

**STRATEGIES EMPLOYED BY OIL MARKETING COMPANIES
IN KENYA TO ACHIEVE COMPETITIVE ADVANTAGE**

BY

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DECLARATION

Declaration by the student

I declare that this research project is my original work and, to the best of my knowledge, has not been submitted to any university for a degree.

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Declaration by the supervisor

This MBA research project has been submitted for examination with my approval as the university Supervisor

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DEDICATION

To Almighty God who was the source of my knowledge, wisdom and success be glory and honor for this outstanding piece of work. To my parents who spent their resources to bring me up and educate me. And to my wife, Lillian, children Perault, Patsy and Paddy for their patience when I spent long hours writing this project and encouraged me to fulfillment of this dream.

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ABBREVIATIONS AND ACRONYMS

AGOL	: African Gas & Oil Company Ltd.
ATM	: Automated Teller Machine
BP	: British Petroleum
DRC	: Democratic Republic of Congo
ERC	: Energy Regulatory Commission
FO	: Fuel Oil
GDP	: Gross Domestic Product
Hr.	: Hour
IDO	: IDO
JET	: Jet fuel
Kg	: Kilogram
KIPPRA	: Kenya Institute for Public Policy Research and Analysis
KPC	: Kenya Pipeline Company
KPRL	: Kenya Petroleum Refineries Ltd
L	: Liters
LPG	: Liquefied Petroleum Gas
MNC	: Multinational Company
M3	: Cubic Meter
OMC	: Oil Marketing Company
OTS	: Open Tender System
PIEA	: Petroleum Institute of East Africa
Ltd.	: Limited

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ABSTRACT

Thompson and Strickland (1998) defined strategy as the game plan for positioning an organization in the market arena. The organization looks at the external environment and formulates strategies to enable it 'fit'. Johnson and Scholes (2002) defined strategy as a configuration of an organizations resources and competences with the aim of achieving stakeholder's expectation. Strategy in this case is a 'stretch' of a firm's resources and competences to achieve competitive advantage. The oil industry has changed from a few players who single sourced their entire product from KPRL, to many players who source additional white oil from overseas markets. This was necessitated by the growth of the economies in the region which brought huge demand for the petroleum products. These changes have been accompanied by changes in government policies, from deregulation back to regulation of oil prices, standardization of LPG cylinder valves, improvement in infrastructure, introduction of upfront payment of taxes to curb dumping of transit product in the industry, increase of industry players and hence increased competition and exit of major oil companies, among other changes. These have necessitated a shift in the way the oil companies run their business by formulating and implementing strategies that would ensure not only their survival but also their ability to bit competition. This study was therefore instituted to establish the strategies employed by oil marketing companies in Kenya to achieve competitive advantage. 53 oil marketers were targeted in a census survey out of which 35 responded representing 66% response rate. The study was carried out through questionnaire prepared and distributed to the oil marketers by dropping and picking, face to face interview as well as electronic transmission. It was established that oil marketers employed broad low cost strategy, internationalization, vertical integration, outsourcing and strategic alliances in that order. Out of the strategies employed to keep the organization cost low, the OMC's agreed that direct-to-end-user sales and marketing strategies, economies of experience and economies of scale were the most employed. On the value chain activities carried out by the marketers, it was established that clearing and forwarding was the most outsourced, followed by transportation and storage. It was further established that the majority of OMC's planned to extend their operations to include storage facilities. As a result of the above findings, the researcher made various recommendations which included the need for OMC's to consider extending their operations to retail networks where the margins were higher in a regulated market as opposed to storage activities which had been invaded by a number of new investors and hence rendering it unattractive. Secondly, it was recommended that the government invest in the refinery in order to reduce its cost of production and hence encourage local investment. The researcher identified various opportunities for research which included study on competitive strategies employed by OMC's in the LPG sector and Lubricants among Multinational Corporations.

CHAPTER ONE-INTRODUCTION

1.1 Background of the Study

In the fight for market share, Minzberg, Lampel, Quinn, and Ghoshal (2003) cited that competition is not manifested only in other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Porter (1985) noted that there are five competitive forces that determine industry attractiveness, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitutes and industry rivalry. Minzberg et al. (2003) further noted that the weaker the forces collectively the greater the opportunity for superior performance. The strategist must understand these forces in order to formulate competitive strategy that will enable the firm to position itself in the industry. Porter (1985) defined competitive strategy as the search for a favorable competitive position. The reason behind profitability of a firm in an industry is competitive advantage.

Thompson and Strickland (1998) defined strategy as the game plan for positioning an organization in the market arena. In this definition strategy is seen as a means by which an organization 'fits' into the environment. However strategy as a fit does not fully explain the performance of organization. Johnson and Scholes (2002) defined strategy as a configuration of an organization's resources and competences with the aim of achieving stakeholder expectation. This is the resource based view of strategy. In this view strategy is seen as a 'stretch' in which the organization exploits its unique competences and resources to gain competitive advantage.

The Oil Industry in Kenya has metamorphosed from a highly regulated industry with few players who single sourced their product from Kenya Petroleum Refineries Ltd. (KPRL) resulting in very high requirement for entry. Given the few suppliers, the bargaining power of buyers was very low. Furthermore the industry did not experience any substantial competing substitute products. Soon after deregulation the stability of the industry was quickly eroded and the government allowed oil marketers to import finished product into the country allowing independent dealers to come in and set up shop. Subsequently the number of Oil Marketing Companies (OMC's) increased significantly to levels that had not been experienced before. With these changes in the industry firms which were doing very well before began to lose market share giving way to new players.

1.1.1. Strategy and Competitive Advantage

Thompson and Strickland (2003) defined strategy as a combination of competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully, conduct operations, and achieve the targeted levels of organizational performance. Strategy defines what an organization does, in efforts to reach its customers, to successfully compete its rivals and is therefore the key driver of competitive advantage.

Barney and Hesterly (2010) defined competitive advantage as the difference between the economic value a firm is able to create and the economic value its rivals are able to create. When a firm is able to create more economic value than its rivals then it will be able to successfully execute the business battle and thus become more profitable. Porter (1985) noted that competitive advantage cannot be understood by

looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product. These discrete activities are linked to each other in a system referred to as the value chain. Each activity in the value chain adds cost and value to the product or services. In some firms the activities add more cost relative to the value and thus become less profitable while in other firms the activities are performed so well that they add less cost and more value and thus are more profitable. Porter (1985) further noted that the success of a firm is thus determined by the way it manages not only the activities in the value chain but also the linkages between the activities. Linkages between the activities are managed through optimization or coordination. For example an oil firm which coordinates well their procurement function with operations will develop a high level of efficiency and thus developing competitive advantage.

Barney (1996) noted that a firm's competitive advantage stems from internal attributes referred to as resources and capabilities. Mintzberg, et al. (2003) noted that when evaluating a firm's resources and capabilities that contribute to competitive advantage there are three aspects that need to be looked at, value, rarity and imitability. We have seen in the previous argument by Porter (1985) that resources that add value than cost are splendid sources of competitive advantage. However, Mintzberg, et al. (2003) explained that if a particular resource and capability is controlled by numerous competing firms, then that resource is unlikely to be a source of competitive advantage for any one of them. The less the number of firms controlling this resource the more rare the resource and the more the firms are able to

derive competitive advantage from it. Furthermore, if competing firms face cost disadvantage in obtaining the resources and capabilities, then the firm may derive sustained competitive advantage. The ability to imitate may occur in two ways, duplication, where a firm builds same kinds of resources as the firm it is imitating and substitution, where a firm develops strategic resources that have the same implication as the resource being imitated.

1.1.2. The Petroleum Industry in Kenya

Broadly speaking the oil industry consist of Oil Marketing Companies (OMC's), who import and market petroleum products, Kenya Petroleum Refineries (KPRL), who is charged with the responsibility of importing crude, refine and sell to oil marketers, and Kenya Pipeline Company (KPC), whose mandate is to receive, store and transport petroleum products by pipeline. The industry is regulated by Ministry of Energy (MOE) and Energy Regulatory Commission (ERC) an arm of MOE.

The petroleum industry infrastructure has undergone various changes over the years. Kenya Pipeline Company built and revamped its line capacities severally in pursuit of meeting the demand of the country and The East African Region as a whole. This included the building of multipurpose line from Mombasa to Nairobi in 1978, installation of another line to supply Western Kenya and transit market from the towns of Nakuru, Eldoret and Kisumu in 1994 and later enhanced the two lines in 2004 and 2008 bringing the Mombasa-Nairobi line capacity from 879,776 cubic meters to 7.6 million cubic meters per year and Nairobi to Western Kenya from 160 cubic meters to 757 cubic meters per hour (SoftKenya.com, 2013).

On the LPG front, reported Wachira (2011), the government through Kenya Ports Authority contracted an investor, African Gas and Oil Co. Ltd (AGOL) to put up a massive storage facility at Miritini Mombasa at a cost of ksh12.5billion (US\$142.8million). This massive investment has a storage capacity of 14,000mt with a single buoy offshore capacity of 11,000mt. This brings the country storage capacity to 15,300mt geared towards receipt and storage of LPG, 11times higher than previously available. This investment was expected to bring down the countries demurrage bill, enable economies of scale by importation of larger parcels,improve accessibility and create opportunity galore to private investors.

The government has also made various regulations over the years. KIPPRA (2010) reported that in 1994, the government through an act of parliament deregulated the petroleum industry by decontrolling prices and allowing white oil importation into the country while protecting KPRL by imposing a minimum quantity of crude to be processed by OMC's, making it a toll refinery. Before this year all finished petroleum products came from KPRL while oil marketers had the mandate of importing crude oil. The government further protected the local facility by introducing suspended duty on locally refined products. This regulation opened up opportunities for importation of cheaper products from more efficient refineries.

Sambu (2010) sited that at the time of deregulation the number of OMC's was less than ten. Deregulation triggered the influx of OMC's swelling the number of companies to 53 thus causing escalation of competition to levels that had not been witnessed before. This put pressure on the oil prices taking a dip resulting in reduced margins and thus compromising industry attractiveness. The multinational

corporations (MNC's) who had high overheads were hard hit resulting in divesture from this market. These included ESSO, Agip, Mobil, BP, Caltex and more recently Shell. This exit has brought with it opportunities for the small players to expand and take up the vacuum left.

However, in December 2010, the government made an about turn and re-introduced price control after the world market prices increased unabated with the government accusing the oil marketers to be fast in increasing prices but slow to reduce them when the world market surged. This removed the handle to increase pump prices beyond the maximum cap by marketers and thus requiring them to improve efficiency in order to remain competitive. Irungu (2011) reported that in July 2012 KPRL transformed into a merchant refinery thus enabling it to procure crude and sell finished products to the oil marketing companies. This was expected to reduce the huge capital tie up that the oil marketers were experiencing since crude took a whole month to process before access.

Wachira (2011) noted that due to its cleanliness and the fact that it reduces combustion of biomass and hence raise the forest cover, the government made deliberate efforts to make LPG the preferred domestic source of energy. In 2011, cited Senelwa and Thiong'o (2012), Kenya's per capita consumption of LPG stood at 2.1kg, Senegal 12.2kg, Ivory Coast 9kg, S. Africa 6kg and Ghana 5kg while North African countries stood at 55kg per annum. These statistics testify of the dismal performance of Kenya in LPG consumption compared to similar economies in Africa prompting an introduction of a series of interventions including zero rating of taxes, standardization of cylinder valves and fostering environment for increased

competition. PIEA (2013) reported that the Kenya LPG market has also been dogged by unscrupulous re-fillers who deny legitimate marketers revenue. The government through ERC is currently sourcing for an independent body to enhance surveillance, identify illegal re-fillers and weed out the vice

1.1.3. Oil Marketing Companies in Kenya

There are 53 OMC's and according to PIEA(2013), 35 companies control 99.1% of the market share in the local fuel business while 30 companies control 95.9% market share in the local and transit business combined. 14 oil marketers control the entire LPG business. The number of oil marketing companies has been on the increase since deregulation in 1994.

Deregulation of the oil industry allowed OMC's to import white oil and reduced the obligation to import crude to 50% of KPRL's capacity. These changes resulted in an increase on the number of OMC's to an all-time high of 53. This change brought with it increased competition compromising industry attractiveness and subsequent exit of some major oil marketers, among other effects.

1.2 Research Problem

Barney and Hesterly(2008) described competitive advantage of a firm as the ability to create more economic value than rival firms. Economic value is simply the difference between the perceived benefits gained by a customer that purchases a firm's products or services and the full economic cost of these products or services. From this definition the firm will have competitive advantage if the value it creates is

more than that created by its rivals while targeting to reach the same customers. Competitive advantage is achieved when an organization employs better strategy than its rivals. Strategy is a stream of actions adopted by a firm that positions it in the environment and defines how an organization will develop sustainable competitive advantage. Competitive advantage is temporary if it lasts a short period of time. A sustained competitive advantage in contrast, can last much longer.

The Kenya Petroleum Industry has witnessed immense turbulence in the recent past ranging from influx of new entrants and thus increased competition, changes in government policies on regulations, volatility of world market prices and exit of multinational corporations. This has necessitated the continuous need for OMC's to come up with strategies and hence develop not temporary but sustained competitive advantage.

An assessment of previous research studies on the petroleum industry found that Njoroge (2006) studied competitive strategies adopted by LPG Marketers in Kenya to cope with competition from which it was found that marketers used predominantly low cost strategy. In her study Njoroge (2006) did a census survey on 7 OMC's who handled LPG. This number had since doubled, some marketers exited and others came in. The study was also done seven years ago within which many strategic issues have come up and hence the need to carry out more studies on competitive strategies by OMC's. Wanjiku (2010), studied response strategies to cope with barriers of entry where it was found that OMC's established wholly owned subsidiaries to cope with entry barriers. Her study was fundamentally different from this study in that it did not address competitive strategies. Odida (2011)

studied strategic change management and found that OMC' preferred planned changes and Oduol (2012), studied competitive strategies adopted by Independent Lubricant Marketers in Kenya who found that oil marketers used mainly differentiation and cost leadership strategies. The study by Oduol (2012) was a census survey of 22 independent OMC's who dealt with lubricants some of whom did not have fuels in their line of business. This study extended the coverage to all the 53 OMC's, both independent and major, who dealt with lubricants as well as other fuels. It therefore had a general view of the industry.

It was evident from the foregoing that a research gap existed which this study targeted to fill. In a turbulent environment, the firm will continuously scan and formulate strategies that will not only enable it adopt but also beat competition. The firm will at the same time develop strategies to enhance its internal resources and capabilities to ensure sustained competitive advantage. These strategies were the subject of the study, which led us to the pertinent question, "What are the strategies that oil marketers employ to achieve competitive advantage?"

1.3 Research Objective

This study had one objective to establish the strategies employed by oil marketing companies to achieve competitive advantage in Kenya.

1.4 Value of the Study

Competitive strategies practiced five or more years ago cannot be used to generalize the situation in an industry today. There was therefore the need to carry out this study to establish the current practice. This would enable academicians and scholars enrich their theoretical knowledge of the industry as well as identify new areas of further research.

The Oil Industry is one of the largest revenue earners contributing 8.4% to Kenya's GDP (KIPPRA, 2010) and hence the significance of studies carried out in this sector. The findings of this research study would help regulators come up with policies that would enhance the value and contribution of not only the current OMC's to the Kenyan economy but also attract new investors into the sector.

This study would provide an objective understanding of the forces of competition facing the OMC's and the strategies employed by the individual players in the industry. This would enable firms in the industry achieve a diagnostic and evaluative study. This would help the industry participants identify areas in which they could direct funds in order to achieve sustained competitive advantage

CHAPTER TWO -LITERATURE REVIEW

2.1 Introduction

This chapter begins with the theoretical foundation of strategy. A review of literature on concept of strategy and relate this with competitive advantage. It will then review literature on the strategies which include low cost, differentiation, focus, strategic alliances, mergers and acquisition, vertical integration, outsourcing and unbundling strategies and finally diversification strategies.

2.2 Theoretical Foundation of the Study

There are three concepts which underpin this study and form the foundation of strategy. These are Porters industry five forces, resource based view of the firm and the concept of strategic group.

2.2.1 Porters Industry Five Forces

Thompson and Strickland (1998) defined strategy as the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance targets. Strategy in this case is shaped by forces external to the organization. Strategy development is thus about 'fit'. According to Porter (1985) there are five forces which determine industry attractiveness, the bargaining power of buyers, the bargaining power of suppliers, threat of new entrants, threat of substitute and rivalry among existing firms. The firm in its bid to achieve competitive advantage analyses the environment using these forces and formulates strategies to position the firm.

2.2.2 Resource Based View of the firm

Strategy as a 'fit', discussed above, does not fully explain the performance of a firm. Johnson and Scholes (2002) defined strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. In this definition strategy is seen to originate from within the organization by exploiting or 'stretching' the organization's unique resources and competences. This is the resource based view of strategy. Sustained Competitive advantage is achieved when the resources and competences are imitable or robust.

2.2.3 Strategic Group

Thompson and Strickland (1998) defined strategic group as a group or cluster of firms in an industry which are similar to each other but distinct from other industry groups because they differ in one or more key aspects of their competitive strategy. The analysis of strategic groups helps the firm address the key forces in Porter's industry analysis framework, competitive rivalry.

2.3 The Concept of Strategy

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson and

Sholes, 2002). Strategy in this case is seen as resource based where the firm possesses superior resources or competences that cannot be replicated by competitors.

Mintzberg et al. (2003) defined strategy as a plan, ploy, position, pattern and perspective. Strategy as a plan specifies a conscious intended course of action. It is designed in advance of actions it governs. Strategy as a pattern emerges from a stream of actions that is developed in the absence of intentions and without pre-conception. A strategy as a ploy refers to specific maneuvers to outwit a competitor threat. A strategy as a position means locating the business in the environment. Strategy as a perspective gives the organization an identity. This is the perception in the environment in which it stands.

2.4 Strategy and Competitive Advantage

A firm has Competitive advantage when it is able to create more economic value than rival firms. Economic value is simply the difference between the perceived benefits gained by customer that purchases a firm's products or services and the full economic cost of these products or services. Thus the size of a firm's competitive advantage is the difference between the economic value a firm is able to create and the economic value its rivals are able to create (Barney, and Hesterly, 2008). Porter (1998) explained that competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay and superior value stems out from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price.

According to Porter (1998) there are three main competitive strategies, cost, differentiation and focus. Thompson and Strickland (1998) pointed out five distinct competitive strategy approaches emanating out of the three generic strategies, namely low cost strategy, in which a company serving a broad spectrum of customers strives to be the overall low cost provider. Secondly, the broad differentiation strategy in which the oil marketer seeks to differentiate its product from rivals in serving a broad spectrum of customers. Thirdly, best- Cost provider strategy a firm seeks to have the best product at the lowest price relative to its rivals offering products with comparable upscale attributes. The fourth is a focused (or market niche) strategy based on lower cost in which the firm concentrates in a narrow buyer segment and out-competes its rivals by servicing a niche market at a lower cost. And lastly, a focused (or market niche) Strategy based on differentiation, a firm concentrates in a narrow buyer segment and out-competes its rivals by offering niche member products with unique attributes that meet their requirement better than rival products

2.5 Low Cost Strategies

A firm can achieve low cost advantage by either of two options. One is to manage the activities in its value chain better than competitor to achieve an overall lower cost and two to revamp the firms activities in such a way that it by-passes some cost-producing activities altogether(Thompson, and Strickland, 1998).

2.5.1. Controlling Cost Drivers

Thompson and Strickland (1998) outlined ways of controlling cost drivers. One is through economies of scale in which the firm reduces its cost by handling higher volumes at the same cost and hence achieving a cost advantage. While doing business, a firm will go through learning and experience curve in which the firm's cost decline over time due to economies of experience and learning. Furthermore Porter (1985) noted that the firm will drive the cost down by reducing the cost of key resource inputs. The firm can link some activities with others in the company or industry value chain. The firm may also have different business lines e.g. LPG, fuel, Lubricants etc. and may share the same ordering system, same billing system, share transportation when marketing in different parts of the country and thus distributing the cost over a broad spectrum of product lines. Porter (1985) noted that when venturing into new markets or products, the firm may avoid being the pioneer and thus evade huge cost of research and development. In keeping its cost low the firm will be required to ensure a high percentage of capacity utilization. This is crucial where the firm has a high fixed cost which can be spread over a higher volume and thus driving unit cost down.

Porter (1985) further noted that a firm can improve capacity utilization by one serving a mix of account with peak volumes throughout the year and two, finding off season uses for its product and three selecting buyers like power generating plants who have stable demand and four letting competitors serve the buyer segments whose demand fluctuate. The firm may also make prudent strategic choices and operating decisions for example the firm may do this by adding or cutting services

given to buyers at their retail network, paying higher/lower wages and fringes to employees relative to rivals etc.

2.5.2. Revamping the value chain

The second approach the marketer may take is to revamp the value chain by performing the activities in different ways that brings the cost down. The firm may shift to e-business techniques. This can be achieved through using electronic communication, for example, email and video-conferencing to eliminate travelling costs as well as sourcing for customers through the internet media (Thompson and Strickland, 1998).

Thompson and Strickland (1998) further indicated that the firm may use direct-to-end-user sales and marketing approaches. An example is where wholesaler stake more than sixty per cent of the margin leaving the marketer with meager earnings. To change this scenario, the oil marketer would by-pass these wholesalers and sell directly to independent stations. Furthermore the oil marketer may decide to strip away extras by offering only basic services at the retail stations. The firm may relocate some facilities closer to the point of use or need e.g. locating storage tanks next to the port and others next to the customer e.g. in the regions where the product is being sold.

2.6 Differentiation Strategies

Porter (1985) stated that in differentiation strategy the firm selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. Differentiation strategies thrive when customers are

not satisfied by standardized products or with sellers with identical capabilities. These strategies allow the firm to command a premium price, increase unit sales and /or gain buyer loyalty. One way of creating differentiation is on the purchasing and procurement activities where a firm while buying inputs for their lubricants selects additives that enhance performance better than competition. The firm may put efforts on research and development activities and thus come up with superior performance features like having higher octane number in its premium gasoline which improve motor vehicle speed, provides better engine protection etc.

Thompson and Strickland (1998) noted that the firm may also find new production technology- related activities by coming up with better ways of making payment e.g. by use of fueling cards and mobile transfer services. Porter (1985) further noted that a firm may develop better outbound logistic and distribution activities by designing better ways of servicing orders through faster order processing activities. At the back end of the value chain the firm may find better marketing, sales and customer service activities by one designing faster mechanism of resolving engine failures after fueling from own stations and two have printed brochures on lubricants information compared to rivals and three have additional facilities such as children play areas, super markets, ATM, coffee houses, restaurants e.tc. at their retail stations.

2.7 Focused Strategies

Thompson and Strickland (1998) noted that in focused strategies the firm concentrates on a narrow piece of the total market. The target market can be defined by geographic uniqueness for example some marketers exclusively serve customers

in certain regions e.g. Western Kenya and/or Mombasa. The Oil Marketer will have competitive advantage if one, it's able to deliver product at a lower cost than competitor for example some marketers have focused on 3kg gas cylinders to serve only the lower end customers, or two if it's able to offer the niche market something they perceive is better suited to their own unique tastes and preferences.

Thompson and Strickland (1998) further noted that focusing is attractive when, one, target market niche is big enough to offer good profit. Two the Industry leaders do not see that a having a presence in the niche is crucial for their success, three, it is costly or difficult for multi-segment competitors to put capabilities in place, four the industry has many different niches, few, if any, other rivals are attempting to specialize in the same target segment and finally the focuser has unique capabilities and resources it uses to serve the niche market and the goodwill it may have built

Focus strategy, noted Thompson and Strickland (1998), has a number of risks. One of the risks is that the competitor can develop capability and come up with products that are more desirable to the customer than what the focuser offers. The second risk arises when the customer test or requirement shifts. A third risk is that the segment being served by the focuser becomes attractive and soon rivals come in

2.8 Strategic Alliance

Barney (1996) noted that corporative strategies exist when firms work together to reach a common goal or objective. Thompson and Strickland (1998) explained that strategic alliance is a collaborative relationship with benefits when a firm acquires valuable resources and capabilities that it could not otherwise obtain on its own and

giving it an edge over rivals. Firms enter into alliances to acquire new competencies, to improve supply chain efficiency, to gain economies of scales in production or marketing and to acquire or improve market access through joint marketing agreements.

Barney (1996) outlined three types of strategic alliances. The first is non-equity alliance where firms cooperate directly through contracts, without cross equity holdings or an independent firm being created. Another form of alliance is equity alliance where cooperative contracts are supplemented by equity investment by one partner in the other partner. The third type of alliance is Joint Venture where cooperating firms form an independent firm in which they invest. Profits from this independent firm compensate partners for this investment.

2.9 Merger and Acquisition Strategies

Johnson and Scholes (2002) defined acquisition as one in which an organization develops its resources and competences by taking over another organization. In mergers two or more organizations come together to form one firm. The firm created from this strategic move is more permanent than alliances.

Thompson and Strickland (1998) explained that mergers and acquisition are much better option than alliances in that they are more permanent allowing tight integration and creating more in-house control and autonomy. The firm will have stronger technological skill, more or better competitive capabilities, more attractive products or services, wider geographic coverage, and/or greater financial resources. The combination of operations will bring with it cost-saving opportunities.

2.10 Vertical integration strategies

Thompson and Strickland (1998) explained that vertical integration extends a firm's competitive scope within the same industry. It involves expanding the firm's range of activities backward into sources of supply e.g. putting up storage facilities to receive imported fuels and/or forward towards end users of the final product by putting up retail stations, storage facilities in consumer premises like of huge power plant etc. Backward integration by investing in storage facilities, for example, enables firms to remove uncertainty in accessing product

Thompson and Strickland (1998) further explained that vertical integration has a number of disadvantages; it makes the adoption of new technologies slower, locks a firm in relying on its own in-house activities, may result in an overcapacity in the new investment of the value chain e.g. the recent entrance of many oil firms in the terminal or depot operations has resulted in an overcapacity which will jeopardize the ability to recoup their investment. Such depots also require completely different skills for example safety experts and finally this makes the marketer relatively inflexible when a new facility that will result in cost advantage like AGOL comes into play.

2.11 Unbundling and outsourcing strategies

Thompson and Strickland (1998) noted that some firms have found vertical integration uncompetitive and burdensome and have adopted vertical de-integration, or unbundling. In this strategy the firm concentrates in few activities that it performs well and withdraw from certain stages of its value chain system and rely on outside

vendors to provide the needed service for example clearing and forwarding, product handling at hospitality depots and ceding retail networks to dealers.

Thompson and Strickland (1998) further explained that outsourcing is preferred in that the outsourced activities are performed better and cheaply by the vendors, reduces the oil firms risk exposure to changing technology, streamlines company operations in ways that improve organizational flexibility, speed decision making and reduce coordination costs, and finally relieves the firm to do those activities that it performs well. This strategy is adopted if the activity being outsourced is not crucial for firm's ability to achieve sustainable competitive advantage.

2.12 Diversification Strategies

Johnson and Scholes (2002) defined diversification as a strategy which takes the organization away from its current markets or products or competencies. These strategies will introduce new products that are in a different industry or shift organization dealings into new markets that they have not operated before like those in other countries. While pursuing diversification the firm will first seek to find opportunities to invest in other product before thinking of extending its operations across borders.

Thompson and Strickland (1998) noted that companies with diminishing growth prospects in their present business, competencies and capabilities that are readily transferable to other businesses and resources and managerial depth to expand into other industry arenas are prime candidates for diversifying. Diversification doesn't need to become a strategic priority until a company begins to run out of attractive

growth opportunities in its core business. When management concentrates on one business then the probability of coming up with new ideas is high.

A firm may diversify into new product (services) or move into new markets. In product diversification, noted Thompson and Strickland (1998), the firm invests into a business that is in a different industry. The product in the new industry may be related or unrelated. The Oil Marketer may diversify into related business line whose value chain possess competitively valuable strategic fits with those of the company's present businesses. An example of this is where the firm diversifies into transport industry where they could transport goods while at the same time transporting their own fuel e.g. drummed JET and/or LPG cylinders.

Thompson and Strickland (1998) explained that, in unrelated diversification the firm invests in another industry in a business whose value chain has no strategic fit with the current. The choice to pursue unrelated diversification is driven by financial reasons and not the quest for strategic fit. An example is where some oil marketers have put their moneys into real estate business. An organization may choose unrelated diversification to scatter business risk, maximize on financial gain and stabilize profitability by synchronized business cycles.

Thompson and Strickland (1998) indicated that multinational diversification features a diversity of businesses and diversity of national markets. The firm moves into overseas markets making a presence in different countries. Capitalizing on opportunities for strategic coordination across businesses and countries provide an avenue for sustainable competitive advantage not open to a company that competes

in only one country or one business. Thus those firms that have a presence in the international markets are able to divert products to the markets where they make the most margins and are able to maximize their returns. This flexibility is not available to those firms with a presence in a single country.

Thompson and Strickland (1998) further explained that MNC's can realize competitive advantage by learning to transfer technology, brand name identification, and marketing and management skills from country to country quite efficiently, giving them an edge over smaller host country competitors. International markets have enabled firms to move larger volumes and earn returns that far outstrip the additional cost of product handling and thus enjoy economies of scale. Other firms have also been able to tap into low taxations, low interest rates, low exchange rates, better credit terms and cheaper labor. Finally, a diversified firm can draw resources from one country where it has operations and cross subsidize a competitive assault on the market position of a one- country competitor.

CHAPTER THREE-RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design that was adopted in the study as well as defining the population of the study. It further covers the data collection methods which were used. The chapter concludes by presenting the data analysis methods which were used to bring meaning to the mass of data collected.

3.2 Research Design

The method of data collection was through cross-sectional survey. Jones (1985) noted that Survey research is probably the most visible and pervasive form of research in the social and behavioral sciences. It is further noted that there are three objectives which are achieved by surveys, description of a population, explanation of a phenomena and exploration analysis of a problem. The first two objectives, description and explanation were of interest in this study and formed the basis of choice for this method.

Furthermore cross-sectional survey method has been used successfully in previous studies by Cueille (2006). Nachmias (1996) explained that one advantage of cross-sectional studies is that it may be carried out in a natural settings and permit researchers to employ random probability samples. This allows researchers to make inferences to broader populations and permit them to generalize their finding to real-life situations, thereby increasing external validity of the study.

3.3 Population of the Study

Population is the collection of all the elements of a research study. Jones (1985) described population as a collection of individuals or objects with similar characteristics. The objects or element of study in this case was the Oil Marketing Company while the population was the collection of all the 53 oil marketing companies put together.

An OMChas an ERC license to import and sell petroleum products in Kenya and have been actively participating in ullage utilization within the last three months. There were 53 oil marketers who fell under the above definition and a census survey of these was carried out.

3.4 Data Collection

Primary data was collected using questionnaires which were dropped and picked after filling. For those respondents who were in other towns the questionnaire was emailed or sent by postage for filling since this was clearly the cheaper than face to face interviews, less time consuming and less strenuous (Jones, 1985). The questionnaire consisted of general section A with both open ended and structured questions designed to categorize the firms.

Section B consisted of detailed structured questions utilizing the Likert Scale in majority of cases. This helped determine the strategies used by oil marketers. LaMarca (2011) elaborated that the choice for this scaling method was because it is the most widely used and hence understood, the responses are easily quantifiable and subjective to computation of some mathematical analysis, it allows

the participant to give a degree of agreement as opposed to yes and no response, it accommodates neutral response, it is quick, efficient and inexpensive.

3.5 Data Analysis

The data collected was edited both in the field and at the office for completeness, consistency, accuracy and clarity. The questionnaire was pre-coded ahead of data collection so as to enable the responses to be grouped into categories or classes. The data was then organized into tables by counting the number of respondents who gave same responses grouping together in columns before ranking them.

Data reduction was then carried out by use of descriptive statistics where frequency distributions, percentages and averages were computed to measure the degree of central tendency. These enabled the researcher to have better and more comprehensive approach to understanding the data. Ranges and standard deviation was used to measure dispersion.

CHAPTER FOUR-DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter comprises analysis, presentation and interpretation of data from the field whose objective was to determine the strategies employed by oil marketing companies in Kenya to achieve competitive advantage. The data was collected using a questionnaire as represented in Appendix II. The same was used to compute percentages, mean, standard deviations. Tables, pie charts, column and bar graphs were then drawn to help enhance understanding of findings.

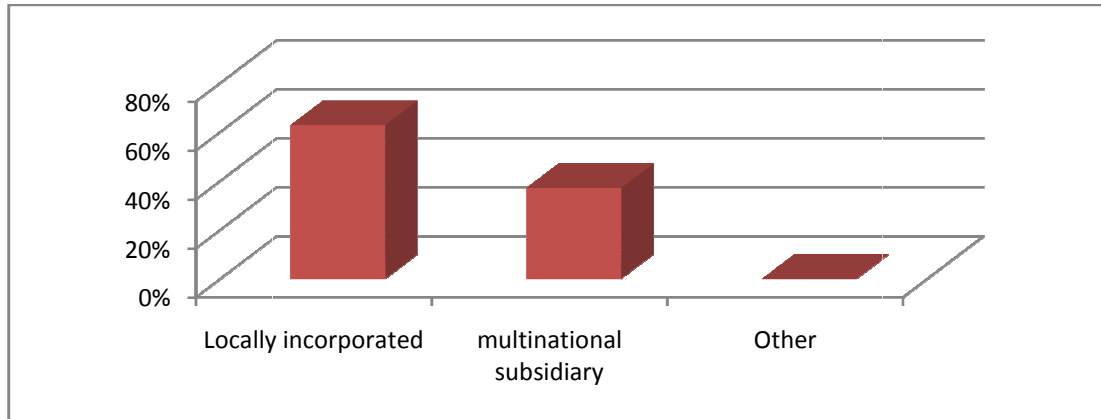
4.2 General Information

While the study intended to cover all the 53 oil marketing companies, only 35 companies responded which represented 66% response rate. The target respondents were senior managers in Marketing and Supply and Planning departments.

4.2.1. Information on the organization

As shown in Figure 4.1, out of the respondents 63% were locally incorporated while 37% were subsidiaries of Multinational Corporation.

Figure 4.1: OMC Organization Type

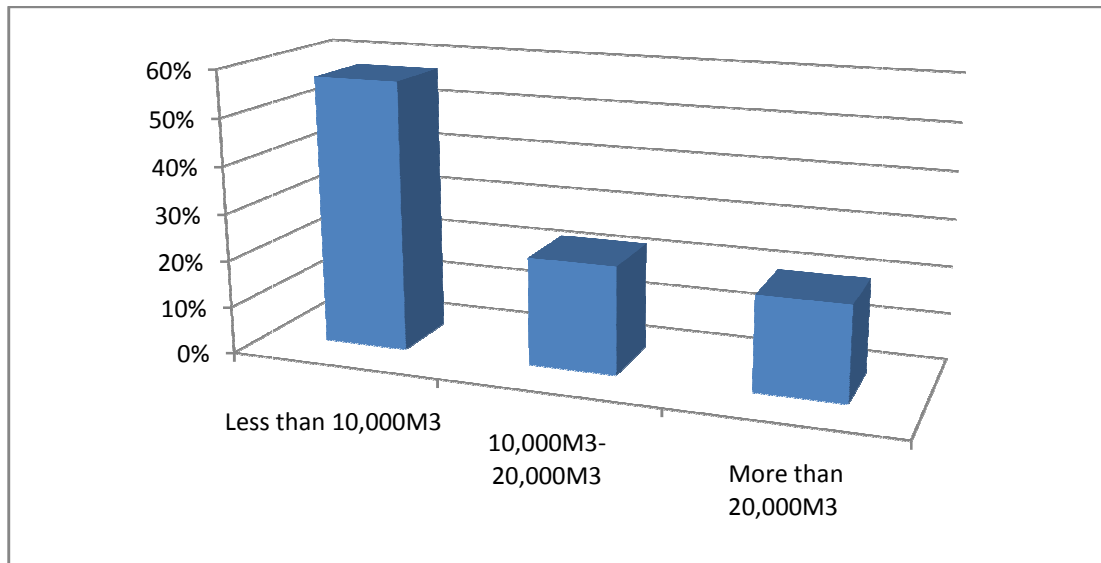


Source- Research data,2013

4.2.2. Size of OMC's

The oil marketer's throughput was used to determine their size. The OMC was asked to indicate in which range, in a list of three, they belonged. Less than 10,000 for Small sized OMC, between 10,000M3 to 20,000M3 for medium sized and above 20,000M3 per month for large sized OMCs. It was established that 57% of the respondents were small sized, while 23% were medium sized and 20% were large sized, as represented in Figure 4.2.

Figure 4.2: Average OMC Monthly Volume

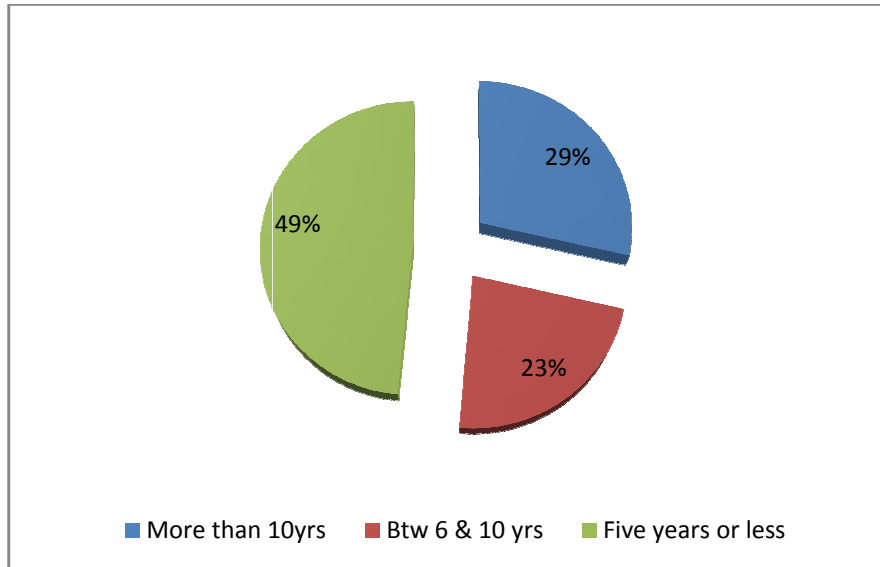


Source- Research data, 2013

4.2.3. Age of OMC's

The respondents were requested to indicate, out of three, the age bracket in which the firm falls. The age brackets included more than 10years for the oldest institutions, between 6 and 10yrs for medium age and five years or less for young organizations. The results were as shown in Figure 4.3. Out of the organizations studied, 49% were in operation for less than five years while 23% were in existence for between 6 and 10years. 29% were in operation for more than 10yrs.

Figure 4.3: Age of Organization



Source- Research data, 2013

4.2.4. Oil Products Distributed by Oil Marketing Companies

The respondents were asked to indicate their product offerings out of a list of 8. The results were as shown in Table 4.1. All the respondents had Premium Motor Spirit (PMS) as well as Automotive Gas Oil (AGO) in their products portfolio. 89% traded in .JET Fuel and Illuminating Kerosene (IK) while 80% dealt with Furnace Oil. 63% had dealings in LPG while 46% had some trade in Lubricants. Industrial diesel oil, Bitumen and others had 34%, 29% and 14% OMC's dealing with them respectively.

Table 4.1: Oil Products Distributed by OMC's

Product	frequency	Percentage	Ranking
Premium Motor Spirit (PMS)	35	100%	1
Automotive Gas Oil (AGO)	35	100%	2
Aviation JET-A 1/IK	31	89%	3
Furnace Oil (FO)	28	80%	4
Liquefied Petroleum Gas (LPG)	22	63%	5
Lubricants	16	46%	6
Industrial diesel Oil(IDO)	12	34%	7
Bitumen	10	29%	8
Other	5	14%	9

Source- Research data, 2013

4.3 Strategies employed by Oil Marketing Companies

The strategies employed by OMC's were determined by asking the respondents to rate their agreement for each of the 12 strategies. The results were as shown in Table 4.2.

Table 4.2: Strategies Employed by Oil Marketing Companies

Strategy	Mean Score	Standard Deviation	Ranking
Broad low cost strategy	3.77	0.82	1
Internationalization	3.76	0.84	2
Vertical Integration	3.66	0.72	4
Outsourcing	3.66	0.77	4
Strategic Alliances	3.54	0.56	5
Best Cost Provider	3.43	0.57	6
Focused Low cost strategy	3.17	0.40	7
Focused differentiation strategy	3.15	0.45	8
Product Diversification	3.15	0.44	9
Broad differentiation Strategy	3.14	0.45	10
Merger	2.52	0.23	11
Acquisition	2.29	0.14	12

Source- Research data, 2013

Note: A 5-point Likert Scale was used in which 1 indicated strongly disagree, 2- disagree, 3- neither agreed nor disagreed, 4- agree and 5- strongly agree was used.

The firms agreed the employment of low cost strategy, internationalization, vertical integration, outsourcing and strategic alliance.

4.3.1 Low Cost Strategies

The respondents were further asked to rate a list of 8 low cost strategies. The mean scores were then computed and represented in Table 4.3 below

Table 4.3 Strategies employed by OMC's to keep Cost low

Low Cost Strategy	Mean Score	Standard deviation	Ranking
The firm uses direct-to-end-user sales and marketing strategies	3.88	0.95	1
Economies of Experience	3.85	1.03	2
Economies of Scale	3.82	1.01	3
The firm employs e-business techniques	3.63	0.67	4
The firm has increased its line of business to which it distributes its cost	3.57	0.72	5
The firm has located some of its facilities (e.g. storage tanks) close to point of use	3.34	0.71	6
Reducing key resource inputs	3.12	0.44	7
The firm has stripped away some of the extras and give only basic services	2.97	0.43	8

Source- Research data, 2013

Note: A 5-point Likert Scale was used in which 1 indicated strongly agreed, 2 disagreed, 3 neither agreed nor disagreed, 4 agreed and 5 strongly agreed was used.

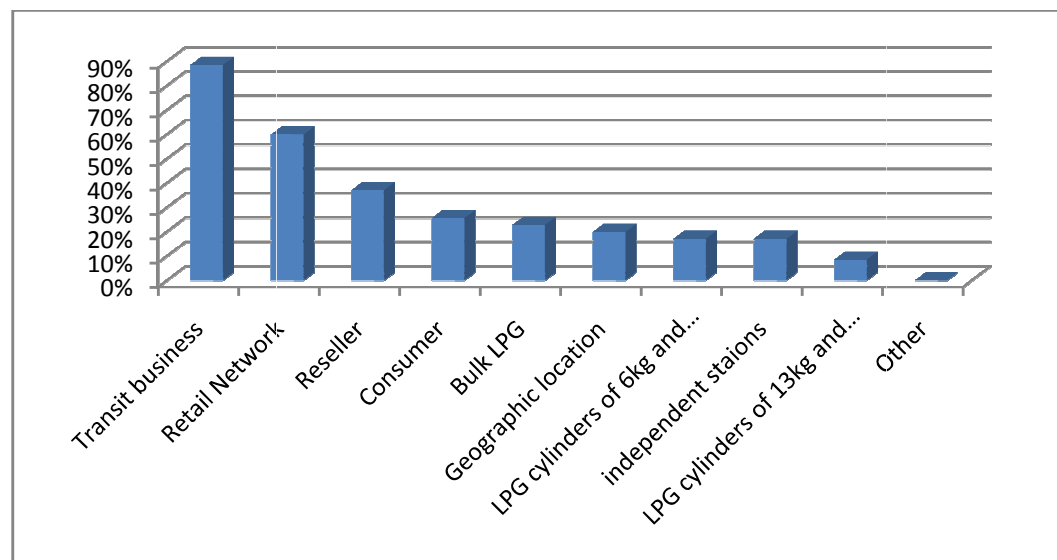
The use of direct-to-end user sales and marketing strategies ranked the highest. This was followed by economies of experience and economies of scale. The high score of direct-to-end user sales was driven by the high margins associated with selling to end user as compared to use of wholesale middlemen. Economies of experience were favored by the fact that most employees had been in the industry for at least 3 years.

While economies of scale were employed to enable distribute the firm's cost on higher volumes.

4.3.2 Focused Strategies

In order to evaluate the practice of focused strategies, the respondents were requested to indicate which market segment they were concentrating on to gain competitive advantage. 89% of the respondents indicated that they were putting focus on transit business, while 60% had established a niche market in the fuel retail networks or petrol stations, while reseller, consumer, Bulk LPG, LPG cylinders of 6kg and below, Geographic location, independent stations and LPG cylinders of 13kg and above, received 37%, 26%, 23%, 17%, 20%, 17% and 9% concentration.

Figure 4.4: Focus on Market Segments



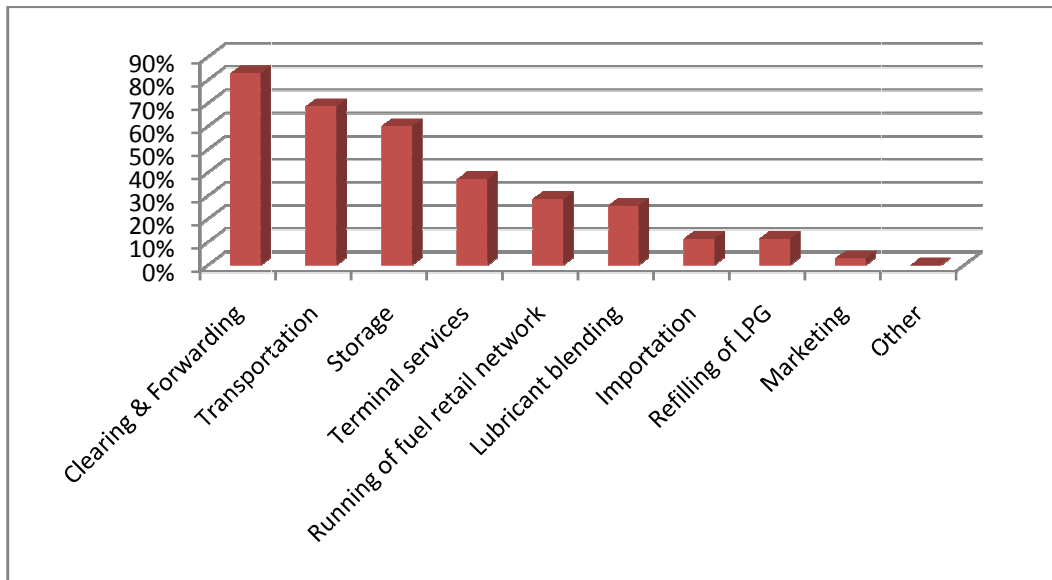
Source- Research data, 2013

A few companies (20%) practiced focused strategies based on geographic location. Most of these were in the Coast and Western Kenya Regions.

4.3.3 Outsourced Activities

The respondents were asked to indicate which part of the value chain they ceded to other service providers out of a list of nine activities. 83% indicated that they outsourced clearing and forwarding, 69% gave their transportation needs to other organizations, while 60% outsourced their storage requirements. Terminal services, running of fuel retail network, lubricant blending, importation, refilling of LPG and Marketing, received 37%, 29%, 26%, 11%, 11%, 3% respectively.

Figure 4.5: Outsourced activities by OMC's in Kenya



Source- Research data, 2013

4.3.3.1 Reasons for outsourcing

The respondents were asked to express their agreement or disagreement on 5 reasons for outsourcing using. The outcome was as shown in Table 4.4 below

Table 4.4: OMCs' Reasons for outsourcing

Reason for outsourcing	Mean Score	Standard Deviation	Ranking
Cost Saving	4.2	1.25	1
Relieve the firm to do those activities that it performs well	4.1	1.27	2
Reduce the firms risk exposure to changing technology	3.8	0.98	3
Organization flexibility	3.6	0.59	4
Lack of expertise within the organization	3.2	0.49	5

Source- Research data, 2013

Note: A 5-Point Likert Scale in which a score of 1 indicated strongly disagree, 2, disagree, 3, neither agree nor disagree, 4, agree and 5, strongly agree was used.

The high score on cost saving was in line with the low cost strategy by oil marketers.

The oil marketers also showed that they intended to specialize on their best performed activities as well as reduce their risk exposure to changing technology.

4.3.4 Vertical Integration

The respondents were asked to indicate their intention to integrate new activities, out of a list of nine, in their value chain. The results were as shown in Table 4.5

Table 4.5: OMCs' Planned activities to Integrate in the Value Chain

Activity	Frequency	Percentage	Ranking
Storage	11	31%	1
Clearing & Forwarding	7	20%	2
Lubricant blending	7	20%	3
Transportation	7	20%	4
Refilling of LPG	7	20%	5
Running of fuel retail network	6	17%	6
Terminal services	3	9%	7
Importation	1	3%	8
Other	2	6%	9
Marketing	0	0%	10

Source- Research data, 2013

Storage received a score of 31%, clearing and forwarding, Lubricant blending, Transportation and Refilling of LPG all received a score of 20%. The high score in storage activities was to enable firms to gain more internal control. There were other activities which constituted a score of 6%. These included venture into legal services which is an intention to diversify and not vertically integrate.

4.4 Discussion

The ownership of the OMC's had changed significantly with locally incorporated companies increasing from 33% (Njoroge, 2006) to the current 63%. It was clear that many local firms joined the industry taking up the gap left by the multinationals who exited after change in operating environment. 72% of the current oil marketing companies came into existence after 1994, when deregulation took effect, thus giving evidence of increased number of players and thus increased competition. 57% of the OMC's were small sized, 23% medium and 20% large sized. This is an indication that most firms were new in the industry and thus were now establishing themselves for expansion. Studies by Shivo (2012) also found similar results

The product portfolio traded by the OMC's is a function of the investment required, size of the market and availability of expertise. AGO, PMS, IK and FO have little investment requirement, enjoy the largest market size and requires little expertise to sell and therefore was found to be the most widely distributed products by OMC's. This finding was in line with those of Shivo (2012). On the other hand LPG, Lubricants, IDO and Bitumen are least traded in that order due to the huge investment, small size of market or specialized skills required.

Broad Low Cost Strategy was rated the highest which is a true reflection of the adaptation of the OMC's to the introduction of oil price regulation in the country since Dec 2010. In a regulated market, the firm lacks the room to put any additional features that may make the cost of the product surpass its economic value and thus result in a loss. The oil marketing companies were therefore obliged to employ low

cost strategies in an effort to create same economic value at a lower cost compared to rivals. Similar studies by Njoroge (2006) and Oduol (2012) also arrived at the same conclusion.

The previous requirement to buy crude whose processing cost was much higher than purchasing of white oil import caused most firms to go into foreign markets and thus high rating, of 3.76, for internationalization. Vertical integration and Outsourcing had a tie, though ranked highly at 3.66, due to the split opinion stemming from the competing forces between these two strategies in that the adoption of one means departure from the other. The OMC's seemed to be exercising caution by balancing integration and de-integration strategies. The industry also agreed that strategic alliance was employed to gain competitive advantage with a mean score of 3.54. This was to enable the marketers gain supply chain efficiencies as well as access markets that they would otherwise not be able to reach (Thompson and Strickland, 1998).

The OMC's neither agreed nor disagreed on five strategies, best cost provider, focused low cost strategy, product diversification and broad differentiation. Though some marketers employed mergers and acquisition the industry disagreed, with a mean score of 2.52 and 2.29 respectively. This was largely attributed to the youthful nature of the firms (72% were 10years and below in age) in the industry and thus had not developed unique competences to be desired by a potential partner or enough resources to buy out another OMC.

The huge discrepancy between the wholesale prices and the retail price was possibly the reason for the wide spread employment of direct-to-end user sales and marketing strategies. At the same time the popularity of economies of experience and economies of scale was driven by the fact that most marketers used their experience or engaged employees with experience in order to reduce cost as well as move higher volume over same fixed cost and thus reduce unit cost. The use of e-business techniques went hand in hand with internationalization in that those marketers who ventured into foreign market with headquarters in Kenya needed more efficient way of communication. The new firms on the other hand started with the three basic products, PMS, AGO and JET/IK and soon spread to other products and thus employing the low cost strategy of increasing the business lines in order to spread the cost.

The high focus on transit business supports the initial high rating of internationalization as a strategy employed by OMC's mainly due to the high crude cost which, previously, OMC's had to purchase before accessing products from KPRL a month later thus resulting in cost disadvantage. The focus in service stations (fuel retail networks), was driven by pump price regulation which enabled these oil marketers to harness the high profit margins they were able to get in this market segment as opposed to using wholesalers who push down prices due to the high supply occasioned by the high number of OMC's. Low score on cylinder LPG, both 6kg (17%) and 13kg and above (9%), was in line with the small proportion of marketers that dealt with this product.

Clearing and forwarding was the most outsourced activity with 83% of the marketers sub-contracting this services. This is attributed to the fact that this services required specialized skills to manage and were largely located in Mombasa about 450km away from where more than 90% of the OMC's were located. Transport and Storage activities were also largely outsourced due to the high investment cost required to buy trucks as well as put storage facilities.

Running of fuel retail network got a low score of 29% outsourcing rate as expected. Given the few wholesalers and large number of marketers, the wholesale prices are very low resulting in very low margins. The OMC's would therefore prefer to sell their products through retail stations where they make the most margins. The low score on Lubricant blending (26%) and Refilling of LPG (11%) were due to the few marketers who dealt in these products while the dismal score on marketing (3%) was due to the fact that this is a core activity and is important for the success of an OMC and therefore would naturally not be subcontracted (Thompson and Strickland, 1998). The portion of marketers who outsourced their importation needs was only 11% of the entire industry. This was driven by the Open Tender System in which the import for the entire industry was put in one pull and thus enabling large parcels and subsequently low cost of product resulting from economies of scale. Thus an oil marketer who imported their own product would thus access lower cost relative to one who did not.

On the reasons for outsourcing, cost saving received the highest score of 4.2 in line with the objective of OMC's to keep their cost low in a regulated market as well as high competition. The firm also wanted to concentrate more on their core business

and thus preferred to do those activities that they performed well. Thompson & Strickland (1998) note that heavily integrated firm is uncompetitive and burdensome. Firms will therefore prefer to outsource in order to concentrate on activities that they perform better, reduce the firms risk exposure to changing technology as well as improve organizational flexibility. The industry agreed with these benefits. However the industry neither agreed nor disagreed with lack of expertise as a reason for outsourcing. This could be explained by the fact that the majority of firms were in the youthful phase and were dealing in the basic products namely PMS, AGO and JET/IK whose handling did not require specialized skills.

CHAPTER FIVE- SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings from the study on strategies employed by oil marketing companies in Kenya to achieve competitive advantage. It then covers the conclusions drawn from this study before making recommendations to be considered by the stakeholders. The limitations of the study have also been highlighted before finally making suggestions for further studies.

5.2 Summary

This research was set out to meet one objective, establish the strategies used by oil marketing companies in Kenya to achieve competitive advantage. 63% of the oil marketing companies were found to be locally incorporated with the balance being multinational subsidiaries. 72% of the OMC's have been in the country for less than 10 years and are therefore novel in the industry and are largely middle to small sized with monthly throughput of less than 20,000M³. These marketers deal largely with three products, premium motor spirit, automotive gasoil and Jet/kerosene which have the largest market among the petroleum products and form the easy entry product portfolio for these young marketers.

The research established that there was general agreement by the industry that broad low cost strategy was the most employed corroborating with finding by Njoroge (2006) and Oduol (2012). This was followed by internationalization, vertical

integration, outsourcing and strategic alliances, in that order, to achieve competitive advantage. There was however neither agreement nor disagreement on the employment of best cost provider, focused low cost, focused differentiation, product diversification and broad differentiation strategies. Broad low cost strategy popularity was driven by price regulation by ERC who published maximum pump prices each month beyond which oil marketers could not sell their product and the increased level of competition occasioned by high number of new entrants. In this kind of market low cost strategy becomes popular because any additional cost cannot be compensated by price increase. On the other hand internationalization was largely practiced because OMC's previously wanted to avoid the huge capital outlay required to buy crude to operate in the country. Outsourcing was favored for its ability to help reduce the cost of handling product by finding cheap vendors especially in clearing and forwarding, transportation and storage. Though some marketers employed Mergers and Acquisition strategies the industry in general disagreed.

In order to keep their cost low OMC's used direct-to-end user sales and marketing strategies, economies of experience, economies of scale, e-business techniques and increased their lines of business to which they distributed their costs. There was however neither agreement nor disagreement amongst the OMC's on the location of firms facilities close to point of use as a means of lowering cost. Focused strategies were practiced by only a pocket of marketers.

Clearing and Forwarding was the most outsourced strategy followed by Transportation and Storage in that order. This enabled the marketers to source

vendors who offered services at lower cost than that of putting up new facilities as well as running the services. This also enabled them concentrate on those activities which they performed best, reduced risk exposure to changing technology and maintain organization flexibility. The use of vertical integration and outsourcing on the other hand, however, resulted in competing forces and thus causing equal rating. The marketers had to engage a balancing act to avoid the high risk and burdensome aspect of vertical integration and at the same time enjoy the cost saving, use of external expertise etc. that came with the outsourcing strategies. OMC's, however, did not outsource marketing activity for the simple reason that this was a core business activity that was crucial for the success of the organization.

5.3 Conclusion

This study has established that the OMC's employed four main strategies. Broad low cost strategy which was majorly driven by the level of competition resulting from the high number of new entrants and the introduction of price regulation by ERC. Secondly, internationalization, which was fueled by the huge requirement to buy crude, process and sell finished product from the refinery at a cost disadvantage for the local market. Vertical integration and outsourcing strategies were equally employed due to the competing nature of the two strategies, the drive to gain more control in the value chain and at the same time balancing flexibility of the organization on the other hand. The industry also agreed that they employed alliances as a strategy to enable gain operational efficiency as well as access markets that they would otherwise not reach if working alone.

5.4 Recommendations

In a regulated market upward price adjustment is not an option. OMC's are therefore left with other means of making the most of opportunities. One of this is forward integration into retail networks. This will enable eliminate the resellers who buy product at low price and sell to independent stations at much higher margins leaving the oil marketers at a disadvantage. The study showed that a huge number of marketers(31%) intended to backward integrate into storage facilities. In the recent past a high number of OMC's have commissioned new storage facilities which have ended up with few customers (other OMC's) available to use their extra capacity despite the huge reduction in hospitality fees. These marketers would find it difficult to recoup their investment as planned. This renders the intended move unattractive.

The study also found that internationalization was a popular strategy among the OMC's. This portrays the high attention they are giving to the overseas markets due to the huge requirement to purchase crude in order to operate in the local market. However, with the conversion of KPRL into a merchant refinery this requirement has been reduced to a mere obligation to buy finished product. As opposed to purchasing of crude, the later arrangement does not involve upfront investment on raw material whose product would become accessible a month later and hence requirement for huge financing cost. However, the continued focus on the transit business indicates that the current arrangement of a merchant refinery with obligation to buy product is not yet a sufficient solution. The government can opt to take one of two options to sort the ailing facility. One is to revamp this facility to reduce its cost of production to competitive status. The second option is to convert this facility into storage and

thus allow the OMC's procure less costly finished products from overseas market. Furthermore, given the large size of the Kenyan economy compared to the neighboring countries it is recommended that OMC's give this market more attention going forward. This will enable them get a bigger share of the largest economy in East Africa thus enhancing their profitability.

Differentiation strategies were not popular with the OMC's from the research finding stand point. These could be due to the young age of most of the oil marketers who dealt with basic products that had huge demand and thus would be sold with little effort. However, to enable increase sales OMC's needed to employ these strategies at their retail networks by better fuel station branding, use of fuel additives that enhance product performance, putting up tire clinics, supermarket, restaurants, children play facilities, ATM's etc.

5.5 Limitations of the Study

The low response rate was experienced due to two reasons. Firstly, despite the assurance given that the research was purely academic, some OMC's simply declined to fill out the questionnaire citing fears that doing so would be tantamount to giving sensitive information that may be used to their disadvantage. Secondly some OMC's had not filled up the forms when the same was required and were closed out due to time constraints.

This research studied all the OMC's in the industry as equal competitors. The reality is that only about 60% of them control the entire local and transit business while 26% control the entire LPG business, while 41% hold the lubricants business. The

game plan for these different sectors or business segments are completely different and if studies on specific sections, segments or strategic groups is done the findings would be more accurate.

5.6 Suggestion for further Study

The population of the OMC's was at an all-time high of 53 oil marketers. Amongst these 63% are locally incorporated and 37% are multinational corporations. The two sections of marketers employ different strategies to achieve competitive advantage. It is therefore recommended that studies be done on the two groups separately. At the same time there are major and independent oil marketers who are in different growth phases and therefore employ similar strategies with varying degrees of emphasis.

LPG and Lubricants are products with unique attributes as compared to the main fuels, PMS, AGO and JET/IK. Studies have been done in the past in LPG Njoroge (2006) and Lubricants, Oduol (2012). It is recommended that similar studies be carried out on Competitive Strategies employed by LPG marketers since the previous study was done eight years ago. Research could also be done on Competitive Strategies adopted by Lubricant Marketers among the Multinational Oil Companies since the previous study by Oduol (2012) concentrated on Independent Oil Marketers. In short a better approach would be to look at studies based on strategic groups.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Bernard Michael Otieno,
University of Nairobi,
School of Business,
C/O MBA Office,
P.O.BOX 30197,
NAIROBI.

July 2012

Dear Respondent

RE: COLLECTION OF RESEARCH DATA

I am a student taking a Masters of Business Administration at University of Nairobi undertaking a research project entitled “**Strategies employed by Oil Marketing Companies to achieve Competitive Advantage**” for the degree requirement. This is to humbly request you to fill up the attached questionnaire to enable collect data. The information collected shall be used purely for academic purposes and shall be treated confidential.

Thank you for your assistance

Yours faithfully

Bernard Otieno
MBA Student
University of Nairobi

APPENDIX II: QUESTIONNAIRE

The objective of this research is to identify the strategies employed by oil marketers to achieve competitive advantage in Kenya.

The information collected in this study shall be used purely for academic purposes and will be kept confidential. Your participation in this survey shall be highly appreciated.

SECTION A

Name _____ of _____ organization:
(optional)_____

Position _____ held:
(optional)_____

Department/Function:
(optional)_____

Please tick (√) as applicable

Q1

a) How long has your organization been in operation?

- i. More than 10 years ()
- ii. Between 6 and 10years ()
- iii. Five years or less ()

b) On average what are your monthly sales volume (both local and transit)

- i. More than 20,000M3 ()
- ii. Between 10,000 and 20,000M3 ()
- iii. Less than 10,000M3 ()

c) Is your organization locally incorporated or a multinational subsidiary

Locally incorporated [] Multinational Subsidiary [] Other [] Please specify:

d) Which among the below listed petroleum products does your organization deal with

- i. Liquefied Petroleum Gas (LPG) ()
 - ii. Premium Motor Spirit (PMS) ()
 - iii. Aviation JET-A 1/K ()
 - iv. Automotive Gas Oil (AGO) ()
 - v. Industrial diesel Oil(IDO) ()
 - vi. Furnace Oil (FO) ()
 - vii. Bitumen ()
 - viii. Lubricants ()
 - ix. Other () Please specify
-

SECTION B

Q2. The following statement describes the strategies employed by oil marketers. In application to your organization, kindly express your agreement/disagreement by applying the following keys.

5- Strongly agree 4-Agree 3-Neutral 2-Disagree 1-Strongly disagree

Table A1 Strategies employed by oil marketing companies

	Strategy	1	2	3	4	5
1	While serving a broad spectrum of customers the organization ensures it has the lowest cost (broad Low cost strategy)					
2	While serving a broad spectrum of customers the organization seeks to differentiate its product (Broad differentiation strategy)					
3	The firm seeks to have the best product at the lowest price (Best Cost provider)					
4	Based on lower cost the firm concentrates in a narrow buyer segment (focused low cost)					
5	Based on differentiation the firm concentrates in a narrow buyer segment (focused differentiation strategy)					
6	The organization practice collaborative alliance in which it shares some activities with partner firm.(Strategic Alliance)					
7	The firm has merged with other firms in the past (Mergers/Collaborative Strategies)					
8	The firm has been acquired or has acquired other firm(s) in the past (Acquisition)					
9	The organization has increased its scope of activities either forward towards the consumer activities or backward towards supplier activities in the value chain (vertical Integration)					
10	The firm has ceded some of its activities in the value chain to outside vendors (outsourcing strategy)					
11	The firm has increased its product portfolios in a different industry (product diversification)					
12	The firm has ventured into international market(s) (Internationalization)					

Q3 Which of the following best describes the strategies employed by the firm to keep its cost low?

Kindly express your agreement/disagreement by applying the following keys.

5- Strongly agree 4-Agree 3-Neutral 2-Disagree 1-Strongly disagree

Table A2 Low Cost Strategies employed by OMC's

	Strategy	1	2	3	4	5
1	Economies of scale- firm targets to move high volumes in order to keep unit cost low					
2	Economies of experience & Learning					
3	Reducing key resource inputs					
4	The firm has increased its line of business to which it distributes its cost					
5	The firm employs e-business techniques					
6	The firm uses direct-to-end user sales and marketing strategies					
7	The firm has stripped away some of the extras and give only basic services					
8	The firm has located some of its facilities (e.g. storage tanks) close to point of use					

Q4.

If the organization is practicing focused strategies (item 4 & 5 above), kindly indicate which market segment the organization is concentrating on. Please tick appropriately (√)

(1) Reseller (), (2) Retail Network (), (3) Transit business (), (4) Consumer (), (5) LPG cylinders 6kg or less (), (6) LPG cylinders 13kg and above (7) Bulk LPG (), (8) Geographic location (), (9) Independent stations () (10)

other

(specify)

Q5.

a) Which part of activities have the organization outsourced. Please tick appropriately (√)

- (1) Importation (), (2) Clearing & Forwarding (), (3) Storage (), (4) Terminal services (), (5) Marketing (), (6) Transportation (), (7) Lubricant blending (), (8) Refilling of LPG (), (9) Running of fuel retail network ()
(10) Other () Please Specify
-

b) Which of the below best explains the reason for outsourcing above

Kindly express your agreement/disagreement by applying the following keys.

5- Strongly agree 4-Agree 3-Neutral 2-Disagree 1-Strongly disagree

Table A3 Reasons for outsourcing strategies

	Strategy	1	2	3	4	5
1	Cost saving					
2	Lack of expertise within organization					
3	Reduces the firms risk exposure to changing technology					
4	Organization flexibility					
5	Relieve the firm to do those activities that it performs well					

vi.

Other

(Specify)

c) Does the organization plan to extend to one or more of the outsourced activities?

Kindly tick (√) appropriately. Yes (), No ().

If yes which one. Please tick (√) appropriately

(1) Importation (), (2) Clearing & Forwarding (), (3) Storage (), (4) Terminal services (), (5) Marketing (), (6) Transportation (), (7) Lubricant blending (), Refilling of LPG (), (8) Running of fuel retail network () Other () Please Specify

APPENDIX III

LIST OF OIL MARKETING COMPANIES

1. Ainushamsi Energy Ltd.
2. Alba Petroleum Ltd.
3. Al- Leyl Ltd.
4. Bakri International Energy (K) Ltd.
5. Banoda Oil Ltd.
6. Cape Supplies
7. City Oil
8. Dalbit Petroleum Ltd.
9. East African Gasoil Ltd.
10. Engen Ltd.
11. Essar Petroleum (East Africa) Ltd.
12. Fast Energy Ltd.
13. Fossil Fuels Ltd.
14. Futures Petroleum Ltd.
15. Gapco Kenya Ltd.
16. Global Petroleum Products (K) Ltd.
17. Gulf Energy Ltd.
18. Hashi Energy Ltd.
19. Hass Petroleum (K) Ltd.
20. Intoil K. Ltd.
21. Jade Petroleum Ltd.
22. Kamkis Trading Co. Ltd.
23. Keroka
24. KenolKobil Ltd.
25. Mafuta Products Ltd.
26. Metro Petroleum Ltd.
27. Mogas International Ltd.
28. Millenium Dealers Ltd.

29. Moil Ltd.
30. Muloil K. Ltd.
31. Nafton Ltd.
32. National Oil Kenya Ltd.
33. Oil City Services Ltd.
34. Oilcom Kenya Ltd.
35. Oil Libya Ltd.
36. Olympic Petroleum Ltd.
37. Oryx Energies Kenya Limited
38. Petro K. Ltd.
39. PJ Petroleum Equipment Ltd.
40. Premium Petroleum Co. Ltd.
41. Quantaum Petroleum Ltd.
42. Ranway Traders Ltd.
43. Regnol Oil Kenya Ltd.
44. Riva Petroleum Dealers Ltd.
45. Rivapet Ltd.
46. Royal Petroleum Ltd.
47. Samhar Petroleum Products Co. Ltd.
48. Topaz Petroleum Ltd.
49. Tosha Petroleum (K) Ltd.
50. Towba Petroleum (K) Ltd.
51. Total Kenya Ltd.
52. Trojan International Ltd.
53. Vivo Energy Ltd.

Source: Ministry of Energy (2013)