry. This relates to one of Porter's five forces that determine the extent of competition in an industry. Low entry barriers would mean that new entrants would gain easy access into the industry and end the monopoly.

2.5.2 Monopolistic Competition

Monopolistic competition is where many firms compete for essentially the same customers, but each firm produces a slightly different product. If the products are differentiated, brand loyalty may form that may allow them to enjoy the benefits of a monopoly (Karl and Fair, 1989).

Entry of new sellers is possible in a monopolistically competitive market. In such a market, it is unlikely that any one firm satisfies more than 10 % of market demand (Hyman, 1989).

2.5.3 Oligopolistic Competition

An oligopoly is an industry in which there are only a small number of firms. Entry is usually possible but difficult as firms in oligopolies are usually large and thus a large initial investment is required to break in (Karl & Fair, 1989).

2.5.4 Perfect Competition

Perfect competition is an ideal state in which relatively small firms produce nearly identical products. No single firm has any control over prices and non can affect the market price of its products or the price of input it buys. Products are homogeneous (Karl & Fair, 1989).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This study was exploratory in nature as it sought to understand the determinants of competition in the soft drink industry. Churchill (1991) observes that exploratory study can be used when the objective is to gain insights into ideas and for clarification of concepts.

3.2 The Population

The Kenya Revenue Authorities tax payers register for soft drink companies was used to define the population for this study. The list contains 114 companies scattered over the country. Since the population was larger than 100, and Harper (1971) states that it costs more to examine the whole population than a small sample and that these higher costs could easily exceed the value of the survey results, a sample was taken of these. This was done in the following manner; the firms were categorised into those whose main products are CSD, Juices, Ready to drink and bottled water. A random sample was then taken from each of the four categories. This sampling method was meant to ensure that firms from each sub-sector were included in the sample. The sample was made up of about 30% of the population. This translates to about 35 firms.

A semi-structured questionnaire was used to collect data. Senior personnel in these organisations were approached to complete a questionnaire. Those with key positions in marketing, finance and general management were the preferred respondents.

3.3 Data Collection

A questionnaire was used to obtain the data required. This was delivered by personal visit and administered, where possible, through a one on one interview. In a few cases where this was not possible, given the time constraints, the questionnaire was administered telephonically. This was the mainly the case for respondents outside Nairobi. The questionnaire, which was semi structured, made use of both open-ended and Likert scale type questions. The questionnaire was designed to obtain information on the key driving forces in the industry.

3.4 Data analysis

Descriptive statistics like frequencies, percentages, and means were used to analyse the data which was first fed into the SPSS tool. The descriptive statistics were then used to summarise and organise the data in such a manner that the key imperatives of the industry could be discerned. Gakombe (2002) successfully used the mean, percentages and frequencies to rank in terms of importance the industry forces affecting private hospitals in Nairobi.

There was also a need to rank, in order of importance, the forces in the soft drink industry. This was mainly done through the use of the mean after cross-tabulating the results of the questions asked.

CHAPTER 4: FINDINGS AND DISCUSSIONS

4.1 Introduction

This Section presents and discusses the findings of the study. The data analysis was guided by the research specific objectives stated in chapter one. These objectives are:

1. To determine the nature of the competition in the industry.

2. To determine the relative importance of Porter's competitive forces in the industry and therefore the key drivers of the industry competitiveness.

The body of the report only contains tables directly related to the objectives. The appendices however contain other useful information. The questionnaire is cross-analyzed where possible for ease of comparison of the study's results. Data in this study is summarized and presented in terms of tables, and proportions.

4.2 Response to Questionnaire

Most of the questionnaires were completed on a one on one interview basis. On a few occasions this was done telephonically. The completed questionnaires were then entered into SPSS for analysis. No questionnaire was spoilt. Some companies declined to participate in the survey citing company policy but were replaced by others. During the sampling process, 45 companies were selected with a view to ensuring that the total number of respondents reached 35 in number. Each company completed one questionnaire. The research was carried out amongst the managers of the firms shown in the appendix 2.

The findings of the survey are summarized in the discussions below.

4.3 Age of the Firms

Competition has been on the increase in the industry over the past 10 years. This can be discerned from Table 1, where the number of industry players accelerated within the last 10 years.

Table 1 – Years of Operation

Years of Operation	Frequency/ (%)
1 – 10	15 (43%)
11 – 20	12 (34%)
Over 20	6 (17%)
No response	2 (6%)

Competition has mostly been on the rise among the bottled water and juices sub-sectors. 43% of the firms came into existence over the past 10 years. This indicates that the barriers to entry may have been lowered in this time. It is perhaps not a coincidence that liberalization of the economy was taking root during this period. 74.3% of companies were small to medium sized companies with between 50-200 employees and are locally owned (Tables 2&3).

Table 2 – Company Ownership

Company Ownership	Frequency	Percent
Local majority shareholding	26	74.3
Foreign Majority shareholding	9	25.7
Total	35	100.0

Table 3 – Size of companies

Number of Employees	Frequency	Percent
5-50	4	11.4
51-100	12	34.3
101-200	14	40.0
201-300	1	2.9
over 300	4	11.4
Total	35	100.0

Table 4 indicates that bottled water and juices form 74.3% of the companies in the soft drink industry, indicating that this sub-sector is easy to enter. There has however been little change in the number of CSD businesses in the industry which could indicate that the entry barriers in this segment are higher than for the rest of the other industry sectors. It is interesting to note that one of the respondent companies competes in both the soft drinks and alcoholic beverages industries.

Table 4 – Core Business

Core business		Frequency	Percent
	Bottled water	15	42.9
	Juices	11	31.4
	Carbonated Soft Drink	7	20.0
	Alcohol	1	2.9
	Total	34	97.1
Missing	System	1	2.9
Total		35	100.0

4.4 Porter's Forces in the Industry

4.4.1 Threat of new entrants

Most firms in the survey placed a large premium on the impact of new entrants on their business. This is therefore a major determinant of competition in the industry as indicated by Table 5 where 68.5% of the companies seemed to think so. To further study the influence of threat of entry on the industry a number of other questions were asked that gave the following results:

Table 5 – Impact of New Competitors

Impact of New Competitors on Firm's Success		Frequency	Percent
	very low	3	8.6
	low	4	11.4
	Moderate	4	11.4
	High	6	17.1
	Very high	18	51.4
	Total	35	100.0

The threat of new entrants is exacerbated by the low barriers to entry. Only 45.7% of respondents perceived barriers to entry to be high or very high in the industry.

As indicated in Table 4 most of the new entrants have been into the juices, cordials and water categories. This would seem to indicate that the technology required to get into these sectors is readily available or that there have been no strong brands to present formidable entry barriers.

45.7% of the companies thought that the barriers to selling their plant and machinery were high. Difficulty in disposing of plant and equipment can be a barrier to entry in itself. However, since the majority of the firms believe that they could sell their plants with little difficulty, this corroborates the finding above that the barriers to entering the industry range from very low to moderate.

4.4.2 Bargaining power of buyers

The buyers have a major impact on the business as can be seen from the tables below;

Table 6–Reliance of Customers on Industry Products

Customers Can't do Without our Products		Frequency	Percent
	Strongly Disagree	5	14.3
	Disagree	3	8.6
	Neither Agree nor Disagree	14	40.0
	Agree	3	8.6
	Strongly Agree	10	28.6
	Total	35	100.0

Table 7–Impact of Customers on Success the Industry

Impact of Customers on Success of Firm		Frequency	Percent
	Moderate	5	14.3
	High	12	34.3
	Very high	15	42.9
	Total	32	91.4
Missing	System	3	8.6
Total		35	100.0

Table 6 indicates that only 37.2% of the respondents thought that their customers could not do without their products. The rest seem to realize that the retailers can stay in business without stocking their products thus indicating that buyer power may be very significant. Table 7 indicates that 77.2% perceived the impact of customers on the firm's success as being high to very high.

The study also found that both the retailer and the consumer do influence the companies' pricing. The influence that the companies have over pricing to their customers and consumers was rated as being moderate. This could put a cap on the profitability of the industry as retailers would demand competitive margins while consumers, being price sensitive, would expect affordable products. The industry players are forced to strike a balance that is acceptable to these buyer groups. The retail level is also critical in ensuring the availability of products and in merchandising for the industry and cannot therefore be neglected.

4.4.3 Bargaining power of suppliers

Supplier power can have a major impact on the cost of raw materials that a company uses. The study found that suppliers do have a significant impact on the success of firms.

Table 8 –Impact of suppliers on Industry success

Impact of Suppliers on Firm's Success	Frequency	Percent
low	9	25.7
Moderate	7	20.0
High	15	42.9
Very high	4	11.4
Total	35	100.0

This is clearly indicated in Table 8 where 54.3% of the companies perceived suppliers to have a high to very high impact on the firms' success. This was further confirmed by findings that the firms have little influence on the price they pay for inputs and the source of the raw materials they use. Only 25.7% thought that they had significant influence over the price that they are charged by suppliers. Further, only 37.1% of the companies thought that the suppliers could not be in business without patronage from the industry. This also indicates that suppliers are not totally dependent on the industry and have got customers in other industries. The strength of the suppliers is checked by the fact that there are substitutes to the products that they sell to the industry. This can be surmised from the finding that only 22.8% of the companies agreed that there are no substitutes to their key inputs.

It is worth noting that 71.4% of the companies agreed that their key suppliers are larger than they are. This again translates to high bargaining power for the suppliers. All the factors discussed above could be a source of adverse pressure on the profitability of the firms and could indicate that the suppliers involved are large in size. This could also be indicative of the small size of many of the industry players which is confirmed by Kisese's (2002) finding that many of the players in the bottled water industry were small in size. The industry has little bargaining power against suppliers as a result of the relatively larger sized suppliers. Benefits may be reaped through forming industry purchase groups to extract lower prices from suppliers.

4.4.4 Threat of Substitutes

Table 9 indicates that 60% of the companies perceived the impact of substitute products to be high or very high on their performance. Though the impact of substitutes like alcohol, milk, coffee and tea was measured, the firms did not consider the impact of these to be significant. The firms instead considered the different products within the industry to be close substitutes for each other. Thus for instance, CSD may be substitutes for fruit cordials.

Table 9 – Impact of Substitute Products on Industry success

Impact of Substitute Products on Firm's Success		Frequency	Percent
	low	5	14.3
	Moderate	8	22.9
	High	10	28.6
	Very high	11	31.4
	Total	34	97.1
Missing	System	1	2.9
Total		35	100.0

Table 10 – Impact of Various Products on the Industry

Product Category	% ranking as "High" and "Very High" Impact
CSD	51.4%
Cordial	45.7%
Bottled Water	57.1%
Juice	62.8%
Beer	20%
Milk	8.6%
Tea/Coffee	8.6%
Traditional Brew	NIL

The above would seem to point to the possibility that though the firms are in competition with each other, they also consider their products to be close substitutes of each other. The juice and bottled water categories having the largest scores (Table 10) seem to be offering the most formidable competition. It is probably not a coincidence that these are considered to be health drinks and are categories that are mainly dominated by new entrants into the industry. Abdalla's (2001) finding that the firms did not focus on each other seems to have changed. The firms do indeed view each other as being in competition and do recognize the impact of this competition on their success.

4.4.5 Government influence

Government policy is not perceived as a key determinant but has significant impact to the success of firms in the industry as shown in Table 11 where only 48.5% thought that the impact of government ranges from high to very high. It was also found that the influence that the firms have over industry regulation was very low.

Table 11 – Impact of Government Policy on Industry

Impact of Government Policy on Firm's Success		Frequency	Percent
	low	3	8.6
	Moderate	12	34.3
	High	6	17.1
	Very high	11	31.4
	Total	34	97.1
Missing	System	1	2.9
Total		35	100.0

The industry players cited government taxes as one of the main sources of unfair competition. Table 12 indicates that 85.7% rated the impact of taxation rates as being high to very high. Some players mentioned the different excise tax rates applied on the different products in the industry as being the main reason for this. Some also thought that the levying of an excise tax on soft drinks made them less affordable to the consumers. Both Isaboke (2001) and Njuguna (1986) found that a level playing field was crucial in determining the nature of competition in the oil industry. This seems to be the case in the soft drink industry where the government taxes have contributed to an uneven competitive environment.

Table 12 – Impact of Levels of Taxation

Impact of Taxation (Rates) on Business	Frequency	Percent
low	2	5.7
Moderate	3	8.6
High	20	57.1
Very high	10	28.6
Total	35	100.0

It is however worth noting that 71.4% of the companies believed that the economic fortunes of the country have a high or very high impact on their success in business. This may seem to contradict the finding above on the impact of government policy but could also be making a statement on the lack of a concrete relationship between government policy and the economic performance of the country. This seems to be confirmed by the companies' view of politics and its influence on business where only 31.4% thought that politics had a major influence on their success. These findings could also be indicating that government policy, so long as it affects all industry players equally, may have little impact on the way they compete against each other.

Other variables that are influenced by government policy were also highlighted as being important. Among these are the transport infrastructure which impacts on the distribution costs of the firms; tax compliance failure of which leads to heavy penalties; cost of electricity and its erratic supply which increases the cost of production; and water supply on which the firms heavily rely (Appendix 4).

When respondents were asked whether there was rampant unfair competition in the industry, 56.4% of them answered in the affirmative. High government taxes were believed to be the largest source of this state of affairs. The other reasons that were given by some of the companies are tabulated below (Table 13);

Table 13 – Unfair Practices

Practices that Respondents find are Unfair		Frequency	Percent
	Price wars	3	8.6
	Briefcase competitors	1	2.9
	High government taxes/tarrifs	5	14.3
	Dirty comments by competitors in the media	2	5.7
	Total	11	31.4
Missing	System	24	68.6
Total		35	100.0

4.4.6 Rivalry among existing firms

Rivalry among existing firms is perceived to be high or very high by 77.2% of the companies (Table 14). Further, 51.4% of the firms said that the chances of retaliation to competitive moves were high. This coupled with the moderate profitability and the modest growth potential (Table 15 shows that 54.2% thought growth potential was either "moderate", "very low" or "low") would seem to point to high rivalry with potential for growth arising out of growing their market shares. 54.3% of the companies agreed that reaction to moves that they made in the market was quick.

Table 14 –Impact of Existing Competition

Impact of Existing Competition on Firm's Success		Frequency	Percent
	very low	1	2.9
	Moderate	6	17.1
	High	5	14.3
	Very high	22	62.9
	Total	34	97.1
Missing	System	1	2.9
Total		35	100.0

Table 15 – Growth Potential in the Industry

Growth Potential and Soft Drink Industry		Frequency	Percent
	low	4	11.4
	Moderate	15	42.9
	High	15	42.9
	Very high	1	2.9
	Total	35	100.0

Kisese (2002) also found that rivalry in the bottled water sub-sector was very high leading to closures of firms. This could continue to happen in the future as the competition gets more intense as indicated by the activities the firms have been involved in over the past three years (Table 16). According to Porter (1980) when rivalry is high profitability is low. This would seem to be the case in this industry as indicated by the finding that only 31.4% of the companies are making high profits. None of the companies categorized their profitability as being "very high". Whereas this could be true, there is a possibility that the companies were being modest about their profitability.

To further gauge the intensity of the rivalry within the industry, the companies were asked to indicate some of the competitive moves that they had made over the past three years. The results are tabulated below;

Table 16 - Market/Strategic activities over the past three years

ACTIVITY PERFORMED	YES	NO
Increased the price of products	51.4%	48.6%
Decreased the price of products	74.3%	25.7%
Undertook key sales promotion	74.3%	25.7%
Launched new products	71.4%	28.6%
Expanded Sales Force	65.7%	34.3%
Expanded production capacity	54.3%	45.7%

The results above (Table 16) indicate that there has been a lot of activity in the market. Whereas 51.4% have increased the pricing, 74.3% have reduced theirs over the past three years. The result shows that some companies may have increased then reduced their prices again in view of competitor moves. Most of the companies have also undertaken major sales promotions or expanded their sales staff over the period again indicating the presence of heavy competitive pressures. 71.4% of the companies have launched new products; this is indicative of a market with changing needs and could also be the result of the new craze for health drinks. Lastly, only 54.3% have increased capacity. This may indicate that most of the firms have adequate production capacity only increasing where they have launched new products that could not be produced by the existing machinery. Porter 1980 found that excess capacity can be a cause for price wars and heavy rivalry within an industry.

When asked whether they give superior profit margins to retailers, only 22.8% answered in the affirmative. This could be because most of the competitors give similar margins as anything lower could be harmful to their performance.

4.4.6 Differences between the Different Sectors (Cross Tabulation of Results)

The findings above were further analysed to determine whether there were any differences between the segments that make up the industry. The findings are discussed below;

4.4.6.1 Rivalry among Firms

Table 17 indicates that whereas the bottled water and juices categories thought that the impact of existing competition on the firms was very high, those in the CSD sector thought that the same was moderate. This could point to the possibility that the players in the juices and water category are focusing their competitive efforts on each other and not considering the CSD as direct competitors. Abdalla's (2001) finding that the CSD firms that he studied did not focus on the other companies is worth highlighting. But as pointed out above there are signs that the firms now appreciate the impact that they have on each other and may have realized that they cannot ignore each other.

Table 17 – Impact of Existing Competition on various Sectors

			Impact of Existing Competition on Firm's Success				Total
			very low	Moderate	High	Very high	
Core Business	Juices	Count	0	1	1	9	11
		% within Core Business	.0%	9.1%	9.1%	81.8%	100%
		% of Total	.0%	3.0%	3.0%	27.3%	33.3%
	CSDs	Count	1	5	1	0	7
		% within Core Business	14.3%	71.4%	14.3%	.0%	100%
		% of Total	3.0%	15.2%	3.0%	.0%	21.2%
	Bottled water	Count	0	0	2	12	14
		% within Core Business	.0%	.0%	14.3%	85.7%	100%
		% of Total	.0%	.0%	6.1%	36.4%	42.4%
	Alcohol	Count	0	0	1	0	1
		% within Core Business	.0%	.0%	100%	.0%	100%
		% of Total	.0%	.0%	3.0%	.0%	3.0%
Total		Count	1	6	5	21	33
		% within Core Business	3.0%	18.2%	15.2%	63.6%	100%
		% of Total	3.0%	18.2%	15.2%	63.6%	100%

4.4.6.2 Threat of Entry

Once again there was a difference between the CSD and the rest of the industry in their perceptions of the impact of new competition on their success. Juices and Water companies perceived this to be very high while the CSD players thought it was low. This probably indicates that the barriers to entry in the CSD category may be higher than in the other categories and therefore the feeling that potential new entrants are of little significance (Table 18).

Table 18 – Threat of Entry in various Sectors of Industry

			Impact of New Competitors on Firm's Success					Total
			very low	low	Moderate	High	Very high	
Core Business	Juices	Count	0	0	1	1	9	11
		% within Core Business	.0%	.0%	9.1%	9.1%	81.8%	100%
		% of Total	.0%	.0%	2.9%	2.9%	26.5%	32.4%
	CSDs	Count	3	2	0	1	1	7
		% within Core Business	42.9%	29%	.0%	14.3%	14.3%	100%
		% of Total	8.8%	5.9%	.0%	2.9%	2.9%	20.6%
	Bottled water	Count	0	2	1	4	8	15
		% within Core Business	.0%	13%	6.7%	26.7%	53.3%	100%
		% of Total	.0%	5.9%	2.9%	11.8%	23.5%	44.1%
	Alcohol	Count	0	0	1	0	0	1
		% within Core Business	.0%	.0%	100.0%	.0%	.0%	100%
		% of Total	.0%	.0%	2.9%	.0%	.0%	2.9%
Total		Count	3	4	3	6	18	34
		% within Core Business	8.8%	12%	8.8%	17.6%	52.9%	100%
		% of Total	8.8%	12%	8.8%	17.6%	52.9%	100%

4.4.6.3 Threat of Substitutes

All the players rated the impact of substitute products to be between high and very high but with varying degrees. Juices had the highest rating on this variable while the other two placed similar weight on it. Once again this could indicate that the various sectors are indeed in competition with each other (Table 19).

Table 19 – Threat of Substitutes in various Sectors of Industry

			Impact of Substitute Products on Firm's Success				
			low	Moderate	High	Very high	Total
Core Business	Juices	Count	0	3	1	7	11
		% within Core Business	.0%	27.3%	9.1%	63.6%	100%
		% of Total	.0%	9.1%	3.0%	21.2%	33.3%
	CSDs	Count	2	1	4	0	7
		% within Core Business	28.6%	14.3%	57%	.0%	100%
		% of Total	6.1%	3.0%	12%	.0%	21.2%
	Bottled water	Count	2	4	4	4	14
		% within Core Business	14.3%	28.6%	29%	28.6%	100%
		% of Total	6.1%	12.1%	12%	12.1%	42.4%
	Alcohol	Count	1	0	0	0	1
		% within Core Business	100%	.0%	.0%	.0%	100%
		% of Total	3.0%	.0%	.0%	.0%	3.0%
Total		Count	5	8	9	11	33
		% within Core Business	15.2%	24.2%	27%	33.3%	100%
		% of Total	15.2%	24.2%	27%	33.3%	100%

4.4.6.4 Supplier Power

The CSD and juices sectors thought that suppliers had a high to very high impact on their success while the bottled water sector rated their impact to be between low and moderate. This could be because the main input is water which is in most cases readily available. This is in contrast to the other two sectors whose main inputs are concentrates (special mixtures) which are in some instances supplied by larger companies and cannot be substituted (Table 20).

Table 20 – Impact of Suppliers in various Sectors of the Soft Drink Industry

			Impact of Suppliers on Firm's Success				
			low	Moderate	High	Very high	Total
Core Business	Juices	Count	3	2	6	0	11
		% within Core Business	27%	18.2%	54.5%	.0%	100%
		% of Total	8.8%	5.9%	17.6%	.0%	32.4%
	CSDs	Count	1	1	4	1	7
		% within Core Business	14%	14.3%	57.1%	14.3%	100%
		% of Total	2.9%	2.9%	11.8%	2.9%	20.6%
	Bottled water	Count	5	3	4	3	15
		% within Core Business	33%	20.0%	26.7%	20.0%	100%
		% of Total	15%	8.8%	11.8%	8.8%	44.1%
	Alcohol	Count	0	0	1	0	1
		% within Core Business	.0%	.0%	100%	.0%	100%
		% of Total	.0%	.0%	2.9%	.0%	2.9%
Total		Count	9	6	15	4	34
		% within Core Business	26%	17.6%	44.1%	11.8%	100%
		% of Total	26%	17.6%	44.1%	11.8%	100%

4.4.6.5 Buyer Power

Companies in all the sectors appreciated the importance of their customers by rating the impact of customers on their firms as being high or very high. There was therefore no major difference in the perception of the customer's importance among the sectors (Table 21).

Table 21 – Impact of Customers in various Sectors of the Soft Drink Industry

			Impact of Customers on Success of Firm			
			Moderate	High	Very high	Total
Core Business	Juices	Count	0	5	6	11
		% within Core Business	.0%	45.5%	54.5%	100%
		% of Total	.0%	16.1%	19.4%	35.5%
	CSDs	Count	0	2	5	7
		% within Core Business	.0%	28.6%	71.4%	100%
		% of Total	.0%	6.5%	16.1%	22.6%
	Bottled water	Count	4	4	4	12
		% within Core Business	33.3%	33.3%	33.3%	100%
		% of Total	12.9%	12.9%	12.9%	38.7%
	Alcohol	Count	0	1	0	1
		% within Core Business	.0%	100%	.0%	100%
		% of Total	.0%	3.2%	.0%	3.2%
Total		Count	4	12	15	31
		% within Core Business	12.9%	38.7%	48.4%	100%
		% of Total	12.9%	38.7%	48.4%	100%

4.4.6.6 Government Influence

The impact of government was perceived to be high to very high by the juices sector. The other sectors thought that this was between moderate and low. This could be attributable to the taxation bases used and also the strict standards set for the sector by the Kenya Bureau of Standards (Table 22).

Table 22 – Impact of Government in various Sectors of the Soft Drink Industry

			Impact of Government Policy on Firm's Success					
			very low	low	Moderate	High	Very high	Total
Core Business	Juices	Count	0	0	4	4	3	11
		% within Core Business	.0%	.0%	36.4%	36%	27%	100%
		% of Total	.0%	.0%	12.1%	12%	9.1%	33.3%
	CSDs	Count	0	1	3	1	2	7
		% within Core Business	.0%	14%	42.9%	14%	29%	100%
		% of Total	.0%	3.0%	9.1%	3.0%	6.1%	21.2%
	Bottled water	Count	2	2	4	1	6	15
		% within Core Business	13%	13%	26.7%	6.7%	40%	100%
		% of Total	6.1%	6.1%	12.1%	3.0%	18%	45.5%
Total		Count	2	3	11	6	11	33
		% within Core Business	6.1%	9.1%	33.3%	18%	33%	100%
		% of Total	6.1%	9.1%	33.3%	18%	33%	100%

4.5 Ranking Porters Forces in the Industry

Mean scores were used to rank the importance of Porter's forces in the industry. This was also done by sector and the results tabulated as shown below

Table 23 – Ranking of Porters Forces

Core Business		Impact of Existing Competition on Firm's Success	Impact of New Competitors on Firm's Success	Impact of Substitute Products on Firm's Success	Impact of Suppliers on Firm's Success	Impact of Customers on Success of Firm	Impact of Government Policy on Firm's Success
Juices	Mean	4.73	4.73	4.36	3.27	4.55	3.91
	N	11	11	11	11	11	11
Carbonated Soft Drir	Mean	2.86	2.29	3.29	3.71	4.71	3.57
	N	7	7	7	7	7	7
Bottled water	Mean	4.86	4.20	3.71	3.33	4.00	3.33
	N	14	15	14	15	12	15
Alcohol	Mean	4.00	3.00	2.00	4.00	4.00	
	N	1	1	1	1	1	
Total	Mean	4.36	3.94	3.79	3.41	4.35	3.58
	N	33	34	33	34	31	33

The following are considered the most important in the various sectors;

1. Juices Sector – Impact of Existing Competitors and impact of new competitors. This could be attributable to the ease of entry into the sector given that all one needs to do is either import a finished product or subcontract the packaging.
2. CSD – Impact of Customers was rated highest. Availability of the product at retail level seems to be a major determinant of the success of these firms. Taking this a step further, there is also the issue of affordability given that the products are not thought to be of any nutritional value to consumers.
3. Bottled Water – Impact of existing competition was ranked the highest. This would seem to point to high rivalry in this sector. Entry barriers are also low and raw material inputs easy to obtain.

The overall industry ranking can also be discerned from Table 23.

CHAPTER 5: SUMMARY AND CONCLUSIONS

5.1 Introduction

In this chapter the findings of the survey are summarized and conclusions drawn. The objectives of the study as set out at the onset will form the basis of discussion in this chapter. The limitations of the study will be highlighted and suggestions for future study on the subject made.

5.2 Summary and Conclusions

The objectives of the study were to determine the nature of competition in the soft drink industry and to determine the relative importance of Porter's forces in the industry. The soft drink industry was defined to include juices, fruit cordials, carbonated soft drinks and bottled water.

5.2.1 Nature of competition in the Industry

The industry players consider themselves to be in competition with each other either directly or as close substitutes of each other. Competitive moves of the key players quickly draw a response from the other player. The industry also undertakes plenty of marketing activity and uses pricing as a key factor in increasing market share. Affordability of the products seems to be a key success factor in competing in the soft drink industry. The source of future growth would mainly come from the snatching of market share from the other competitors as opposed to overall industry growth.

Alcohol, tea, coffee, milk etc. are not formidable substitutes to the products that the industry offers. This could mean that the industry players could look to these industries for future growth. Ice tea, flavored milk could for instance be products that may interest the industry players and offer growth opportunities with little if any cannibalization to their core businesses. Indeed many players have introduced new products over the past three years to protect their market share from being eroded. Some of the players compete in three or more of the various sectors that form the industry.

From the foregoing, competition in the industry could be said to be intense with the risk of atrophy being ever present.

5.2.2 Relative Importance of Porter's Forces in the Soft Drink Industry

The most critical force was found to be the intense rivalry between the firms. This has led to the depletion of profit margins with many players being price takers. An interesting finding was that government has a greater impact on the firms' success than suppliers. The factors are ranked below in order of importance.

1. Rivalry among competitors (Impact of existing competitors)
2. Bargaining Power of Customers (Impact of Customers)
3. Threat of Entry (Impact of new competitors)
4. Threat of substitute products (impact of substitutes)
5. Impact of Government Policy

6. Bargaining Power of Suppliers (Impact of suppliers)

To succeed in the industry a firm would need to protect itself from the adverse effects of intense rivalry by differentiating itself in the hope that its products can demand price premiums in the market. It would also need to ensure that the buyers of the products (retailers) support its products by extending superior margins.

5.3 Limitations of the Study

There was difficulty in determining what the real substitutes to the industry's products are. Thus, the impact of substitute products may not have been adequately captured in the study. Indeed the respondents in some instances perceived products in the industry to be substitutes of each other.

The study only considered the firms that are registered for taxation purposes with the Kenya Revenue Authority. This effectively left out a large number of informal sector firms that could have a major impact on the entire industry. The conclusions drawn from the study can therefore only be applied to the formal soft drink industry.

5.4 Suggestions for Further Study

Given the above limitations, a study could be performed incorporating the informal soft drink industry to understand its impact on the entire industry. There is also an opportunity for a study to understand the strategies adopted by the industry and to map these against the findings above in order to determine whether the strategies adopted have been shaped by the interplay of Porter's forces in the industry.

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APPENDIX 1

QUESTIONNAIRE

General Data

1. Name of Organisation (Optional)

____

2. Core Business

Juices ☐

Carbonated Soft Drink ☐

Cordials ☐

Bottled Water ☐

3. Years of operation? ____________________

4. How many employees does your firm have (both casual and permanent)

   5-50 ☐

   51-100 ☐

   101-200 ☐

   201-300 ☐

   Over 300 ☐

5. What is the ownership of the Company?

Local Majority Share Holding ☐

Foreign Majority Share Holding ☐

6. How much competition does your firm face?

Very High ☐ Moderate ☐ Low ☐

High ☐ Very Low ☐

7. How would you rate the impact of the forces below on your firm's success? (Circle most applicable description)

	Very Low	Low	Mode-rate	High	Very High
Existing Competition	1	2	3	4	5
New Competitors	1	2	3	4	5
Substitute Products	1	2	3	4	5
Suppliers	1	2	3	4	5
Customers	1	2	3	4	5
Government Policy	1	2	3	4	5

8. How much influence do you have over the following?

	Very Low	Low	Mode-rate	High	Very High
Raw material costs	1	2	3	4	5
Cost of financing	1	2	3	4	5
Industry regulation	1	2	3	4	5
Price charged retailers	1	2	3	4	5
Price charged consumers	1	2	3	4	5
Where to source inputs	1	2	3	4	5

9. Rate the following factors as they relate to the soft drink industry:

	Very Low	Low	Mode-rate	High	Very High
Profitability	1	2	3	4	5
Barriers to Setting up a factory	1	2	3	4	5
Barriers to selling factory	1	2	3	4	5
Growth potential	1	2	3	4	5
Switching factory to different use	1	2	3	4	5
Competitor retaliation to us	1	2	3	4	5
Historical profitability	1	2	3	4	5

10. How do you rate the impact of the following on your business?

	Very Low	Low	Mode-rate	High	Very High
Carbonated Soft Drinks	1	2	3	4	5
Cordials	1	2	3	4	5
Bottled Water	1	2	3	4	5
Juice Products	1	2	3	4	5
Beer	1	2	3	4	5
Milk	1	2	3	4	5
Tea/Coffee	1	2	3	4	5
Traditional Brew	1	2	3	4	5
Other (__________________)	1	2	3	4	5

11. Rate the impact of the following on your business:

Economy	1	2	3	4	5
Politics	1	2	3	4	5
Transport Infrastructure	1	2	3	4	5
Taxation (rates)	1	2	3	4	5
Taxation (ease of compliance)	1	2	3	4	5
Electricity (supply & cost)	1	2	3	4	5
Water Supply	1	2	3	4	5

12. Has your firm done any of the following within the past 3 years

	Yes	No
Increased the price of its core product	☐	☐
Reduced the price of its core product	☐	☐
Run a major sales promotion	☐	☐
Introduced a new range of products	☐	☐
Expanded its sales force	☐	☐
Expanded production capacity	☐	☐

Please indicate, by circling the most appropriate rating, the extent to which you agree with the following statements. (1 indicates complete disagreement while 5 indicates strongly in agreement)

13. In relation to customers

Most sales are through supermarkets	1	2	3	4	5
Most Sales are through whole/salers	1	2	3	4	5
Discounts to customers are a big cost	1	2	3	4	5
We give superior profit margins	1	2	3	4	5

Customers cannot do without our products	1	2	3	4	5

14. Relating to Suppliers

Our key suppliers cannot do without us	1	2	3	4	5
There are very few suppliers for key inputs	1	2	3	4	5
There are no substitutes for our key inputs	1	2	3	4	5
Key suppliers are larger than we are	1	2	3	4	5

15. In relation competition

Competition is dominated by few	1	2	3	4	5
The market leader determines pricing	1	2	3	4	5
Unfair competition is rampant*	1	2	3	4	5
Reaction to our market moves is quick	1	2	3	4	5

Briefly state what practices you find unfair

____

____

16. What methods have you employed to stay competitive over the past 3 years (indicate on a scale of 5 the degree to which the method has been applied)

Pricing below the competition	1	2	3	4	5
Building a strong brand name	1	2	3	4	5
Concentrating on our core business	1	2	3	4	5
Introducing new beverages/products	1	2	3	4	5

Other ____

KINDLY CONFIRM THAT YOU HAVE ANSWERED ALL THE QUESTIONS.

THANK YOU FOR TAKING THE TIME TO COMPLETE THE QUESTIONNAIRE

APPENDIX 2

List of Respondents

Name of the Company	Frequency
Umoja Ventures	1
Grange Park	1
Kisii Bottlers	1
Sweet Water Tented Camp	1
Equator Bottlers	1
Ground Water Survey	1
Nandi Hills sweet water	1
Alpine Coolers	1
Pick and Peal	1
Premier Foods	1
Kaba Water	1
Keringet	1
Tru-Foods Limited	1
Softa Bottling	1
Pearl Water	1
Highland Mineral Water	1
Delmonte	1
MIC foods	1
Kenbro Industries Ltd	1
East Kenya Bottlers	1
Nairobi Bottlers Ltd	1
Mt Kenya Bottlers	1
Kilimanjaro	1
Aquamist	1
Jetlak	1
Crown Foods	1
Oasis Juices	1
Western Springs	1
Alka clear water	1
Water wells	1
Flamingo Bottlers	1
Makro Foods	1
Serengeti Water Ltd	1
Excel	1
Nairobi Mineral Water Co. Ltd	1
Total	35

APPENDIX 3

Mr. Daniel Omosa
C/O M.B.A Office
University of Nairobi
P.O Box 30197
NAIROBI

August, 2003

Dear Respondent,

I am a postgraduate student studying for a Master of Business Administration Degree at the Faculty of Commerce, University of Nairobi. I am currently conducting a survey of the nature of competition in the soft drink industry in Kenya.

The purpose of this letter, therefore, is to request you to respond to the attached questionnaire. The information you give will be treated in strict confidence and at no time will your name or that of your organization be referred to directly. The information will be used for academic purposes only.

Thank you very much in anticipation.

Yours sincerely,

Daniel Omosa