MARKET ENTRY STRATEGIES PURSUED BY PEPSICOLA COMPANY IN ENTERING THE SOFT DRINK INDUSTRY IN KENYA

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DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

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

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DEDICATION

This research project is dedicated to my late husband and dad, my beloved mother, daughters, sisters, brothers and all those who supported me in the completion of this project.

ACKNOWLEDGEMENT

My utmost gratitude goes to God for seeing me through the entire period. And if we know that He hears us in whatever we ask.

The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to Dr.Maalu and my supervisor Dr. Yabs for their professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to you.

Thank you all. May the Almighty God bless you all.

ABSTRACT

In the current global market, many companies even the well established multinational companies are finding it hard to expand to foreign markets. A firm's choice of mode of entry into a foreign market is one of the most important decisions made by international managers. The entry mode chosen affects the amount of control the firm will have on its business activities abroad.A firm can set up an entry to a foreign market in only two ways, it export its products to a foreign market or it can transfer its resources such as technology, capital, know-how, brand name to a foreign market in which those resources can be sold directly to customers or combined with resource in the host country to manufacture product for that market. Entering new markets, despite the huge potential that it provides, does involve big risks. Foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market. With Coca-cola company having the bigger share of the soft drink market across the globe, PepsiCola has found it hard to compete with it. PepsiCola recognized that it cannot win against Coke on a head-to-head scenario in all markets. This study's objectives were to establish the market entry strategies pursued by PepsiCola in Kenya. And to establish the factors that influenced PepsiCola to entry Kenyan market. The study adopted a case study design which was the most appropriate in the investigation of the strategies pursued by PepsiCola to enter the Kenyan market. The study used primary data collected using an interview guide. The respondents comprised the managers such as the area sales managers, human resource manager, public relations officer and foodservice manager. The data collected was analyzed using content analysis which was used to analyze the data by grouping it according to the responses obtained.The study concludes that PepsiCola Company was driven by several motivations to re-enter the Kenyan market. The study also concludes that prior to setting up the local plant; Pepsi used exporting and franchising strategy where it offered its products to the market through their licensed franchiser SBC. The study also concludes that the strategy of exporting, franchising and then setting up a local plant were so timely and well calculated. The study recommends that the multinationals Corporations (MNCs) should critically analyze the various strategies at their disposal in entering a new market before making decisions on how to enter the selected market. The study also recommends that MNCs should consider the advantages and disadvantages the different strategies before selecting on a given strategy. They need to assess the options available for their market entry and be able to select the strategy with more advantages and one that will ensure successful market entry and acceptability by the local market regulators. The study recommends that further research should be done on the foreign market entry strategies adopted by Multinational corporations including other banks in the Kenyan market to allow for generalization of foreign market entry strategies adopted by MNCs in Kenya since each employs a different market entry strategy

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ABBREVIATION AND ACRONYMS

BPA: Business Process Analysis

CKD: Completely Knocked Down

FDI: Foreign Direct Investment

MNCs: Multinational Corporations

LOF: Liability of Foreignness

PBG: Pepsi Bottling Group

SBC: Seven up Bottling Company

SME: Small/Medium Enterprises

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In the recent years, the world business environment has changed dramatically through the globalization of economies and liberalization of markets, resulting in a new, furious business setting for firms (Jansson and Sandberg, 2008).Political and economic changes since the late 1980s along with the technological revolution and advancement in communications, transportation and information technology has resulted in the removal of trade barriers that have shaped the world as a global village (Griffin and Pustay, 2007). Dicken (1992) has argued that globalization is the result of the behaviour and expansion strategy of multinational corporations (MNCs).

The importance of the foreign market entry strategy decision has been well documented (Tallman and Shankar, 1994). The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture (Root, 1994). Some entry modes, 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 modes such as joint ventures and full ownership of facilities involve more control, but entail additional risk. Since reversing an inappropriate entry strategy choice can be difficult, it is important that well thought out decisions be made. To date, however, there is very little research that has focused on how soft drink

industries make entry mode choices in Kenya. The purpose of this paper is to examine the factors that PepsiCola has considered in making the choice among alternative entry modes when entering a Kenyan soft drink industry.

1.1.1 Market Entry Strategy

The issue of market entry strategy continues to be of great interest to international business academics and practitioners (Malhotra, *et al.*, 2003; Mayrhofer, 2004). The chosen market entry strategy is important as it determines the manner in which multinational enterprises (MNEs) develop and implement marketing programs,coordinate business activities both within and across markets, and ultimately the MNEs'success in foreign markets (Malhotra *et al.*, 2003). From a market entry strategy standpoint, one of the greatest challenges for MNEs investing abroad is overcoming the liability of foreignness (LOF), i.e. the liability associated with foreign operations
(Mezias, 2002).

The theoretical foundation of LOF is the work of Hymer (1976), who indicated that foreign firms face additional costs, not incurred by local firms. Hymer argued that these additional costs arise from: a MNE's unfamiliarity with the foreign environment in which it engages in operations; discriminatory attitudes of customers, suppliers, government agencies, among other factors; and additional costs associated with operating internationally. The literature indicates that the additional costs incurred by a foreign firm due to LOF, ceteris paribus, diminish its competitive advantages over domestic

counterparts (Luo and Mezias, 2002, Luo *et al.*, 2002). Although a great deal of research has focused on LOF (Luo and Mezias, 2002, Luo *et al.*, 2002; Zaheer, 1995) significant gaps remain in the literature hampering academic understanding and managerial action.

First, prior research investigating LOF has primarily focused on the sources of LOF (Zaheer, 1995). For example, Zaheer (1995) classified sources of LOF into the following categories: spatial distance between home and host countries; lack of roots in a local environment; host country environment; and home country environment.

1.1.2 Market entry strategies and international business

A market entry strategy is the planned method of delivering goods or services to a target market and distributing them there. There are numerous market entry strategies that a business can adopt when setting up offshore. Each has differing levels of risk, legal obligation, and trade-offs between financial risks, product control and organizational goals (Daniels and Radebaugh 2001).

Among the most common market entry strategies are: Agent/representative, distributor, Licensing, Joint Venture, Franchising, Export Merchant and direct sales. Generally they can be categorized as direct for example export to a distributor or indirect for example licensing. The indirect methods of market entry usually require less marketing investment, but could lose substantial control over the marketing process. Direct exporting may necessitate larger capital investment in marketing, but the degree of

control over export strategies is greater. Corporate presence is an option for companies with successful test marketing (Brady ,2010).

A market entry strategy can differ from country to country and from regional market to regional market. There is need to have researched the options and developed a preferred market entry approach before embarking on overseas marketing programme. A market entry strategy is important because it provides a strategic roadmap. It enables a company to organize their thought process and it serves as a communication plan. It allows objectively examining the costs and benefits of each approach(Buse,2012).

1.1.3 Soft drink industry in Kenya

Soft drink refers to any of a class of non-alcoholic beverages, usually but not necessarily carbonated, containing a natural or artificial sweetening agent, edible acids, natural or artificial flavors, and sometimes juice. The soft drinks industry in Kenya is comprised of several stakeholders including Coca-Cola East Africa holding the highest market share. Established in 1886, The Coca-Cola Company operates in more than 200 countries, and markets nearly 500 brands and more than 3,000 beverage products around the world. These products include sparkling (carbonated soft drinks) and still beverages, such as waters, juices and juice drinks, teas, coffees, sports drinks and energy drinks. In Africa alone, the Coca-Cola Company operates in all the territories in the continent. Other Soft Drink Companies in the Kenyan market include Del Monte, Quencher and now Pepsi Co which is the latest entrant (Wagner, 2009).

1.1.4 Pepsi Cola company

A good example of one such Multinational enterprise is the PepsiCola. It is an American MNE beverage and food, which has its headquarters in Somers, New York. The company has interests in the marketing, distribution and manufacturing, of beverages, and snack foods among other products. The company was founded in 1965 following a merger of Frito-Lay, Inc and Pepsi-Cola Company. The Pepsi Bottling Group (PBG) is the largest distributor, seller and manufacturer of Pepsi-Cola or PepsiCo beverages. Its brands are renowned brands, which include Mountain Dew, Diet Pepsi, and Pepsi Cola among others. It also distributes Squirt and Dr Pepper brands. The company's primary operations are mostly in the United States and Mexico. The company has approximately 66,800 employees and recorded revenues of over 13million dollars in the year 2008. The company has over the years grown and has ventured in foreign markets across the globe (Datamonitor, 2009).

Due to its broad portfolio base across the United States and other territories, the company has been tasked to appeal to various demographics around the world .PepsiCola returned to Kenya in 2010, more than 30 years after its exit in the 1970s, opening a fresh battle front for the American soft drinks heavyweight. PepsiCola used to import its product through its agent Seven Up Bottling Company(SBC) Kenya, however importation become a costly affair as opposed to local production, it then opted to set up a world class manufacturing plant in Nairobi to be manufacturing and distributing well-known and widely consumed brands of soft drinks that include Pepsi, 7UP, Mirinda,

Evervess and Mountain Dew. The Vision of the Company is to become one of Kenya's most admired companies while its Mission is 'to grow our business ethically and serve our customers and trade partners with uncompromising Integrity'. On its entry, PepsiCola was giving its consumers an extra 50ml for free as part of the Company's unique proposition to capture a sizeable market share (Business Daily,2007).

1.2 Research problem

In the current global market, many companies even the well established multinational companies are finding it hard to expand to foreign markets. This is mostly due to factors such as competition, costs and management issues such as depleted strategy plans. In case of high competition, it is imperative for a firm's management to plan warily a market entry by considering an array of information including that of the competitor, the competitor's product offering, the market, and the firm's internal resources, and product offerings (Comparing Global Strategies 1997).

With Coca-cola company having the bigger share of the soft drink market across the globe, PepsiCola has found it hard to compete with it. PepsiCola recognized that it cannot win against Coke on a head-to-head scenario in all markets. Thus, the company has chosen to centre of being a profitable second in the emerging markets on a level playing ground. It is a challenge to uphold its leadership in market given the aggressive share and spending of the market by its major rival Coca-Cola. It will also be hard for

PepsiCola to uphold its market share due to unrelenting investment in the rival's bottler. (Comparing Global Strategies 1997).

The recent studies have focused on the challenges that different industries have encountered. For instance, Ndegwa and Otieno(2008) focused on the market entry strategies for a transition country, Kenya, and more so the largest problem experienced by companies investing in the country was bureaucracy. Muriuki (2001) did an empirical investigation of aspects of culture and their influence on marketing strategies in the beverage industry in Kenya while Mukule (2006) studied retail marketing strategies adopted by commercial banks in Kenya. Mwaawaaru (2009) focused on marketing strategy in terms of promotion and communication for energy drinks in Ghana, and established that, advertising, with the television and radio mediums, were the most effective and efficient.

Additionally, Hanna and Oskar (2009) focused on SME entry strategy in foreign markets, the research showed that the relationship quality between the exporting firm and its intermediary in the foreign market was positively related to the export performance in the foreign market. The researcher is not aware if any research that has been done on market entry strategies pursued by PepsiCola Company in Kenya .Therefore, this study sought to determine the strategies adopted by PepsiCola and challenges that it will encounter.

The study will sought to answer the following questions.

i) What factors influence the entry of PepsiCola in Kenya soft drink industry?

ii) Which entry strategies has PepsiCola employed?

1.3 Research Objectives

This study's objectives are:

i)To establish the market entry strategies pursued by PepsiCola in Kenya.

ii) To establish the factors that influenced PepsiCola to entry Kenyan market.

1.4 Value of the study

The study would be valuable to future researchers and academicians in the area of international business and more specifically market entry modes. Through the findings of this study, future researchers and academicians would be able to find source of literature to guide their future research works besides providing areas for further research that they can research on. This would help suggest topics which future researchers can research on to further the existing knowledge on market entry strategies.

The findings of this study would also be valuable to Government of Kenya Policy markers as regards admission of foreign companies in Kenya and how to negotiate on behalf of Kenyan firms in foreign markets. Many Kenyan firms have been expanding to other countries like Uganda, Tanzania, and Rwanda among others. Through the findings of this study, the policy makers would gain knowledge on how to draft policies to govern

foreign firms' admission into Kenya and negotiations with foreign governments to allow Kenyan firms expand to their countries.

The findings of this study would also be valuable to the management of both local and foreign multinational and local firms wishing to expand their business operations to other countries. Through the findings of this study, the management would learn of the strategies available and how to apply them to ensure successful entry into a foreign market.

CHAPTER TWO
LITERATURE REVIEW

2.1. Introduction

This chapter looks at multinational enterprises in general and how these enterprises operate. The chapter further explores on the theoretical foundation, the opportunities and challenges faced by these enterprises while entering these foreign markets as well as strategies adopted in foreign market entry.

2.2 Theoretical foundation of the study

As outlined by Albaum et al (2005), to understand the patterns of international trade, it is necessary to examine a number of trade theories since the underlying influences that govern trade among countries are complex and many. The theories explained in this research attempts to enlighten on the facts about trade with emphasis with the current situation in the 21st century. The theories presented here are as follows: the classical theory of international trade, the factor proportion theory and the product life-cycle theory.

According to Albaum et al (2005) the classical theory of international trade a country's exports and imports are determined not by its character in isolation but in relation to those of its trading partners. The concept of economic advantage states that countries tend to specialize in those products in which they have advantage namely lower cost of

production. In addition, there are international differences in costs that must be considered namely: absolute differences, comparative differences and equal differences.

The factor proportion theory states that international differences in supply conditions for example factor productivities and endowments, explain much of international trade. The factor proportion theory argues that relative price levels differ among countries because they have different relative endowments of factors of production and that different commodities require that the factor inputs be used with differing intensities in their production. The principal explanation of the pattern of international trade lies in the uneven distribution of world resources among nations mixed with the fact that products require different proportions of the factors of production (Albaum et al 2005).

The product life cycle theory is the most useful in explaining international trade patterns since the theories of economic advantage and factor endowments have evolved starting in the 1960s.This is mainly attributed to rapid technological progress and the development of multinational enterprises. According to Albaum et al (2005), this theory of international trade has been found to be a useful model for explaining not only trade patterns of manufacturers but also multinational expansions of sales and productions subsidiaries and for this reason has been useful in explaining certain types of foreign direct investment. The product life-cycle concept states that “many manufactured goods undergo a trade cycle whereby during the process the innovator country of a new product

is initially an exporter and then loses its competitive advantage to its trading partners and may eventually become an importer of the product some years later".

2.3 Foreign Market Entry

This section explores on the various aspects of foreign market entry which determine success of an organization while venturing into new market segments. The section further explores on the opportunities and challenges faced by MNEs while entering new markets and identify the critical foreign market entry strategies that ensure success of the organization while venturing into new markets (Wagner, 2009).

2.3.1 Opportunities of Foreign Market Entry

Multinational corporations are major features in the process of globalization and many national as well as local governments compete in order to attract these companies with the main aim of increasing local tax revenues, economic activity as well as employment opportunities. This provides considerable opportunities to MNEs for survival and growth in new markets. Governments and political powers advocate for greater independence for MNEs hence promoting their growth and facilitate fair competition with other local enterprises (Lymbersky, 2008).

Some of the opportunities present for MNEs include: MNEs have the advantage of expanding their markets in new countries. This means that the corporation will have higher profit levels by attracting more customers as well as employees. Profits are also

high due to large economies of scale which enable the MNE to better respond to customer needs. Large economies of scale lead to lower operating costs, lower overhead costs, and resources utilization within the organization, hence the organization is able to provide better prices for its products in the market, therefore leading to higher profits (Tielmann, 2010).

MNEs have the opportunity to establish a well driven business strategy mainly due to their large economies of scale. This is mainly achieved through business process analysis (BPA), through which the organization is able to analyse its market segments and establish a strategy to achieve its long term goals and objectives. MNEs are able to clearly specify its mission, vision as well as objectives and therefore develop policies and plans designed to achieve the set objectives and therefore allocate enough resources for policy implementation. This therefore acts as milestones to achieve long term objectives of the organization (Hiebing and Cooper, 2003).

Different countries have different levels of company tax and varied barriers to entry. This is aimed at protecting local companies and businesses from exploitation and unfair competition from large multinational enterprises. MNEs can take advantage of favourable trade practices in different countries to ensure success of their marketing strategies (Nijssen & Frambach,2001).

2.3.2 Challenges of Foreign Market Entry

Despite many opportunities in foreign markets, Multinational enterprises are faced by various challenges while entering into new markets. This is mainly as a result of diverse government regulations and financial differences in different countries which pose challenges to international investors. This section addresses some of the key challenges faced by MNEs while venturing into new foreign markets, which include challenges from the MNEs home countries policies, challenges in new countries policies, challenges faced by MNEs in relation to human resources, continuous challenge faced by MNEs in balancing opportunities and risks faced as well as the major challenge faced by MNEs in maintaining a sustainable foreign direct investment (FDI) (Bilewicz, 2007).

The challenges from home country policies arise as a result of competitive disadvantages brought about by other existing and upcoming companies in the industry; the main challenge being the creation of an environment and policy frameworks which facilitate the growth of domestic firms. Due to lack of supportive market policies, upcoming companies are hindered from growth through unfair competition from the already existing companies. For a company to grow globally it should have considerable competitive advantages, which are facilitated by the existence of favourable market policies in the country (Nagel, 2012).

The challenges in foreign countries policies faced by multinational enterprises while venturing into new host countries. While reviewing the wage policies in a new country,

MNEs are faced with challenges in establishing wages for employees in the host country especially if the host country has a tendency of paying higher wages than the home country. When a foreign owned firm pays high wages to its employees in the host country, it results to wage spill over to the domestically owned firms due to inequality of wages (Pigott, 2002).

Most host countries economies' view is that entry of new multinational enterprises result rising wages for employees in the host country. As a result multinational enterprises are faced by the challenge of adapting to this belief, especially during the periods of economic recession. Social and cultural differences challenge include changing the society's perceptions about the products. MNEs are therefore limited by the nature of the market in term of product acceptance. The ability of the MNE to effectively enter a new market depends on the nature of the market, including the ability of the market to accept and adapt to a new product or technology. Culture and society beliefs influence customer behaviour in relation to how products will be distributed in a new market. Therefore MNEs ought to understand the culture held by a new market before devising a marketing strategy for that market. The cultural orientation in a society can be used profitably by MNEs to establish and maintain loyal and committed retailers who will facilitate the distribution of the company's products through multi tiered distribution networks (Zimmerman & Blythe, 2013)

MNEs are faced by challenges related to different economies which arise as a result of different currency exchange rates, the level of government involvement in the operation of companies, differences in tax regimes as well as rules and regulations which govern imports and exports in different countries. The levels of government involvement in a particular business can act as a hindrance to any upcoming organizations, since such organizations are not able to compete directly with the already established organizations in the country due to political barriers. (Jomo, & Baudot, 2007).

Global economic inequality is also a major challenge to MNEs investment agenda. Economic inequality is measured through the country's per capita GDP, by looking at the wealth held by a country's population, hence determining the country's purchasing power. This will enable the MNEs to determine the purchasing power held by particular target countries hence determine the projected profit levels from such countries. International inequalities in terms of population also pose considerable challenges to MNEs while making investment decisions about particular countries (Jomo, & Baudot, 2007).

Different countries have diverse laws and political stands which govern trade in such countries. These laws are challenges to international MNEs as they hinder or promote trade in particular regions. Laws promote the flow of capital and taxes imposed either encourage or prohibit particular industries into making investments in different countries.

The most common legal and political challenges faced by MNEs while making foreign investments include tariffs, quotas, subsidies, business practice laws and the local content laws (Kirpalani, 2013).

Tariffs are taxes enacted by countries as a trade policy aimed at adding to the cost of imported goods, in order to protect infant and developing industries as well as employers and consumers in the home country from unfair competition and exploitation by the already established foreign companies. By making import prices to rise, tariffs act as a hindrance to international trade since MNEs will not be able to effectively compete with local companies which produce similar goods (Kirpalani, 2013).

Government subsidies act as a challenge to international MNEs in cases where the government offers financial assistance to local firms which enable the company to effectively compete with foreign firms. Subsidies are therefore aimed at lowering the prices of domestic goods hence the foreign firms find it hard to compete with the local firms (Reinert, 2012).

2.4 International market entry strategies

In view of the globalisation of the European and of the world economy. One of the critical questions to examine in establishing an international development strategy is to select the entry mode in the target foreign country and the distribution channel (Terpstra and Sarathy, 2001).Several alternative entry strategies can be considered, as shown in

Figure 1 below which shows that the market entry strategies mode for both domestic and foreign production.

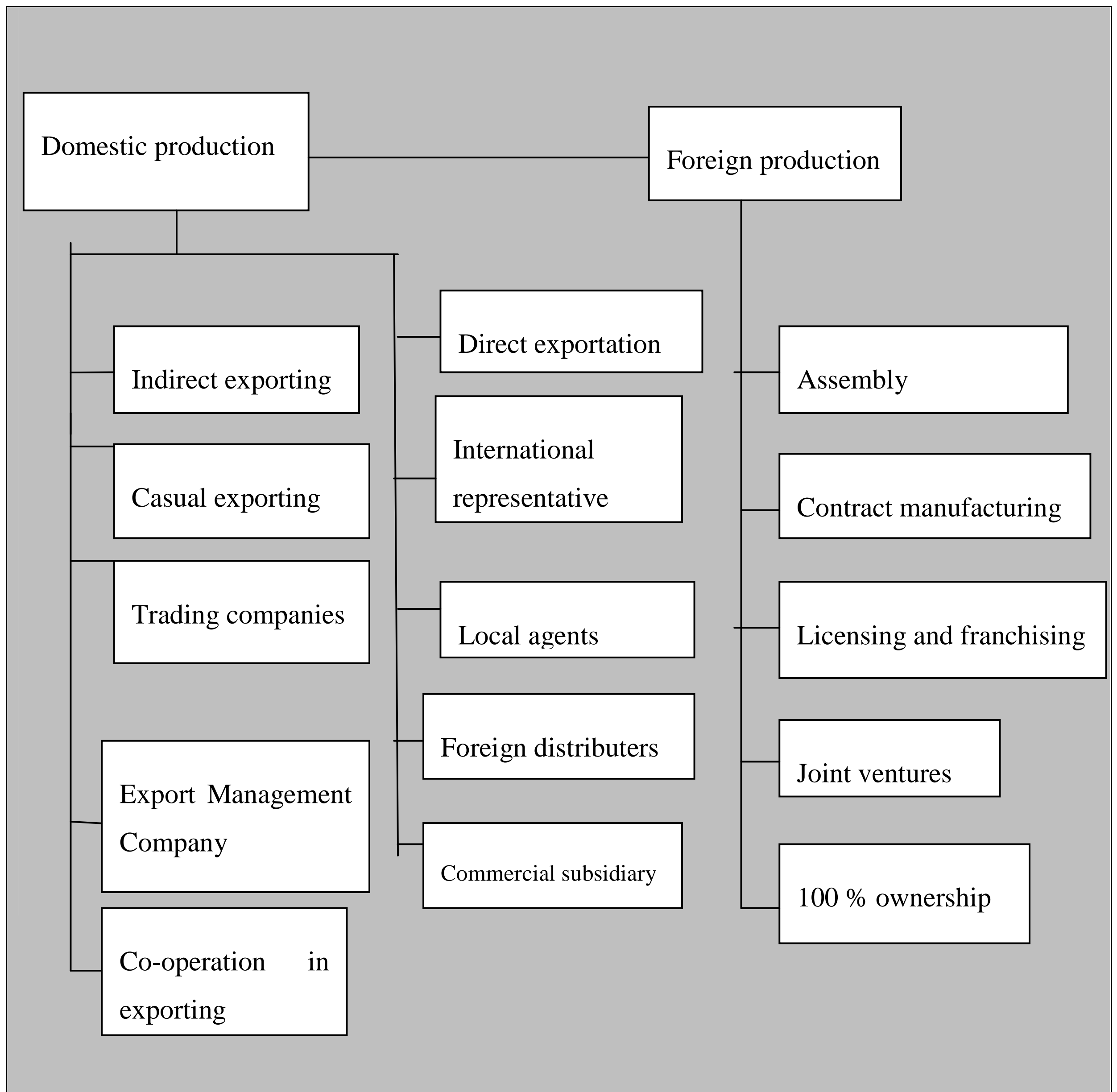

Figure 2.1: Market entry strategies mode

2.4.1 Foreign production

Under certain conditions, a firm may find it either impossible or undesirable to supply foreign markets from domestic production sources. For example: Transportation costs may be too high for heavy or bulky products, custom rates or quotas on imports can render products non-competitive, government preferences for local products can prevent entry in the foreign market. Any of these conditions could force the firm to manufacture in foreign markets in order to sell there. Positive factors can also induce the firm to produce abroad for example: The size and the attractiveness of the market, lower production costs, and economic incentives given by public authorities (Terpstra and Sarathy, 2001

There are different types of foreign market entry strategies such as assembling, contract manufacturing, licensing, joint venture and direct investments. Assembling is a compromise between exporting and foreign manufacturing. The firm produces domestically all or most of the components or ingredients of its product and ships them to foreign markets to be put together as a finished product. By shipping CKD (completely knocked down), the firm is saving on transportation costs and also on custom tariffs which are generally lower on unassembled equipment than on finished products. Another benefit is the use of local employment which facilitates the integration of the firm in the foreign market. Notable examples of foreign assembly are the automobile and farm equipment industries. In similar fashion, Coca-Cola ships its syrup to foreign markets where local bottle plants add the water and the container (Terpstra and Sarathy ,2001).

In contract manufacturing, the firm's product is produced in the foreign market by local producer under contract with the firm. Because the contract covers only manufacturing, marketing is handled by a sales subsidiary of the firm which keeps the market control. Contract manufacturing obviates the need for plant investment, transportation costs and custom tariffs and the firm gets the advantage of advertising its product as locally made. Contract manufacturing also enables the firm to avoid labour and other problems that may arise from its lack of familiarity with the local economy and culture.

A drawback to contract manufacturing is loss of profit margin on production activities, particularly if labour costs are lower in the foreign market. There is also the risk of transferring the technological know-how to a potential foreign competitor. This risk is lessened, however, where brand names and the marketing know-how are the key success factors. A frequent problem is also quality control (Terpstra and Sarathy, 2001).

Licensing is another way to enter a foreign market with a limited degree of risk. It differs from contract manufacturing in that it is usually for a longer term and involves greater responsibilities for the local producer. Licensing is similar to franchising except that the franchising organisation tends to be more directly involved in the development and control of the marketing programme. The international licensing firm gives the licensee patent rights, trademark rights, copyrights or know-how on products and processes. In return, the licensee will produce the licensor's products, market these products in his assigned territory and pay the licensor royalties related to the sales volume of the products.

Licensing is generally welcomed by foreign public authorities because it brings technology into the country. The major drawback of licensing is the problem of controlling the licensee due to the absence of direct commitment from the international firm granting the licence. After few years, once the know-how is transferred, there is a risk that the foreign firm may begin to act on its own and the international firm may therefore lose that market (Terpstra and Sarathy, 2001).

Foreign joint ventures have much in common with licensing. The major difference is that in joint ventures, the international firm has an equity position and a management voice in the foreign firm. A partnership between host and home country firms is formed, usually resulting in the creation of a third firm. This type of agreement gives the international firm better control over operations and also access to local market knowledge. The international firm has access to the network of relationships of the franchisee and is less exposed to the risk expropriation thanks to the partnership with the local firm (Terpstra and Sarathy, 2001).

This type of agreement is very popular in international management. Its popularity stems from the fact that it permits the avoidance of control problems of the other types of foreign market entry strategies. In addition, the presence of the local firm facilitates the integration of the international firm in a foreign environment (Terpstra and Sarathy, 2001).

In this arrangement, the international firm makes a direct investment in a production unit in a foreign market. It is the greatest commitment since there is a 100% ownership. The international firm can obtain wholly foreign production facilities in two primary ways: It can make a direct acquisition or merger in the host market and it can develop its own facilities from the ground up.

In some countries, governments prohibit 100% ownership by the international firm and demand licensing or joint ventures instead (Terpstra and Sarathy, 2001).

Foreign market entry strategies are numerous and imply a varying degree of risk and of commitment from the international firm. In general, the implementation of an international development strategy is a process achieved in several steps. Indirect exporting is often used as the starting point; if the results are satisfactory, more committing agreements are made by associating local firms (Terpstra and Sarathy, 2001).

2.5 Empirical review

Market entry strategies are a major issue to most foreign firms venturing into new markets. Wrong market entry strategies can lead to closure of a business thus managers ought to consider various factors when choosing a specific strategy (Dacko,1994).Studies in market entry strategies have been carried out by various researchers in selected countries revealing challenges that companies have experienced.

A local study by Muchina (2011) showed that Eco Bank considered several strategies in its assessment of entry strategies into the Kenyan financial market including: direct investment by entering the market as a new organization and start building its market share. Acquisition strategy was effective as it enabled the Bank to receive warm reception on the market from the customers to the acquired bank as the Bank was struggling in terms of performance on the market and as a result of the acquisition, customers received a sigh of relief especially considering the fact that the acquiring Bank was a Pan African Bank operating in more than four African countries.

Ndegwa and Otieno (2008) showed that the most significant motive to enter developing country was potential growth of the market, the most suitable entry mode strategy was joint venture, the most significant factor influencing the entry mode decision was the legal framework, and the largest problem experienced by companies investing in the country was bureaucracy. Mugambi(2011) the study established that majority firms operating in Kenya EPZ were wholly owned and controlled subsidiaries,in the absence of host countries restrictions firms would be encouraged to go for more control and ownership structures in the Kenya's EPZ.

A study in Ghana by Mwaawaaru (2009) the research showed that 61% of the respondents were motivated, by the presence of endorsers in promotion and communication advertisements. The findings also showed that, advertising, with the television and radio mediums, were the most effective and efficient. Other promotion

variables included sales promotion and sponsorships. There is need to identify in more details the market entry strategies pursued by PepsiCola in Kenya in the current business environment to be able to appreciate that chosen strategies and the growth of the company. The previous similar studies were based on the banking industries, Epz there is no research that has been done on PepsiCola entry strategies into Kenya soft drink industry .

2.6 Summary of literature review

This chapter has presented literature relevant to the research topic as presented by other scholars. It reviewed the factor proportion theory that states that international differences in supply conditions for example factor productivities and endowments, explain much of international trade and the product life cycle theory which explains international trade patterns. The section then explores foreign market entry where it looked at various aspects of foreign market entry that determines success of an organization intending to expand globally. These included opportunities and challenges.

The chapter also reviewed international market entry strategies including assembly, contracting manufacturer, joint ventures, and 100% ownership. Under empirical review, the study identified several studied that were close to these studies, However, none of the studies had focused on market entry strategies pursued by Pepsicola Company in entering the soft drink industry in Kenya. This study therefore sought to fill this research gap.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering, analyzing the data and reporting the results. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Specifically the following subsections were included; research design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

The study adopted a case study design which was the most appropriate in the investigation of the strategies pursued by PepsiCola to enter the Kenyan market. According to Yin (1994) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Interviews were conducted appropriately that provided in-depth responses. They also allowed for probing thus increasing chances of accuracy in responses. This gave the required observation of the market entry strategies pursued by PepsiCola in Kenyan Soft drink industry.

3.3 Data Collection

Primary data was collected by using an interview guide with open ended questions. The open ended questions enabled the researcher to collect qualitative data. The respondents comprised the managers such as the area sales managers, human resource manager,

public relations officer and foodservice manager. Interviews were conducted since the researcher needed deep and complex information.

Probing technique was used during the interview which means that the interviewer continuously checked the correctness and accuracy of the given answers by posing follow-up questions to the respondent (Wiedersheim-Paul and Eriksson, 1997).

3.4 Data Analysis

The data collected was analyzed using content analysis which was used to analyze the data by grouping it according to the responses obtained. A content analysis was conducted which examined the intensity with which certain words have been used Kombo et al (2006) for open ended questions. The collected data is presented in prose form.

CHAPTER FOUR:
DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data was gathered through interview guide and analyzed using content analysis. The data findings were on market entry strategies pursued by PepsiCola Company in entering the soft drink industry in Kenya.

The study targeted four key managers in the Company comprising area sales managers, human resource manager, public relations officer and foodservice manager. All the four managers targeted to be interviewed were interviewed which gave a response rate of 100%. The commendable response rate was achieved after the researcher made frantic effort at booking appointment with the interviewees beyond working hours through an internal correspondent despite their tight schedules and making phone calls to remind them of the interview.

4.2Demographic Information

Under demographic information, the study sought to establish the position that the respondents held in the company and the length of period they had been working with the company. The findings were as discussed below:

On the management levels of the respondents, the study established that 50% were in top management while another 50% were in middle level management. The middle level

management was delegated to respond to the interview by their seniors. This was as a result of their tight schedule which could not allow them some time to participate in the study.

On the period worked with the company, the findings indicated that 75% of the respondents had worked with the Company for eight months while 25% had worked with the company for more than four years. The reason as to why majority of the respondents had worked with the Company for a short period related to the recent relaunch of the Company on the Kenyan market after it exited way back in 1976. The respondents indicated that the Company was still serving the Kenyan market though through importation which limited their market share. With the launch of a new plant, the respondents indicated that the Company was now ready to reclaim its rightful market share of the soft drinks in Kenya.

4.3 Motivations for PepsiCola Entering the Kenyan Market

The study sought to establish from the respondents the reasons why PepsiCola decided to re-enter the Kenyan market after its exit in the early 1970's. From the responses, the interviewees outlined a number of reasons. First, the interviewees indicated that from the figures released by the Kenya National Bureau of statistics for the year 2012, soft drinks continued to experience positive growth which presented opportunities for the Company. The respondents identified bottled water and carbonate as some of the top performers hence their decision to relaunch on the Kenyan market.

Secondly, the respondents identified raising health awareness bolstered demand for fruit/vegetable juice which made many manufacturers in all major soft drinks categories respond by diversifying their portfolios and entering the fruit/vegetable juice category. The respondents indicated that this offered the Company a chance to relaunch itself after many years of absence. The respondents indicated that for the one year that the company had re-entered Kenyan market through exports, they discovered the market had great potential. In order to serve the market better, the respondents indicated that the Company decided to construct a local plant which would help it cut down the operational costs as compared to importing the soft drinks.

Another motivation for the Company entering the Kenyan market was the increasing demand for its brands on the market. The products supplied through importations were not enough to meet the local demand. In order to meet the needs of the Kenyan market, the company saw it fit to set up a local processing plan that would allow mass production to meet the local demand.

4.4 Evaluation of market entry strategies in entering the Kenyan market

The study sought to establish from the respondents whether the Company evaluated strategies it would use for entering the Kenyan soft drink market. The respondents indicated that the Company first started by importing the soft drink through its franchise bottler and Distributor of Pepsi products SBC Kenya Ltd, it bought in 2009. Through the little volumes availed on the Kenyan market, the Company so great untapped potential

for their products. This necessitated further plans to expand the presence of Pepsi Cola products on the Kenyan market.

In order to increase its market presence on the Kenyan market, the Company evaluated several market strategies it would use to enter the Kenyan market. Among the strategies evaluated was continued importation of the products then have the franchised bottler and Distributor of Pepsi products sale which proved expensive in the long run and in appropriate to meet fluctuating demand which sometimes went beyond the imports. As such, this strategy was found inappropriate in the long run and could easily lead to a shortage of Pepsi-Cola products on the Kenyan market.

The respondents further indicated that the Company evaluated an acquisition/merger strategy where they focused on acquiring one of the small existing soft drink companies. However, this would mean acquiring some brands which are not part of Pepsi-Cola Company. In addition, the respondents indicated that this might also compromise the global quality of the Company's brands.

The respondents further indicated that the Company then evaluated the possibility of setting up a plant through its bottling and distribution franchise so as to allow mass production and bottling of its products locally. The company found this strategy viable as it would cut down operating costs by more than 50% hence make the Company products more competitive.

4.5 Market Entry Strategies

The study sought to establish the strategies that Pepsi-Cola used to enter the Kenyan soft drinks industry. From the responses, it was established that the Company first used franchising strategy. A franchise is an ongoing business relationship where one party ('the franchisor') grants to another ('the franchisee') the right to distribute goods or services using the franchisor’s brand and system in exchange for a fee. The franchisee in this case was Seven up Bottling Company which was authorized to package and distribute PepsiCola products in Kenya. The respondents indicated that this was a viable strategy as it allowed it time to assess the viability of the Kenyan market so as to arrange on how to approach it. After several three years of importing and distributing through a franchisee, the Company entered into arrangements to set up a local plant to facilitate production locally.

To allow full entry and presence, the company engaged in massive hiring of employees to facilitate its operations start up. By the time the plant started operating, the Company had already hired over 120 employees in different positions. These included engineers, architects and technicians to handle the development phase although they expected to have about 300 employers on board once it is completed.

The respondents indicated that the strategy chosen to enter the Kenyan market was very effective. By first testing the market for three years through a franchisee to see the market viability, this ensured that the Company invested in a viable venture that would bring worthwhile returns for the owners. This also helped in reducing operational costs upto

more than 50% as the cost of importing the soft drink products was high and led to unexpected shortages on the market. As such, the respondents indicated that the setting up of a local plant was so timely.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented summary of key research data findings, conclusion drawn from the findings highlighted and recommendation made there-of. The conclusions and recommendations are drawn in quest of addressing the research objective which is to investigate the market entry strategies pursued by PepsiCola Company in entering the soft drink industry in Kenya.

5.2 Summary of Findings

From the findings of the study in chapter four, the study established that majority of the respondents had worked with the Company for less than one year although one of them had worked with the Company for more than three years. This could be largely explained by the fact that PepsiCola re-entered the Kenyan market early this year (2013) and as such many of its currently employees have not worked with it for long. However, since most of the respondents in this study participated in decision making, they provided relevant data needed for the study.

The study also established that PepsiCola's decision to re-enter the Kenyan market was motivated by several factors. Key among these were the existence of ready and large market for their products. The different brands offered by the Company were readily acceptable in Kenya hence it was easy for the Company to re-enter the market.

Another important motivation included the projects of the statistics by Kenya National Bureau of Statistics that the soft drinks industry was growing. This offered the Company an opportunity to assess the viability of the market hence leading to their investment in a processing plant in Ruaraka area of Nairobi.

The study also established that the Company was also motivated by the positive response that their brands had received on the Kenyan market. Through their franchisee, the Company was able to see the potential for greater market for its beverages hence the decision to set up a processing plant. Another opportunity to the company was in the form of raising health awareness which bolstered demand for fruit/vegetable juice which made many manufacturers in all major soft drinks categories respond by diversifying their portfolios and entering the fruit/vegetable juice category. This created ready market for the Company's brands.

The study established that the Company evaluated several strategies in deciding which one would suite their entry into the Kenyan market. Among the strategies evaluated were acquisition/merger with an existing company which did not arguer well with the Company because of its global brand presence. The Company also considered importation/Exporting strategy which turned out to be somewhat expensive hence reducing the competitiveness of the Company.

In addition, exporting strategy led to frequent product shortages on the market. The respondents further indicated that the Company then evaluated the possibility of setting

up a plant through its bottling and distribution franchise so as to allow mass production and bottling of its products locally. The company found this strategy viable as it would cut down operating costs by more than 50% hence make the Company products more competitive. This strategy was found to be viable and effective for their operations as it ensured that their operating costs were brought down drastically which were passed to customers in terms of competitive pricing. This made it easy for the Company to re-enter the Kenyan soft drink market.

5.3 Conclusion

From the study findings, the researcher concludes that PepsiCola Company was driven by several motivations to re-enter the Kenyan market. The Company was first attracted by the existence of market opportunities for their brands. Through their Franchisee SBC, the Company was able to understand its potential on the Kenyan market which led to setting up a processing plant locally.

The study also concludes that prior to setting up the local plant; Pepsi used exporting and franchising strategy where it offered its products to the market through their licensed franchiser SBC. This gave the Company an opportunity to test the viability of the Kenyan market. For three years, the Company had gauged this and hence the move to set up a local plant.

The study also concludes that the strategy of exporting, franchising and then setting up a local plant were so timely and well calculated. This ensured that the Company measured the market size, potential before moving to invest high amounts of investment.

5.4 Recommendations

From the findings and conclusions in this chapter, the study recommends that the multinationals Corporations (MNCs) should critically analyze the various strategies at their disposal in entering a new market before making decisions on how to enter the selected market. Market entry strategy plays a very important role in determining the successfulness of the multinational corporations on the local market.

This is true especially considering the acceptability of the MNC by the local customers and how the MNC is treated by the host government. For the case of PepsiCola, the study established that it adopted several strategies at different times until it was sure that the market was viable before investing huge sums of money in a plant.

The study also recommends that MNCs should consider the advantages and disadvantages the different strategies before selecting on a given strategy. They need to assess the options available for their market entry and be able to select the strategy with more advantages and one that will ensure successful market entry and acceptability by the local market regulators.

5.5 Limitations of the Study

Being that this was a case study on one organization the data gathered might differ from market entry strategies adopted by other organization in different sectors in entering

different markets. This is because different PepsiCola adopt different market entry strategies in different markets depending on their viability.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on market entry strategies adopted by PepsiCola in entering the Kenyan soft drink market.

The other limitation included a very busy schedule run by the targeted respondents in this study. The researcher had to limit the effects of this limitation by aggressively contacting the intended interviewees and booking appointments for the interview. Otherwise, it would not have been easy to complete the study on time.

5.6 Recommendations for Further Research

The study recommends that further research should be done on the foreign market entry strategies adopted by Multinational corporations including other banks in the Kenyan market to allow for generalization of foreign market entry strategies adopted by MNCs in Kenya since each employs a different market entry strategy. The researcher further recommends that a similar study be done on other institutions for the purposes of benchmarking.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

A. Demographic Information

1. Your Name____

2. Please indicate your Position level in the PepsiCola company.

Top Management ( )

Middle Level Management ( )

Lower Level Management ( )

3. Number of months worked with the PepsiCola ____________________

B. Evaluation of market entry strategies

5. What were the motivations for PepsiCola in entering the Kenyan market?

6. Did PepsiCola evaluate the entry strategy to use in entering the Kenyan market? How was the evaluation done?

7. Please mention a few strategies that PepsiCola considered for entry in the Kenyan market.

8. Which of the above strategies did PepsiCola choose in entering the Kenyan Market?

9. Why did PepsiCola choose on the strategy named in (9) above to enter the Kenyan market?

10. How effective was this strategy to PepsiCola company?