

**FOREIGN MARKET ENTRY STRATEGIES AND
CHALLENGES FACED BY SOUTH AFRICAN
BREWERIES LTD IN THE KENYAN MARKET**

BY

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

AUGUST, 2013

DECLARATION

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

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

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ACKNOWLEDGEMENT

First and foremost I thank the Almighty God for His guidance and mercy through my academic life.

Secondly I thank my supervisor Dr. John Yabs for the support and guidance. Your positive criticism and suggestions enabled me produce quality work.

I am indebted to the management of South African Breweries Ltd in Kenya for allowing me to conduct the case study in their organization. I wish to thank them most sincerely for providing all information necessary and clarifications whenever sought that made this project a success.

To my siblings – Lynne and Dan Kazi, my entire family and friends, I am forever grateful for your support and encouragement during my period of study.

DEDICATION

This project is dedicated to my loving parents – My father Job Kazi and mother Pauline Kaikai for their continued moral and financial support throughout my study.

ABSTRACT

Strategy is the game plan to succeed and is vital in ensuring success in all organizations. Entry strategies are plans put in place in entering and tapping new markets. A strategy can only deliver its purpose if it is well formulated and implemented. Foreign markets are those outside the country boundaries that a firm operates in; markets in other countries. The purpose of this study was to establish the foreign market entry strategies and challenges encountered by South African Breweries Ltd in entering the Kenyan market.

The study had two objectives to be analyzed. First objective was to establish the entry strategies used by SABMiller into the Kenyan market. The second objective was to establish the challenges faced while entering the Kenyan market. Data for both objectives was collected by a way of an interview guide and results analyzed using content analysis, which summarized the essential features and relationships of data. In order to generalize and determine patterns of behavior and particular outcomes. These were coded to enable the responses be grouped into various categories.

The findings indicated that the success of foreign market entry is influenced by strong understanding of the markets operations and regulations, customer loyalty and defense strategies put in place by incumbent firms. The greatest challenges faced by SABMiller in entering the Kenyan market were; regulations by the Alcohol Control Act of 2010, harsh competitive environment as experienced through aggressive counter attack reactions of the incumbent firms who already control giant portion of the market share.

The recommendation of the research is that a further study be conducted to establish the effects of the foreign market entry strategies adopted and the success of reaction of incumbent firms in their defense.

ABBREVIATIONS AND ACRONYMS

SAB – South African Breweries

EABL – East African Breweries Limited

FDI – Foreign Direct Investment

MNC – Multinational Corporation

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign market entry is a concept that involves companies going abroad in order to expand their business, this has been enhanced by globalization which has led companies to search for and explore new markets that have sales potential for their products. There are various reasons that companies choose to enter a new market. Kotler and Keller list five reasons as follows: discovery that a foreign market presents higher profit opportunities than the domestic market, need for a larger customer base to achieve economies of scale, reducing the dependency on any one market, counterattack against companies that have entered the home market and international servicing of customers that go abroad.

Entering new markets present huge growth potential but also involve big risks. Therefore, many companies shy away from entering a new market until they are triggered to do so by various reasons. A strategic move to enter a new market must be carefully planned and researched because these decisions are among the most critical made by a firm in relation to international markets: What country to enter lays a foundation for future expansion of the business and it also highlights a company's plan to its various competitors. The process of globalization presented an inevitable process of global expansion and change that gave rise to the infrastructural road-map for the future international markets as we know today (Wagner, 2001)

Both scholars and practitioners agree in the interest of the research on market entry strategy and its impact on the success or failure of product innovations (Scott, 2000). Entry timing is considered a key factor, and the relevance of the decision on this variable is reflected in the large number of papers that attempt to evaluate the connection of order-of-entry with a firm or a new product's performance. Only a small number comment on the advantages associated with the late-entrant strategy (Shankar et al., 1998). But timing is not the only important decision when entering new markets: other variables can also affect the outcomes.

SAB Miller Ltd is a South African Breweries company that attempted to enter the Kenyan beer market through its brand Castle Lager but its brewing subsidiary was forced shut in the year 2002 as it lost the market war to host rival East African Breweries Limited. Consequently it entered into a distribution agreement with EABL; a contract that was terminated in 2011.

1.1.1 Concept of Foreign Market Entry

An entry strategy is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years, which is generally the length of time it takes a firm to completely enter a foreign market (Root, 1994). The selection of an appropriate entry strategy in a foreign market can have significant consequences on a firm's performance and survival (Root, 1994; Terpstra and Sarathy, 1994). Companies go international in a bid to compete for resources that are limited in the local environment and depend on the global economy to provide them with the necessary market for their products (Beamish, 1990). When entering a new market, international companies need to decide on how much to adapt their marketing strategy. There are companies that use a

globally standardized marketing mix as well as companies that use adapted marketing mix that may be targeted to each market.

It has been suggested that organizational capabilities provide the richest explanation and prediction of entry strategy choice in foreign markets (Madhok, 1997). The resource-based theory views firm-specific resources (assets and capabilities), as the drivers of a firm's business strategy.

There are four major market entry strategies are direct and indirect exporting where a company sells to a new market and might adapt to it. The goods may be indirectly or directly exported but regardless of which, the product will be produced in the home country. Direct export involves the company handling its own products while an indirect export is where a company works through independent intermediaries. Joint Venture where a company partners with local investors where ownership and control is shared.

Direct Investment where the company builds its own facilities or buys part or full interest in a local company. This may entail a wholly owned subsidiary. Licensing where the company (licensor) issues a license to a foreign company (licensee) to use a manufacturing process, trademark, patent, trade secret, or other item of value. The licensee pays a fee or royalty for this. The basic step entails a company getting involved in indirect export either on its own initiative or as a response to a spontaneous order. As business grows the company will then go through a set of stages until it finds a strategy suitable for its line of products. Each step will increase the risk and commitment, but at the same increase the profit potential and possibility to control sales (Agarwal&Ramaswami, 1992; Kotler& Keller, 2006).

1.1.2 Foreign Market Entry Challenges

As a result of increased competition from both domestic and global competitors, shrinking market size, and declining market growth rates, companies seek opportunities in global markets. However, the success of entry into new markets often depends on the reaction of incumbent firms already in the markets. The strategic management and marketing literature show that incumbent firms employ defensive strategies to discourage market entry of new competition or defend their markets once a new competitor enters their markets (Yeung et al., 2003). However, there is also evidence that not all firms engage in defensive marketing (Kuester et al., 1999).

Stability of a country may limit the possibilities that are available and some countries have restrictions in the legislation or general business conditions that make a particular market entry mode difficult or impossible to realize. Import bans and/or heavy duties may e.g. limit the possibilities for exporting, weak protection of intellectual property may rule out licensing, and legislation may close the door for sole ventures.

Host companies are always trying to deter the entry of new competition into their markets long before new competition even considers market entry. Additionally, they defend their markets by retaliating once new competition enters their markets (Chen and Miller, 1994). In competitive situations where multiple incumbents exist, some incumbents wait for others to act first, and then follow or do nothing. Some incumbents who are unable to compete against the new market entrants may choose to exit the market (Nargundkar et al., 1996).

Research suggests that firm market share increases when companies perceive competitive reactions accurately (Day, 1994). Successful firms assess the possible reaction of competitors to their proposed marketing initiatives before initiating them. They achieve this by learning about competitors and then building their marketing strategy on the basis of what they have learned.

Researchers have attempted to develop and test models for examining defensive strategies. Hauser and Shugan (1983) developed the well-known “defender model” which included a framework in using the marketing mix to optimize incumbent response to market entry of competition. They concluded that as a response to market entrants, incumbents lower advertising and distribution expenditures, decrease their price in general, but increase price in market segments with differentiated products to maximize profits. Another test of the defender model was conducted by Calantone and di Benedetto (1990) in an industrial marketing setting, suggesting that the defender model could be utilized to assess the effect of competitive attacks as well as the effects of a range of defensive maneuvers. In another test of the defender model, Gruca et al. (1992) found that defenders use marketing mix elements to respond to competition, but the incumbent's market share also has an impact on the type of defensive strategy used.

Research studies present in the marketing literature deal with defensive actions by incumbent firms in post-market-entry situations and ignore the pre-market-entry conditions where some of the strategies used actually differ. Defensive strategies discussed here could be firm or industry specific strategies. A strategy that could be used by a firm in the pre-market entry condition in one industry could be used in post-market entry condition by another firm in another industry. In pre-market entry conditions,

incumbent firms lower their prices, increase promotional expenditures, hide profits, and provide incentives for distribution channels. They also send signals of retaliatory actions or bluff their potential competitors that they will use their most effective marketing mix elements to retaliate (Heil and Walters, 1993). In addition, some incumbent firms threaten their competitors that they would attack their strategically important markets.

These strategies include building barriers to entry (Karakaya and Kerin, 2007), such as customer switching costs, product differentiation, cost advantages, government policy, and access to distribution channels. Developing and implementing customer retention programs aimed at maintaining relationships and retaining customers are also considered as a part of a long-term defensive strategy. Some defensive strategies may include the use of only a single element of the marketing mix or the use of corporate-level strategies (Gruca and Sudharshan, 1995). In fact, competitors retaliate with their most effective marketing mix elements and retreat with their most ineffective ones (Gatignon et al., 1989). However, the impact of a marketing mix element may depend on the effect of another marketing mix element (Gruca et al., 1992). There is empirical evidence that, when facing new competition, incumbent firms reduce prices (Bengtsson and Marell, 2006), increase advertising expenditures (Cubbin and Domberger, 1988), and introduce new products (Bengtsson and Marell, 2006).

Because of the success of many firms in the global market place, much attention has been focused on the marketing strategies and tactics used by Multi National Corporation (MNCs). Areas where MNCs practices have been studied include: the use of global marketing strategies (Johanson and Yip, 1996), level of market orientation (Kotabe and Lanctot, 1997); new product development practices (Czinkota and Kotabe, 1990);

marketing research practices (Johanson and Nonaka, 1987); and sourcing strategies (Kotabe and Omura, 1989). The remarkable performance of MNCs firms in the 1980s, a decade in which Japan clearly established its position as the world's second largest economy prompted this high level of interest in Japanese business strategy and practice (Czinkota and Kotabe, 1990).

The importance of the foreign market entry strategy decision has been well documented (Tallman and Shenkar, 1994). The entry strategy chosen has a major impact on the level of control the MNC has over the venture (Root, 1994). Some entry strategies, such as exporting and licensing, are associated with low levels of control over operations and marketing, but are also associated with lower levels of risk. In contrast, other entry strategy's such as joint ventures and full ownership of facilities involve more control, but entail additional risk.

1.1.3 Alcoholic Beverages Industry in Kenya

The beer industry in Kenya can be traced back to 1922 when two brothers from England started brewing beer under the name of Kenya Breweries Ltd. After the brothers took their company public in 1934, they changed the name to East Africa Breweries Ltd. East Africa Breweries Ltd, also called EABL, is still around today and dominate the East Africa Beer scene. The two giant beer industries in Kenya are East African Breweries and Keroche breweries. Keroche Breweries Limited is a fully Kenyan owned brewery based in Kenya. It's situated at Karai, Naivasha off Nairobi – Nakuru Highway. Started 14 years ago, Keroche Breweries has quickly established herself as a unique Kenyan pride and is proud to be the producers of affordable, healthy and higher quality products second to

none currently in the Kenyan market. East African Breweries Limited (EABL) is East Africa's leading branded alcohol beverage business with an outstanding collection of brands that range from beer, spirits and adult non-alcoholic drinks (ANADs) reaffirming their standing as a total adult beverage (TAB) company. With breweries, distilleries, support industries and a distribution network across the region, the group's diversity is an important factor in delivering the highest quality brands to East African consumers and long-term value to East African investors.

The reason that the beer industry is still thriving in Kenya can be attributed to the abundance of barley and its availability. Kenya has a flourishing beer industry producing high quality beer, which is recognized internationally. This has been possible due to factors such as good climate for agriculture, availability of barley, affordable labour, big local market, and access to regional markets like COMESA and the East African Community. Some of the investor friendly policies in place include the liberalization of marketing and processing of cereals and other agro-produce, removal of duties on importation of farm inputs and free repatriation of capital and profits.

1.1.4 SABMiller Ltd

SABMiller Ltd is a South African Breweries company that attempted to enter the Kenyan market through its leading beer brand- Castle Lager which was meant to compete directly with EABL's premium brand Tusker. However, Castle brewing subsidiary was forced shut in the year 2002 as it lost the market war to host rival East African Breweries Limited consequently entering into a distribution agreement with EABL; a contract that was terminated in 2011. After several years out of the market, SABMiller is back to re-

enter the Kenyan market through acquisition of a local beverages firm known as Crown beverages.

Giant beverage manufacturer SABMiller Ltd re-entered the Kenyan market after acquiring Crown Foods Limited, the producer of Keringet brand of natural mineral water. In a move bound to shake the local beverage market, SABMiller acquired Crown Foods in late 2010 at an undisclosed amount and has since been engaging in elaborate restructuring. Crown Foods is under new management with its name changing to Crown Beverages. Over the past three to four years, SAB miller have invested over \$1.5 billion (Sh120 billion) in capital expenditure, increasing their capacity and market penetration. This investment is paying off and they are expecting to further cement their position as the leading brewer on the African continent. Crown Foods products are basically mineral water and juices, but observers content SABMiller would not be satisfied with that line alone and wants to use the well known company as a launching pad to venture into its core business of beer manufacturing.

SABMiller has launched its third beer in Kenya, setting the stage for deepened rivalry with East Africa Breweries Limited (EABL) and Heineken. It is targeting the premium end of the local beer market with its US brand Miller Genuine Draft, which will be sourced from its Tanzania's brewing plant. This segment is currently served with rival beers Heineken and Tusker Malt. The London-listed firm's entry will open a new battlefield between Diageo through EABL and SABMiller via its local subsidiary Crown Beverages.

1.2 Research Problem

Multinational corporations like local firms in recent years have been faced with increasing competition arising from various sources including other multinationals. Richard Lynch (2009) states that when an organization diversifies, it moves out of its current products and markets into new areas meaning they face the challenge of unfamiliar business environment and unfriendly laws. While local firms often find it difficult to compete with these firms, MNCs appear to be doing very well in spite of the competitive challenges faced. However, there is still inadequate knowledge on the clear challenges that influence the transformation of firms from local to multi-national status (O'Farrel, 1998). The share of service corporations' foreign investment in the global investment has increased over the years. In this context, the activities of service corporations have become an important topic of discussion for managers, governments, researchers, and academics. Thus, in today's competitive global marketplace, the importance of formulating an effective entry strategy has been receiving increased attention.

Much of the initial research on firms ignored the important issue of strategy. However, the subject received some attention when the term “subsidiary strategy” was introduced into the global strategy literature. Scholars since then have paid attention to areas such as firm response to foreign market conditions and advantages of early and late market entrants. Other studies have focused on the motives of venturing into the foreign market including market expansion exploitation of competitive advantage and following the client's international involvement further explains how to integrate the various market

entry and development strategies into a series of decisions that reflect interplay of the international marketing environment, technological forces and strength and weaknesses of the firm.

Several research studies have been done in relation to entry strategy. For instance, Mugambi (2011) carried out a study on foreign market entry strategies adopted by firms in the export processing zones. On the other hand, Murage (2011) undertook research on factors influencing entry into regional markets by Kenya Commercial Bank. Wanjiru(2011) researched on Factors Influencing Internationalization Process At Kenya Commercial Bank Limited. Doherty (2011) identified external environmental factors that hinder foreign market entry as management inexperience, unavailability of resources, weak organizational strategy, internal competition, political instability and technological infrastructure. Makori (2006) studied on challenges that African airlines face in entering foreign markets established them as inability to predict profitability and general risk of the potential market.

The above studies have been carried out in other contexts other than the current study. Due to contextual, sectoral and managerial differences among organizations, international markets strategy entry findings gained from above studies may not justify the entry strategies used by SAB Miller. It is in this light that this research aims to fill the existing gap and the study seeks to answer the question, which are the market entry strategies and challenges faced by SAB Miller ltd into the Kenyan market?

1.3 Research Objectives

The objectives of the study were;

- i. To establish the entry strategies challenges faced by SABMiller into the Kenyan market
- ii. To determine the challenges faced by SABMiller in entering the Kenyan market.

1.4 Value of the study

Industry: This study is important to the management of EABL and other similar organizations in Kenya by acting as reference point for identifying the important aspects of consideration before entering new markets and survival techniques that can be adopted in foreign markets to ensure overall business success and sustainability

Government: The Government of Kenya will also find this study an invaluable source of information by identifying the factors that play a major role in the practice international trade.

Scholars: researchers and scholars will also benefit from the study as it will add on to the growing body knowledge and form a basis for further research. This will act as a source of reference for studies to be done on successful entry strategies and how to ensure success in their operating environment.

SABMiller: as the company under research, SAB Miller will also benefit from information that could guide the company in making informed decisions based on facts found during this research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will review literature from other researchers who have carried out their research in the same area of study. Focus will be given to the major entry strategies used in international trade, their challenges and the key factors to consider when entering a foreign market with a view of forming and adding to the body of knowledge necessary for this research.

2.2 Theoretical Foundation of the Study

Traditional FDI theory predicts that firms will invest in foreign markets in order to generate economic gains by exploiting firm specific capabilities (e.g. products and knowledge), and to strengthen the firm's strategic position by gaining better access to scarce resources like labor, knowledge etc. (Hitt et al, 2006; Chen & Chen, 1998). Firms that consider entering foreign markets have to cope with uncertainty, due to a lack of information, uncertainty about the reliability of information, and a general liability of foreignness (Johanson&Vahlne, 1977).

As a result of increased competition from both domestic and global competitors, shrinking market size, and declining market growth rates, companies seek opportunities in global markets. However, the success of entry into new markets often depends on the reaction of incumbent firms already in the markets. The strategic management and marketing literature show that incumbent firms employ defensive strategies to discourage

market entry of new competition or defend their markets once a new competitor enters their markets (Yeung *et al.*, 2003). However, there is also evidence that not all firms engage in defensive marketing (Kuester *et al.*, 1999).

Incumbent firms attempt to deter entry of new competition into their markets long before new competition even considers market entry. Similarly, incumbent firms defend their markets by retaliating once new competition enters their markets (Chen and Miller, 1994). In competitive situations where multiple incumbents exist, some incumbents wait for others to act first, and then follow or do nothing. Some incumbents who are unable to compete against the new market entrants choose to exit the market (Nargundkar *et al.*, 1996).

Firms engaged in competition find that their actions are mutually dependent, that is, the outcome of marketing actions of one firm depends to some degree on the response of its rivals. Failing to consider competitor reaction may cause a firm to draw the wrong conclusions about the outcome of such actions (Putsis and Dhar, 1998). Therefore, successful firms look onward by taking a dynamic view of competition as a series of moves and countermoves. However, despite its importance, many firms often pay little attention to the reaction of competitors in their decision-making and usually think, at best, in terms of only one move instead of multiple moves (Reibstein and Chussil, 1997). Various studies have contributed to knowledge about market entry decision. Coupled with firm specific resources and capabilities, the three major motivations that push firms to enter a foreign market are identified as market seeking, resource seeking and efficiency seeking foreign direct investments.

2.3 International Business

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons (Daniels, Radebaugh and Sullivan, 2007). It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations.

International business may be defined simply as business transactions that take place across national borders. This broad definition includes the very small firm that exports (or imports) a small quantity to only one country, as well as the very large global firm with integrated operations and strategic alliances around the world (Grant, 2000). International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier.

2.4 Foreign Market Entry Strategy

Ansoff and McDonnell (1990) noted that strategies involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategies as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives.

Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process

that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and strategies for utilizing the resources of a firm to the best support of its long term competitive strategy.

Pearce and Robinson (2000), says that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that were used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is a key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

According to Grant (2000) there is no agreed all-embracing definition of strategy. Indeed, strategy is an elusive and somewhat abstract concept. He argues that this is expected when dealing with an area that is constantly developing. Strategy is the direction and scope of an organization over a long term. Strategies are systematic choices about how to

deploy resources to achieve goals (Safford 2005) A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an interactive process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Thompson, 2007).

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives.

Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Henry, 1978). According to Collis (1995) concepts, theories, and analytic frameworks are not alternatives or substitutes for experience, commitment, and creativity; but they do

provide useful frames for organizing and assessing the vast amount of information available on the firm and its environment and for guiding decisions, and may even act to stimulate rather than repress creativity and innovation. The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprises decisions also permits the application of powerful analytical tools to help companies create and redirect their strategies. Strategy can help the firm establish long term direction in its development and behavior (Gary & Prahalad, 1993).

2.5 Factors that influence Foreign Market Entry Strategies

When a company decides to enter foreign markets, it must choose an entry strategy. Many strategies exist with differing levels of company involvement. The level of involvement is positively related to the level of risk and control a company wishes to undertake. Several criteria should be considered before selecting the appropriate market entry method. According to Doole and Lowe (2001) company objectives and expectations, size and financial resources, existing foreign market involvement, skills, abilities and attitudes of management, the nature and power of the competition, the nature of the product or service itself and the timing of the move relative to competitors should be considered. Doole and Lowe (2001) contend “the nature, size and structure of the market will be significant in determining the method adopted. Companies wishing to pursue a long-term position in a foreign market need to be more proactive in their approach to market entry by becoming directly involved.

However, a long term investment and commitment is needed from the firm to sustain foreign market activity. Due to the high cost and risk involved in direct exporting,

Doole and Lowe (2001) suggest moving from an indirect approach gradually. The authors suggest establishing a beach head as an initial step in their exporting strategy. The beach head concept involves establishing operations in a relatively low key market, becoming a market follower, gaining the appropriate experience and then advancing through a more aggressive strategy.

Doole and Lowe (2001) suggest a firm's attitude and commitment to international expansion is crucial to the success of the operation. The size of a firm can also hinder or enhance international development as firms rely on the capability of staff for planning. When firms endeavour to commit to international expansion, the lack of consistent information, adaptation of the marketing mix variables and market segmentation are factors which need to be considered in detail. The host country's government can have a proactive role to play in setting legislation and creating barriers to entry for international firms which may either support or impede a firm's market entry strategy. Management contracts usually involve selling the skills, expertise and knowledge of firms in an international context.

The internationalisation of services is evident here. The contracts undertaken are usually those for installing management operating and control systems and the training of local staff to take over when the contractors are finished (Doole and Lowe, 2001; Paliwoda and Thomas, 1998). With government intervention initiating the deregulation of several industries, privatisation and outsourcing has become particularly evident in an international setting. Doole and Lowe (2001) outline the importance of "turnkey

operations” as effective methods for setting up, running and training staff abroad to operate a processing plant before returning to the home country again.

In order to remain competitive and avoid becoming a market follower, firms must be proactive rather than reactive in their approach to internationalisation. Market research, to identify the markets with the best fit and greatest potential, must be conducted prior to any direct or indirect investment in global ventures. Not every form of market entry strategy is suitable to every firm. Firms must consider their objectives, size, level of available resources and level of control and commitment they wish to exert, when deciding which form of market entry strategy to use when entering a foreign market. In this case many other factors should be considered when undertaking to expand geographically, for example, an extensive internal and external environmental analysis should be conducted to identify the strengths of the firm and match these to the viable opportunities that exist in an international market.

Developing the initial market/product dimensions of internationalization further with the pattern of entry modes introduced by Luostarinen (1979) and Welch and Luostarinen (1993), authors suggest adding another pattern, namely the time pattern. When Luostarinen (1979) started to develop the internationalization theories, most companies entered international markets incrementally, step by step, after having operated for a few years in home markets. Even in those times there were exceptions (Luostarinen, 1979) where companies started their internationalization very soon after their inception, but these companies were very few. Since then, many things have changed and the number of companies entering foreign markets very soon after to their inception has been increasing rapidly. Oviatt and McDougall (1994) called them international new ventures.

The time dimension of internationalization is crucial as it represents a bridge between incremental internationalization and internationalization at inception (Antoncic&Hisrich, 2000) and a strategic choice in decision-making regarding the decision for entry and exit from specific markets (internationalization – de-internationalization).

2.5.1 Collaboration with local Financial Institutions and Local Expertise

Corporates are looking to their local banks for dependable solutions since the crisis and a new approach to financial institution partnership models can generate greater value (Kotabe and Helsen, 2001). Ozsomer and Prussia, (2000) found that a client-driven, mutually beneficial partnership approach, evolving into a globally-reaching ecosystem of capabilities and value, is a model well-suited to the circumstances of the global business environment – and even better suited to the post-crisis realities as they are taking shape today. At the same time, traditional partnership approaches no longer fully respond to evolving end-user needs, as they do not capitalize on the value that local banks can bring to a modern working capital cycle.

As the rise of the profit-centre treasury model continues, corporates are increasingly demanding local access to global-standard transaction banking solutions for international reach and enhanced processing efficiency. Increasingly restrictive credit conditions have seen corporates looking inwards at their own business cycles, for alternative sources of funds (Doole and Lowe, 2001). In order to access and make maximum use of trapped working capital, treasurers need end-to-end transactional visibility and real-time data management for optimum control of what are, for many corporates, complex international supply chains. In addition to this, they need services that provide

international reach and which are geared towards helping companies reach their individual goals.

By collaborating, smaller institutions can make use of a global provider's capabilities, in a way that is tailored to the evolving needs of their end-user clients (Thompson, 2007). This joint approach also goes a step further to combine local and global best practice solutions to overcome the ongoing consequences of the global economic crisis. While partnership between financial sector services providers is not a new concept, the study sets out to establish if a more collaborative, value-based partnership model, called the "manufacturer-distributor" model, has the potential to generate greater value for participating institutions, while remaining directly linked to the evolving needs of end-clients worldwide.

2.5.2 Foreign Direct Investment

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise (Grant, 2000). Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment.

Foreign direct investment (FDI) or foreign investment refers to long term participation by country A into country B. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct

investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. FDIs enable growth the international business and multinational businesses (Hill and Jones, 2001). Different economic factors encourage inward FDIs. These include interest loans, tax breaks, grants, subsidies, and the removal of restrictions and limitations. Factors detrimental to the growth of FDIs include necessities of differential performance and limitations related with ownership patterns.

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development (Daniels, Radebaugh and Sullivan, 2007). Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country.

The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI. New information technology systems, decline in global communication costs have made management of foreign investments far

easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI's expanded role (Buckley, 2005).

2.5.3 Seeking Government Support

Increasing trade deficits and other economic problems have forced many countries, as well as regions and states, to develop policies and strategies to encourage non-exporting firms to enter the export field. For example, the state of Wisconsin is considering a variety of export stimuli to help infrequent exporters increase the number and value of their shipments (Wisconsin Export Strategy Commission 1995). Several studies have been conducted on the many aspects of export stimulation programs. They have shown that smaller-sized firms in particular could benefit from export assistance programs (Cavusgil, 1994). As well as trying to protect domestic markets, governments try to help domestic companies export to international markets. They regard this as important because companies that trade successfully on international markets tends to be more profitable and innovative. This in turn means that they generate more wealth, employ more people and pay more tax to their governments.

Though governments support the import of needed raw materials, they generally place heavier emphasis on exporting, because it brings needed foreign exchange and stimulates job expansion. Many developing country governments are just beginning to focus on how to support service exporters in order to increase foreign exchange earnings from service exports and benefit from the domestic job creation that occurs.

The government provides support designed to be specifically tailored to the organization needs. Frishammar (2003) recognizes that a whole government approach is required where the government is very clear about the company reasons for intervening and where they focus on policies and actions that have the widest impact.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the overall approach that will be used to collect data for the study, that is, the Research Design, Data collection methods then concludes with Data Analysis and Presentation methods.

3.2 Research design

This research adopted a case study design where the population of interest was management of SABMiller Ltd. The design was deemed appropriate because the main aim was to explore the viable relationship and describe how the factors support matters under investigation in one organisation. Case study method provided qualitative data from cross section of the chosen population considering the fact that organizations are unique in terms of structure, culture, leadership styles and resources employed, the challenges faced are also unique, hence the use of a case study.

3.3 Data Collection

The researcher used an interview guide to talk to managers in various departments, that is, Marketing, Sales and Business Development. The interview guide included open ended questions which captured the views, opinion and attitude from the respondent that were insightful to the study as the answers were in-depth with minimal constraints on answers given.

3.4 Data Analysis

This was done through content analysis to summarize the essential features and relationships of data in order to generalize and determine patterns of behaviour and particular outcomes. MugendaMugenda (2003) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends.

A content analysis was employed. The content analysis was used to analyse the respondents' views. The data was coded to enable the responses to be grouped into various categories.

CHAPTER FOUR

DATA ANALYSIS RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis and interpretation of the study. The primary data was collected using an interview guide and analysis was done through content analysis to establish the market entry strategies and challenges faced by SABMiller ltd into the Kenyan market.

4.2 General Information

The study found that interviewees held various job titles which included head of Sales, Research and Development, Marketing, Finance, Human Capital Development and Administration, operations and production. The study also revealed that the interviewees had been working in their designation for between 1 years to 3 years, this shows that interviewees had served long enough in their capacity to give credible information to the study. The interviewees were requested to indicate for how long the company has been operational in Kenya, the study found that the company had been in operational in Kenya for the last 3 years as a second attempt in tapping this market following its attempt and withdrawal in the year 2002.

4.3 Foreign Market Entry Strategies and Challenges

In order to determine the target market for South African breweries ltd, the interviewees were requested to indicate their target market in Kenya, from the findings, the target market in Kenya was mainly in urban and semi urban areas in Kenya. The interviewees were requested to indicate the initial strategies the company adopted in entering the

Kenyan market, from the findings the interviewee indicated that the initial strategies adopted by the company was through Foreign Direct Investment and collaboration with other companies in the industry.

The interviewees were requested to indicate some of the challenges that led to withdrawal from the Kenyan market, from the findings the interviewee indicated these challenges as: stiff competition from other companies in the industry, lack of market share, hostile environment, lack of government support, low product uptake by customers and lack of strategic partner in the industry. In determining what the company was doing differently in its attempt in re-entering this market, the findings the indicated that the company had acquired an already existing local firm, entered into partnership with barley farmers for supply of barley, outsourcing non-core business function, strategic alliance with other firms and gaining of market share through established products.

The interviewees were requested to indicate the challenges they faced in adopting the chosen market entry strategy, from the findings the study found that the challenges faced were stiff competition from rival companies, lack of trained staff, and high cost involved in adoption of these strategies. On whether the company has future prospects in entering to other markets, from the findings the study found that the company had some future prospects in entering into new markets and overall expansion of the business.

In order to determine the degree of control the company aspires in the foreign markets, the interviewee we requested to indicate the degree of control their company aspired in their foreign market, the study found that the company aspired high degree of control in

the foreign market where it could control more than 50% of the entire market share. The interviewee were requested to indicate whether competition influence the entry strategy used to enter the Kenyan market, the study revealed that interviewee indicated that competition was greatest determinant of the strategy used in the foreign market entry strategies by SABMiller Ltd.

The interviewee were requested to indicate whether entry strategies change or are revised in time, from the findings the interviewee indicated that entry strategies were revised from time to time, the changes in entry strategy was attributed to changes in competitive environment as other firms in the industry kept on changing their entries strategies in order to gain competitive advantage over their rival which necessitated change in entry strategies from time to time.

The study sought to determine from the interviewee the challenges they experienced in the process of entering the Kenyan market, from the findings the study found that the challenges they faced in the process of entering the Kenyan market were hostility from rival, lack of market share, lack of government support, introduction of new product in the market and challenges in acquiring firm in the industry. The study sought to determine the challenges did the task environment pose to the company; from the findings the interviewee indicated that the challenges did the task environment pose to the company were stiff competition, rivalry, new product introduction, regulation by the government and lack of government support.

The interviewee were requested to indicate what the response of the stakeholders to the entry process was, from the findings the interviewee indicated that the response of the stakeholders to the entry process was positive and supportive one. The study requested the interviewee to indicate the mechanisms they put in place to guarantee their continued support, from the findings the study found that mechanisms they put in place to guarantee their continued support were regularly revising of the entry strategies, updating the stakeholders of the new strategies used in the market, seeking stakeholders support at all level of strategy implementation and involving stakeholder in devising of new strategies.

The interviewee were requested to comment on SABMiller now and before the re-entry strategy, from the findings the interview indicated that SABMiller had really gains the market , it was fully operational and its effects on the market were being felt by the other companies in the market. The interviewee were requested to indicate the challenges they faced while implementing marketing strategies, from the finding the study found that challenges faced while implementing the strategies were regulation such as the alcohol and control act 2010 which is prohibitive on alcoholic drinks adverstiment.

In order to determine the major reasons for the entry and re-entry into the Kenyan market, the interviewee were requested to indicated that major reasons for the entry and re-entry into the Kenyan market, from the finding the study found that major reasons for the entry and re-entry into the Kenyan market were growth in the beer industry in Kenya, availability of resources in Kenya, good market share in Kenya and strategic alliance in Kenya. The interviewee were requested to indicate on the effectiveness of the of the new

entry strategy, the interviewee indicated that the new entry strategies were effective as they were helping the company to gain market through various marketing and re-entry strategies.

From the findings on whether there is greater income growth potential from Kenyan market, the interviewee indicated that there was greater income growth potential from Kenyan market as the company was gaining market share and it was increasing its sales and introduction of new products. The interviewee also indicated that the reason for additional markets was to control risks as they need to diversify the business risk. From the findings of the study the interviewee indicated that they would improve performance of core capabilities and distribution channels, through strategic alliances with other firms and outsourcing non-core business function in order to help the firm concentrate on core business functions. From the findings on the need to acquire new technologies, the interviewee indicated that there was the need to acquire new technologies as this would help the firm in production efficiency.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following summary, conclusion and recommendations were made. The responses were based on the objective of the study. The researcher had intended to establish the entry strategies adopted by SABMiller into the Kenyan market and to determine the challenges faced by SABMiller in entering the Kenyan market.

5.2 Summary

The study revealed that the target market in Kenya was mainly in urban and semi urban areas in Kenya. The study found that the initial strategies the company adopts in entering the Kenyan market, from the findings the interviewees indicated that the initial strategies adopted by the company were collaboration with other companies in the industry, foreign direct investments, Use of Local Expertise and local human resource, strategic alliances, downsizing, self-management and outsourcing of non-core operations.

The study found that the challenges that led to your withdrawal from the Kenyan market were stiff competition from other companies in the industry, lack of market share, hostile environment, and lack of government support, low product uptake by customers and lack of strategic partner in the industry. The study established that the company had acquired some firms in the industry as re-entry strategy; it had entered into partnership with barley

farmers for supply of barley, outsourcing non-core business function, strategic alliance with other firm and gaining of market share through established products.

The study revealed that challenges they faced in adopting the chosen market entry strategy were stiff competition from rival companies, lack of trained staff, lack of firm to outsource some of the business function and high cost involved in adoption of these strategies. The study found that the company had some future prospects in entering into new markets. The study found that the degree of control their company aspired in their foreign market; the study found that the company aspired high degree of control in the foreign market where it would be control more than 50% of the entire market share. The study revealed that competition was greatest determinant of the strategy used in the foreign market entry strategies by SABMiller.

The study established that entry strategies were revised from time to time, the changes in entry strategy was attributed to changes in competitive environment as other firms in the industry kept on changing their entries strategies in order to gain competitive advantage over their rival which necessitated change in entry strategies from time to time. The study found that the challenges they faced in the process of entering the Kenyan market were hostility from rival, lack of market share, lack of government support, introduction of new product in the market and challenges in acquiring firm in the industry. The study sought to determine the challenges did the task environment pose to the company; from the findings the interviewee indicated that the challenges did the task environment pose

to the company were stiff competition, rivalry, new product introduction, regulation by the government and lack of government support.

The study found that the response of the stakeholders to the entry process was positive one. Mechanisms they put in place to guarantee their continued support, from the findings the study found that mechanisms they put in place to guarantee their continued support were regularly revising of the entry strategies, updating the stakeholders of the new strategies used in the market, seeking stakeholders support at all level of strategy implementation and involving stakeholder in devising of new strategies.

The study revealed that SABMiller had really gains the market, it was fully operational and its effects on the market were being felt by the other companies in the market. The challenges faced while implementing marketing strategies were regulation such as the alcohol and control Act 2010 which is prohibitive on alcoholic drinks advertisement.

The study found that major reasons for the entry and re-entry into the Kenyan market were growth in the beer industry in Kenya, availability of resources in Kenya, good market share in Kenya and strategic alliance in Kenya. The new entry strategies were effective as they were helping the company to gain market through various marketing and re-entry strategies. It was revealed that there was greater income growth potential from Kenyan market as the company was gaining market share and it was increasing its sales and introduction of new products. The reason for additional markets was to control risks as they need to diversify the business risk. From the findings of the study found that they

would improve performance of core capabilities and distribution channels, through strategic alliances with other firms and outsourcing non-core business function in order to help the firm concentrate on core business functions. The study revealed that there was the need to acquire new technologies as this would help the firm in production efficiency.

5.3 Conclusion

From the findings, the study concluded that the success of foreign market is influenced by export knowledge, customer loyalty/switching costs, technological superiorities of the exported products and external support programs such as government assistance. The study found that the significant entry challenges faced by SABMiller into the Kenyan market were hostile competitive environment and stiff competition from incumbent firms, strict regulation by the government as contained in the Alcohol Control Act 2010 and customer loyalty to existing brands hence resistance to switching to the new products being introduced in the market.

The study also concludes that the foreign market strategies employed by SABMiller are leveraging on the advantages of established local firm to penetrate the market, outsourcing strategies for significant business functions, high level of market orientation, marketing research, promotion and advertising, new products development practices and manufacturing operations.

5.4 Recommendation

From the findings and conclusion, the study recommends that in order to ensure competitive advantage in the foreign market, SABMiller should ensure that they have full knowledge of local operations in the industry, understand consumer behavior and

preferences, generate proper and aggressive marketing strategies to attract and educate customers on their products and manage costs properly to ensure profitability that is sustainable in the long run.

5.5 Areas for Further Research

From the above findings, conclusion and recommendation, the study further recommends that an in-depth study should be carried to determine the effects of the adopted competitive strategies in the Kenyan market by SABMiller.

This study focused on the foreign market strategies adopted by SABMiller and challenges faced. Further research should therefore be conducted to establish the effects of the foreign market strategies adopted. Further studies should also be conducted to establish the foreign market strategies adopted by other beer companies in Kenya and the reaction of incumbent firms in their defense.

5.6 Limitation of the Study

The research design used is a case study whereby the descriptive information provided by different people leaves room for important detail to be left out. The study used an interview guide as the instrument for collecting data from the Managers SABMiller who were not easily available which lead to the period of data collection to be longer than anticipated. The study was also limited to SABMiller as it sought to determine the market entry strategies and challenges faced by SABMiller ltd into the Kenyan market.

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Appendix 1: Interview Guide

1. What is your designation and how long have you been working in that capacity?

.....

How long has your company been operational in Kenya?

.....

2. Which is your target market in Kenya?

.....

3. Which initial strategies did the company adopt in entering the Kenyan market?

.....

4. What are some of the challenges that led to your withdrawal from the Kenyan market?

.....

5. What is the company doing differently in its attempt in re-entering this market?

.....

6. What are the challenges in adopting the chosen market entry strategy?

.....

7. Which future prospects does the company have in entering to other markets?

.....

8. What degree of control in operations does your company aspire in the foreign markets?

.....

9. Does the competition influence the entry strategy used to enter the Kenyan market?

.....

10. Does the entry strategies change or revised in time? Why and How?
.....
11. What challenges did you experience in the process of entering the Kenyan market?
.....
12. What challenges did the task environment pose to the company?
.....
13. What was the response of the stakeholders to the entry process?
.....
14. What mechanisms did you put in place to guarantee their continued support?
.....
15. Comment on SAB Miller now and before the re-entry strategy.
.....
16. What challenges did you face while implementing marketing strategies?
.....
17. What are the major reasons for the entry and re-entry into the Kenyan market?
.....
18. Comment on the effectiveness of the new entry strategy?
.....
19. There is greater income growth potential from Kenyan market?
.....
20. What is the reason for additional markets is to control risks?
.....
21. How would you improve performance of core capabilities and distribution channels?

.....
22. What is your comment on the need to acquire new technology?
.....

Thank you