COMPETITIVE STRATEGIES ADOPTED BY BRANDED FAST FOOD CHAINS IN NAIROBI.

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

BY

THEURI BENSON GITHUA

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION, FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI

July 2002

DECLARATION

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

Signed: ____________________ Date 4/11/03

Benson Githua Theuri
MBA Student

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

Signed: ____________________ Date 4/11/03

Mr Jackson Maalu
Lecturer, Department of Business Administration

DEDICATION

This project is dedicated to my mother Agnes Wanjugu, wife Matilda and my little daughter, Nicole, who was born during preparation for this project!

ACKNOWLEDGEMENTS

The successful completion of this study would not have been complete without the critical input of the following people:

The Academic Staff of the University of Nairobi's Faculty of Commerce, especially my Supervisor, Mr Jackson Maalu for his guidance in shaping the final output of the project, as well as Dr Martin Ogutu with whom we developed the Study Problem from the simplest of ideas.

My colleagues at Kenya Shell who are also pursuing their MBA program at the same University, for the valuable critique and support during the project as well as the Managing Director of Steers Group of Companies who expressed special interest in the project and was of immense help.

Finally, special thanks to my family and friends for their encouragement and unlimited support during this time. Special acknowledgement to my wife who took care of little Nicole while I was busy researching for and writing the project.

To all, God Bless You.

TABLE OF CONTENTS

Chapter Three: Research Methodology

Chapter Four: Findings and Discussions

Chapter Five: Summary and Conclusion

Appendices

LIST OF TABLES

ABSTRACT

The fast food market in Nairobi has in the last couple of years witnessed dramatic changes that have affected the state of competition. Ever since the market was liberalised in early 1990s, the industry has seen the establishment of new firms with strong brand heritage gained over the years. Some of these are household brands in their mother countries and also have a strong presence in Southern Africa (Akumu, 2001). These firms have increased the competitive pressure on indigenous branded firms, leading to a now thriving fast food industry. As a result of this, firms have had to employ various competitive strategies to survive in the industry.

This study sought to establish and document the various competitive strategies being employed by the branded firms to compete effectively. The study also sought to highlight the various challenges these firms have to contend with. The study focused on all 11 branded fast food firms in Nairobi, but only 8 responded positively to the study.

Data was collected through the questionnaire method.6 questionnaires were administered through personal interview with top managers of these firms, while the drop and pick method was used on the other two due to non availability of the target respondents. The findings of the study indicate that the firms use relatively similar competitive strategies, especially on service. There is however deliberate attempt to segment the market into specific offering, and this differentiation strategy is apparent with the new entrants, who are curving a niche for themselves.

Key challenges faced by the firms were identified as huge capital investment required to compete with other branded firms, keeping abreast of changing

consumer tastes and preferences as well as enormous competition from non branded outlets. Suppliers were also said to be unreliable, while inconsistency in quality and increasing overhead costs were also mentioned as key challenge areas.

Competitive challenges were ranked based on calculated mean, and huge capital requirement was rated as the most critical. Respondents reported that at least sh 1 million to sh 2 million is required to start up an outlet. Summary data on key characteristics of the respondents show a multiplicity of similar characteristics. The findings established that most branded outlets are owned by Kenyan investors, with some being run based on franchise agreements with parent companies- mostly South African. That they have been operational for less than ten years could be attributed to the opening up of the market in the early 1990s.

CHAPTER ONE: INTRODUCTION

1.1 Background

Since early 1990s, the Government of Kenya has made significant progress in the implementation of economic reform measures necessary to stabilise the economy, restore sustainable economic growth and enhance domestic and foreign competitiveness. The reforms were also aimed at maintaining a stable macro economic environment within which the private sector could operate and flourish.

By the end of 1994, most sectors of the economy had been opened up to market forces, and the government had removed foreign exchange controls, allowed a free floating exchange rate regime, dismantled import licensing and liberalised domestic marketing of all major items including grain. These changes in the external environment, especially competition have had both positive and negative impact on organisations. (Government of Kenya, National Development Paper, 1997).

Firms are environment dependent and changes in the environment shape opportunities and challenges facing the organisations. This understanding is important in defining the firm's objectives and in developing competitive strategy that will ultimately result in competitive advantage, as a firm is always responding to those challenges posed by the external environment.

Studies carried out during the post liberalisation era indicate that the reform process has led to stiff competition in key sectors of the economy (Bett 1995, Kombo 1997, Owiye 1999, Njau 2000, Murage 2001).

As a result of the changes in the external variables mentioned above, the fast food market in Kenya has witnessed changes that have tremendously affected the state of competition. Heightened competition has meant that players have to go flat out for anything that differentiates them from the rest of industry.

In the fast food industry, stakes have been upped mostly by an armada of South African firms that have set shop locally over the past four years, stirring a latent but now thriving fast food outlets boom. Most businesses in the industry are therefore operating in an increasingly competitive environment. Nairobi has specifically seen the establishment of a number of foreign owned fast food stores. These firms are branded and have a strong presence in other African countries such as South Africa, Zimbabwe and Zambia and have competitively changed the landscape of competition in the industry. (Akumu, 2002)

Whereas the branded, locally owned stores have only been offering a traditional offer, the new entrants have expanded the scope of offer, and seem to be following in the traditions of established fast food brands in the developed world, such as McDonalds, Burger King and Kentucky Fried Chicken. At the same time, these foreign firms have seemingly developed different customer value proposition, going by their growing market share. The restaurants' outlook and interior décor is predominantly different from the local outlets and this is being used to not only give them attractive ambience but also to reinforce their brand image. Customer service in fast food industry is being given a new dimension and these outlets are also targeting very specific markets.

Over the last couple of years, the Kenyan economy has been performing poorly, with 2001 growth being a paltry 0.3% (Government of Kenya, 2001). There has not been significant investment in Kenya by foreigners in other sectors as a result of this. In fact, a number of foreign companies have either closed shop or shifted their manufacturing processes to other countries. They have all unanimously cited poor economic outlook, uncertain political environment, and lack of uneven business field as well as poor infrastructure as the major bottlenecks to their operations as well. (Onyango, 2002)

This not withstanding, foreign branded firms have penetrated the fast food market and are gaining market share at the expense of the local firms. This has led to fierce competition. The fast food industry structure has a strong influence in defining the rules of the competitive game as well as the strategies that are potentially available to firms operating in the industry.

In the case of the fast food industry, the structure in Nairobi is in 2 levels: Non branded local outlets owned by local entrepreneurs (which offer the most traditional or basic offer) and the branded firms which are either fully local or foreign brands but operated by local companies/ franchisees. These branded firms offer wide variety of foods and service. The branded firms have an oligopolistic form, as there are a few dominant companies, which are dominant. The study focussed on the branded outlets only.

A number of them have more than one branch, only a few years after entering the market. Most Kenyan firms in the industry have been in the industry for long, yet their expansion rate is slow compared to the foreign firms. A good number have only a branch each. As the competition intensifies, most of the players in the industry seem to have found solace in creating synergy through corporate nuptials. This in turn is promoting branding and strategic partnership (Akumu, 2002)

1.2 Statement of the problem

An organisation's strategy consists of the moves and approaches devised by management to produce successful organisation performance. Strategy is thus management's game plan for the business (Thomson and Strickland, 1998)

The essence of formulating a competitive strategy is relating a company to its environment. (Porter, 1998). Following the opening up of the market by the government of Kenya, Nairobi has witnessed a fundamental change in the competitive environment. The competition is broadly local as well as foreign. This increase in competition is coming at a time when the economy is not performing, (Government of Kenya, Economic Survey of Kenya, 2001). In fact, some foreign companies are closing shop or relocating their manufacturing processes to other countries.

In the Kenyan market, competition has been raised mostly by South African firms, with the resultant consequence of stirring a previously docile but now thriving business.(Akumu, 2002). Most of these new entrants have also been expanding at a fast rate than their local counterparts, and have introduced new services such as home deliveries.

Competitive strategies adopted by a firm should result in a competitive advantage to the firm. As such, a firm should create value for its buyers that exceed the cost of creating it. (Porter,1998). At the outset, the various strategies being pursued by the foreign firms seem to be bearing fruit, if the number of outlets they are opening is an indicator of success.

Porter (1998) argues that that there are three generic competitive strategies which firms can employ. These are cost leadership strategies, differentiation strategy and focus strategy. This generalisation was applied to US firms. Osigweh (1989) argues that findings of studies carried out in one culture could not be assumed to apply to other cultures unless that was shown to be the case through research. The environment in the USA is very different form that of Kenya. Findings of research carried out in a certain environment can be very different in another environment, and there is therefore need to find out if these strategies advocated by writers of strategic management can be applied to firms in Kenya's fast food industry.

Haines (1988) contends that 'the foremost thinking in strategic management reflects business circumstances in developed country contexts. Little has been written on strategic management practices in less developed countries as a whole and more so on Africa'. In the light of increased competition from foreign firms in the industry, there is need to address issues unique to other stakeholders in the industry such as the locally owned, non- branded fast food firms as well as the branded local firms. Some of the challenges in formulating a competitive strategy include financial capability, relationship with government and the ability and values of company executives. Murage (2000) found out that investors have to contend with certain challenges often presented by the norms of the industry they are entering.

Heightened competition has also meant that players in the industry have to go flat out for anything that differentiates them from the rest of industry (Akumu, 2000). To contain this, most of the players in the industry seem to have found solace in creating synergy through corporate nuptials, which in turn is promoting branding and strategic partnership (Akumu, 2002). As a result of this awareness, Nairobi is now witnessing increasing cases of partnerships with oil companies, with the most notable being the Mobil/ Innscor axis and Total/Steers partnership. The food-court concept is also emerging as a distinct trend in the fast food industry.

Branding has increasingly becoming an important variable in the food industry. Firms can use branding to gain competitive advantage, enter new markets, and launching new products into existing markets. (Mohamed,2001). To what extent have the fast food firms used branding to their advantage?
This study specifically focussed on the branded fast food firms and sought to identify the competitive strategies the local firms are using to compete with the new entrants and the competitive challenges both are facing.

1.3 Scope of the study

The scope of this study was limited to identifying the competitive strategies being adopted by the local fast food companies and the foreign fast food chains. The study also focussed on the competitive challenges these branded firms in the industry are facing.

1.4 Objectives of the study

The objectives of the study were to:

1. Identify the various strategies being used by local as well as foreign branded fast food companies to compete in the market place.
2. Establish the competitive challenges that the fast food chains are facing in the Kenyan market.

1.5 Importance of the study findings

This study is expected to be of significance in the following ways:

1 To the owners of fast food chains, it will provide them with information on the general state of competition and the strategies which other firms are using to compete in the industry

2 To potential investors, the study will provide information on some of the critical challenges they will have to face hence prepare adequately to face them. They will therefore be more informed while looking at the industry's attractiveness as well as give them an idea of the competitive strategies they will need to adopt in order to be successful.

3 To scholars, the study will increase to the body of knowledge in this area. This will stimulate further research in the industry.

1.6 Structure of the Dissertation

The study is divided into five chapters.

Chapter one gives an introduction to the study and contains a background on the current state of the fast food industry, with focus on Nairobi and the introduction to the study.

Chapter two provides a literature review on key study areas of competitive strategies, competitive challenges, branding and franchising.

Chapter three is on research methodology and covers the research design, population of interest of the study, data collection and data analysis methods. Chapter four documents the data analysis, research findings and discussion of the results, while chapter five gives the summary of research findings, conclusion to the study and the inherent limitations thereof, as well as suggestions for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Overview

According to the Oxford Advanced Learners; dictionary, fast food is 'hot food that is served very quickly in special restaurants and often taken away to be eaten in the streets'. Fast food is therefore a term that has been coined to represent 'convenience eating', that is, short order preparation of food and packaged in such a manner that it can be eaten at any place. The packaging is made of disposable material, which is easy and convenient to dispose of. From a customer's point of view, fast food means walk in and walk out service. Fast food has for a long time had the connotation of being "junk food".
The beginnings of the fast food industry can be traced back to the 1950s in the United States. Fifty years following the opening up of the first outlet, there are more than 300,000 fast food restaurants in the United States. (http://www.olen.com/food/book.html, 6th July 2002)

In the 1950s the focus of restaurants business was local; typically they were small independent entrepreneurs who were multi-skilled and hardworking. With the advent of the fast food concept, these small local operations were forced to be competitive with the fast food chains, which had a large pool of resources. Chains were able to subsidise operations to strengthen one location to ensure success. Through 1960s to 1970s,the share of independent operators continued to decline. Spurred by the economic growth of the 1950s and 1960s, the fast food industry grew at a dramatic pace. Increasing disposable income, low rate of inflation, changing habits all fuelled the industry to greater growth. (Hunger,1996)

The success of the fast food industry can also be attributed to standardised procedures, placing emphasis on value and speed. Efficient service acted as a catalyst in promoting the fast food concept. However, franchising was the most important factor that influenced the direction of the fast food industry. Fast food has been referred to as the granddaddy of franchising. While franchising made

tremendous impact on fast food business, fast food also made franchising popular (Phatak, 1996)
The fast food industry in Kenya is governed by the Hotel and Catering Act. It is a concentrated industry but with a few dominant, branded players. The first branded fast food outlet opened its doors to the public in 1954 in Nairobi. Since then, more stores have been opened and competition has increased tremendously. Key attractions to the industry have been availability of inputs, reliable suppliers of raw materials and low inflation rate compared to other countries in Africa.

Limited government intervention has meant that the industry is by and large, regulated by market forces. Attractive tariffs among COMESA countries for imports and exports, low interest rates and the six-month grace period for licences given by the investment centre have also spurred development in the industry. The industry is however reliant on imported equipment, packaging and pre- mixes. It also has few dominant suppliers. The demand for fast foods has increased rapidly due to changing values, urbanisation and large percentage of working women.

South African firms have been leading the onslaught into the Kenyan market in the last three to four years. At the same time, two major trends have been evident in the fast food industry in Kenya: the concept of food courts and that of strategic partnerships. In Nairobi, food courts have been established at Westlands, Sarit Centre, Ngong Road, Industrial Area and Village Market. Strategic partnerships have been established between fast food chains and oil companies, e.g. the partnership between Innscor and Mobil, and one between Steers and Total.

In the past five years, there have been many new entrants into the market including Nandos, Chicken Inn, Pizza Inn, Vasillis, Creamy Inn, Steers, and Bakers Pie. There are currently over fifteen different companies in this sector and for each of these companies, the search for opportunity to identify bases of advantage is inherent within the notion of strategy. As the industry evolves, competition has also increased. This has inevitably called for firms to define their competitive strategies to counter the competition.

2.2 Competitive Strategies

An organisation's strategy consists of the moves and approaches devised by management to produce successful organisation performance. Strategy is thus management's game plan for the business (Thomson and Strickland, 1998)
In the context of turbulent business environment, strategic management plays a crucial role in facilitating the deployment of a firm's resources in an efficient manner to optimise the long-term performance of the firm. Implementation of strategies becomes critical especially in the context of increasing competition and complexity of today's business world which can make it difficult for a business to assess and take advantage of opportunities open to it (Bennet, 1999).

The essence of formulating a competitive strategy is relating a company to its environment. Although the relevant environment is broad, the key aspect of the firm's environment is the industry in which it operates. Competitive strategies adopted by a firm should result in a competitive advantage. Competitive advantage grows fundamentally out of value a firm is able to create for their buyer that exceeds the firm's cost of creating it. (Porter, 1998). Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to them. Forces outside the industry are significant primarily in a relative sense, and since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to respond to them.
Generally, firms are in competition with each other if they sell goods and services to the same group of customers or try to employ factors sourced, from the same group of suppliers. (Murage, 2001)
A fast food industry will therefore be made up of all those firms, branded and non branded, involved in short order preparation of food packaged in a convenient

way to be eaten at any time and at any place. The food and services provided by the outlets are a close substitute for each other. According to Michael Porter, the state of competition in such an industry depends on five basic competitive premises. These are threat of new entrants, bargaining power of buyers, bargaining power of suppliers, rivalry among existing firms and threat of substitute products.

The goal of competitive strategy for a business unit is thus to find a position in the industry where the company can best defend itself against the competitive forces or can influence them in its favour. Knowledge of underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company, animates its positioning in the industry, clarifies areas where strategic changes may yield greater pay off and highlights the area where industry trends promise to hold the greatest significance as either opportunity or threat.
An effective competitive strategy takes either offensive or defensive action in order to create a defendable position against the five competitive forces and thereby yield a superior return on investment for the firm.

Ansof (1988) defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market. Formulation of competitive strategies involves consideration of four factors that determine what a company can successfully accomplish. These are the firm's strengths and weaknesses, industry opportunities and threats, personal values of the key implementers and broader societal expectations.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: *cost leadership*, *differentiation*, and *focus.* These strategies are applied at the business unit level. These generic strategies are not firm or industry dependent. Creating value for buyers that exceeds the cost of

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

doing so is the goal of any generic strategy. Value must therefore be used to analyse competitive position.

The value chain displays total value, and consists of value activities and margin. (Porter, 1998). Each value activity employs purchased inputs, human resources, and some form of technology to perform its function. Value activities are therefore the discrete building blocks of competitive advantage. How each activity is performed combined with its economics will determine whether a firm is high or low cost relative to its competitors. How each value activity is performed will also determine its contribution to buyer needs and hence differentiation. Value chain is therefore a useful way of describing and analysing the important relationship between an organisation's resources, competencies and strategies. (Porter, 1998). Comparing the value chain of competitors exposes which of the generic strategy they are using, and therefore one is able to determine their competitive advantage.

2.2.1 Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality (Thomson and Strickland, 1998). The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market. (http://www.quickmba.com/strategy/generic.shtml, 6th July 2002)

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership usually have adequate capital, skills and expertise and efficient distribution channels. However, competing firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

2.2.2 Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive that product to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily. (http://www.quickmba.com/strategy/generic.shtml, 6th July 2002)

Firms that succeed in a differentiation strategy often have some internal strengths including high research and development capabilities, strong sales team and a corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

2.2.3 Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focuses may be able to carve out sub-segments that they can serve even better.

(http://www.quickmba.com/strategy/generic.shtml, 6th July 2002)

2.3 Competitive strategies and challenges

Besides market and supply factors, three other considerations throw light on the ability of the enterprise to put the strategy into action (Newman et al). These are financial strength of the company, community and government relations and the ability and values of company executives.

Adequate capital is required for every type of expansion, and if a firm is to maintain its position it ought to have sufficient financial strength to withstand aggression by competitors for choice markets. On community and government relations, it must be noted that companies differ in their ability to work with governments. While it is important to be regarded as a good 'corporate citizen', good community and government relations lead simply to a permissive situation, but in crisis situations the very right to continue operating may be at stake.(Phatak,1989).

The ability and values on company executives are important in putting strategy into action. Executives turn potential sales into actual sales, keep costs in line and face unanticipated problems. Executives may be so entrenched to the current strategy such that they are unable to change, which reduces strategic options. Within the management group there should be individuals with qualities essential to the planning, direction and control of the enterprise.

In the fast food industry in the USA, some of the competitive challenges include capital required to expand retail units and to engage in aggressive advertising. Competition from convenience stores has also been formidable. This is because with minimum capital investment, convenience stores are able to be equipped to serve fast food at low prices (as overheads for employees and store are already allocated anyway) to consumers while still generating acceptable margins. This holds down fast food prices and fast food chains' profitability is eroded if they cannot offset increasing labour and food costs in other ways.(Phatak, 1989)

In the competitive challenges in the fast food industry, these parameters and other were tested to see if they apply in this environment which is very different from that of the USA.

To address specific issues unique to this study, some specific aspects were used to identify the competitive strategy adopted by the branded firms, both local and foreign, in the fast food industry. Ansof (1988) refers to them as the distinctive approaches the firm uses or intends to use to succeed. Bennet (1999) calls them critical success factors. To any company, it is useful to identify those activities that the organisation must undertake at a threshold level of competence to stay in business. However, for the purpose of building a strategy to achieve competitive advantage, it is necessary to go beyond this and identify which core competencies exist to provide competitive advantage. These core competencies must add value to the buyer and difficult for competitors to imitate. They will therefore be rare, complex and tacit. Some critical success factors in the fast food industry are fast and reliable service, product quality and customer care, range of product and ability to fulfil a clear market need through innovation.

2.4 Branding

According to the American Marketing Association, a brand is a "name, term, sign, symbol or design or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition". A brand is therefore a product or service, then, but one that adds other dimensions to differentiate it in some way from other products/services designed to satisfy the same need.

More specifically, what distinguishes a brand from its unbranded commodity counterpart and gives it equity is the sum total of consumer's perceptions and feelings about the product's attributes, how they perform, about a brand name and what it stands for, and about the company associated with the brand (Keller, 1998).

A good brand name can set the product apart from the competition and give rise to positive feelings such as trust, confidence, security and strength. A brand seeks to create associations between the brand and a particular image and collection of benefits. When this succeeds, customer perceptions about the brand make it a powerful marketing tool.

A special survey on the best global brands jointly carried out by the highly rated *Business Week* and Interbrand, a top consultancy firm, reveals heavy advertising spending committed by corporate giants on brand building. According to the special report, companies have realised that a vibrant brand with its implicit promise of quality is enough to spur growth even during a time of economic downturn. The survey further found out that a strong brand has the power to command a premium price among customers. With the changing business environment, there are a staggering number of choices of goods and services available and in such scenario, powerful brands tend to perform extremely well. A strong brand also acts as an ambassador when companies enter new markets or offer new products.(Mohamed, 2001).

It is instructive to note that in the survey on top hundred brands in the world in 2001, fast food industry was well represented by McDonalds at number nine, Pizza Hut at number 47, Kentucky Fried Chicken at number 51 and Burger King at number 80. (The brands were selected using two criteria; it has to be global in nature and deriving at least 20% of sales from outside their home country)

There are various challenges involved in building a strong brand and these include pressure to compete on price, proliferation of competitors, bias toward changing strategy, bias against innovation and pressure to invest elsewhere.

2.5 Franchising

This is a co-operative strategy that is an alternative to diversification. It provides an alternative to vertical integration that allows relatively strong centralised control without significant capital investment (Hitt, 1997). Business format franchising is characterised by an on going business relationship between franchiser and franchisee that includes not only the product, service and trademark but the entire business format itself- a marketing strategy and plan, operation manual and standards, quality control and a continuing two way communication.

Foreign fast food operators in Kenya have used franchising as an integral part of their growth strategy. Franchising has witnessed growth due to its advantages to both franchiser and franchisee. To franchiser, it is an inexpensive way to grow and build. It also offers accrued economies of scale in purchasing, marketing and advertising. Some of the saving is passed to franchisee in form of lower marketing expenses.

Franchise agreement is usually the cornerstone of a chain's strategy. The agreement along with operating manuals, procedures, standards and reports become the key factors governing success of the franchise system. The franchisee usually buys a package, which has been successful in other locations. Franchise based firms have long engaged in licensing arrangements with foreign distributors as a way to enter new markets with standardised products that can benefit from marketing economies (Pearce and Robinson, 1998)

Changes in lifestyles, demographics, tastes and preferences are creating enormous opportunities for the firms in the fast food industry in Kenya. New franchise in ethnic foods (Nyama choma concept),health foods (salad bars and coleslaw), chicken and seafood have been on the increase in Kenya. Fast food, because it is convenient, predictable and fast, has become part of the busy Kenyan lifestyle.

Franchising has come in handy to bridge this gap, with such outlets including new types of foods in their menus and introducing salad bars to attract the health conscious customers. As a result of this, fast food is aptly referred to as the granddaddy of franchising. The increase in popularity of salad bars and low calorie drinks are indicators of future scenarios. This change in behaviour is not a fad, but a permanent change in habits. It can only increase the number of fast food outlets and so make franchising synonymous with fast food.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design that was used to meet the objectives of the study as set out in chapter one.

3.2 Research Design

A census survey of the descriptive type was considered appropriate for the study. Cooper and Emory (1985) contend that surveys are more efficient and economical than observations

3.3 Population of study

The population of study consisted of all the main branded fast food chains in Nairobi, both local and foreign brands. There are 11 such firms as per Appendix 3 obtained from the Ministry of Commerce. The research was carried out in Nairobi because as the commercial capital in Kenya, these firms are all headquartered there. Adequate data for analysis was therefore easily obtained. Murage 2001, carried out research on strategies used by independent petroleum dealers and based her findings on outlets in Nairobi only. However, generalisation of research findings was only made to the branded food chains in Nairobi only.

3.4 Data Collection Method

Primary data was collected using a questionnaire format with both open ended and closed-ended questions. A sample questionnaire is attached as Appendix 2 The questionnaire was self administered through personal interviews with the owners of the branded firms. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and quantity of data compared to other methods, because supplementary information may be collected in the course of the interview. This concurs with Cooper and Emory (1985) who state that the greatest value of personal interviews lies in the depth and detail of information that can be secured.

The questionnaire has three sections.

Section A was used to gather general company data such as year of establishment, number of employees, product range, target customers, competitors in the industry and general view on competition by the owner. Section B was used to identify the competitive strategies used by the branded fast food chains, both local and foreign. A five point Likert scale was used to capture this.

Section A and B satisfied the first objective of the study. Section C was used to identify the competitive challenges the branded firms in the fast food are encountering. Again, a five- point Likert scale was used to capture relevant data that satisfied the second objective of the study.

3.5 Data Analysis and Interpretation

Statistical Package for Social Sciences (SPSS) was used to analyse the responses from the five point Likert scale.

Descriptive statistics were used to analyse the data, which was qualitative. To this end, the data has been tabulated and statistically analysed using frequency tables, mean and standard deviations. Narrative summary of the open-ended questions was made.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents findings and discussions of the study. These are presented under outlets characteristics, competitive strategies pursued by the outlets and the challenges facing them in their quest to achieve sustainable competitive advantages (SCA).

The study was a census survey targeting a total of 11 branded food chains in Nairobi. Hence a total of 11, questionnaires were sent out to top managers in these firms. Only eight out of the eleven questionnaires were responded to, representing a 73% response rate. This was an adequate response rate to base conclusions on. A similar study, Murage (2001) based conclusions on a 61% response rate.

4.2 Outlets' Characteristics

This subsection mainly analyses some key characteristics and is intended to establish certain similarities like years of operation, number of branches, start up capital, ownership of the entities, staff numbers and target customer groups. Findings are presented in frequency tables and percentages. Narrative summary of open –ended questions has also been made.

4.2.1 Years of Operation

The number of years these firms have been operating in the market is important in order to establish the period of time they have operated and if there is any relation to the strategies they have resorted to:

Table 4.2.1: Years of operation

Years of operation	Frequency	Percentage (%)
1	0	0
2	1	12.5
3	0	0
4	4	50
5	1	12.5
6-10	0	0
Over 10	1	2

From table 4.2.1 above, the medium years of operation is 4 years as is the mode years. Only two firms have been operating for more than 10 years. These findings are consistent with the observations cited in the literature review. It was observed that over the past 4 years, many firms (mainly foreign-owned) have set up shop locally.

4.2.2. Branch Network

This analysis was considered necessary in order to establish the market potential in the industry. It was found out that more than half of the firms had more than one branch, indicating that there is a potential for expansion in the industry.
On the other hand, some firms have not taken the opportunity to expand. A limiting factor could be the size of investment required to operate the branches.

4.2.3 Capital Investment

The capital required to set up shop in a given industry is one of the factors that shut out many potential investors, especially when such investments are huge. According to Murage (2001), the strategic decision by new entrants not to commit themselves to operate in an industry is partly because of the huge capital outlay investment.

Table 4.2.3: Start up and current capital investment(per outlet)

Start up capital(sh)	Frequency	Percentage(%)	Current capital employed in Million shs	Frequency	Percentage
Less than 1	2	25	1-2	1	12.5%
1-2	2	25	2-3	2	25%
No response	4	50	Over 3	1	12.5%
Total	8	100	No response	4	50%
			Total	8	100%

25% of the outlets had started out with less than one million shillings. Also, 25% of the firms had invested between Kshs.1 million and 2 million. The table also indicates that gradually, the capital investment of most of the firms grew, as indicated by the current capital investment levels. (Table 4.2.3).

4.2.4 Outlet Ownership

It was important to establish the ownership of these firms to determine the mode of entry into the industry adopted by these firms.

Table 4.2.4: Ownership of firms/outlets

Ownership	Frequency	Percentage %
Kenyan owned	6	75%
Foreign owned, locally run	2	25%
Total	**8**	**100%**

The findings from table 4.2.4 above indicate that 75% of the outlets are locally-owned, by Kenyan investors, while 25% of the outlets are foreign-owned but locally run. This can be explained by franchising; seemingly most of those outlets are operated on franchise agreement. This is consistent with the observations in the literature review, which shows this as a form of entry into foreign markets.

4.2.5 Staffing

Increase in staff numbers signifies growth as well as increase in customer needs hence calling for improved service delivery. Table 4.2.5 below highlights the findings.

Table 4.2.5: Staff numbers in firms

Number of staff	Number of firms
0-25	2
26-50	4
51-75	1
Over 75	1

Most outlets have between 26 and 50 employees. The firm with the highest number of staff employed is 150, whereas one with the least has 23. The findings indicate that the number of staff currently employed is high, signalling growth in the industry or increased workload as a result of increasing demands from customers.

4.2.5 Importance of Brand Name

The objective of branding is to facilitate differentiation in industries that offer undifferentiated products and services. Table 4.2.6 below highlights the branded firms' view on importance of the band names.

Table 4.2.6: Respondents' view on importance of brand name

Outlet owners view on importance of brand name	Frequency	Percentage %	Cumulative %
Important	1	12.5%	25%
Very important	7	87.5%	100%

As table 4.2.6 above shows, most respondents (87.5%) were of the view that a brand name was very important. They felt that brand names facilitate recognition of their products and services by the customer. This is consistent with the literature review where branding in the fast food was found to be very important in claiming quality, entering new markets and new product acceptability.

4.2.7 State of competition in the industry

There is an intense and unprecedented competition in the industry. The table below summarises the respondents' views on the state of competition in the industry.

Table 4.2.7: Respondents' views on the state of competition in the industry

Competition is:	Frequency	Percentage %	Cumulative %
Stiff	7	87.5%	87.5%
Fairly stiff	1	12.5%	100%
Not stiff	0	0	0
Not sure	0	0	100%
Total	**8**	**100%**	

87.5% of the respondents support the observation above that there is stiff competition in the industry. Only 12.5% of the responses indicate that competition in the industry is fairly stiff, as shown in table 4.2.7 above.

The respondents' gave various reasons as to why they felt that competition was stiff. These included mushrooming outlets, increasing overheads, changing technology and value- added activities like home deliveries by competition. To compete effectively in the market, the respondents observed that their firms offer efficient and professional services, position their foods and services on competitive prices, segment their markets, and open new outlets in strategic locations.

4.2.8 Competitive Strategy Goals

Competitive strategy goals are an indication of the overall definition of how a business is going to compete. These goals are survival in the industry, maximisation of market share, product and market differentiation, profitability and growth.In order to determine the importance of goals pursued by firms in a competitive industry respondents were asked to rank the importance of these goals to their outlets, on a five point Likert scale ranging from very important (5) to not important at all (1)

Table 4.2.8:Importance of the goals of competitive strategy to respondents.

Goal	Mean score	Importance of goal
Survival in the industry	5.0	very important
Maximise market share	5.0	very important
Product and market differentiation	5.0	very important
Profitability	4.0	fairly important
Growth (gain market share)	5.0	fairly important

The respondents mentioned survival in the market, maximisation of market share and product and market differentiation and growth as very important variables as far as competitive strategic goals are concerned. They attributed this to the state of competition in the industry, which as previously observed is very stiff.

Profitability was rated as a fairly important variable in the market at the moment.(Table 4.2.8)

4.2.9 Product and Service Offerings

It was important to establish the products and/or services these outlets offer to their clients both presently and in the future. The table below summarises the findings

Table 4.2.9: Food and services offered

Service offered	Now		Future	
	No. offering the services	**% of total**	**No. of firms**	**% of total**
children amusement	3	37.5%	3	37.5%
home deliveries	3	37.5%	1	12.5%
office delivery	5	62.5%	3	37.5%
increased food range	5	62.5%	3	37.5%
health foods	1	12.5%	5	62.5%
salad bars	0	0	5	62.5%

Services that are currently offered by most of the outlets include office delivery (62.5%) and outlets are also increasing the foood range to cater for a wider spectrum of clientele. In future, 37.5% of the respondents indicated that they would like to add to their service by offering children amusement, office delivery, and increased food range. 62.5% of them indicated that they would like to include health foods and salad bars in their menus. They all cited the need to differentiate themselves by curving out a niche in the health foods as well as in salad bars(Table 4.2.9).

4.2.10 Suppliers

The reasons cited by the respondents as to why they source their supplies from their current suppliers are as highlighted in Table 4.2.10 below.

Table 4.2.10: Reasons for procuring from the current suppliers; -

Reason	Number of times mentioned	% of Responses
Competitive prices	8	100%
You own the supplier	2	25%
Only supplier	-	-
Credit facilities	4	50%

Some of the respondents indicated more than one reason as to why they source their supplies from their current suppliers. However, all the respondents unanimously agreed that competitive pricing is the main motivating factor. Another very important reason was the extension of credit facilities by their current suppliers (50%). 25% of the respondents own their suppliers, hence the reason for sourcing supplies from them. This backward integration is a strategy that has been applied by one of the key player in the industry.

By and large, competitive pricing came out as the most important reason. This supports the notion of stiff and heightened competition that characterises the industry at present. However, the respondents observed that they encounter various difficulties in obtaining their supplies. These include late deliveries, inconsistency in quality, lack of proper and adequate credit arrangements and scarcity of supplies in the local market.

4.2.11 Target Customer Groups

Target customer groups are a group of people or organisations the marketing organisation develops for or provides with certain goods and services to satisfy their needs. Identifying a target market to serve provides the means for organisations to develop sets of strategies while pursuing this objective.

Table 4.2.11 Target customer groups

Target customers	No.of times mentioned	Percentage
Young adults (30 years old)	6	24%
Professional men & women	7	28%
Children	4	16%
Family	6	24%
Senior citizens	2	8%

As can be observed from Table 4.2.11 above, 28% of the outlets target professional men and women with their offerings. This is probably due to the disposable income these people command. They offer them services like office deliveries, complete meals, and fast foods among others. Many outlets (24%)also target the young adults below 30 years of age for association with the young(branding). These are the type who are likely to form a strong, loyal customer base. They mainly offer fast foods in augmented settings (e.g. general ambience, cable television (DSTV). Families are also targeted by most outlets.(24%). Children are also an important target market for these outlets (16%) because of their influencing position in the buying decision. Outlets are therefore offering amusement parks and fun days for children to tap into future buyers.

4.2.12 Customer Patronage

The respondents further established the various reasons as to why their target customers patronise their outlets. Table 4.2.12 documents the findings.

Table 4.2.12: Reasons for customer patronage.

Reason	No. of positive responses	% of responses
Quality foods and good customer service	8	100%
Competitive prices	4	50%
Sales promotions, advertising, home deliveries	2	25%
Strategic location of outlet and interior décor	7	87.5%
Specialised services/goods etc	2	25%

Table 4.2.12 above presents the perceived reasons of outlet owners as to why customers frequent their outlets. All the respondents indicated that quality food and good customer service was the main reason for outlet patronage. Again, 87.5% of the respondents cited the strategic location of the outlets and interior décor as being critical in patronage. The interior décor and general ambience of outlets are very important variables that the firms cited for patronage, and this was consistent with the target market for the outlets as shown in table 4.2 .11 above.Competitive pricing was rated by 50% of the respondents as reason for patronage, while sales promotions, advertising and home deliveries received favourable rating for attracting customers by only 25% of the respondents.

In order to attract customers from the competition, the respondents observed that they mainly lure them by trying to offer extra value for money and quality customer service. Among the difficulties that they encounter in trying to meet the needs of their customers are changing customer tastes and preferences, price wars from competitors, staff turnover and increasing overhead costs.

4.2.13 Views on target customers' perception of outlet prices:

It was important to establish the views of the respondents with regard to their customer s' perception on prices offered, because pricing is central in the marketing mix. Based on the perception, firms have strategic options that they can pursue in order to achieve their strategic goals. Table 4.2.13 below shows the findings.

Table 4.2.13: Respondents' views on customers' perception of outlet prices:

Prices are	Frequency	Percentage %
Very high	0	0
High	3	37.5%
Fair	5	62.5%
Low	0	0
Very low	0	0
Total	**8**	**100%**

Table 4.2.13 above indicates that outlet owners think that most of the customers view their prices as fair, with only 37.5% of the respondents indicating that customers perceive their prices to be high. If price is used as an indicator of value, then most of the outlets are perceived to offer value for money charged on their menus. The firms perceived to be charging higher prices were found to be targeting a different segment of the market, particularly the middle and higher income on the social classification. The perceived price- quality relationship fitted very well with customer views on firm/outlet characteristic or profile.

4.2.14 Firms' views on uses of branding

Respondents gave differing views by which they have used their brand names to their advantage as indicated below.

Table 4.2.14: Firms owners' views on uses of branding

Uses	No. of times mentioned	Percentage
Charge a premium	0	0
Cultivate customer loyalty	6	27%
Differentiate from competition	6	27%
Introduce new products	3	14%
Enter new markets	2	9%
Claim quality of service and food	5	23%

From table 4.2.14 above, it is clear that most of the firms (27%) largely use brand names to cultivate customer loyalty as well as to differentiate themselves from their competitors. Brand name has also been used by 23% of the respondents to claim quality of food and service. It has variously been used by two of the key players to enter new markets as well as introduce new products in the market (14%). This is very consistent with the literature review section on branding where it was observed that strong brands are a good ambassador when introducing new products or entering new markets. (Mohamed, 2001).

4.2.15 Perception by customers of the markets the outlets serve:

The study attempted to establish the respondents' views on the perception of their customers of the market they serve. The score is summarised below.

Table 4.2.15: Respondents' view on their customer perception of the markets that they serve.

Perception	Frequency	Percentage %
Upmarket	1	12.5%
Mass market	1	12.5%
Middle and upmarket	5	62.5%
Low end of the market	1	12.5%
Total	**8**	**100%**

It can be observed that most customers (62.5%) perceive the outlets' markets as mainly middle and upmarket. One respondent indicated that the customer perception was that their market was a mainly upmarket, affluent consumer whose purchasing power is above average. This also fitted well with the kind of food they serve- a diversification into the health foods. (Table 4.2.15)

4.3 Analysis of strategies pursued by outlets to gain competitive edge in the market

Tables 4.3.1 to 4.3.5 present the findings on the strategies used by the outlets to gain a competitive edge in the market. These are summarised in the categories of product and service offerings, price and cost management, marketing location of food outlets and interior décor, staffing and customer service.

Table 4.3.1: Competitive strategies related to product and service offered

No of firms.	Competitive strategies	Mean	Standard Deviation
5	Offering products not offered by competitors	3.38	0.4841
7	Offering high quality products/services	4.75	0.6614
2	Home and office deliveries	2.75	1.64
6	Using reliable suppliers	4.5	0.771

Table 4.3.1 above shows that most firms in the industry, to a great extent, endeavour to offer high quality products and services and also use reliable suppliers as competitive strategies. However, the standard deviations for the two strategies contradict the observations. The high standard deviations from the two strategies tend to indicate that not all firms offer high quality and use reliable suppliers. On the other hand, home and office deliveries are not widely used as a strategy, going by the mean of 2.75. This also contradicts with the observed degree of variability(1.64) which is very high, suggesting that some players could be using it as a strategy to differentiate themselves in the market.

4.3.2 Competitive Strategies related to pricing and cost management

The table below presents the findings on the strategies adopted by these outlets with regard to pricing and cost management.

Table 4.3.2: Competitive strategies on pricing and cost management

No. of firms	Competitive strategies	Mean	Standard Deviation
3	Posting the lowest food prices	2.75	0.6614
3	Keeping prices lower than competitors	2.63	0.992
7	Keeping prices same as competition	4.00	0.866
5	Keeping overhead costs lower than competition	3.63	0.696
3	Keeping overhead costs same as industry	3.25	0.829

The strategy that is widely used in this category is keeping prices same as competition given the high mean score of 4.00. However, the standard deviation of 0.866 is very high and indicates some inconsistency. This suggests that prices charged by the competitors are not uniform across the board. Another strategy that is widely used is keeping overhead costs lower than competition(mean-3.63), probably to be able to offer food at lower prices. The degree of variability(0.969) is also high and shows some inconsistency. Strategies that appear to be moderately used are posting the lowest food prices and keeping prices lower than competition, though there is also some inconsistency as far as standard deviation is concerned, By and large, it appears that firms use different pricing and cost management strategies.

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

4.3.3 Competitive Strategies related to Marketing

Marketing plays a very crucial role in the achievement of any organisations objectives. Therefore, it is important to evaluate the competitive strategies that these outlets use with regard to marketing. The following table (4.3.3) summarises the findings:

Table 4.3.3: Competitive strategies related to marketing

No. of firms	Competitive strategies	Mean	Standard Deviation
5	Carrying out sales promotions, advertising	2.88	1.899
5	Creating reputation in industry using brand	3.75	1.64
4	Enhancing distribution (home deliveries, etc)	2.88	1.615
3	Children amusement activities, family activities etc	2.63	1.316
6	Consistency with brand promise	4.25	1.299

By and large, outlets practice some form of marketing. They consistently try to keep their brand promise with regard to quality service and customer care, and also try to create a good reputation in the industry using their brands. The firms therefore attempt to position themselves in the market favourably using their brands. On the other hand, they carry out sales promotions and advertising, and also enhance distribution to some extent. There is however some form of inconsistency between the observed means for the different strategies and their standard deviations, indicating that there are no clear cut marketing strategies that are used. Different outlets try to adopt strategies that suit their situations best.

4.3.4 Competitive strategies on location of outlet and interior décor

Place is an important component of the marketing mix. The location of an outlet can enhance the image of the outlet in the eyes of the market. It is important to establish the competitive strategies in place to deal with this component. The interior décor of the outlet can also enhance sales by association. This inevitably enhances the brand profile. The table below presents the findings.

Table 4.3.4: Competitive strategies on outlet location and interior décor:

No of firms	Competitive Strategies	Mean	Standard Deviation
4	Increasing number of outlets in Nairobi	3.25	1.5180
6	Security measures, e.g. well lit up	4.63	0.4840
5	Convenience and ease of accessibility	4.5	0.500
6	Attractive outlet layout, design	4.63	0.4840
5	Consistency with other outlets	4.13	1.3636
8	General cleanliness of outlet	4.88	0.330

From table 4.3.4 above, it can be observed that the respondents take all the measured parameters on location and interior décor of the outlets as a very significant component of their strategy. The degree of variability from the relevant mean is not high. However, with respect to increasing the number of outlets, the standard deviation of 1.5180 is quite high. This suggests that not all companies favour increasing the number of outlets in Nairobi. However, the general cleanliness of outlets as well as ensuring that adequate security are homogeneous strategies used by all.

4.3.6 Competitive strategies related to staffing and customer service.

Staff in an outlet has a strong influence on customer patronage. They can make or break an outlet, depending on how they relate with the customers. They therefore ought to be highly skilled and to offer good customer service to retain customers.

Table 4.3.6 below highlights the findings

Table 4.3.6:Competitive strategies: Staffing and customer service

No of firms	Competitive Strategies	Mean	Standard Deviation
8	Employing young, trendy adults	4.5	0.7071
7	Employing competent staff	4.5	0.5000
6	Use of feedback to rate customer service	4.75	0.4330
8	Training staff in customer service	4.75	0.6614

The findings indicate that staffing is taken very seriously by all the outlet owners to ensure high levels of customer service. Most outlets use feedback mechanism to rate customer service(mean- 4.75). The standard deviation of 0.433 indicates that the strategy is widely used. Outlets also train staff as an emphasis on customer care and service. They also employ young, competent and trendy staff who can resonate positively with their customers. Customer loyalty is crucial to the success of the outlets and is created by people. This shows that the firms in the fast food industry regard people as the most important resource in an organisation.

4.4 Summary of generic strategies used by the firms

There are 3 generic strategic options open to a firm. These are cost leadership, differentiation, and focus. It was deemed important to establish the importance each outlet placed on these options. Tables 4.4.1 to 4.4.3 present the findings.

Table 4.4.1: Cost Leadership

Item	Mean	Standard Deviation
Use of latest technology	3.625	0.992
Cost cutting	4.750	0.433
Business process rationalisation	3.500	1.118
Staff reduction	3.00	0.866
Automation of operations	2.875	1.452

Table 4.4.1 shows that these outlets place greater emphasis on cost cutting, through use of latest technology and business process rationalisation.

The noticeable variance on the standard deviation (1.118) means the firms appear to have misunderstood what the variables like business process rationalisation meant.

Table 4.4.2: Differentiation

Item	Mean	Standard Deviation
Customer service	4.75	0.423
Increased advertisement	3.875	0.927
New products/services	3.875	0.780
Branding	4.25	0.968
Staff training	4.875	0.331
More strategic locations	4.625	0.484

From the findings in table 4.4.2, differentiation is used by most of the outlets. This is clear from the mean column above for each of the identified variable. For example, they are keen on staff training so as to equip them with skills to deliver good customer service. The outlets are strategically located to allow accessibility by customers. They also differentiate themselves through branding. However, the high standard deviation on branding(0.968) is high against a mean of 4.25. This shows the differences among the players with regard to branding. What is clearly generic among the players is staff training and customer service as a basis for differentiation.

Table 4.4.3 Focus

Item	Mean	Standard Deviation
Market focussing	4.75	0.433
Market segmentation	4.5	0.500

The findings indicate that the respondents focus on particular segments of the market. The outlets practice market segmentation through establishing niches such as in the pizza area. The standard deviations do not vary significantly from the means, thus supporting the findings. (Table 4.4.3)

4.4.4 Other Strategies

Other strategies were identified as being of importance to outlets. The table below presents the results

Table 4.4.4: Other Strategies

Item	Mean	Standard Deviation
Partnerships with oil companies and malls	3.375	0.653
Lobbying	1.75	1.299
Public relations	3.00	1.414
Development of food courts	2.25	1.079
Divestiture	2.13	1.329

The findings above indicate that the most other common strategies used by some of the outlets include partnership with oil companies and establishment of food-courts in shopping malls, which has become a common phenomenon in the fast food market in Kenya. However, this is in moderation. Lobbying, public relations and divestiture are not strategies being applied at the moment, going by the high standard deviations above. (Table 4.4.4)

4.5 Competitive Challenges

The study identified certain challenges that the respondents were asked to rate on a Likert scale, to establish the extent to which these challenges hindered the implementation of their action plans. Table 4.5.1 presents the findings.

Table 4.5.1: Identified Competitive Challenges

Identified Challenges	Mean	Standard Deviation
Financial requirement (rentals, etc)	4.75	0.433
Changing consumer tastes and preferences	3.875	0.780
Ability and skills of owner	3.50	1.414
Ability and skills of staff	3.875	0.780
Barriers to enter and exit industry	2.50	1.224
Marketing	3.875	0.780
Competition from non-branded outlets	4.125	1.053
Government intervention	3.00	1.322
Erratic provision of utilities	3.00	1.322
Substitutes (other eateries, ethnic foods)	3.25	1.479

Again, huge disparities are observed between the means and standard deviations. This seems to suggest that different outlets face different sets of challenges. Almost unanimously as seen from the mean and standard deviation (4.75 and 0.433 respectively), the outlets agreed that the major challenge bedevilling them is the huge capital outlay required to defray their direct costs as well as the overheads like rentals against a background of a non performing economy. Other notable challenges relate to enhancing the abilities and skills of staff(mean= 3.875, standard deviation= 0.780) and changing consumer tastes and preferences(mean=3.875 and standard deviation = 0.780). Marketing with a mean of 3.875 and standard deviation of 0.780 is another challenge to the outlets. However, as noted earlier, the degree of variance is high for most of the identified challenges, which contradict the means. This suggests that different outlets face different challenges posed by the environment in which they operate.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

The aim of this study was to get an insight into the competitive strategies adopted by branded fast food chains in Nairobi. It also delved into the challenges facing these outlets in light of the intense and unprecedented competition that they have had to grapple with. This chapter contains a summary of the results from the study, limitations of the study and suggestions for further research.

5.1 Summary

The findings from the study show that there are some similarities among the outlets in terms of characteristics like target customer groups, product and service offerings, competitive strategies adopted and competitive challenges posed by the environment in which they operate in. This reveals that the outlets belong to some sort of strategic group.

The findings reveal that the median years of operation are 4 years. This finding is consistent with the literature review, which indicated that over the past 4 years or so, many firms, mainly foreign –owned, have set up shop in the local market.

It was also observed that half of the firms operate branches, probably suggesting that there is potential for market expansion. Inability to expand by some firms could be attributed to lack of adequate capital, a necessary prerequisite for market expansion and one of the challenges the study found out to be most commonly mentioned.

With regard to ownership, it was observed that the majority (75%) of the outlets are owned by Kenyan investors. On the other hand 25% of these outlets are foreign-owned, but locally run. A factor that could explain the findings that a majority of the outlets are locally owned is franchising, whereby the investors run the outlets on franchising arrangements

The average number of employees in the firms is 42. The highest number of staff employed by a firm was 150 whereas the lowest was 25. With respect to branding, all the respondents felt that branding was very important to them because branding facilitates distinctiveness and differentiation in the market. Service differentiation was scored as very important in the fast food business.

Competition in the industry is intense and unprecedented mainly as a result of mushrooming of outlets. 87.5% of the respondents observed that there was stiff competition in the industry. Contributing factors cited were the presence of well established players in the market and overhead overruns against a backdrop of a non performing economy.

5.1.1 Conclusion on Competitive Strategies

Overall, the outlets regarded competitive strategies as being important in order to survive in the market, maximise market share, differentiate their products and also for the purpose of market share growth.

With regard to the products and services offered it was observed that these outlets offer variety of products and services to their clientele, ranging from office and home deliveries to children amusements. 25% indicated that in future, they intend to introduce health foods and salads in their product range, which are currently not widely offered. This is meant to cater for the changing tastes of customers as well as the health consciousness of today's consumer.
With respect to their reasons for sourcing supplies from current suppliers, competitive prices and credit facilities ranked tops. Difficulties encountered in procuring supplies included late deliveries; inconsistency in quality and scarcity of required supplies locally.

The study also revealed that these outlets have specific target markets to serve. This is consistent with literature review, which places emphasis on having a clearly defined target market to serve.

On competitive strategies relating to products and services offered, the mean score summaries showed that a majority of respondents perceive to offer high quality products and services viz a viz their competitors and also use reliable suppliers with shorter delivery lead times. In relation to pricing and cost management, the homogeneous competitive strategies employed include keeping prices competitive, especially because the market is characterised by price sensitive consumers. Another strategy identified was keeping overhead costs lower than competition. To better manage costs, the outlet owners were using measures to reduce their operational costs and manage their inventory better.

It was found out that all outlets practised some form of marketing. They endeavour to keep their promise with regard to quality service and customer care. They try to enhance the image of their brands to create a good reputation in the minds of the consumers. In other words, they attempt to position themselves in the market favourably using their brands. They also engaged in sales promotions and advertising to boost sales and image.

It was also found that the outlets took location and interior décor of their outlets very seriously because they realised that place or distribution was a crucial component of the marketing mix. Hence, it was important that their outlets were strategically placed and attractive to consumers, a fact supported by the mean score summaries. On staffing issues, the mean score summaries show that a majority of the respondents identified instructing staff on good customer service practices as the most utilised strategy. They employed young, trendy adults to serve consumers.

With regard to the three strategic options available to firms, the outlets put greater emphasis on cost cutting measures so as to offer attractive prices. These firms also resort to differentiation as a strategy to stand out from the other players and also to enhance their image in the market. As earlier observed, the outlets have segmented their markets and focus their offerings to specific targets of the market. Very few firms are pursuing focus strategy. They are however trying to develop some market niches such as in the pizza segment as well as in health food segments.

5.1.2 Conclusion on Competitive Challenges

The Competitive challenges identified by the respondents were huge financial requirements, changing consumer targets and preferences, enhancement of the abilities and skills of their staff, huge marketing costs and competition from non-branded outlets which have mushroomed to take advantage of the depressed pockets of Kenyans.

5.1.3 Limitations of the Study

The results of this study are drawn from the responses of only 8 firms out of the 11 targeted. The results may have been different if the total number of outlets targeted had participated. Also, a census survey targeting all the outlets, including the branches could have thrown more light on what is happening on the ground. Several parent companies control the strategies especially the ones run on franchise format. The franchise agreements state clearly what the firms ought to do, say with respect to marketing and thus the entrepreneurial flair may be inhibited by this. A quick check showed that some of the individual outlets would want to vary the strategy to suit local circumstances, a limitation that was not captured as response came from parent company .

Some respondents were un- co-operative, fearing that their trade secrets would fall into the hands of their competitors and were therefore not willing to participate in the study. It is also feared that some answers to questions seen as sensitive (e.g. on financial requirement and current status) may have been falsified intentionally.

Time was also a major constraint given that the preferred data collection method was personal interviews with the owners of the outlets. However, because of their busy schedules, some of them were not available, hence, a "drop and pick later" method was used to administer the questionnaire. Again, because of the distribution of the outlets across Nairobi, moving from one place to another was time consuming.

5.1.4 Recommendation for further Research

A comparative study on the competitive strategies adopted by both the branded and non-branded food chains in Nairobi should be carried out in order to shed more light on the situation holding in the industry in general. Such a study could help draw parallels between these two categories of operators in the market.

APPENDIX 1: LETTER OF INTRODUCTION

July 2002

Dear Respondent,

MBA RESEARCH PROJECT

As part of the requirement for the degree of Master of Business Administration (MBA) of the University of Nairobi, the undersigned, who is a student in the Faculty of Commerce at the university is required to undertake a management paper. He intends to undertake a study on the fast food industry.

This questionnaire is designed to gather information on the competitive strategies adopted by branded firms in the fast food industry in Nairobi, Kenya. Your responses will be treated in strict confidence and in no circumstance will your name be mentioned in the report. Further confidentiality will be ensured through the necessary coding of the survey findings.

Your co-operation will be highly appreciated.

Yours faithfully,

THEURI B.G	MAALU JACKSON
MBA STUDENT	**SUPERVISOR**

APPENDIX 2: QUESTIONAIRE

This questionnaire is divided into three parts: Section A, B and C. Kindly answer the questions in each section. Your answers will remain anonymous and strictly confidential and in no instance will your name be mentioned in the report.

SECTION A:

1. Title of the respondent ______________________
2. Name of the outlet and location ______________________
3. How many years have you been operating in the Kenyan market? ____________
4. How much capital did you use to start the business? ____________
5. How much is your investment in the business now? ____________
6. Please indicate the nature of ownership of your outlet

   Local ☐ Foreign ☐ Foreign owned, locally run ☐

   Others (please specify) ______________________
7. How many employees do you currently have? ____________

8 (a) Do you have any branches? Yes ☐ No No ☐

If yes, please give the actual number and their location. ____________

____

____

8(b) Please indicate some of the basic requirements an investor needs to operate a fast food outlet.

Financial requirements ______________________

____

Physical requirements ______________________

____

Other requirements ______________________

____

8(c) What are some of the challenges you encountered in trying to meet the above requirements? ______________________

____

____

____

____

9. Please indicate (x) some of the reasons that make you source the products from the above suppliers.

Competitive prices ☐

You own the supplier ☐

Only supplier ☐

Credit facilities ☐

Others (Please specify)

____

____

____

10. Please indicate some of the difficulties you encounter in sourcing the above products.

____

____

____

11. Please indicate (x) the extra product and services your outlet(s) offer now and those you plan to offer in future.

	Now	Future
Children amusement		
Home deliveries		
Office delivery		
Increased food range		
Health foods		
Salad bars		

Others (Please specify)

____

____

____

12 (a) Please indicate (x), which of the following groups is your target customers, and the products/services you provide for each.

Target Customer		Product/services
1. Young Adults <30 years old		
2. Professionals (men and women)		
3. Children		
4. Family		
5. Senior citizens		

Others (Please specify)

____

____

____

12 (b) Why do you think these customers patronise your outlet? Because of

Quality food and good customer service	
Competitive prices	
Sales promotions, advertising, home deliveries	
Strategic location of outlet and interior décor	
Specialised services/foods etc	

Others (Please specify)

____

____

____

12 (c) What are some of the things you do to attract customers from competition and to retain these customers?

____

____

____

____

12 (d) Please indicate some of the difficulties you encounter in trying to meet the needs of these customers

____

____

13. Who influences the decision to stock the products (foods) and services you offer at your outlet?

Customers ☐ Suppliers ☐ Outlet Owner ☐ Competitors ☐

Others (Please specify)

____

____

14. In your opinion, indicate how your target customers view your current prices of your foods and services.

Very High ☐ High ☐ Fair ☐ Low ☐ Very Low ☐

15. Please indicate the three major costs you incur per month.

1. ______________________________

____

2. ______________________________

16. Given the cost above, how do you manage to keep your prices lower or the same as that of competition in the market?

____

____

17. In your opinion, how important is it to brand your outlet(s)?

a) Very important ☐
b) Fairly important ☐
c) Not sure ☐
d) Not important ☐
e) Not important at all ☐

18. How have you used your brand name to your advantage? To

Charge a premium ☐

Cultivate customer loyalty ☐

Differentiate from competition ☐

Introduce new products ☐

Enter new markets ☐

Claim quality of service & food ☐

Others (Please specify) ☐

____

____

____

19. What is the customer's perception of the market you serve?

Upmarket ☐

Mass market ☐

Middle and upmarket ☐

Low end of the market ☐

Others (Please specify)

____

____

____

20. How would you rate the state of competition in the industry, and specifically in Nairobi?

Stiff ☐ Fairly stiff ☐ Not stiff ☐ Not sure ☐

21. What are your reasons for 20 above?

1. ____________________________________

2. ____________________________________

22. In your opinion who are the 3 most successful **individual fast food outlets** in Nairobi?

Give reasons for the above choices.

Firms	Reasons for your choice
1.	
2.	
3.	

23 (b) In your opinion, which are the 3 most **successful fast food companies** in Nairobi? Give reasons for your choice.

Chains	Reasons
1.	
2.	
3.	

23. Please indicate the three main actions your firm is taking to compete effectively in this market.

1. ______________________________
2. ______________________________
3. ______________________________

24. How important are the following goals in your business? Please rate them in order of their importance using the following scale.

1. Very important
2. Fairly important
3. Not sure
4. Not important
5. Not important at all

Survival in the market	
Growth (gain market share)	
Profitability	
Product and market differentiation	
Maximise market share	

Others (Please specify)

SECTION B

Please indicate (x) the extent to which you have used the following action plans to beat competition in the market. Use the following scale.

1. Used to a great extent
2. Used to some extent
3. Moderately used
4. Not used
5. Not used at all

Product and Service offerings

1. Offering products not offered by competitors	1	2	3	4	5
2. Offering high quality products/services	1	2	3	4	5
3. Home and office deliveries	1	2	3	4	5
4. Using reliable supplies	1	2	3	4	5

Pricing and cost management

5. Posting the lowest food prices	1	2	3	4	5
6. Keeping prices lower than competition	1	2	3	4	5
7. Keeping prices same as competition	1	2	3	4	5
8, Keeping overhead costs lower than competition	1	2	3	4	5
9. Keeping overhead costs same as industry	1	2	3	4	5

Marketing

10. Carrying out sales promotion advertising	1	2	3	4	5
11. Creating reputation in industry using your brand	1	2	3	4	5
12 Enhancing distribution (home deliveries, new outlets)	1	2	3	4	5
13. Children amusement activities, family activities and special events	1	2	3	4	5
14. Consistency with branch promise	1	2	3	4	5

Location of food outlet and interior décor

16. Increasing number of outlets in Nairobi	1	2	3	4	5
17. Security measures e.g. well lit up	1	2	3	4	5
18. Convenience and ease of accessibility	1	2	3	4	5
19. Attractive in outlet layout, design	1	2	3	4	5
20. Consistency with other outlet	1	2	3	4	5
21. General cleanliness of outlet	1	2	3	4	5

Staffing and customer service

22. Employing young, trendy adults	1	2	3	4	5
23. Employing competent staff	1	2	3	4	5
24. Use of feedback to rate customer service	1	2	3	4	5
25. Training staff in customer service	1	2	3	4	5

Other action plan used

26.	1	2	3	4	5
27.	1	2	3	4	5
28	1	2	3	4	5
29.	1	2	3	4	5
30.	1	2	3	4	5

How important has each of the following strategic options been to your firm in response to changes in the market?

Cost Leadership

Use of latest technology	1	2	3	4	5
Cost cutting	1	2	3	4	5
Business process rationalisation	1	2	3	4	5
Staff reduction	1	2	3	4	5
Automation of operations	1	2	3	4	5

Differentiation

Customer service	1	2	3	4	5
Increased Advertisement	1	2	3	4	5
New products/services	1	2	3	4	5
Branding	1	2	3	4	5
Staff training	1	2	3	4	5
More strategic locations	1	2	3	4	5

Focus

Market focusing	1	2	3	4	5
Market segmentation	1	2	3	4	5

Other strategies

Partnership with oil companies and malls	1	2	3	4	5
Lobbying	1	2	3	4	5
Public Relations	1	2	3	4	5
Development of food courts	1	2	3	4	5
Divestiture	1	2	3	4	5

SECTION C

The following are some of the issues identified as challenges in the implementation of action plans. Please indicate (x) the extent to which they are a challenge to your firm operating effectively. Please use the following scale.

1. To a great extent 2. To some extent
3. Fair 4. A little 5. Not at all

1. Financial requirements (Rentals, etc)	1	2	3	4	5
2. Changing consumer tastes and preferences	1	2	3	4	5
3. Ability and skills of owner	1	2	3	4	5
4. Ability and skills of staff	1	2	3	4	5
5. Barriers to enter and exit industry	1	2	3	4	5
6. Marketing	1	2	3	4	5
7. Competition from non branded outlets	1	2	3	4	5
8. Government intervention	1	2	3	4	5
9. Erratic provision of utilities	1	2	3	4	5
10. Substitutes (other eateries, ethnic foods)	1	2	3	4	5

Please indicate and rank (5 being the greatest) the challenges you have experienced as you operate in the fast food industry as a branded outlet.

____

____

Thank you very much for completing this questionnaire. Please write below any other comments you may wish to include that is relevant to this subject.

THANK YOU FOR YOUR CO-OPERATION

APPENDIX 3: POPULATION OF INTEREST

1) Nandos – 5 outlets
2) Pizza Inn- 8 outlets
3) Chicken Inn- 3 outlets
4) Steers- 7 outlets
5) Debonairs Pizza- 4 outlets
6) Kenchic Inn- 16 outlets
7) Wimpy- 5 outlets
8) Southern Fried Chicken- 2 outlets
9) Burger Dome- 1 outlet
10) Choma Zone- 2 outlets
11) The Place

APPENDIX 4: REFERENCES

Aaker, A. A. and Joachimsthaler, E: Brand Leadership, The Free Press, New York, 2000

Akumu, Washington: *Total and Steers in Foods Outlets Pact*, Daily Nation. April 18,2002.

Ansoff I and McDonnell E: *Implanting Strategic Management*, 2nd Edition, Prentice Hall Europe, 1990.

Ansoff I: *Corporate Strategy*, McGraw Hill, 1988

Bennet Roger: *Competitive Strategy*, Pitman Publishing, 1999.

Bett, S.K: *Strategic Marketing of Dairy Products in Kenya*, Unpublished MBA Project Paper, University of Nairobi, 1995

Boseman G and Phatak A.: *Strategic Management: Text and Cases*, 2nd Edition, John Wileys and Sons, 1989.

Competitiveness: developing competitive strategies for the 21st Century: http://www.worldbank.org/wbi/vision/compete.htm (6th July 2002)

Cooper R.D and Emory C.W: *Business Research Methods*, 5th Edition, Irwin, Boston 1995

Fast Food Finder- General Overview: http://www.olen.com/food/book.html (6th July 2002)

Government of Kenya: *Economic Survey*, 2001.

Government of Kenya: *National Development Plan,* 1997-2001

Hitt M.A, Ireland R.D. and Hoskisson R.E.: Strategic Management, Competitiveness and Globalisation, 2nd Edition, West Publishing Company, 1997

Hunger, J.D.: *Strategic Management,* 5th Edition, Addison Wesley Publishing Company, 1996

Industry Analysis Report: *The Restaurant and Hotel industry in United States:* http://www.corporateinformation.com/(6th July 2002)

Johnson G and Scholes K: *Exploring Corporate Strategy*, 5th Edition, Prentice Hall

Keller, J.A: *Strategic Brand Management: Building, Measuring and Managing Brand Equity*, Prentice Hall Inc, 1998

Kombo H. K., *Strategic Responses by firms facing changed environmental conditions: A study of motor vehicle franchise holders in Kenya.*

Mohammed Hussein: *What is Your Brand Worth?* East African Standard, Financial Standard, August 7, 2001, FS page 9.

Murage S.N.: *Competitive Strategies adopted by members of the Kenya Independent petroleum Dealers Association*. Unpublished MBA Project Paper, University of Nairobi, 2001.

Newman W.H., Logan J.P. and Hegarty W.H.: *Strategy: A Multilevel, Integrated Approach*. South-Western Publishing Company, 1989.

Njau, G. M.: *Strategic Responses by Firms facing Changed Competitive Conditions: The Case of East African Breweries Limited*. Unpublished MBA Project Paper, University of Nairobi, 2000.

Onyango, Dennis: *Why Investors from America Shy Away*: Sunday Nation, 30th June 2002. Special Report pages 16 and 17.

Owiye P.O.: "*Why Kenyan Sugar Firms are Failing to Compete Effectively Within the Liberalised Trading Environment in Kenya: The Case of Government owned Sugar Firms",* Unpublished MBA Project Paper, University of Nairobi, 1999.

Parasulaman, A: *Marketing Research*, Canada. Addison- Wesley Publishing Company

Porter M.E: *Strategic Management:* http://www.quickmba.com/strategy/porter.shml(6th July 2002)

Porter, M.E.: *Competitive Strategy: Techniques for Analysing Industries and Competitors*. The Free Press, New York, 1980.

Porter, M.E: *Porter's Generic Strategies:* http://www.quickmba.com/strategy/generic.shtml(6th July 2002)

Principles of Strategic Management: http://www.csuchico.edu/mgmt/strategy/module5/index.htm(6th July 2002)

Restaurant Marketing report: http://www.restaurantmarketing.com/(6th July 2002)
Robinson, R.B. and Pearce, J.A.: *Strategic Management: Formulation, Implementation and Control*, 6th Edition, Irwin McGraw-Hill.

Thompson and Strickland: Crafting and Implementing Strategy, Text and Readings, 10th Edition,McGraw-Hill, 1998.

Unpublished MBA Project Paper, University of Nairobi, 1997.

Wamathu S.K: Strategic Postures and Action Evaluation in the Kenyan Oil Industry. Unpublished MBA Project Paper, United States International University-Africa, 1999.

Wheelen T. L. and Hunger, J.D: Strategic Management and Business Policy, 5th Edition, Addison Wesley Publishing Company, 1995

Wright P, Kroll M.J and Parnell J: Strategic Management Cases, 3rd edition, Prentice Hall