

**STRATEGIES USED BY ALCOHOLIC DRINKS BUSINESSES IN  
NYERI TOWN SUB-COUNTY TO COPE WITH COMPETITION  
IN THE LIQOUR INDUSTRY IN KENYA**

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## DECLARATION

This is my original work and has not been presented in any other University.

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## **DEDICATION**

Special thanks go to my dear wife Lucy, daughter Ruth and son Sam for their support and encouragement during the period of my study. Deep appreciation goes to the Ministry of Trade who sponsored this MBA program, my lecturers for their guidance and my fellow students for their co-operation that made the study easier and enjoyable.

## ACRONYMS AND ABBREVIATIONS

<b>CEO</b>	Chief Executive Officer
<b>CIDP</b>	County Integrated Development Plan
<b>DN2</b>	Daily Nation 2
<b>KEBS</b>	Kenya Bureau of Standards
<b>EABL</b>	East African Breweries Limited
<b>KIL</b>	Keroche Industries Limited
<b>NACADA</b>	National Authority for Campaign against Alcohol and Drugs Abuse
<b>NCBD</b>	Nairobi Central Business District
<b>SCM</b>	Supply Chain Management
<b>MSEs</b>	Micro and Small Enterprises
<b>UDV</b>	United Distillers Vintners
<b>SPSS</b>	Statistical Package for Social Sciences

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## **ABSTRACT**

The liquor industry is one of the oldest and most dynamic sectors of the Kenyan economy. The increase in the middle class population and growing local and international investor interest in this sector has led to tremendous growth and stiffened competition in the industry. The sale of unauthorized second generation liquor and traditional brews to quench the demand of low-end consumers has added fuel to the fire in the regulatory and competition landscape. This study sought to establish challenges of competition encountered by Alcoholic drinks businesses in Nyeri Town Sub-County and to identify strategies adopted by these businesses to cope with competition in the liquor industry in Kenya. The study utilized a cross-sectional design where questionnaires were delivered to a sample 50 enterprises registered in Nyeri Town Sub-County who were chosen by stratified random sampling. External challenges were identified as leading where stringent government regulations, competition from similar outlets and difficulty of entry were cited under this category. Marketing challenges and competition from illegal brews were considered as moderate. The findings identified cultivation of customer loyalty and diversification into new products as some of the competitive strategies used. Competitive action plans included providing clean and attractive outlets and providing extra facilities like DSTV and WIFI. Differentiation, cost leadership and focus strategies were also considered important. These strategies were to be actualized through the improvement of the quality of goods and services, business rationalization and targeting the mass market respectively. Segmentation was considered to a little extent. The study recommends that policy makers should consider licensed alcoholic drinks businesses as legitimate investments similar to other sectors of the economy. Enforcement agencies including KEBS and NACADA should work proactively to prevent the production of poisonous alcoholic drinks. It also recommends formation of strong business associations and establishment of alcoholics' rehabilitation centers. To cope with the competition the study recommends that alcoholic drinks outlets should design and implement innovative strategies of dealing with their challenges. It further recommends that they should always undertake market surveys considering all the four Ps of the marketing mix in order to target the segments with best competitive advantage. They should also undertake regular customer needs analysis which should form the basis of stocking their products.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The liquor industry in Kenya is one of the oldest and dynamic sectors of the economy. According to a report by leading alcohol Research Company, alcoholic drinks in Kenya experienced steady growth in 2013 (Euro monitor International,2014). Kenya has a growing middle class with considerable amounts of disposable income. Alcohol consumption, especially of brands such as whisky is viewed as a class symbol and this has encouraged the consumption of alcoholic drinks in the country. This sector has attracted many investors of various economic capabilities and each firm in the industry must strive to employ the best competitive strategy to survive.

This study is anchored on both the resource based theory and the competitive advantage theory. Resources are stocks of available factors that are controlled by the organization and capabilities are organization's capacity to deploy resources. A resource based view of a firm explains its ability to deliver competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors which ultimately creates a competitive barrier (Mahoney and Pandian, 1992). According to the competitive advantage theory, competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These could include access to natural resources or access to highly trained human resources.

The Alcoholic drinks businesses in Nyeri Town Sub-County face various challenges including policy and regulatory shifts instituted to curb negative social and economic effects associated with consumption of adulterated liquor. They also have to compete among the various establishments selling similar products from local and foreign liquor manufacturers. To survive, they must design strategies to cope with these challenges.

### **1.1.1 The Concept of Strategy**

According to Wikipedia, the word strategy originates from the Greek word, “strategia”. Initially it was used in military theory both in times of peace and war but later found its usefulness in business management theory and game theory where it refers to the rules a player uses to choose between available actionable options. Strategy has been described as a direction, perspective, game plan, ploy, pattern and position.

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through configuration of resources and competences with the aim of fulfilling stake holders’ expectations (Johnson, Scholes and Whittington, 2008). Thus the concept of strategy is the set of ideas that will secure the future of a particular enterprise in its particular context at a particular time. As a perspective strategy is viewed as similar to what personality is to an individual. The key point is that strategy as a perspective will be shared by members of an organization via their intentions and or actions (Capon, 2008). For Porter (1980), strategy is about being different, deliberately choosing different activities to deliver unique mix of value.

In practice all strategy making walks on two feet one deliberate and the other emergent. Deliberate strategy precludes learning while emergent strategy precludes control (Mintzberg, 1987). The word strategy refers to both deliberate and emergent behavior. Thus the strategy of an enterprise must be explicitly related to its particular needs. The typical company strategy is a blend of proactive actions to improve the company's financial performance to secure competitive edge and as-needed reactions to unanticipated developments and fresh market conditions (Thomson, Strickland & Gamble, 2007).

Formal strategy produces significantly better financial performance than unplanned opportunistic adaptive approach. Porter (1980) argued that the emphasis placed on strategic planning in the world reflects the proposition that explicit strategy delivers significant benefits. Thus most contemporary firms globally have embraced deliberate strategy and managers are able to change their responses incrementally using their accumulated knowledge and experience. Aosa (1992) established that formal strategic planning was practiced in Kenya's large manufacturing companies while foreign companies were more involved in strategic planning than local ones.

### **1.1.2 Industry Competition**

Competition is a contest between individuals, groups, nations, firms and animals for territory, a niche, or a location of resources and occurs naturally between living organisms which coexist in the same environment. In business, most companies are in competition with at least one other firm over the same group of customers (Lynch, 2003). The level of competition a firm faces will depend on a number of factors. There are five competitive forces that shape strategy in an industry (Porter, 2008).

These are competitive rivalry, threat of new entrants, threat of substitute products or services, bargaining power of buyers and bargaining power of suppliers. These forces are close to the company and affect its ability to serve its customers and make profit.

Under competitive rivalry there are number of factors that affect the competition in the industry. There could be numerous companies with similar capacity all seeking to dominate the industry. There may be no dominant company or companies and little difference between the brands. In such a case rivalry will be high as mature companies strive to retain the market share, sustain differentiation and retain their customer base. The threat of new entrants is another force. If the industry is attractive and has sufficient customer base, the threat of new entrants will be intensive. High potential profits and low set up costs make the industry attractive. When considering the nature of competition, alternative products or services should be considered. Substitute products provide the same function as the good for which they are a replacement. They are a threat if customers perceive them to be superior in performance or to be equally good. The above three forces represent horizontal competition.

The bargaining power of buyers is one of the remaining two forces that represent vertical competition. This is the ability of customers to put the firm under pressure which also affects the customer's sensitivity to price changes. Buyer power is high if the buyer has many alternatives, the switching costs are low and buyer information is readily available. The bargaining power of suppliers depends on the alternative sources of supply available to the buyer. Thus in a sector where there are few possible

suppliers, they will be able to exert a high level of influence on the organizations to which they supply.

### **1.1.3 Liquor Industry in Kenya**

The liquor industry has a long history in Kenya. Conventional liquor brewing was introduced in 1922 when Kenya Breweries Company was founded by two white settlers, George and Charles Hurst. It is currently a holding company of the East African Breweries Limited and is listed in the Nairobi stock exchange. According to the EABL official website (<http://www.eabl.com>), the current revenue of the company stands at Ksh 61.3 billion. The alcohol industry is a big business in Kenya and around the world. Kenya is the third largest alcohol consumer in Africa after Nigeria and South Africa (Wachira, 2013). Due to the increasing demand for liquor products, the Keroche Industries Limited was launched in 2008 as the first Kenyan fully owned Liquor Company. It is currently the sole producer of summit larger and summit malt which market as natural sugar free brands. The company has expanded in recent years and according to the CEO Mrs Tabitha Karanja, as quoted in their official website (<http://www.kerochebreweries.com>), the company plans to launch a new 29 million dollar plant next year. According to the research by Wachira (2013), EABL holds the largest market share of beer at 95% while Keroche breweries shares 3 %. Senator sold in glasses as kegs as well as 300 ml bottles and aimed at the lower end of the market is now the largest beer brand in Kenya.

The wines and spirits category of the industry is also on upward growth. Kenya rates as the second largest brandy market in Africa. According to Euro monitor, UDV Kenya's Kenya cane is the leading brand with 21% market share followed by London

Distillers' Safari came with 10% share while EABLs Smirnoff vodka brand shares 6%. In a bid to curb illicit brew production in Kenya, the Government has encouraged local beer manufacturers to produce healthy spirits brands at affordable prices. This saw the East African Breweries launch a new spirit in the market, Jebel special, targeted towards the low income consumer (Euro monitor International, 2014). Foreign players have also entered the Kenyan market. The South African Castle breweries have launched their products after acquiring a Kenyan firm by the name Keringet Water bottling Company.

There is also increasing competition from traditional brews some of which are illegal. These include Changaa, Muratina and Busaa. There are also second generation alcohol products which are very popular with the low income segment in Kenya. After the introduction of the alcoholic drinks control act 2010 there was turbulence in the industry including many closures of liquor outlets which could not meet the requirements of the new regulation. Kenya's largest beer maker, EABL reported a drop in net half-year profits for the period ended December 2010 to 4.1 billion from 4.2 billion. While reacting to the closures, one of the industry players Mrs. Tabitha Karanja of Keroche breweries said that closing large number of retail outlets would definitely have a negative effect as it will certainly hurt sales and discourage entrepreneurship in beverages industry (All Africa. com, 2011).

#### **1.1.4 Alcoholic drinks business in Nyeri Town Sub-County**

Nyeri Town Sub-County is located 150 kilometers north of Nairobi. It encompasses the former Nyeri Municipality and houses the headquarters of the newly created Nyeri County. According to the current County Integrated Development Plan (CIDP, 2013-

17), it has an estimated population of about 122,758 people. The liquor trade in the Sub-County is well developed with major players in the alcohol value chain represented through depots, distributors, wholesalers, retailers, restaurants, on bars and wines and spirits. According to the register for 2014 at the Nyeri Town Sub-County administration office, there were about 311 liquor businesses who registered their applications, majority of them drawn from the above categories. However none out of the above firms was involved in processing and value addition. Thus most of the businesses sell drinks manufactured in other areas including Nairobi and Thika.

There are four depots distributing various brands for two leading local manufacturers and one foreign manufacturer. The East African Breweries has two depots, one based at Ruring'u (Ibagwa Distributors) and another based at Muringato next to Nyeri-Nyahururu road (Wamuti Distributors). The former distributes the Keg brand and spirits including the lower market target brand, Jebel and Kenya cane. The latter concentrates in distributing major beer brands such as tusker, pilsner and spirits such as popov and liberty. Keroche industries have a depot at King'ong'o and distributes their major brands including Summit larger and Summit malt. The only foreign manufacturer with a depot in the municipality is Crown beverages which distributes Castle breweries products including castle larger beer and spirits which include Tanzanian brewed Konyagi brand. The company is located at King'ong'o where it also distributes the Keringet water products. All the above depots also serve other parts of the county. Competition in the industry is therefore stiff since most of the products are substitutes to each other.

The alcohol industry in the Nyeri County is regulated through the Alcoholic drinks Control Act 2010 (Mututho law), legislation supplement no 59 gated 12<sup>th</sup> December 2010, the National Authority for Campaign Alcohol and Drugs Abuse (NACADA) and the Nyeri County Alcoholic Drinks Control and Management act 2013. The Alcoholic drinks control act 2010 also legalized traditional brews like Changaa in order regulate the industry. However the legal requirements are strict and one must obtain a certificate of analysis from (NACADA) and the Kenya Bureau of Standards (KEBS). Thus many dealers of such brews in the Sub-County sell them illegally and in slums areas like Majengo.

## **1.2 The Research Problem**

As the operating environment changes, more pronounced transformation of business landscape lays ahead (Porter, 1985). Competitive strategy is therefore vital to the adaptation of an organization to a changing environment. The environment is rapidly changing making it imperative for organizations to continually adapt their activities in order to succeed. To survive in a dynamic environment, their strategies need to focus on their customers and deal with emerging environmental challenges. This is because they are environment serving (Ansoff, 1987). Competitive advantage is the basis of achieving organizational success over others using unique capabilities that others do not have or have difficulty in obtaining.

This study emanates from various complaints by liquor businesses about increasing performance challenges due to the changing legal and competition landscape. According to the Daily Nation Newspaper (September 15, 2014), over 529 people have died due to consumption of adulterated alcohol since 1998 to date. A study at

Majengo slums in Nyeri by Karugu (2012) established that excessive consumption of alcohol has negative effects including; increased poverty levels, divorce, loss of jobs, poor performance at work, increased crime and even death. As a remedy, Parliament initiated strict regulation through a private motion by Naivasha Member of Parliament in 2010, popularly known as “Mututho law”. These laws regulate the operation hours and have instituted heavy fines on offenders. Liquor licenses have also been revised upwards. There is also a myriad of other permits including single business permits, Nacada, tourism fund levy and public health license.

Similar research has been conducted in several countries by Euro monitor International (2014). However most of it has concentrated on the general trends in the industry. In South Africa for example, the study found that supermarkets have integrated specialist liquor stores located next to them and operate as outlets for their brands. In India, the research found that distribution of alcoholic drinks was highly regulated in most of states with the government owning all the licensed wine shops in states like Tamil Nadu. In Kenya, majority of the studies concern the manufacturing side of the liquor value chain. A study by (Ndungu, 2011) analyzed the competitive strategies adopted by players in the beer industry in Kenya and concentrated mainly on major liquor manufacturers in the country. Besides the important role played by Michael porter’s five forces, it also sited customer focus, cost leadership and differentiation as the main strategies adopted in the industry. Another study by (Owuor, 2008) analyzed the distribution strategies adopted by wines and alcoholic spirits manufacturers and importers. It recommended diversification through franchising besides selling through distributors and wholesalers.

Competitive strategy should be proactive and should not be viewed only as a set of responses. There remains a gap in the analysis of the strategies used by the largest segment of the liquor value chain. This includes distributors, wholesalers, retailers, bars and restaurants. They employ the bulk of the workforce in the industry and represent the demand side of the liquor value chain. The turbulence in the operation environment faced by these businesses and the stiff competition among the players sustains the research question: What strategies are adopted by alcoholic drinks businesses in Nyeri Town Sub-County to cope with competition in the dynamic liquor industry in Kenya?

### **1.3 The Research Objectives**

This study seeks to address the following two objectives;

- (i) To establish the challenges of competition encountered by Alcoholic drinks businesses in Nyeri Town Sub-County.
- (ii) To determine strategies adopted by businesses dealing in alcoholic drinks in Nyeri Town Sub-County to cope with competition in the liquor industry in Kenya.

### **1.4 The Value of the Study**

The study will contribute to theory by analyzing the strategies used by firms dealing in liquor in a specific geographical area to compete under the changing and challenging operation environment. This segment has not received as much attention based on studies undertaken by MBA students in the University of Nairobi in the last two years. The study will be anchored on the resource based theory and the competitive advantage theory. The interplay of these theories will help to explain the

challenges faced by the firms dealing in alcoholic drinks and their choice of competitive strategies.

It will motivate scholars to not only be focusing their studies in the competitive strategies adopted by the large corporate entities, including foreign firms but to also analyze competitive strategies at the micro economy level where most indigenous enterprises are found. Such firms face myriad challenges in their day to day operations including political, economic social, legal and technological forces that limit their profitability and survival.

The recommendations from this study will therefore be useful to stakeholders in in the industry especially entrepreneurs, policy makers and investors. It will help to understand the challenges faced by businesses dealing in alcoholic drinks in Kenya and the strategies they use to compete. The study will therefore assist both the national government and the county governments to formulate policies that create conducive operation environment for the industry which forms a major source of revenue through various taxes and licenses.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers the review of studies undertaken in the area of competition strategies in organizations. It provides theoretical and empirical information from related publications and examines what various scholars and authors have studied in an attempt to conceptualize and apply strategic management in solving organization problems. The current study attempts to draw comparison from this review in addressing the research question.

#### **2.2 Theoretical Foundation**

The theoretical foundation of this study is anchored on both the resource based theory and the competitive advantage theory. The resource based view of a firm helps to explain its ability to deliver competitive advantage by employing unique management style that cannot be imitated by competitors thus creating a barrier. The model assumes that each organization is a collection of resources and capabilities that provides the basis for its strategy and is the primary source of returns. In the new competitive landscape, the model argues that firms are collections of evolving capabilities that are managed dynamically in pursuit of above average returns. Thus according to this model, differences in firms' performances across time are driven primarily by organization unique resources and capabilities rather than industry's structural characteristics (Hitt, Ireland and Hoskisson, 1997).

Firms competing within the same industry may not possess similar resources and capabilities. What matters in a company's resource strengths individually and collectively, is how powerful they are in the market place. A resource weakness or deficiency is something a company lacks or does poorly in comparison to others. Thus sizing up a company's complement of resource capabilities and deficiencies is like constructing of a strategic balance sheet where resource strengths represent competitive assets and resource weaknesses represent competitive liabilities. Obviously, the ideal condition is for the company's competitive assets to outweigh its competitive liabilities by an ample margin as a 50-50 is not a desirable condition (Thompson, Strickland and Gamble, 2007).

This study is also based on competitive advantage theory. According to Porter (1985), Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceed the firms cost of creating it. Value is what the buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits that more than offset a higher price. Porter categorizes the two basic benefits of competitive advantage as cost leadership and differentiation. He describes how the choice of competitive scope or a change of firm's activities can play a powerful role in determining competitive advantage. He asserts that the combination of these forces works in concert and become offensive and defensive competitive strategy.

The primary objective of strategy is to achieve competitive advantage. According to Hill and Jones (2011), maintaining competitive advantage requires a company to continue focusing on four generic building blocks of competitive advantage. These

include efficiency, quality, innovation and customer responsiveness. The company should build distinctive competences that contribute to superior performance in these areas. In order to achieve these, the firm should institute continuous improvement and learning. In practice, today's competitive advantage may soon be imitated by capable competitors or it may be made obsolete by the innovations of a rival. The only way that a company can maintain competitive advantage over time is to continually improve its performance in the generic blocks. One of the best ways to develop distinctive competencies is to identify best industrial practices and adapt them. It requires tracking the practices of other companies by way of benchmarking. This is the process of measuring the company against products, practices and services of some of the most efficient global competitors and using them to improve on the efficiency of its own operations.

### **2.3 Competition among Organizations**

According to Murphy (2005), the theory of competition by organizations is heavily focused on price competition. Thus a company can gain competitive advantage through charging lower prices than its rivals. A firm's ability to raise its prices is however usually constrained by competitors and the fact that its customers can switch to alternative sources of supply. When these constraints are weak, the firm attains market power. If the market power is great enough, the firm gains a position of dominance which it may legally use as long as it does not abuse such power to weaken competition. Thus firms have to observe the players in the market comparing their operations with others while trying to define their next move that will deliver competitive advantage.

To succeed in building competitive advantage, a firm must aim at providing the buyers with what they perceive as superior value. This is by providing prices lower than competitors' for equivalent benefits. Too narrow view of competing can however be dangerous. In some cases, enterprises devote much of their energies to benchmarking themselves against their rivals and making incremental competitive improvements. The winners are however those that concern themselves less with their opponents and their industry's accepted wisdom. Instead they concentrate with breaking the mold by looking at what customers want rather than what suppliers are currently giving and devising innovations that deliver a radical improvement in value in the eyes of the purchaser (Murphy, 2005). However, prices are not the only factor in play and their use to determine competitiveness can be subjective. Firms use various strategies in order to persuade their customers that what they sell is different and better than their rivals. This differentiation could be substantive: one supplier offering different features, longer product life, and better aftersales service and so on. It could also be subjective, hence the heavy use of branding, supported by advertising to establish the difference between products.

Besides their ability to use the above factors to gain competitive edge, organizations constantly depend and interact with the external environment for resources and marketing of outputs which invariably affects their behavior. According to Johnson, Scholes and Whittington (2005), an organization exists in the context of complex political, economic, social, technological, environmental and legal world. Managing environmental changes to take advantage of them is an uphill task involving strategic market planning, anticipation of, and response to change. Proponents of Environment dependence theory argue that the firm should seek to proactively control its resources

in order to achieve effectiveness. Such position is described as the ability to create acceptable outcomes and actions (Preffer and Salancik, 1978). The firm has therefore to manage the environment to its advantage by maintaining a controlling orientation propelled by the choice of appropriate strategies.

## **2.4 Industry Competition**

The configuration of the interplay of the Michael Porter's five forces is important in helping to determine competitiveness in an industry. Understanding industry structure is also essential for effective strategic positioning. A healthy industry structure should be of as much concern to a strategist as company's own position. Industry structure grows out of a set of economic and technical characteristics that determine the strength of each competitive force. All the five competitive forces jointly determine the intensity of industry competition and profitability and the strongest are governing and become crucial from the point of view of strategy formulation (Porter, 1980).

Understanding competition in an industry entails gaining insight into underlying forces that affect profitability in the industry and provides a framework for anticipating and influencing competition over time. If there is intense rivalry in an industry, it will encourage players to engage in price wars, invest in innovations and engage in intensive promotion. These activities are likely to increase costs and lower profits. According to Barney (2007), rivalry tends to be high when there are numerous firms in an industry and when these firms tend to be roughly the same size. Such is the case with laptop personal computers. Rivalry also tends to be high when industry growth is slow as firms seeking to increase their sales must acquire market share from existing competitors.

The threat of entry is a powerful force that limits the profit potential in an industry. New entrants bring new capacity and desire to attain market share that puts pressure on competition variables including costs, prices and rates of investment. New entrants diversifying from other markets can also leverage on their existing capabilities to shake up competition in an industry. The position of existing firms is stronger if there are barriers to entering the market. If these barriers are low, then threat by new entrants is high and vice versa. Examples of barriers include investment costs which will deter entry if capital requirements are high and only large players can compete. Barriers can also take the form of economies of scale available to existing firms which provides lower unit costs which makes it difficult for smaller new comers to break into the market and compete effectively. Other barriers include regulatory restrictions, product differentiation and access to suppliers and distribution channels. However, most firms use their experience curve to deter new entrants to the industry. Experience curve is the constant reduction of unit costs as the firm learns to do the same thing every time. New firms have to overcome this through some years (Yabs, 2010).

Powerful suppliers capture more value for themselves by charging higher prices and shifting costs to the industry participants thus squeezing the industry profits. Suppliers find themselves in a powerful position if there are a few large suppliers and the resource they supply is scarce. However, the power of even large and powerful suppliers can be checked if they compete with substitutes. On the other hand powerful customers can capture more value for themselves by forcing down prices, bargaining for higher quality or more services and playing competitors against each other- all at the expense of industry profitability (Porter, 1980).

Buyers are powerful if they have negotiating leverage to industry participants especially if they are price sensitive using their clout to force prices down. The power of buyers determines the extent to which they are able to retain the value created for themselves leaving firms in an industry only with modest returns. Powerful customers can force the low cost leader to reduce its prices below the level at which the next most efficient industry competitor can earn average returns. However, lower prices would prevent the next most efficient competitor from earning average returns resulting to its exit from the market and leaving the low cost leader in a stronger position (Hitt, Ireland Hoskisson, 1997).

The threat of substitutes becomes serious if customers are able and willing to switch to other products and services. Such a migration can be triggered by various factors including steep price increases, technological breakthrough or changes in consumer tastes. If there are many credible substitutes to firm's products, they will limit the price that can be charged and will reduce industry profits by placing a cap on the prices firms in the industry can profitably charge. The more attractive are the prices of the substitute products, the firmer the lid on the industry profits. Substitute products can be identified by searching products that can perform the same function as the product in the industry

## **2.5 Competitive Strategies.**

The choice of competitive strategy depends on the attractiveness of the industry for long term profitability and the determinants of relative competitive position within the industry. A firm in a very attractive industry may still not earn attractive profit if it has chosen a poor competitive position. Conversely a firm in an excellent competitive

position may be in such a poor industry that it is not very profitable (Porter, 1985). Industry attractiveness and competitive position are dynamic and change depending on competitive moves by the players. Thus a firm's decision to use a strategy also depends on the level of competitors. In addition a firm's choice to use a certain strategy depends on the costs of the strategy formulation and implementation (Elliot, Haffman and Makar, 2003).

Though firms may choose any strategy that assures them competitive advantage, there are two basic types of competitive advantage strategies that a firm can process: low cost or differentiation. Low cost and differentiation in turn stem from industry structure. They result from a firm's ability to cope with the five forces better than the rivals (Porter, 1985). The cost leadership, differentiation and focus are referred to as generic strategies. The focus strategy has two variants, cost focus and differentiation focus.

The cost leadership strategy focuses on gaining competitive advantage by keeping costs at the lowest level in the industry. To achieve this all players in the organization including the labor force must be committed to keeping costs lowest. The organization must be willing to discontinue activities they do not have cost advantage and should consider outsourcing activities to other organizations with cost advantage. For an effective cost leadership a firm must have a large market share. There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input costs, capacity utilization and access to raw materials (Malburg, 2000).

Differentiation is attained when a firm focuses on providing a unique product or service. Since the product or service is unique, this strategy provides high customer loyalty (Porter, 1985). This is achieved by tailoring the product to customer needs. This enables the organization to charge a premium price thus capturing the market share. The strategy is effectively implemented if the business is unique and offers superior customer value through features like after sales service and higher product quality. Differentiation appeals to sophisticated and knowledgeable consumers who are willing and able to pay a premium price for the product.

In the focus strategy firms choose to focus on a specific segment of the market. It is based on adopting a narrow competitive scope within the industry. The competitive advantage is attained by focusing on a narrow market niche and winning competitive edge by doing a better job than rivals of serving the special needs and tastes of buyers comprising the niche (Thompson, Strickland and Gamble, 2007). The niche may comprise of market or markets either overlooked or not attractive to the larger competitors. Focus strategies are however most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms. The above model assumes that the firm will choose one strategy at a time. Some schools of thought however feel that a combination of these strategies may offer a company the best chance to achieve competitive advantage (Hlavacka, 2001). However, according to Porter (1980), generic strategies can yield competitive advantage and attain long term profitability. A firm must therefore make a choice between one of the generic strategies in order to avoid being “stuck in the middle”.

Another commentary by Wheelen and Hunger (2008) observes that before using one of the two Porters generic strategies (lower cost or differentiation) the firm unit must understand its own unique resources. Each of the strategies has risks and a company following differentiation strategy must ensure that higher prices it charges for its higher quality is not too far above the price of the competition as the customers may not see the extra quality as worth the extra cost. However, it is not a must that a firm or unit chooses between differentiation and lower cost in order to be successful. Some successful companies like Toyota and Honda assume both and design quality into product and service in such a way that it can achieve both high quality and high market share.

Besides the above competitive approaches, a company can also use cooperation strategies to gain competitive advantage within an industry by working with other firms. The first way is through collusion where firms in an industry cooperate through direct communication and negotiation. However explicit collusion is illegal in most countries and firms have to understand the competition law before employing this strategy. The other form of cooperation comes in form of strategic alliances. These are partnerships of two or more businesses up to achieve significant objectives that are mutually beneficial and increase profitability through positive effects on firm value. Integration strategies can also be used by a firm to gain competitive advantage. The vertical integration is the degree to which the firm owns its upstream suppliers and downstream buyers. The horizontal integration refers to consolidation of many firms handling the same part of production process. A study by Njoroge (2007) on the benefits of supply chain management in EABL, finds that vertical integration in SCM offers the group competitive advantage over competition by improving customer

service and encouraging the group to aim at continuous improvement. It also fosters efficient management of the inventory thus reducing operation costs and increasing profitability.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The research methodology entails documented process in management of projects containing procedures, definitions, explanations and techniques used to collect, analyze and store information as part of research process. It also describes the method(s) used by the researcher in data collection.

#### **3.2 Research Design**

A research design is a framework specifying relationships among study variables. This study uses a cross-sectional survey approach. Saunders, Lewis and Thornhill (2007) refer to this approach as the study of a particular phenomenon (or phenomena) at a particular time, commonly used in academic courses which are necessarily time constrained. It reports the situation as it is and is suitable for this study due to the scope and the structure of the liquor industry within the Nyeri Town Sub-County. A similar study design was employed by Mwangi (2010) on strategic responses to competition by large restaurants in Nairobi NCBD and was found feasible where the population is small and variable. Another study by Njiru (2012) on Strategic responses to changes in external environment by universities in Kenya used this design and found it useful for wide application and broad coverage.

#### **3.3 Population of Study**

The population of the study is 311 alcoholic drinks outlets who registered at the Nyeri Town Sub-County administration's office during the year 2014. According to the

same source, there were more than 600 alcoholic drinks businesses in the Sub-County. The respondents were sourced from various locations of the Sub-County including; King'ong'o, Kamakwa, Town Centre, Ruringu, Chaka, Kiganjo, Giakanja and Gatitu. The statistics from the Nyeri Town Sub-County on the concerned categories of firms dealing in alcoholic drinks are shown in Appendix I.

### **3.4 Sample Design**

The sample is comprised of 50 businesses all drawn from Nyeri Town Sub-County. In order to ensure that all categories are represented, a stratified random sampling method was used. The respondents were drawn from all the above categories of the liquor industry. It also had representation from all the eight locations of the Sub-County which assisted to respond to the research question and capture the dynamism in the industry.

A disproportional stratified sample was used. As observed by Zikmund, Babin, Carr and Griffin (2010), sample size for each stratum is not allocated in proportion to the population size of the stratum but is dictated by analytical considerations under this method. Thus the sample size increases for strata of greater sizes with the greatest relative viability. Dawson (2002) also observes that for large scale quantitative survey, you will need to contact many more people than you would for a small qualitative sample. The sample size also depends on what you want to do with your results. If you want to produce large amounts of cross tabulations the more people you contact the better. These arguments were used as the basis for selecting a larger sample size of fifty.

### **3.5 Data Collection**

Data are facts presented to the researcher from the study environment. This research study relied mainly on primary data. Primary data are sought for their proximity to the truth and their control over error (Cooper and Schindler, 2006). This method was appropriate in capturing the relevant experiences and attitudes as presented primarily by industry players and was found valuable in addressing the research question.

A self-administered structured questionnaire, consisting of both open ended and closed ended questions was used. The questions were designed to elicit specific qualitative and quantitative responses. A questionnaire is a useful tool for collecting data from respondents as it enables them to express their views more openly and clearly. In order to address the research question adequately, the questionnaire was designed in four parts: A, B, C and D. Part A covered the general background information of the respondent alcoholic drinks business and its management. Part B addressed the challenges encountered by the business in its operation environment. Part C evaluated how the alcoholic drinks business deals with its customers and part D captured the strategies employed by the business to maintain a competitive edge as it copes with competition in the industry.

The questionnaire was distributed to managers (including owner managers) of alcoholic drinks businesses within Nyeri Town Sub-County. In cases where managers were not authorized to respond to certain issues, the researcher delivered the questionnaire to the proprietor. Where necessary, the researcher provided any clarification required by the respondents before picking the questionnaire. This was

because most of the alcoholic drinks businesses are MSEs who have no corporate governance structures.

### **3.6 Data Analysis**

The data from questionnaires were first checked for completeness and cleansed to eliminate discrepancies. The questionnaires found correctly filled were coded, entered into statistical package for social sciences (SPSS) and analyzed based on descriptive statistical methods including percentages, ratios and mean.

This analysis helped to understand the nature of strategies used by alcoholic drinks businesses in the Sub-county in dealing with their challenges. The percentages were used to determine the importance of the challenges and strategies under study. The ratios were used to establish the level of the competitive strategies in dealing with the challenges. The mean score measured the level of importance of the competitive strategies and the challenges encountered. The results from the analysis were presented using tables, pie charts and bar charts for ease of interpretation.

## **CHAPTER FOUR**

### **DATA ANALYSIS, INTERPRETATIONS AND DISCUSSION**

#### **4.1 Introduction**

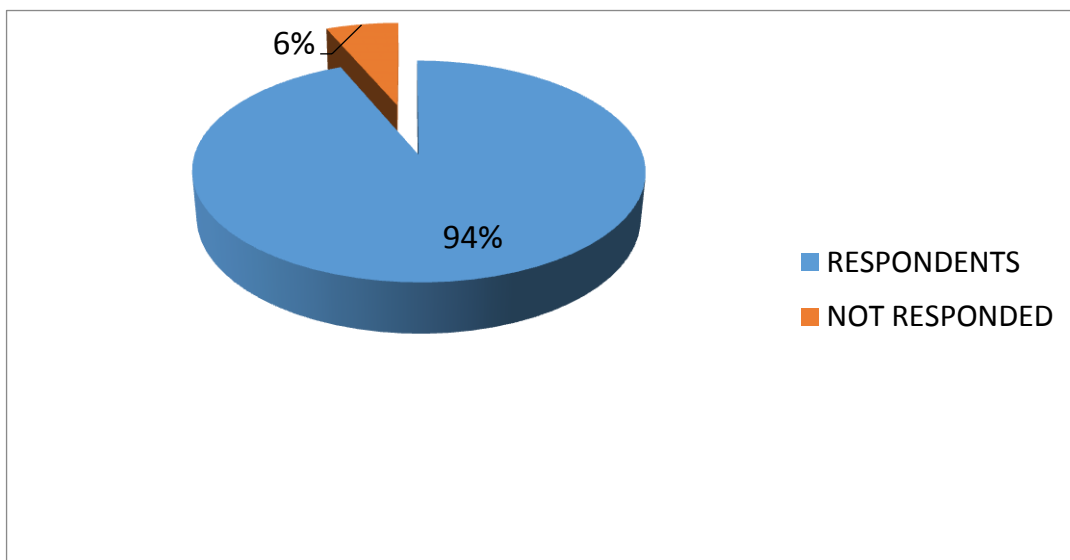
The research objective was to establish the challenges encountered by the alcoholic drinks outlets in Nyeri Town Sub-County and what strategies they use to cope with competition in the liquor industry in Kenya. This chapter presents the analysis of the findings with regard to the objective and the discussion of the same. The findings are presented in percentages, mean, frequency distribution and standard deviation.

#### **4.2 Background information**

The context of the operation environment was valuable in the analysis of the findings as it helped to understand the characteristics of the various variables in the study. These included age of respondents, their gender, economic status and the type of management style adopted by each firm. The questionnaires were completed by either the proprietors or their managers which helped to enhance the accuracy of the various responses.

##### **4.2.1 Characteristic of the Respondents**

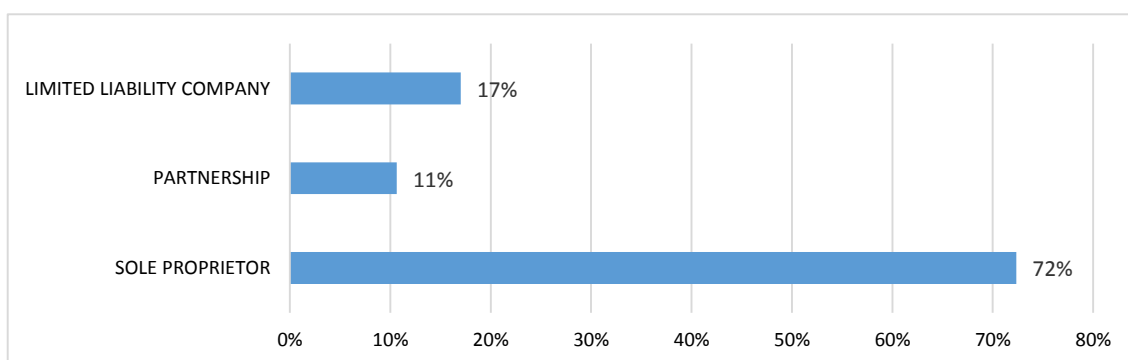
A total of 50 questionnaires were issued. The completed questionnaires were collected. They were then edited for completeness and consistency. Out of the 50 questionnaires issued 47 were returned. This represents 94% of the sample population. This is illustrated in Figure 4.1 below.



**Figure 4.1 Characteristics of the respondents**

#### **4.2.2 Type of Ownership**

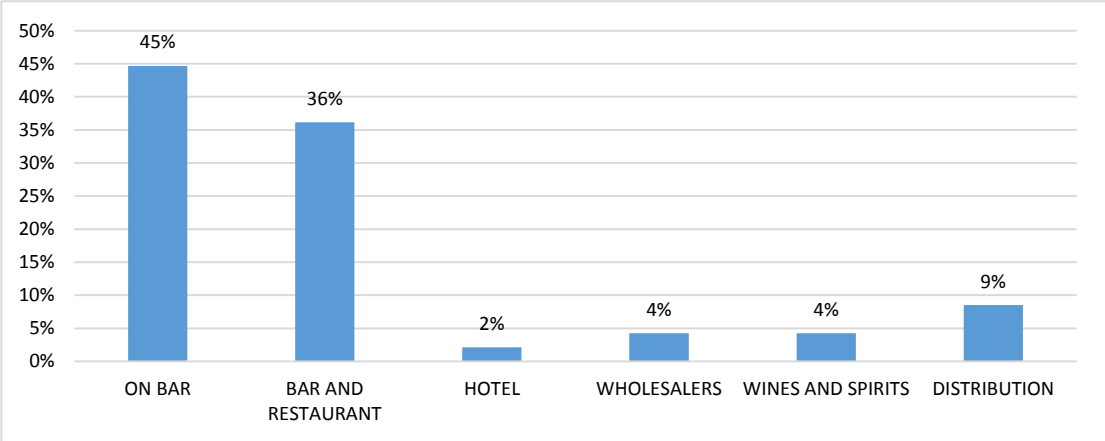
The nature of the business ownership is comprised of 72% sole proprietorship, 17% limited liability companies and 11% partnerships as shown Figure 4.2 below. This implies that most of the alcoholic drinks businesses in Nyeri Town Sub-County are owned by individual entrepreneurs rather than any other form of ownership.



**Figure 4.2 Type of ownership**

**4.2.3 Category of Liquor Licenses**

As can be observed in Figure 4.3 below 45% of the liquor outlets were on bars, 36% bar and restaurants while the rest 19% were distributors, wines and spirits, wholesalers or hotels. This Structure shows how new entrants were attracted to invest in the industry. The combined 81% comprised of the first two categories are outlets who mainly retail alcoholic drinks and represents the segment with better ease of entry in the alcoholic drinks value chain. The rest 19% requires large capital outlay which entails better resource capabilities and thus become a barrier to new entrants.

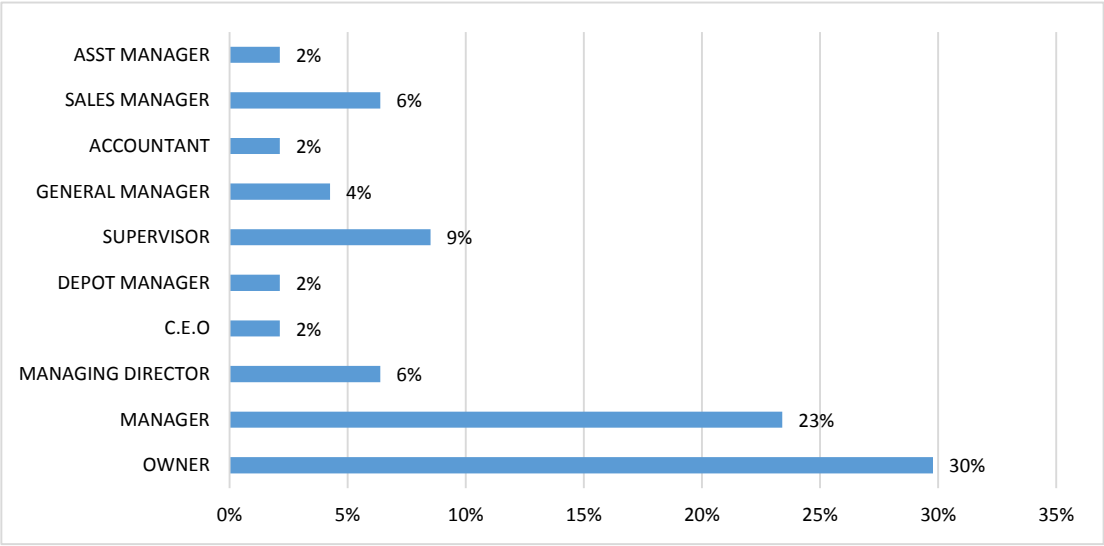


**Figure 4.3 Category of liquor licenses**

**4.2.4 Type of Management**

As can be observed in Figure 4.4 below 53% of the businesses were either run by their owners or employed managers. The rest were managed by different categories of employees. This shows that majority of the businesses have not adopted corporate governance as a strategy and are operated either by their owners or a trusted manager. The rest 47% defined as Assistant managers, CEO, General Manager and

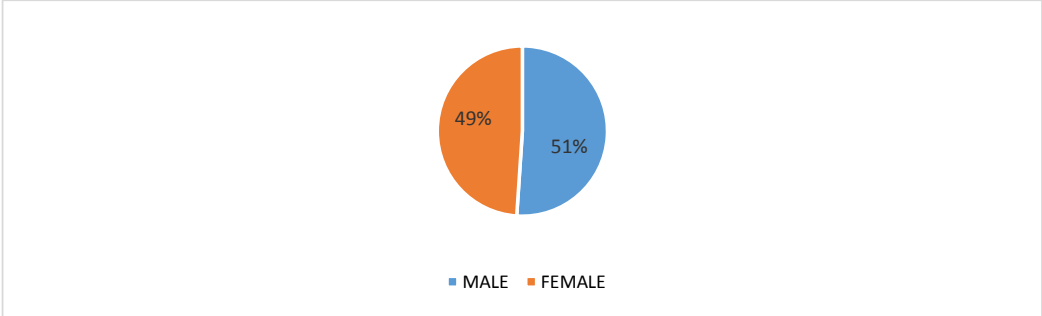
supervisor may not necessarily refer to different category of employees but refer to titles that most owners assign to themselves in their organizations.



**Figure 4.4 Designation**

**4.2.5 Gender**

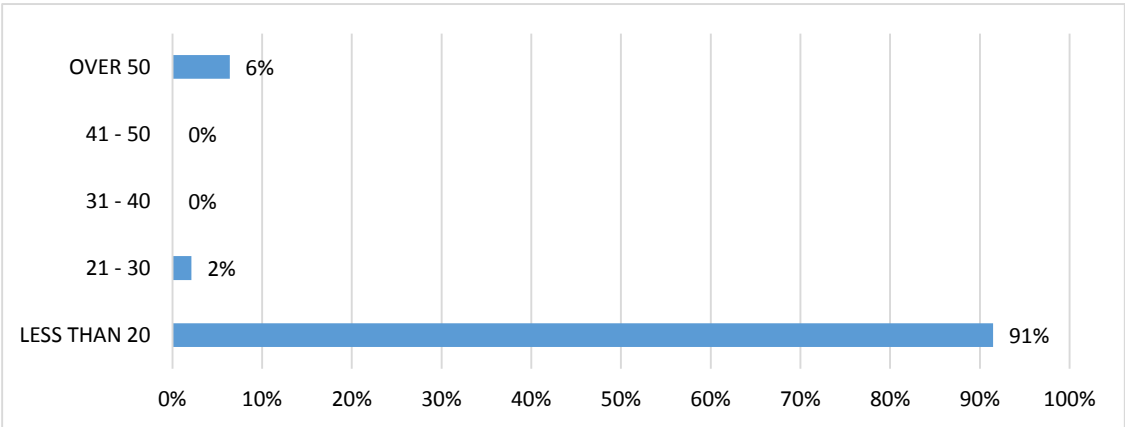
As can be observed in Figure 4.5 below 51% of the respondents were male and 49% were female. This represents a gender balance in the strategic choice of management by the enterprises in the industry.



**Figure 4.5 Gender**

**4.2.6 Number of Employees**

As can be observed from Figure 4.6 below 91% of the businesses had less than 20 employees. There were 0% of the respondents who had between 31-40 and 41-50 employees. This implies that majority of the businesses in the liquor industry are micro and small enterprises (MSEs) which have potential for growth into medium enterprises as long as they adopt appropriate competitive strategies. The 6% with more than 50 employees represents the few corporate entities who have distribution channels in the Sub-County. These compete for the liquor market in the whole country using already established competitive strategies. They include EABL, Keroche industries and Kenya wines agencies. The larger hotels such as the White Rhino also fall in this category.

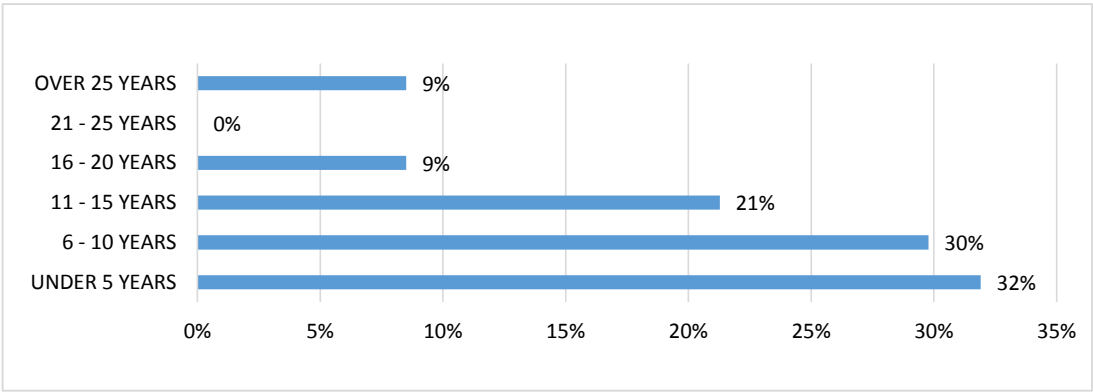


**Figure 4.6 Number of employees**

**4.2.7 Length of Firm’s Existence**

This factor is important as it helps to establish the period the businesses have operated and whether there is a relationship with the competitive strategies they have adopted. As can be observed in Figure 4.7 below 52% of the firms interviewed had

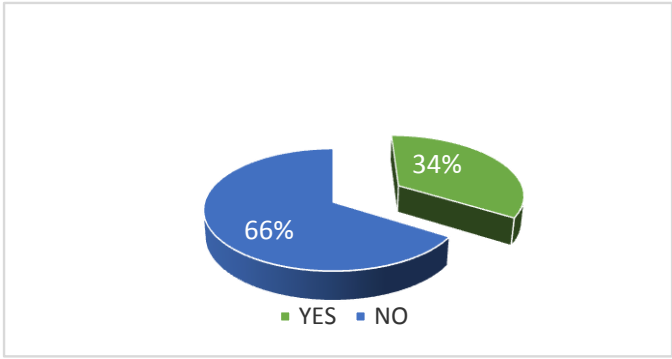
been in existence for less than 10 years. While these may not have already designed definite competitive strategies, the rest 48% had existed for more than ten years. This is a considerable amount of time and the findings imply that some of the businesses had already designed some strategies which they use to gain competitive advantage over their competitors.



**Figure 4.7 Length of firm's existence**

**4.2.8 Outlets with Branches**

As can be observed in Figure 4.8 below 66% Of the businesses had no branches while 34% have branches. Thus though majority of the businesses operated as single entities, there was a significant level of vertical integration especially among the retailers. These include on bars who sell the alcoholic drinks direct to the consumers.



**Figure 4.8 Outlets with branches**

A good example is where some bar owners were found to be also operating wines and spirits outlets. This enabled them to have a competitive edge by offering better prices for spirits in their bars than their competitors as they gained leverage on their lower costs of obtaining the same direct from manufacturers and distributors.

### 4.3 Challenges

Challenges are difficulties that limit the ability of a firm to achieve its goals. One of the objectives of this study was to analyze the challenges encountered by the alcoholic drinks businesses in Nyeri town Sub-County as they struggle to cope with competition in the liquor industry. The range was indicated as follows: Not at all-1 to a very great extent-5. The various responses are shown in Table 4.1 below:

**Table 4.1 Challenges**

<b>Challenges</b>	<b>Mean</b>	<b>Std. Deviation</b>
Financial requirements	3.2	1.27
Changing customer tastes	3.2	1.26
Ability and skill of staff	2.7	1.39
Barriers to enter and exit industry	3.6	1.50
Marketing	3.5	1.26
Competition from similar outlets	3.9	1.17
Competition from bigger outlets	3.2	1.36
Competition from illegal brews	3.5	1.42
Government regulations	4.2	1.22
Provision of reliable utilities	2.3	1.24
Liquor regulations effect on performance	3.7	0.78
Liquor regulations effect on illicit brews	2.9	1.51

The respondents were asked to give their opinion on the extent to which various challenges were affecting their competitiveness. The challenges ranged from financial difficulties, marketing difficulties, government regulation and unfair competition.

#### **4.3.1 Challenges of Competition**

As indicated in Table 4.1, the analysis revealed that the challenges of competition fell in three generic categories. Leading challenges with a mean of  $3.5 \leq 4.5$ , moderate challenges with a mean of  $3.0 \leq 3.5$  and least felt challenges with a mean of  $2.0 \leq 3.0$ . From observation, it was also clear that the leading challenges were related to external environment while the moderate challenges were related to marketing and unfair competition. The least felt challenges were related to the internal management of the respondent firms.

#### **4.3.2 Challenges related to external environment**

The remote environment provides challenges that are out of control of the businesses. Among the leading challenges, the respondents felt that government regulation affected them to a great extent. This response had the highest mean of 4.2 and a standard deviation of 1.22. This implies that a great majority of respondents concurred that legal requirements were a major challenge to competitiveness. Reacting to a specific question on whether the regulations had affected the performance of their businesses, 81% felt that it had affected them either to a very great extent or to a great extent. This was attributed to strict control over operation hours where they were unable to maximise on sales and the high cost of licences instituted by the alcoholic drinks control act and the myriad other license requirements.

The respondents also felt that competition from similar outlets was one of the leading challenges affecting their businesses. The mean for the response was 3.9 and the standard deviation is 1.17. The incidence of small outlets of almost same size employing less than 20 employees and dealing in the same brands is the main thrust for this competition and alcoholic drink businesses are forced to come up with innovative strategies in order to survive in the market.

The ease of entry into an industry and exit from it is one of the Porters five competitive forces and can be a major challenge to business operations in an industry. With a mean of 3.6 and a standard deviation of 1.50 this factor was considered to be one of the leading challenges by the respondents. The liquor industry has faced turbulence in recent years and rising financial costs for starting business including rent, licenses and initial capital have become a main barrier to entry. This has been made worse by limit to operation hours, increase in liquor license fees and other legal requirements including public health, music copy rights, tourism fund and single business permit.

#### **4.3.3 Marketing challenges and illegal competition**

As indicated in Table 4.1 both marketing challenges and competition from illegal brews had similar mean of 3.5. Thus though they were considered moderate challenges they were felt to affect the competitiveness of the respondent firms equally. From the observation of this study, it was also evident that more than 80% of the outlets were MSEs concentrating mainly in small retail trade in form of bars or restaurants and lacked adequate resources for research, advertising and promotion which are important ingredients for an effective marketing strategy. This challenge

was made worse by a contravening factor in form of competition from counterfeits of brands such as vodka which are very popular to the lower income segment of the market due to their cheap prices and availability. The other source of illegal brews included local brews such as “changaa” which are unlicensed and do not conform to any legal standards set by KEBS.

#### **4.3.4 Challenges related to internal management**

Challenges related to financial requirements, human resource skills and provision of utilities are close to the firm and can present a major weakness towards the achievement of competitiveness. The respondents felt that these three variables affected them to the least extent compared to all the other variables which were more related to the external environment. They had a mean of  $2.5 \leq 3.2$  and a standard deviation of  $1.0 \leq 1.5$ . This implies that most of the respondents viewed these factors as challenges within their control and were confident of overcoming them using appropriate strategies.

#### **4.4 Strategies**

Strategy refers to a set of decisions that offers an organization a competitive advantage over its competitors. The choice of competitive strategy depends on the attractiveness of the industry for long term profitability and the determinants of relative competitive position within the industry. The alcoholic drinks firms in the county have to configure such moves to cope with competition in the industry.

##### **4.4.1 Competitive Strategies**

The respondents were asked to give their opinion on various strategies and to what extent they would consider employing them to beat competition. A five point's likert

scale was used. The range was indicated as follows: Not at all-1 to a very great extent-5. As evident in Table 4.2 most respondents said they would consider cultivating customer loyalty which had a mean of 4.50 and a standard deviation of 0.95 to a very great extent. The low standard deviation means that there was great convergence among the respondents on the importance of repeat customers.

**Table 4.2 Competitive strategies**

<b>Strategies</b>	<b>Mean</b>	<b>Std. deviation</b>
Communicated vision, mission, plan	3.64	1.54
Charge a premium	3.14	1.71
Cultivate customer loyalty	4.50	0.95
Introduce new products	3.93	1.17
Enter new markets	3.66	1.35
Diversify into new markets/products	3.56	1.50
Claim quality of products and services	4.34	1.29

Majority of the respondents also felt that they would consider to a great extent improving the quality of goods and services. This had a mean of 4.34 and a standard deviation of 1.29. Both these strategies were therefore important in order to maximize on sales for the few hours available since working hours are strictly controlled by the alcoholic drinks act.

The respondents considered to a moderate extent the strategies of introducing new products and diversifying into new markets. These had a mean of  $3.5 \leq 4.0$  and a standard deviation of  $1.0 \leq 1.5$ . There was also evidence that the respondents had some knowledge of modern business management practices as they would consider

having a vision and mission and a strategic plan for their businesses to a moderate extent with a mean of 3.64 and a standard deviation of 1.54.

#### 4.4.2 Action plans to beat competition

The respondents were asked to give their opinion on various action plans and to what extent they would consider to use them to beat competition. The range was indicated as follows: Not at all-1 to a very great extent-5. Table 4.3 below helps to understand their decisions and actions. Most respondents felt that all these action plans were important and they would consider using them to a great extent with a mean of  $4 \leq 4.5$  and a standard deviation of  $0.5 \leq 1.5$  as indicated for all the six responses.

**Table 4.3 Action plans**

<b>Action plans</b>	<b>Mean</b>	<b>Std. Deviation</b>
Institute security measures	4.5	1.1
Provide convenience and ease of accessibility	4.3	1.0
Design attractive outlet layout and display	4.5	1.0
Ensure general cleanliness of outlet	4.6	0.8
Provide extra facilities e.g. DSTV, Wi-fi, live bands	4.0	1.2
Work through groups and associations	4.0	1.4

The degree of variation in the standard deviation was minimal which implies that the respondents would consider using them simultaneously. However general cleanliness of the outlets, attractive outlet display and security were rated as most important by the respondents who said they would consider employing them to a very great extent

with a mean of  $4.5 \leq 5.0$  and a standard deviation of  $0.5 \leq 1.0$ . Thus majority of the respondents would consider employing them in order to create competitive edge.

There was general convergence among the respondents about the need to institute customer friendly environment for the customers in order to attract them to their outlets as a way of overcoming marketing challenges. Other action plans including convenience of accessibility, provision of extra facilities and working through associations were considered to be of great importance with a mean of  $4 \leq 4.5$ . The standard deviation for the last two action plans was the same which implies that they were considered to be of equal importance and could be used in concert to overcome some of the challenges especially from external environment.

#### **4.4.3 Cost leadership**

The cost leadership strategy focuses on gaining competitive advantage by keeping costs at the lowest level in the industry. To achieve this all players in the organization including the labor force must be committed to keeping costs lowest. The respondents gave opinion on the importance of each generic strategic option on a likert scale. The range of responses was indicated as follows: Not important at all-1 to Very important-5. As can be seen in Table 4.4 below, most of the respondents felt that business rationalization and cost cutting measures with a mean of  $4 \leq 4.5$  and standard deviation of  $1 \leq 1.6$  were more important in attaining competitiveness. The respondents rated technology, automation of operations and staff reduction at a mean of  $3.0 \leq 3.5$  and standard deviation of  $1 \leq 1.5$ . The degree of variation in the standard deviation among the responses was minimal. Thus they were viewed similarly and could be applied simultaneously. This meant that alternative cost cutting measures

other than reducing staff were preferred by the respondents. It also indicated that there was low level of automation and reliance on cheap labor by most of the outlets since no special skills are required for working in majority of the bars and restaurants.

**Table 4.4 Importance of strategic options**

<b>Cost leadership Strategies</b>	<b>Mean</b>	<b>Std. Deviation</b>
Use of latest technology	3.5	1.5
Cost cutting	4.0	1.6
Business process rationalization	4.2	1.2
Staff reduction	3.1	1.5
Automation of operations	3.2	1.4

#### **4.4.4 Differentiation**

Differentiation can be achieved by tailoring the product to customer needs and by creating unique products and services. As can be seen from the Table 4.5 below, majority of the outlets agreed that it was important for organizations to differentiate themselves from their competitors. The highest rated form of differentiation was customer service with a mean of 4.8 on the likert scale and a standard deviation of 1.4. Other various forms of differentiation were rated at a mean of  $4.0 \leq 5.0$  and a standard deviation of  $0.5 \leq 1.5$ . These included new products and services, branding and increased advertising in order of importance. The minimal variation in the standard deviation shows that there was agreement among the respondents on the need to provide unique products and services, brand and advertise them in order to gain competitive edge in the liquor industry.

**Table 4.5 Differentiation**

<b>Differentiation Strategies</b>	<b>Mean</b>	<b>Std. Deviation</b>
Customer service	4.8	1.4
Increased advertising	4.0	1.2
New products/ services	4.4	0.8
Branding	4.3	0.9
Staff training	3.7	1.4
More strategic locations	3.8	1.3

Though important, staff training and strategic location were not rated as high on the scale as they had a mean of  $3.5 \leq 4.0$  and a standard deviation of  $1 \leq 1.5$ . The minimal degree of variation in their standard deviation means that they were viewed similarly by the respondents in terms of importance.

#### **4.4.5 Focus strategies**

The respondents were asked to give their opinion on the importance of market focusing and segmentation in their businesses. The range on a likert scale was indicated as follows: Not important at all-1 to Very important-5. As can be seen from Table 4.6 below, 81% of the respondents felt that market focusing was either very important or fairly important. On the other hand 57 % of the respondents felt the same for segmentation. The rest were not sure of using focus strategies or felt they were not important for their businesses.

**Table 4.6 Focus strategies**

<b>Response</b>	<b>Market Focusing</b>		<b>Segmentation</b>	
	<b>Frequency</b>	<b>%</b>	<b>Frequency</b>	<b>%</b>
Not important at all	2	4	4	9
Not important	3	6	11	23
Not sure	1	2	2	9
Fairly important	6	13	8	17
Very important	32	68	9	40
Blank	3	6	3	6
	<b>47</b>	<b>100%</b>	47	<b>100%</b>

Thus majority of the businesses were focusing on the traditional mass market while a comparative lower percentage had embraced segmentation including targeting the higher income earners who patronize exclusive members clubs which are allowed to operate for 24 hours and charge premium prices. The other segment is comprised of the low income group who prefer cheaper brands like Keg and Jebel both manufactured by EABL. This category is also likely to provide a niche market especially with friendly tax regime on raw materials such as sorghum which are used for their production. However it is evident that the alcoholic drinks businesses had unutilized available capacity to reach the lower end or the higher end of the liquor market in the county.

#### **4.5 Discussion of Findings**

This section presents the discussion of major findings related to the study objectives which were; to determine the challenges encountered by the alcoholic drinks outlets in

Nyeri Town Sub-County and what strategies they use to cope with competition in the liquor industry in Kenya.

The study determined that majority (72%) of the respondents were sole proprietors operating retail businesses mainly in form of on bars or restaurants which represented the segment with relative ease of entry in the alcoholic drinks value chain. Majority of the establishments were MSEs with less than 20 employees who had not adopted corporate governance and had potential for growth into medium enterprises. Majority of the respondent firms had existed for less than 10 years and were mainly managed either by their owners or their appointed managers. It was also evident that only a few (32%) had branches which represented some level of vertical integration especially in form of bars owning wines and spirits outlets.

The study also established that respondents were well aware of the challenges they were facing in the liquor industry. Challenges related to the external environment, including government regulation were felt to be leading. The challenges therefore presented major difficulties that most outlets had to overcome to maintain a competitive edge in the industry. This was consistent with findings on competitive decision making by Raiffa (1982), which observed that uncertainties primarily stem from the actions of other decision makers trying to do what is right for them. However, it is their actions as well as your own that will determine the final outcome. Thus though the strict regulatory framework governing alcoholic drinks businesses were felt to limit competitiveness to a great extent, the outcome was also dependent on the innovative actions of the individual strategic managers.

The research also identified competitive rivalry among similar outlets as another leading challenge attributed to the external environment. This agrees with a study by Barney and Hesterly (2008), which observed that rivalry threatens firms by reducing their economic profits. Rivalry tends to be high when there are numerous firms in an industry with roughly the same size and industry growth is slow. Firms seeking to increase their sales must acquire market share from established competitors. Thus despite being mitigated by barriers to entry which were felt to a great extent, competition from similar competitors was still a major difficulty to the respondents which was limiting their economic profitability.

The findings of the study further suggested that challenges related to marketing and unfair competition affected the businesses to a moderate extent. However, majority of the respondents were aware of the customer centered approach in marketing decision making. This included provision of quality goods and services and branding. Majority of the respondents also felt that the decision on what to stock was influenced by their customers. This agrees with a similar study by Mwangi (2010) which attributed customer patronage in fast food restaurants in Nairobi CBD to quality of food and service. The study also attributed decision to stock as dependent on customers. It is however evident that marketing challenges were related to lack of well-defined information on the marketing mix. When asked to state why they felt customers patronized their businesses, only 6% felt that customers patronized their outlets due to competitive prices, 4% due to sales promotion and advertising and 2% due to strategic location. This indicated that these parameters were considered less important by the respondents and that they had no system evaluating them. This was in contrast with an opposite view by Okatch (2002) which argued that a marketing information system is

an important tool of management as it provides flow of information about such things as prices, inventory levels, advertising expenditures, sales and distribution expenses on a continuous basis. A healthy marketing mix is composed of all the four Ps including product, promotion, price and place. Thus the last three Ps were given least consideration by the respondents who concentrated more on product development which made the marketing challenge even worse. This situation was complicated further by unfair competition from counterfeits and illegal brews.

One of the objectives of the research was also to determine the strategies adopted to cope with competition in the liquor industry. The study found that respondents had clear propositions on the strategies. Most of them said that they would consider cultivating customer loyalty to a great extent. They also felt that they would consider to a great extent improving the quality of goods and services. Both these strategies were considered the most important in order to maximize on sales for the few hours available since working hours are strictly controlled by the alcoholic drinks act. On specific action plans to beat competition; general cleanliness of the outlets, attractive outlet display and security were rated as most important. The above action plans were similar to those referred to by Hill and Jones (2011), as four generic building blocks important in maintaining competitive advantage which a company requires to continue focusing on for superior performance in the market. They include efficiency, quality, innovation and customer responsiveness.

The study also established that the use of generic strategies including cost leadership, differentiation and focus were popular among the respondents. The cost leadership strategy focuses on gaining competitive advantage by keeping costs at the lowest level

in the industry. There was a general agreement by the respondents that cost cutting measures were important but it was also felt that business rationalization was more preferable than workforce reduction and automation in attaining cost leadership. Business rationalization entails reorganization of a company in order to increase its efficiency. This may lead to an expansion or reduction in company size, a change of policy or alteration of strategy pertaining to particular products. This was more preferred by most respondents because they felt that they could keep costs low by retaining the cheap unskilled labor and evading high costs of automation thus becoming more competitive.

The study established to a great extent that it was important for organizations to differentiate themselves from their competitors despite the resultant increase in operation costs. This agrees with a study by Hill and Jones (2001), which observed that the objective of differentiation strategy is to achieve competitive advantage by creating a product or service that is perceived by customers to be unique. According to their findings, the differentiator must have the ability to increase revenues by charging premium prices substantially above the cost leader as the customers believe that the products differentiated qualities are worth the difference. Similarly, majority of the respondents in this study felt that the most important differentiation was in form of customer service. Providing unique products, branding and advertising were also considered important despite the resultant increase in costs. However when asked to comment on the customers' view of their prices, majority of the respondents (87%) felt that most of their customers considered their prices to be fair. This implied that they were able to cater for extra costs through premium prices by capitalizing on the favorable consumer perception despite relatively higher operation costs.

The study established that some of the focus strategies were popular among the respondents. Porter (1985) argued that focus strategies rested on differences among segments. He argued that the focuser achieves cost leadership by optimizing his value for only one or a few segments compared to more broadly targeted firms that must compromise. However, the findings of this study were opposite to this argument as they established that most businesses preferred focusing on the traditional mass market instead of segmentation. Though this was easier to implement due to its wide scope, it meant that there was untapped market in form of high income earners who patronize members clubs and the lower income group who prefer cheaper brands like keg or Jebel.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The research objective was to determine the challenges encountered by the alcoholic drinks outlets in Nyeri Town Sub-County and what strategies they use to cope with competition in the liquor industry in Kenya. This chapter presents the summary of the findings, presents the research conclusion and gives recommendations from the findings. Limitations of the study are also discussed and suggestions for further studies given.

#### **5.2 Summary**

From the analysis in chapter four, the study isolated major challenges affecting alcoholic drinks businesses in Nyeri Town Sub-County and came up with strategies to cope with competition in the industry. The content of the analysis represented 94% of the intended sample which was a high percentage of response. The study also determined that majority of the outlets were MSEs managed mainly as sole proprietorships and operating at retail level of the alcohol value chain.

The external environment challenges including government regulations and competition from similar outlets were leading among all difficulties encountered by the alcoholic drinks businesses in the Sub-County. However, it was established in chapter one of this study that excessive consumption of alcohol had negative effects which formed a major justification for strict control by the regulators. For example, 529 people had died due to consumption of adulterated alcohol since 1998 to December 2014. This situation had escalated to date thus forcing the National

Government to ban the sale of second generation alcoholic drinks to save more lives. The above scenario was being compounded by stiff competition among several outlets dealing in similar brands of alcoholic drinks.

There were also moderate challenges mainly related to marketing and unfair competition. The marketing problems were mainly related to lack of adequate market research and a narrow view of marketing information systems by the respondents which gave little weight to important parameters including location, price and promotion. Unfair competition challenges were related to enforcement of anti-counterfeit regulations and high prevalence of illegal brews in the market. This was evident through a total of 64% of the respondents who felt that the strict regulations had not affected consumption of illegal brews at all, were effective only to a moderate extent or to a little extent. Challenges related to internal management of the firms including human resource management and financial difficulties were least felt since the respondent businesses could easily access information on where and how to solve them.

The survival of the alcoholic drinks businesses was however attainable by use of prudent and customer oriented competitive strategies. These included cultivating customer loyalty and providing quality products and services. According to the respondents, cleanliness of outlets and well organized display of products were also important in assisting to retain customers while gaining an edge over competitors. The generic strategies of cost leadership were also favored to a great extent. However, most respondents preferred the use of rationalization strategies to staff reduction and automation. Differentiation strategies were popular where majority felt to a great

extent that they could gain competitive edge thorough differentiated customer service, variety of new products and services and branding. Focus strategies were also popular to a great extent though most respondents preferred focusing on the mass market rather than dealing with certain preferred segments of the market.

### **5.3 Conclusion**

From the findings of this study, the researcher concludes that the liquor industry in Kenya has been facing turbulent times in the last ten years mainly due to the negative effects related to consumption of adulterated alcoholic products. These have forced the National Assembly and the County Assemblies to enact strict laws including the alcoholic drinks control act 2010 (Mututho law) and the county alcoholic drinks control laws enacted by various counties in Kenya. However, these laws have had limited success in controlling the consumption of illegal alcohol according to responses in this study. This has led to an affirmative action by Kenyans led by his Excellency the president in the last few months where many illegal alcohol outlets have been closed thus reversing the trend.

The study also concludes that alcoholic drinks businesses in Nyeri-Town Sub County have been facing various challenges including strict government regulation, competition from similar outlets, poor marketing, unfair competition from illegal brews and counterfeits. However, the businesses have come up with prudent strategies in order to gain a competitive advantage in the market and survive. These include provision of customer friendly products and services, attractive outlets and product displays, Cost efficiency, new differentiated products and services and innovative market focusing strategies. These have helped them to maintain customer loyalty

which has enabled them to maximize their sales despite unfavorable business environment and high costs from myriad licenses required to enable them to operate in the industry.

## **5.4 Recommendations**

The recommendations by this study will help to cope with the turbulence in the industry and encourage entrepreneurship in the sector. Thus the study recommends radical change in management style in areas of policy, management practice and theory as follows:

### **5.4.1 Recommendations on Policy**

Alcoholic drinks businesses should be viewed by policy makers as investments similar to any other in the various sectors of the Kenyan economy. Despite the negative effects associated with consumption of illegal brews, alcohol trade should not be criminalized en masse but the culprits dealing in the unlicensed poisonous products or counterfeits should be identified and punished. The legal requirements should also be reviewed regularly in order to improve the ease of doing business in the sector.

The study also recommends that enforcement agencies including KEBS and NACADA should work proactively to prevent the production of poisonous alcoholic drinks rather than reactively after the death of consumers. They should work with the customs department and monitor the importation of chemicals used as raw materials for production of illegal concoctions. However, those operating legally should be accorded opportunity to maximize their profits without interference which will

encourage entrepreneurship in this sector and attract foreign investors thus increasing employment opportunities and government revenue.

#### **5.4.2 Recommendations on management practice**

To cope with competition in the industry, alcoholic drinks outlets should design and implement innovative strategies of dealing with their challenges. They should always maintain certified high quality goods and services in order to promote customer loyalty thus maximizing on sales turnover during the limited operation hours. They should form strong business associations for advocacy while dealing with external challenges especially legal mitigation and collective bargaining. This should not only be in form industry specific bodies like the bar owners associations but also the umbrella bodies such as the Kenya National Chamber of Commerce and Industry which fights for the rights of the whole businesses community in Kenya.

In order to save affected clients, alcoholism itself should be addressed humanely as a medical condition rather than being stigmatized exclusively as a social vice. The investors in this sector should contribute to the alcoholics' rehabilitation centers as a form of corporate social responsibility in order to reduce the high cost of treating those affected. Despite the profit motive, responsible drinking habits should be encouraged by all marketers of alcoholic drinks especially in their promotion and advertisement in order to reduce chronic alcoholism in the country.

#### **5.4.3 Recommendations on Theory**

This study identified cultivation of customer loyalty, differentiation, cost leadership and market focusing as some of the major strategies preferred by the respondents.

However, this study recommends that investors in alcoholic drinks businesses should also undertake market survey considering all the four Ps of the marketing mix. This will enable them to target the best segments of the market where they are likely to have competitive advantage.

In order to cope with competition in the industry, alcoholic drinks businesses should also undertake regular customer needs analysis which should form the basis of stocking their products. The analysis should also address customer preference in terms of services which will enable them to attract new customers and retain the existing ones. It will also enable them to save on costs by avoiding unnecessary spending on dead stock thus becoming more competitive in the market.

### **5.5 Limitations of the Study**

The study was limited in depth and scope due to the resource and time constraints. The study sample therefore concentrated on alcoholic drinks businesses based in Nyeri Town Sub County in order to meet the project deadlines. Thus it did not cover outlets operating in the other seven sub counties in Nyeri County which could have given a more balanced view of the responses.

The researcher also faced major difficulties in reaching the respondent businesses as the legal operating hours during week days were between 5.00 pm and 11.00 pm. This forced him to visit them at night or during weekends which created suspicion in terms of the purpose of the research and the respondents' security. This resulted into delays due the unwillingness of the respondents to fill the questionnaires promptly.

## **5.6 Suggestions for Further Research**

The study utilized a cross-sectional design which was limited in time and scope. The liquor industry is however dynamic and the characteristics of most variables changed rapidly which made it difficult to capture the emerging issues experienced during the research period. It is recommended that a longitudinal study covering the liquor outlets in the whole Nyeri County be replicated in order to come up with a report that will respond comprehensively to the research question and objectives.

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**APPENDICES**

**APPENDIX I: INTRODUCTION LETTER**



**UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 6-5-2015

**TO WHOM IT MAY CONCERN**

The bearer of this letter GEORGEY Mwangi KIHANJA


Registration No. DB1/62522/2013

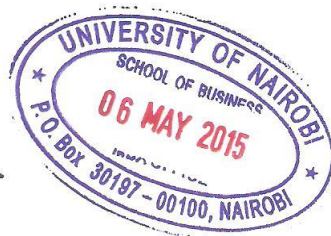
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
**PATRICK NYABUTO  
MBA ADMINISTRATOR  
SCHOOL OF BUSINESS**



## APPENDIX II: NYERI CENTRAL CATEGORY OF LIQUOR LICENSES

	CATEGORY	NUMBER
1	General retail(alcoholic drinks on licenses)	126
2	General retail(off license wines& spirits)	29
3	Restaurant	45
4	Bar and restaurant	76
5	Hotel alcohol drink license	16
6	Proprietary club(night club)	1
7	Depot/Distributor wholesalers	18
<b>TOTAL</b>		<b>311</b>

**Source:** Nyeri Town Sub-county Administration Office, 2014

**APPENDIX III: RESPONDENTS (ARRANGED ALPHABETICALLY)**

<b>#</b>	<b>Respondents</b>	<b>Category</b>	<b>Location</b>
1	Batian Wines and Spirits	Wholesalers	Town Center
2	Bee - Hive Pub	On Bar	Ruringu
3	Blue sky Wines and Spirits	On Bar	Town Center
4	Bob's Bar	On Bar	Kericho
5	Bridged Bar	On Bar	Chaka
6	By-pass Wines and Spirits	Wines and Spirits	Ruringu
7	Carish Wines and Spirits	On Bar	Town Center
8	Club Pine	Bar and Restaurant	Town Center
9	Corner Bar and Restaurant	Bar and Restaurant	Kiganjo
10	Diplot Bar and Restaurant	Bar And Restaurant	Ruringu
11	Eland Safari Hotel	Bar and Restaurant	Town Center
12	Friends Bar	On Bar	Giakanja
13	Generation Bar	Bar and Restaurant	Kamakwa
14	Giakanja Wines & Spirits	Wines And Spirits	Giakanja
15	Great Nort Road Bar and Restaurant	Bar and Restaurant	Kiganjo
16	Highway Bar	On Bar	Chaka
17	Honey Pot Bar	On Bar	Gatitu
18	Ibangua Investment Co. Ltd	Distribution	Ruringu
19	Junction Wines	Wines and spirits	Kingongo
20	Kamakwa Haven Bar and Restaurant	Bar and Restaurant	Town Center
21	Karangia Bar	On Bar	Kiganjo
22	Kenya Wine Agencies Ltd	Distribution	Kingongo
23	Keroche Breweries Limited	Distribution	Kingongo
24	Kieni Bar and Restaurant	Bar and Restaurant	Chaka
25	Kims Wines and Spirits	Wholesalers	Town Center

26	Legacy Pub	On Bar	Gatitu
27	Makuti Bar and Restaurant	Bar and Restaurant	Chaka
28	Midland Bar	On Bar	Town Center
29	Millenium 2000Bar	On Bar	Gatitu
30	Millenium Bar	Bar and Restaurant	Ruringu
31	Muringa Bar and Restaurant	Bar and Restaurant	Ruringu
32	New Frontier Bar	On Bar	Kiamwathi
33	New Giakanja Stage Bar	On Bar	Giakanja
34	Nyeri Town View Restaurant	Bar and Restaurant	Town Center
35	Pacific Club	On Bar	Ruringu
36	Pewa Keg Pub	On Bar	Kamakwa
37	Savana Motel	Bar and Restaurant	Ruringu
38	Seawells Gardens	Bar and Restaurant	Ruringu
39	Senior Joint Bar	On Bar	Ruringu
40	Seremai Bar	On Bar	Kamakwa
41	Supreme Bar & Restaurant	Bar And Restaurant	Ruringu
42	Tayari Bar	Bar and Restaurant	Gatitu
43	Tums Bar & Restaurant	Bar And Restaurant	Giakanja
44	Wakariru Bar	On Bar	Gatitu
45	Wamuti Distributers Limited	Distribution	Muringato
46	White Rino Hotel	Hotel	Town Center
47	Winners Wines and Spirits	Wines and Spirits	Town Center

## APPENDIX IV: QUESTIONNAIRE

Please give answers in the spaces provided and tick ( ) in the box that matches your response to the questions where applicable.

### PART A: GENERAL BACKGROUND INFORMATION

1. Name of the business .....
2. Type of ownership;
  - a). Sole proprietor ( )
  - b). Partnership ( )
  - c). Limited liability company ( )
- 3 a) What category of liquor license does your business hold?.....  
b) What specific activity is authorized by your single business permit.....
4. What is your designation in the organization .....
5. Gender: Male ( ) Female ( )
6. What is your age bracket (Tick as applicable)?
  - a) Under 20 years ( )
  - b) 21 - 30 years ( )
  - c) 31 - 40 years ( )
  - d) 41 - 50 years ( )
  - e) Over 50 years ( )
7. Length of continuous service with the organization?
  - a) Less than two years ( )
  - b) 2-5 years ( )
  - c) 6-10 years ( )
  - d) Over 10 years ( )

8. For how long has the firm been in existence?

a) Under 5 years ( )

b) 6 - 10 years ( )

c) 11 - 15 years ( )

d) 16 - 20 years ( )

e) 21 - 25 years ( )

f) Over 25 years ( )

9. How many employees do you currently have?

a) Less than 20 ( )

b) 21 - 30 ( )

c) 31 - 40 ( )

d) 41 - 50 ( )

e) Over 50 ( )

10. Do you have any other branch? Yes ( ) No ( )

If yes, please give the actual number.....

## **PART B: CHALLENGES**

1. The following are some of the challenges in operations. Please indicate the extent to which each is a challenge to your operating effectively. Use a scale of 1 - 5; with 1- Not at all, 2 – Little extent, 3 - Moderate extent, 4 – Great extent and 5 – To a very great extent.

FACTORS	1	2	3	4	5
Financial requirements (rentals, etc)					
Changing consumer tastes and preferences					
Ability and skills of staff					
Barriers to enter and exit industry					
Marketing					
Competition from similar outlets					
Competition from bigger outlets					
Competition from illegal brews					
Government regulation(licenses, working hours etc)					
Provision of reliable utilities by suppliers (power, water)					

2. Please indicate some of the major difficulties you encounter in trying to meet the needs of your customers .....
3. Who influences the decision to stock the products and services you offer at your outlet? Customers ( ) Outlet owner ( ) Competitors ( ) Suppliers ( )
- 4) From your experience how has the strict liquor regulation affected the performance of your business? 1) Not at all ( ) 2) Little extent ( ) (3) Moderate extent ( ) 4) Great extent ( ) 5) To a very great extent

5. In your opinion how has the strict liquor regulation affected the trade in illicit brews?

- 1) Not at all ( ) 2) Little extent ( ) (3) Moderate extent ( )  
4) Great extent ( ) 5) To a very great extent ( )

### **PART C: CUSTOMERS**

1. Please indicate, which of the following groups is your target customers?

- i. Adults >30 years old ( )  
ii Young adults <30 years old ( )  
iii. Professionals (men and women) ( )  
iv. Family ( )

2. Why do you think these customers patronize your outlet? Because of:

- i. Quality products and good customer services ( )  
ii. Competitive prices ( )  
iii. Sales promotions, advertising and home deliveries ( )  
iv. Strategic location of outlet and interior décor ( )  
v. Variety of products ( )

3. In your opinion, how important is it to brand your outlets?

- i. Very important ( )  
ii. Fairly important ( )  
iii. Not sure ( )  
iv. Not important ( )  
v. Not important at all ( )

4. How do your customers view the prices you charge for your products and services?

Very high ( ) High ( ) Fair ( ) Low ( ) Very low ( )

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

Up-market ( )

Mass market ( )

Middle and up-market ( )

Low end of the market ( )

6. In your opinion, how important are the following goals in your business? Responses are in a scale of 1 - 5 defined as; 1 - Not important at all, 2 - Not important, 3 - Not sure, 4 - Fairly important and 5 - Very important

GOALS	1	2	3	4	5
Survival in the market					
Growth (gain market share)					
Profitability					
Product and market differentiation					
Consistency with other outlets					
General cleanliness of outlet					
Uninterrupted services to customers e.g. provision of generator, adequate stock.					

**PART D: COMPETITIVE STRATEGIES**

1. The following are some of the strategies employed by your firm to cope with competition in the liquor industry. Use a scale of 1 - 5; with 1- Not at all, 2 – Little extent, 3 - Moderate extent, 4 – Great extent and 5 – To a very great extent.

STRATEGIES	1	2	3	4	5
Have a communicated vision, mission and formal written strategic plan of action					
Charge a premium					
Cultivate customer loyalty					
Introduce new products					
Enter new markets					
Diversify into new markets and products					
Claim quality of products and services					

2. Please indicate the extent to which you would consider the use of the following action plans to beat competition in the market. . Use a scale of 1 - 5; with 1- Not at all, 2 – Little extent, 3 - Moderate extent, 4 – Great extent and 5 – To a very great extent.

ACTION PLANS	1	2	3	4	5
Institute security measures e.g. well lit area					
Provide convenience and ease of accessibility					
Design attractive outlet layout and display					
Ensure general cleanliness of outlet					
Provide extra facilities e.g. DSTV					
Work through groups and associations					

3. How important has each of the following strategic options been to your firm in coping with changes in the market? Use a scale of 1 - 5 with; 1 - Not important at all. 2 - Not important, 3 -Not sure, 4 - Fairly important, and 5- Very important.

STRATEGIC OPTIONS					
<b>a) Cost Leadership</b>	1	2	3	4	5
Use of latest technology					
Cost cutting					
Business process rationalization					
Staff reduction					
Automation of operations					
<b>b) Differentiation</b>					
Customer service					
Increased advertising					
New products/services					
Branding					
Staff training					
More strategic locations					
<b>c) Focus</b>					
Market focusing					
Market segmentation					

**Thank you for your co-operation**