

DECLARATION

I declare that this research project is my original work and has not been presented for a degree

COMPETITIVE STRATEGIES ADOPTED BY PRIMARY LUBRICANT MARKETERS IN KENYA

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I declare that this research project has been submitted for examination with my approval as a
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A Management Research Project submitted in partial fulfillment of the requirements for
the Degree of Master of Business Administration, School of Business, University of
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November 2008



DECLARATION

This research project is my original work and has not been presented for a degree course in this or any other university

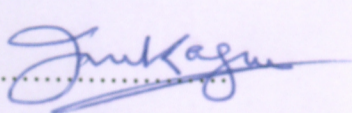
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DEDICATION

ACKNOWLEDGEMENT

The successful completion of my studies would not have been possible without

This research project is dedicated to my parents, Kanyi Kinyonyo Wachira and Mary Wanjiku, whose contribution to my life is inexpressible.

My wife, Elizabeth, for her great understanding and forbearance during the entire period of my study. My Supervisor, Mr Kagwe, for his guidance and wise counsel. Also acknowledged are all my lecturers at the School of Business who imparted great knowledge and insight into my life.

I acknowledge my colleagues who made my studies so pleasurable. Leonard Ngatuma, Patricia Mutwa, Priscilla Mathenge, Sylvester Ongwae to name but a few. Mr Karanja who assisted me in many ways and especially with data analysis.

I acknowledge the Business Managers of various oil companies who filled out the questionnaires.

To them all, God bless you.

ACKNOWLEDGEMENT

The successful completion of my studies would not have been possible without the valuable contribution of so many people some of whom I wish to acknowledge.

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the market up to competitive forces and led to an influx of new players. Most of these new players traded only in fuels. This greatly increased competition in the fuel business resulting into very low margins and reduced profitability. As a result of increased competition, several major multinational companies have quit the Kenyan market in the last few years. To improve their profitability, the remaining petroleum companies have had to adjust their focus by placing more emphasis in related petroleum products like Liquefied Petroleum Gas (LPG) and Lubricants.

This study set out to investigate what competitive strategies are applied by the lubricant marketers in Kenya to survive the increased competition. The study was done through a census survey of the primary lubricant marketers in Kenya. Primary data was used in this study and was collected through questionnaires administered through drop and pick method or face to face interviews. A 100 % response rate was achieved.

The study found that majority of the lubricant marketers were multinational companies owning blending plants to produce lubricants. Competition from the existing marketers was found to be the market force with the greatest impact on the lubricant business. The lubricant marketers were found to be very strong on

ABSTRACT

The petroleum industry in Kenya was liberalized in October 1994. This opened the market up to competitive forces and led to an influx of new players. Most of these new players traded only in fuels. This greatly increased competition in the fuels business resulting into very low margins and reduced profitability. As a result of increased competition, several major multinational companies have quit the Kenyan market in the last few years. To improve their profitability, the remaining petroleum companies have had to adjust their focus by placing more emphasis in related petroleum products like Liquefied Petroleum Gas (LPG) and Lubricants.

This study set out to investigate what competitive strategies are applied by the lubricant marketers in Kenya to survive the increased competition. The study was done through a census survey of the primary lubricant marketers in Kenya. Primary data was used in this study and was collected through questionnaires administered through drop and pick method or face to face interviews. A 100 % response rate was achieved.

The study found that majority of the lubricant marketers were multinational companies owning blending plants to produce lubricants. Competition from the existing marketers was found to be the market force with the greatest impact on the lubricant business. The lubricant marketers were found to be very strong on

product diversity and product quality. Loyalty to a certain lubricant brand was found to be a key factor influencing competition in lubricants business.

1.1

1.1.1 Overview of competitive strategies

The study revealed that lubricant marketers were offering a wide selection of lubricants to customers. The lubricant marketers were also offering lubricants recommended by original equipment manufacturers (OEM). Competitive pricing strategies applied by the lubricant marketers were found to be extended credit period, keeping prices lower than competition and offer of volume discounts. The lubricant marketers were offering lubrication equipment to customers and maintaining very close relationships with their customers. Having lubricant distributors in major towns of the country was found to be a key distribution strategy among the marketers. The lubricant marketers hired only competent staff for the business and trained them well on product knowledge.

The study recommends further research to include all importers and traders of lubricants whose activities were not included in the Ministry of Energy sales statistics for the country used in this study.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Overview of competitive strategies

Porter (1980) observes that every firm competing in an industry has a competitive strategy, whether explicit or implicit. He points out that the competitive strategy enables the firm to achieve a profitable and sustainable position against the forces of industry competition. According to Barney (1997), competitive strategies are used by firms to outdo competing firms, be they rivals, substitutes or new entrants. Thompson and Strickland (1993) argue that since each company has its own specific situation and market environment, there are as many competitive strategies as there are companies trying to compete.

Mintzberg (1979) says that managers will understand the environment around the firm and will develop organizational decisions that maintain a pace of change in the firm in response to the environment. According to Ansoff and Mc Donnell (1990), managers monitor changes in the environment and they adopt strategies to match the turbulence level of the environment. Porter (1980) observes that the success of every organization is determined by its responsiveness to the environment. To retain competitiveness, organizations need to examine their environment and respond accordingly.

Pearce and Robinson (2007) notes that business managers evaluate and choose strategies that they think will make their businesses successful. They point out that successful businesses possess some advantage relative to their competitors. Ansoff (1965) argues that a strategy enables management to guide the firm and allows outsiders to see where

the firm is heading and that without a strategy, the firm will lack focus and coordination that is necessary for success and growth.

From these various views of strategy, we note how inter-related organizations are to their external environment. The external environment is constantly changing and the organization needs to come up with strategies to match the environment in order to survive.

Porter (1980) defines competitive strategy as being different. This requires deliberately choosing to perform activities differently or performing different activities better than rivals to deliver a unique mix of value. Ansoff and Mc Donnell (1990) define competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in the market. Johnson, Scholes and Whittington (2006) view competitive strategy as the basis on which a business unit might achieve competitive advantage in its market. They argue that organizations achieve competitive advantage by providing their customers with what they want or need better than competitors.

Winning business strategies are grounded in sustainable competitive advantage. A firm has sustainable competitive advantage when it has an edge over its rivals in attracting customers and defending against competitive forces (Thompson, 2003)

Porter (1980) identifies three generic competitive strategies which a firm can apply to gain competitive edge over its rivals in a competitive environment. These strategies are, overall cost leadership, differentiation and focus strategy.

a) Overall Cost Leadership

A firm can achieve overall cost leadership by efficient utilization of its production resources, installation of more efficient machines, pursuit of cost reduction measures like overhead control, bulk production to lower unit cost through economies of scale, preferential access to raw materials etc.

Lower cost relative to competition takes centre stage in the firm. Cost leadership enables a firm to compete through price reduction. This strategy enables a firm to be successful even when it is operating in a price sensitive market in a competitive environment.

b) Differentiation strategy

Porter (1980) argues that a firm can differentiate its products by creating something that is perceived industry-wide as unique. This can be achieved through new product design, superior brand image, creation of innovative product features, high product quality, superior customer service etc. The firm can then advertise its product to raise awareness on the uniqueness of its product features and build strong brand recognition. This will lead to customer loyalty and better margins through higher prices and less customer price sensitivity.

c) Focus strategy

Porter (1980) argues that a firm can adopt a focus strategy by concentrating on a narrow segment either in products or markets. The firm achieves competitive advantage by specializing in servicing a particular market better than competitors whose approach is broader.

1.1.2 The Lubricants Market in Kenya

The petroleum industry in Kenya was liberalized in October 1994. This in effect meant removal of government controls and restrictive regulations in the industry while opening the market to competitive forces.

In 2001, the number of oil marketers trading in Kenya was 11 (Chepkwony, 2001). In 2007, the number of oil marketers trading in Kenya had risen to 26 (Petroleum insight, 2008). Most of these new entrants trade only in fuels. This has greatly increased the level of competition in the fuels market and companies have been forced to come up with new strategies in order to survive and grow. As the fuels market becomes more and more competitive, the main oil companies now place more emphasis in related petroleum products like Liquified Petroleum Gas (LPG) and lubricants. Competition is thus shifting to these products as well.

Before the petroleum industry was de-regulated, the major players in the market were Esso Kenya, Agip Kenya, BP Kenya, Caltex Oil Kenya, Kenya Oil Company (Kenol), Kenya Shell, Kobil petroleum, Mobil Petroleum and Total Kenya (Murage, 2001).

According to secondary data obtained from the Ministry of Energy, the lubricants market is today dominated by the major oil companies in Kenya. In this study, these companies, which produce and market their own lubricant brands, are considered to be the primary lubricant marketers. These companies are Kenya Shell Ltd, Chevron Kenya Ltd, Total Kenya Ltd, Libya Oil Kenya Ltd and Kenya Oil Company (Kenol) Ltd /Kobil Petroleum Ltd. Lubricant marketers who have quit the Kenyan market since deregulation are Esso Kenya Ltd, Agip Kenya Ltd, BP Kenya Ltd. and Mobil Kenya Ltd. Caltex Kenya Ltd (renamed Chevron Kenya Ltd) is reported to be exiting Kenya as well (The Daily Nation, April 15, 2008)

The total lubricant market size in the year 2007 according to data from the ministry of energy shown in table 1.1 was 36,337 MT

According to Petroleum Insight (2008), the total petroleum sales for the Kenyan market grew by 5.6% in the year 2007 in line with the projected growth of the economy by the Kenya Government.

In 2007, five companies traded in lubricant business in Kenya according to secondary data available from the Ministry of Energy.

The players in the lubricants business are;

Kenya Shell Ltd: this company was formed in 1961 though Shell has been in operation in Kenya since 1900. The company has over 130 service stations spread throughout the country and has a workforce of over 300 employees. The company deals in fuels, lubricants, LPG, Bitumen, aviation and marine products. (www.shell.com) The company

was until this year, jointly operated with BP Kenya ltd. Kenya Shell Ltd has acquired BP Kenya ltd.

Chevron Kenya Ltd: Previously known as Caltex. The company has about 100 service stations in the country and is reported to be exiting Kenya .

Total Kenya Ltd- The firm has been in Kenya since 1955 and has about 100 service stations in the country. The company is listed on the Nairobi Stock Exchange. The company deals in fuels, LPG, lubricants, bitumen, aviation and marine products. (www.total.co.ke)

Libya Oil Kenya Limited – formally known as Tamoil which acquired Mobil Kenya in December 2006. The company has 64 stations countrywide and has a blending plant for lubricants in Mombasa. Libya Oil Ltd has developed its own range of lubricants. The company is also in fuels, LPG, aviation and marine businesses.

Kenol /Kobil – are two companies with a joint management agreement but trading under their own individual brand names. Kenol (Kenya Oil Company Ltd) is listed on the Nairobi stock exchange and has recently acquired Kobil (Kobil Petroleum Ltd). However, Kobil will remain as a separate brand owned by Kenol and will retain its lubricants brand. (Petroleum Insight, 2008)

Table 1.1 below shows the market shares of lubricant marketers in Kenya as at December 2007

Table 1.1 Lubricants market size and market share

Company	Lubricant Sales in 2007 (in Tons)	Market share
Shell /BP	12,379	34.07 %
Chevron	8,031	22.10 %
Total	6,601	18.17 %
Oil Libya	6,334	17.43 %
Kenol/Kobil	2,992	8.24 %
	36,337	100 %

Source: Secondary data, Ministry of Energy

1.2 Statement of the research problem

Porter (1980) points out that a competitive strategy enables the firm to achieve a profitable and sustainable position against the forces of industry competition. Thompson and Strickland (1993) argue that since each company has its own specific situation and market environment, there are many competitive strategies that companies may use to compete. Porter (1980) observes that the best strategy for a given firm is a unique construction reflecting its particular circumstance. According to Ansoff and Mc Donnell (1990), managers monitor changes in the environment and they adopt strategies to match the turbulence level of the environment. Porter (1980) observes that the success of every

organization is determined by its responsiveness to the environment. To retain competitiveness, organizations need to examine their environment and respond accordingly.

The deregulation of the petroleum industry in Kenya in October 1994 removed government controls and opened the market to competitive forces. The oil marketers had to compete on products, services and prices offered to customers (Njoroge, 2006). As a result of the increased competition and the level of economic turbulence affecting the petroleum industry, several major multinational companies have quit the Kenyan market in the last few years. These are, Agip, Mobil and BP. Chevron, another multinational oil company, is reportedly on an exit plan. (The Daily Nation, April 15, 2008)

Ngeera (2003), while studying the pharmaceutical industry observed that when firms are faced with competition, they develop strategies to help them achieve competitive advantage. He pointed out that only firms capable of developing and implementing competitive strategies will achieve profitability and growth. He found that most retail pharmacies used cost leadership strategy while good customer service was used to attract and retain customers. Gathoga (2001) in his study of commercial banks found that banks were facing increased competition and threat of substitute products but they had adopted strategies to counter the forces impacting them. He found that the key focus of the strategies adopted was more attention to the customer needs. Omondi (2006) while studying the airline industry, found that airlines use market penetration strategies, product development and diversification strategies. Leasing of aircrafts and exiting loss making

routes were found to be popular strategies with most airlines. Karanja (2002), in a study of real estate firms in Kenya found that increase in the number of players had increased competition. Real estate firms were applying focused differentiation strategy by targeting certain clients in the middle and upper class who resided in certain targeted estates. Okoth (2005) while studying the sugar manufacturing firms found that competitive strategies of cost leadership, differentiation and focus were employed to different degrees.

From these studies, it is clear that firms adopt different competitive strategies which are unique in each context.

Previous studies in the petroleum industry by Isaboke (2001), Chepkwony (2001), Murage (2001), Mbugua (2005), Mwangi (2007) and Swaleh (2007) have focused on fuels marketing and retailing.

Njoroge (2006) studied the Liquefied Petroleum Gas (LPG) market. Fuels and LPG are homogenous products. Lubricants however are heterogeneous products and each company markets its own brand that is different from brands of the other companies in composition. The target market for lubricants is different from that of LPG and fuels.

The researcher is not aware of any study on the lubricants market in Kenya. This study will therefore focus on the Lubricants market within the petroleum industry by answering the following research question, "What competitive strategies are applied by the lubricant marketers in Kenya to survive?"

1.3 Objective of the study

The objective of this study is to determine the competitive strategies applied by lubricant marketers in Kenya to survive.

1.4 Importance of the study

This study will elicit interest among,

a) Existing lubricant marketers

They will be keen to understand the competitive strategies applied by other lubricant marketers in Kenya

b) Potential new entrants

Future investors in the lubricants business will find the information provided by this study useful before they launch into the Kenyan market

c) Researchers

The study will add to the body of knowledge in strategic management

d) Policy makers

The knowledge from this study will assist policy makers in their decisions on lubricants business

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

The concept of strategy has its historical origin in the military campaign with its application of large scale forces against an enemy. Strategy, however, is contrasted with tactics which is mere employment of allocated resources (Ansoff, 1965). Levitt (1960) as quoted by Ansoff (1965) observes that a firm needs a well defined scope and growth direction. He contends that having objectives alone is not enough for the firm and that additional decision rules are required if the firm is to be profitable and successful. Ansoff (1965) views strategy as a "common thread" between the present and the future products or markets and which would enable outsiders to see where the firm is heading. He argues that without this strategy, the firm will lack focus, coordination and proactivity necessary for success and growth. Mintzberg (1979) views strategy as the mediating force between an organization and its environment. The argument is that managers will understand the environment around the firm and will develop organizational decisions that maintain a pace of change in the firm in response to the environment.

According to Ansoff and McDonnell (1990), strategy is a set of decision making rules for guidance of organizational behavior. Such rules consist of the firm's objectives, a business strategy developing the firm's relationship with its external environment, an organizational concept and operational policies for the day to day administration. Thompson and Strickland (1996) look at strategy as a pattern of actions managers

employ to achieve the targeted organizational performance. They view strategy as a blend between deliberate, planned actions and reactions to un-anticipated developments within and without the company. They argue that a firm's strategy should produce a good fit between the firm internal capability and its external environment. To Hax and Majluf (1996), strategy is a multi dimensional concept embracing all the activities of the firm. They see strategy providing the firm with a sense of unity, direction and purpose while incorporating necessary changes induced by the environment.

According to Johnson, Scholes and Whittington (2006), strategy is the direction and scope of an organization over the long term. The strategy achieves advantage for the firm through its utilization of resources and competences to fulfill stakeholders' expectations. They further argue that strategy exists at three levels in the firm; the corporate level, the business level and the operational level. Pearce and Robinson (2007) identify strategy as a company's game plan providing a framework for managerial decisions. They observe that strategy involves large scale, future oriented plans for interacting with the competitive environment to achieve the company's objectives.

Though there is no universally agreed definition on strategy, it's clear that strategy is about managerial decisions that position the firm in its environment and enable it to be competitive in the long term.

2.2 Concept of Competitive Strategy

Porter (1980) argues that every firm competing in an industry has a competitive strategy, whether explicit or implicit. He says that a competitive strategy relates a company to its environment, the key aspect of which is the industry it competes in. Porter (1985) defines competitive strategy as the search for a favorable competitive position in an industry. The competitive strategy enables the firm to achieve a profitable and sustainable position against the forces of industry competition. Ansoff (1988) concurs and defines competitive strategy as the distinctive approach which a firm uses to succeed in the market. According to Barney (1997), competitive strategies are used by firms to out do competing firms be they rivals, substitutes or new entrants. He observes that firms pursue competitive strategies when they seek to improve their performance in a specific market or industry.

Thompson and Strickland (1996) note that competitive strategy consists of all the moves a firm is taking to attract customers, withstand competitive pressures and improve its market position. It is what a firm is doing to outwit rival companies and gain competitive advantage. They argue that since each company has its own specific situation and market environment, there are as many competitive strategies as there are companies trying to compete. According to Johnson, Scholes and Whittington (2006), competitive strategy is the basis on which a business unit achieves competitive advantage in its market. Thompson, Strickland and Gamble (2007) observe that a company achieves competitive advantage whenever it has some edge over rivals in attracting customers and coping with

competitive forces. They look at competitive strategy as the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals.

The concept of competitive strategies has largely been attributed to the work of Michael Porter. Porter (1980) views an effective competitive strategy as taking an offensive or defensive action to create a defensible position in an industry to cope with competitive forces and yield a superior return on investment for the firm. Competitive strategy not only responds to the environment but also attempts to shape that environment in a firm's favor. Knowledge of the competitive forces and the firm's capabilities will highlight areas where the company should confront competition and areas where it should avoid it. Porter (1980) observes that firms have discovered many different approaches or strategies and the best strategy for a given firm is a unique construction reflecting its particular circumstance.

2.3 Competitive Strategy Models

2.3.1 Generic strategies

Porter (1980) pioneered the thinking in this field when he proposed the three generic strategies by which an organization can achieve competitive advantage. The generic strategies are approaches to outperforming competitors in an industry. They are; overall cost leadership, differentiation and focus.

a) Overall cost leadership

This strategy requires products with ease in production or to maintain a wide range of related products to spread costs while serving as many customers as possible to build volume. Cost leadership can be achieved through construction of efficient scale facilities, vigorous pursuit of cost reductions, tight cost and overhead control, cost minimization in areas like research and development, service, sales force, advertising or securing supplies at the lowest cost. Low cost relative to competitors becomes the central theme running through the entire strategy without necessarily ignoring other important aspects like quality and customer service. Despite the presence of strong competitive forces, low cost position yields the firm above average returns in its industry through economies of scale.

Low cost strategy calls for heavy upfront capital investment in state of the art equipment and aggressive pricing policy for the firm to build market share. A low cost leader is able to use its cost advantage to charge lower prices and to enjoy high sales leading to high profit margins. The firm is thus well positioned to effectively defend itself in price wars or even to attack competitors on prices to gain market share. (Pierce & Robinson, 2007)

b) Differentiation

Differentiation requires creating something in the product or service that is perceived industry-wide as being unique. This can be achieved through superior product features, superior customer service, high technology, superior brand image, wide distribution network etc. Differentiation strategy does not mean the firm ignores costs but rather they are not the primary strategic target. Differentiation enables the firm to charge premium

prices with lower customer price sensitivity. The satisfaction arising from the unique products or services leads to customer brand loyalty. Achieving differentiation creates a perception of exclusivity and may preclude high market share.

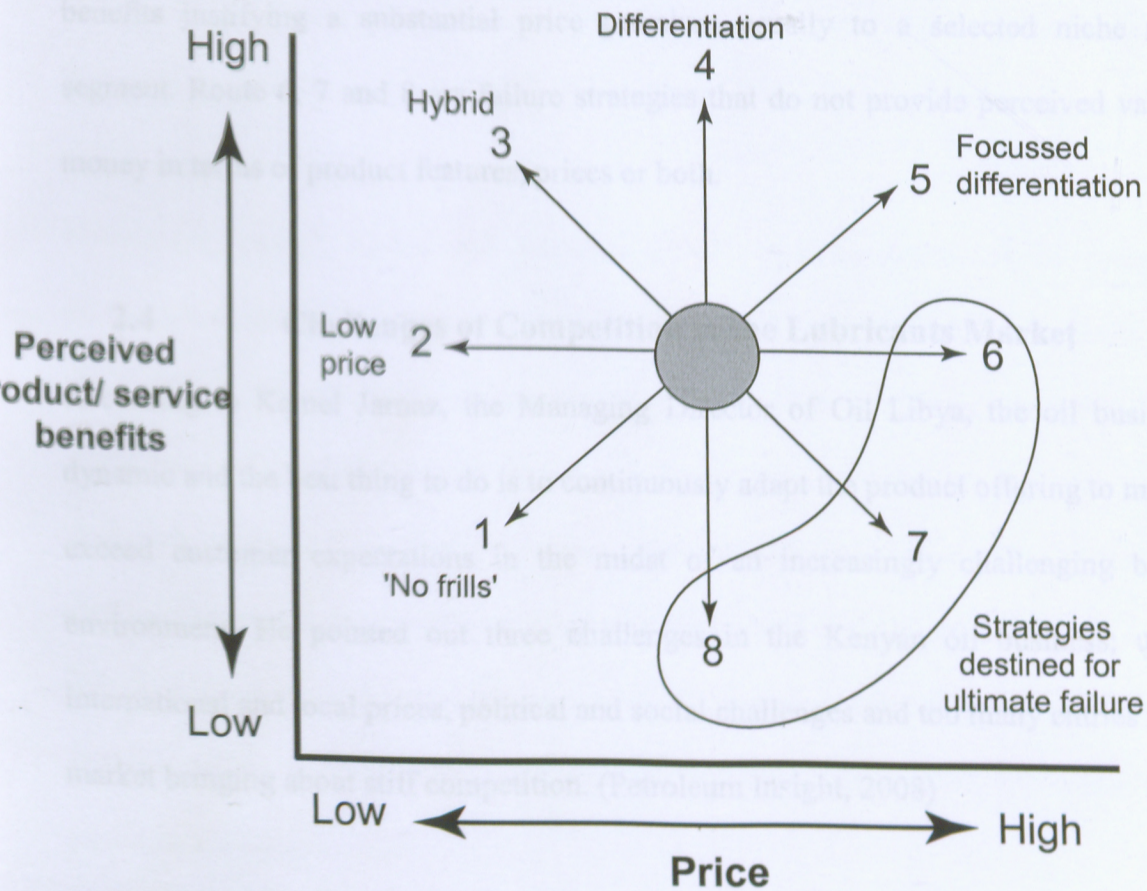
c) **Focus**

The focus strategy is build around serving a particular narrow competitive scope more effectively than competition. By optimizing its strategy for the target segment, the firm seeks to achieve competitive advantage in its target segment though it does not possess competitive advantage in the industry as a whole. The focus strategy has two variants: cost focus and differentiation focus. In cost focus, the firm seeks a cost advantage in its selected target segment while in differentiation focus, the firm seeks uniqueness in its target segment. The target segment requires buyers with unusual needs. These target segments are poorly served by the broadly targeted competitors who serve them at the same time as they serve others. The focus strategy requires the firm to dedicate itself to serving the unique needs of the target segment.

2.3.2 **Strategy clock: competitive strategy options**

Johnson, Scholes and Whittington (2006) identifies the strategy clock shown below that enshrines Michael Porter's categories of differentiation and focus alongside price. The strategy clock is based on the principle that organizations achieve competitive advantage by providing their customers with what they want or need better than competitors.

Figure 2.1: The Strategy Clock: Competitive Strategy Options



Source: Johnson, Scholes and Whittington (2006) p 243

Route 1 is a 'no- frills' strategy combining a low price and a low perceived product/service benefits. The strategy can be applied in a very price sensitive market.

Route 2 is the low price strategy which seeks to achieve a lower price than competitors while trying to maintain similar perceived products /service benefits as competitors.

Route 4 is the broad differentiation strategy that seeks to provide products/service benefits that are widely valued by buyers and are different from those of competitors but at the same price or slightly higher than competitors. Route 3 is the hybrid strategy that seeks simultaneously to achieve differentiation and a lower price than competitors. Route

5 is the focus differentiation strategy that seeks to provide high perceived product/service benefits justifying a substantial price premium usually to a selected niche market segment. Route 6, 7 and 8 are failure strategies that do not provide perceived value for money in terms of product features, prices or both.

2.4 Challenges of Competition in the Lubricants Market

According to Kamel Jarnaz, the Managing Director of Oil Libya, the oil business is dynamic and the best thing to do is to continuously adapt the product offering to meet and exceed customer expectations in the midst of an increasingly challenging business environment. He pointed out three challenges in the Kenyan oil business; unstable international and local prices, political and social challenges and too many entries into the market bringing about stiff competition. (Petroleum Insight, 2008)

Chepkwony (2001) found that Petroleum companies in Kenya were facing stiff competition since the liberalization of the sector. He noted that pricing had become the central competition element in the petroleum market. The Kenyan lubricants market is faced with stiff competition as the players out do each other to win business and gain market share.

2.5 Sustaining Competitive Advantage

When a firm achieves competitive advantage, the issue of sustaining that advantage over a long time becomes important. According to Porter (1985), the sustainability of a generic strategy requires a firm to possess some barriers to imitation. He recommends

that the firm offers a moving target to its competitors by investing so as to continuously improve its position. Barney (1997) argues that for a competitive strategy to be sustained, that strategy must be rare or costly to imitate whether through duplication or substitution.

Mintzberg, Lampel, Quinn and Ghoshal (2003) look at sustenance of competitive advantage as depending on whether that advantage is resource based or activity based. They cite resource based advantages such as unique resources, location, patents, corporate culture while activity based advantages are the activities the firm performs better than competition. They argue that activity based advantages will take longer and cost more to imitate. According to Thomson, Strickland and Gamble (2007), a company will achieve competitive advantage when an attractive number of buyers prefer its products or services over the offerings of competitors and when the basis for this preference is durable.

According to Johnson, Scholes and Whittington (2006), a firm can sustain its price based advantages by accepting reduced unit margins so as to sell more or because the firm can cross subsidize that business from elsewhere in its portfolio. The firm may also sustain price wars due to its lower cost structure or it simply aims to drive out competitors in the long term. Porter (1985) says sustainability of differentiation based advantages depends on the continued perceived value to customers and the lack of imitation by competitors. He argues that the firms sources of uniqueness should involve barriers and should also create switching costs to help lock in customers. Co-specialization, where the firm

develops competitive advantage together with the customer enables the firm to build long term and close relationships with the customer hence sustaining the firms' advantage.

3.1 Research Design

The research was by way of census survey of existing lubricant marketers in Kenya. The census survey was considered most appropriate for this study since the population of interest is small. In a census survey, all the elements of the population are studied which enhances the confidence in the research findings. A similar study in the petroleum industry by Njoroge (2006) on the LPG marketers was by census survey.

3.2 The Population of Study

The population of interest was all the lubricant marketers trading in Kenya. According to the Ministry of Energy, five lubricant marketers traded in Kenya in 2007. These are Kenya Shell Ltd/SP Kenya Ltd, Chevron Kenya Ltd, Total Kenya Ltd, Ligya Oil Kenya Ltd and Kenya Oil Company (Kenol) Ltd / Kobil Petroleum Ltd.

3.3 Data Collection Method

Primary data was used in this study. The primary data was collected by way of a questionnaire. The questionnaire was administered by drop and pick method or face to face interview. The target respondents were the lubricant marketer's business managers who make decisions on the competitive strategies to be employed in their business. A letter of introduction was attached to the questionnaire to enhance the response rate.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The research was by way of census survey of existing lubricant marketers in Kenya. The census survey was considered most appropriate for this study since the population of interest is small. In a census survey, all the elements of the population are studied which enhances the confidence in the research findings. A similar study in the petroleum industry by Njoroge (2006) on the LPG marketers was by census survey

3.2 The Population of Study

The population of interest was all the lubricant marketers trading in Kenya. According to the Ministry of Energy, five lubricant marketers traded in Kenya in 2007. These are Kenya Shell Ltd/BP Kenya Ltd, Chevron Kenya Ltd., Total Kenya Ltd., Libya Oil Kenya Ltd. and Kenya Oil Company (Kenol) Ltd. / Kobil Petroleum Ltd.

3.3 Data Collection Method

Primary data was used in this study. The primary data was collected by way of a questionnaire. The questionnaire was administered by drop and pick method or face to face interview. The target respondents were the lubricant marketer's business managers who make decisions on the competitive strategies to be employed in their business. A letter of introduction was attached to the questionnaires to enhance the response rate.

The questionnaire was divided into three parts; Part A was intended to collect background company information, Part B was intended to probe the state of competition in the business environment and Part C was targeted at understanding the competitive strategies employed.

3.4 Data Analysis Methods

Data analysis was done using descriptive statistics. Data was presented in tables and analyzed through frequency counts, percentages, mean scores and standard deviations. The Five Point Likert Scale was used to determine the various competitive strategies in use and the extent of their usage. The Statistical Package for Social Sciences (SPSS) was used to analyze the responses obtained from the Likert Scale.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The aim of this study was to determine the competitive strategies used by the primary lubricant marketers in Kenya. Primary data was used and the data was collected by way of questionnaire which was divided into three parts; Part A was to gather the background company information, part B was to understand the competitive business environment and part C was to probe the competitive strategies in use. A 5-Point Likert scale was used to determine the competitive strategies in use and the extent of their usage. The scale ranged from 1 to 5 where 1 indicated a strategy not in use at all while 5 indicated a strategy used to a very great extent. The higher the score, the higher was the extent of usage of the strategy among the lubricant marketers. The survey targeted all the five primary lubricant marketers in Kenya and all of them responded. A 100 % response rate was thus achieved. This chapter presents the analysis and interpretation of the research findings. Data was summarized and presented in form of tables, frequencies, percentages, mean scores and standard deviations.

4.2 Background Company Information

This section analyses the background information of the lubricant marketing companies surveyed in this research study.

4.2.1 Ownership of the company

Table 4.1: Company ownership

	Frequency	Percent
Local	1	20.0
Multinational	4	80.0
Other	0	0
Total	5	100.0

Source: research data

80 % of the primary lubricant marketers were multinational companies.

4.2.2 Whether company is listed at the Nairobi stock exchange

Table 4.2: Listing at the Nairobi stock exchange

	Frequency	Percent
Yes	2	40.0
No	3	60.0
Total	5	100.0

Source: Research data

Majority of the lubricant marketers were not listed at the Nairobi stock exchange

4.2.3 Whether the company owns a lubricants blending plant

Table 4.3: Ownership of a blending plant

	Frequency	Percent
Yes	4	80.0
No	1	20.0
Total	5	100.0

Source: Research data

80 % of the lubricant marketers own a blending plant that is used in producing lubricants.

The blending plant is thus considered an important investment in lubricants business.

4.3 Competition in the business environment

This section analyses the responses regarding the level of competition in the lubricant business environment

Increased customer requirements	4.0	0.707
Increased competition	3.2	1.304
Increased products	3.0	0.707
Increased prices	3.4	1.516

Source: Research data

4.3.1 Rating the state of competition in the industry

Table 4.4: State of competition in the industry

	Frequency	Percent
Very stiff	1	20.0
Stiff	3	60.0
Fairly stiff	1	20.0
Total	5	100.0

Source: Research data

80% of the lubricant marketers rated the state of competition in the industry as either stiff or very stiff. The main reasons cited were slow growth of the market and increased number of players.

4.3.2 How customers view the current prices

Table 4.5: Customer perception of the current prices

	Frequency	Percent
Very High	1	20.0
High	2	40.0
Fair	2	40.0
Total	5	100.0

Source: Research data

Most of the respondents were of the view that their customers perceived their prices as high or very high

4.3.3 Impact of the Market Forces on the Business

Table 4.6: Impact of the market forces on the business

	mean score	Std. deviation
Existing competition	4.0	0.707
New market entrants	3.2	1.304
Increased customer sophistication	3.0	0.707
Counterfeit products	3.4	1.516

Source: Research data

Existing competition had the greatest impact on the business with a mean score of 4 on the Likert Scale. The low standard deviation showed greater agreement among the marketers on the impact of this force in the industry.

4.3.4 Rating the Competitors

Table 4.7: Rating the competitors on various aspects

	Mean score	Std. deviation
product quality	4.0	1.000
customer service	3.8	1.304
growth potential	3.8	0.837
technical support services	3.6	1.140
product diversity	4.2	0.837

Source: Research data

The lubricant marketers rated their competitors very strongly on product diversity and product quality

4.3.5 Importance of the After Sales Service to the Customers

Table 4.8: Importance of after sales service to customers

	mean score	Std. deviation
Oil analysis	4.0	0.707
used oils collection	2.6	1.140
lubricant training	4.6	0.548
lubricant survey	3.8	0.447
provision of lubricating equipment	4.0	1.225

Source: Research data

Offering lubricant training was considered most important after-sales service while offering collection of used oil was considered to be of least importance.

4.3.6 Factors Influencing Competition in the Lubricant Business

Table 4.9: Factors influencing competition in the lubricant business

	mean score	Std. deviation
price wars	3.0	1.000
OEM recommendation	3.8	0.837
brand loyalty	4.4	0.548
switching costs	3.6	1.140
unique products	3.4	1.517

Source: Research data

Loyalty to a certain lubricant brand was considered a very important factor influencing competition in the lubricant business. Recommendation by the Original Equipment Manufacturer (OEM) was also considered as important with a mean score of 3.8 on the Likert scale.

4.3.7 Factors Influencing Lubricant Business Retention or Acquisition of New Business

Table 4.10: Factors influencing lubricant business retention or acquisition of new business

	mean score	Std. deviation
Low prices	3.0	1.000
investment at customer premises	4.6	0.548
technical support services	3.8	0.448
broad product range	4.2	0.837
customer care	4.8	0.448
trade terms	4.8	0.448

Source: Research data

Customer care, Trade terms and Investment at customer premises were considered as the most important factors that determined retaining a customer or acquiring a new one.

Offering of low prices was rated lowest though the higher standard deviation of 1 showed greater variability in acceptance of this factor among the lubricant marketers.

4.4 Competitive Strategies Employed

This section analyses the competitive strategies employed by the primary lubricant marketers to cope with competition in the business environment

4.4.1 Product Offering

Table 4.11: Product offering

	mean score	Std. deviation
offering lubricants not available in the competition	3.2	1.483
offering lubricants recommended by OEM's	4.6	0.548
recommending lubricants used by other customers	3.4	1.140
offering a wide range of lubricants to customers	4.2	0.837
offering unique lubricants for special applications	4.2	1.789

Source: Research data

Offering lubricant recommended by Original Equipment Manufacturer (OEM) followed by offering a wide selection of lubricants for customers were identified as the most important strategies in product offering. The low standard deviations in these two strategies showed greater agreement among the lubricant marketers in their usage.

4.4.2 Price Offering

Table 4.12: Price offering

	mean score	Std. deviation
keeping your prices higher than competition	2.2	0.837
keeping your prices same as competition	3.0	1.225
keeping your prices lower than competition	3.4	0.894
offering volume discounts	3.4	0.894
offering extended credit terms to customers	3.6	1.673

Source: Research data

Offering extended credit terms to customers was considered an important strategy in lubricant business. This agreed with the finding under section 4.10. However, the higher standard deviation of 1.673 showed greater variation in usage of this strategy among the marketers. Keeping prices lower than competition and offering volume discounts were considered equally important with marketers showing greater agreement on these strategies.

4.4.3 Service Offering

Table 4.13 Service offering

	mean score	Std. deviation
offering various after-sales services	4.0	1.225
offering lubrication equipment	4.4	0.548
being close to the customer	4.4	0.548
offering free lubricants for trial purposes	3.0	3.000
having good feedback system with customers	4.4	4.400

Source: Research data

Offering lubrication equipment and being close to the customer were considered important strategies in the service offering category.

4.4.4 Distribution

Table 4.14 Distribution strategies

	mean score	Std. deviation
having exclusive lubricant distributors	3.2	1.643
avoiding distributors used by competition	2.2	1.304
using efficient transporters	3.2	1.643
having lubricants distributors in the major towns	4.4	0.548

Source: Research data

Having distributors in major towns of the country was considered a very important lubricant distribution strategy among the marketers

Source: Research data

Offering extended credit terms to customers was considered an important strategy in lubricant business. This agreed with the finding under section 4.10. However, the higher standard deviation of 1.673 showed greater variation in usage of this strategy among the marketers. Keeping prices lower than competition and offering volume discounts were considered equally important with marketers showing greater agreement on these strategies.

4.4.3 Service Offering

Table 4.13 Service offering

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offering lubrication equipment	4.4	0.548
being close to the customer	4.4	0.548
offering free lubricants for trial purposes	3.0	3.000
having good feedback system with customers	4.4	4.400

Source: Research data

Offering lubrication equipment and being close to the customer were considered important strategies in the service offering category.

4.4.4 Distribution

Table 4.14 Distribution strategies

	mean score	Std. deviation
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avoiding distributors used by competition	2.2	1.304
using efficient transporters	3.2	1.643
having lubricants distributors in the major towns	4.4	0.548

Source: Research data

Having distributors in major towns of the country was considered a very important lubricant distribution strategy among the marketers

4.4.5 Marketing

Table 4.15 Marketing strategies

	mean score	Std. deviation
offering free branded gifts to customers	3.8	1.643
use of sales promotions	3.2	1.789
use of advertising campaigns	3.0	1.414

Source: Research data

Offering free branded gifts to customers was considered an important marketing strategy though the standard deviation of 1.643 showed greater variation in the use this strategy among the lubricant marketers.

4.4.6 Human Resource

Table 4.16 Human resource strategies

	mean score	Std. deviation
recruiting only competent staff for lubricants	4.4	0.548
training staff in product knowledge	4.2	0.447
training staff in customer care	3.4	1.517

Source: Research data

Recruiting only competent staff for lubricants and training them in product knowledge were considered key human resource strategies in lubricant business. The low standard deviations showed greater agreement in the use of these strategies among the marketers.

4.4.7 Other Strategies in Use

The lubricant marketers gave other strategies used to overcome competition in the lubricant business as; offering a complete package of all petroleum products, reciprocal business arrangements with customers, consignment stocking at customer premises, branding oils for equipment manufacturers and focusing on customer operations to identify areas of cost reduction

CHAPTER 5: SUMMARY, DISCUSSIONS AND CONCLUSION

5.1 Summary, Discussions and Conclusion

The petroleum industry in Kenya was liberalized in October 1994. This effectively removed government controls and regulation and opened the market to competitive forces. This led to an influx of new players dealing mostly with fuels only. As the competition on the fuels market intensified, marketers placed more emphasis on related petroleum products like LPG and lubricants, shifting competition to these products as well. Due to increased competition, several major multinational companies have quit the Kenyan market in the last few years. Previous studies have shown that firms, when faced with increased competition, adopt different competitive strategies which are unique in each context. This study set out to find out what competitive strategies are applied by the lubricant marketers in Kenya to survive.

The study was by way of census survey of the primary lubricant marketers in Kenya. These are Kenya Shell Ltd, Chevron Kenya Ltd, Total Kenya Ltd, Libya Oil Kenya Ltd, Kenol/Kobil Petroleum Ltd. Primary data was used in this study and was collected by way of a questionnaire. A 100% response rate was achieved. The 5 point Likert scale was used to identify the competitive strategies in use and the extent of their usage. The scale of 1 to 5 was used with 1 denoting a strategy not in use at all and 5 denoting a strategy in use to a very great extent. Data analysis was done using descriptive statistics with the statistical package for social sciences being used to analyse the responses obtained from the Likert scale.

This study found 80% of the lubricant marketers to be multinational companies with a similar percentage owning a blending plant for producing lubricants indicating the facility to be an important investment in the business. 80% of the marketers rated the competition in the industry as stiff or very stiff. This was attributed to slow growth of the market and increased number of players. The existing competition was indicated as the market force with the greatest impact on the lubricant business underscoring the importance of the objective set out in this study. The Lubricant marketers rated their

competitors very strongly on product diversity and product quality, suggesting that broad differentiation strategies may be in use. Loyalty to a certain lubricant brand was considered an important factor influencing competition in the business. Good customer care, trade terms and investment at customer premises were factors identified as influencing business retention or acquisition of new business.

Recommendation for Policy and Practice

On the competitive strategies employed, the study revealed that offering lubricants recommended by Original Equipment Manufacturer (OEM) and offering a wide selection of lubricants for customers were most important strategies in product offering. The most important competitive strategies used in the price offering category were offering extended credit to customers, keeping prices lower than competition and offering volume discounts. Offering lubrication equipment and being close to the customer were found to be important strategies in the service offering category. Having distributors in the major towns of the country was considered a very important distribution strategy among the marketers. Recruiting only competent staff for lubricants and training them in product knowledge were considered key human resource strategies in lubricant business. Other strategies in use included offering a complete package of all petroleum products, consignment stocking at customer premises and reciprocal business arrangement with customers.

In conclusion, the lubricant business environment was found to be very competitive with firms adopting various strategies to counter competition. Several strategies in use bent towards broad differentiation and hybrid strategies described under section 2.3 of this study.

5.2 Limitations of the Study

This study focused on the primary lubricant marketers in Kenya as indicated by data available from the Ministry of Energy. However, it became evident that there are other lubricant marketers who import lubricants and sell in the Kenyan market though their sales statistics are not captured by the Ministry of Energy.

5.3 Recommendations for Further Research

The researcher recommends further research to include all the private importers and traders of lubricants whose sales data is not included in the Ministry of Energy sales statistics for the country.

5.4 Recommendation for Policy and Practice

The study established that one of the reasons attributed to the stiff competition in the lubricant business was the limited growth of the market. The researcher recommends that policy makers draw policies that will enhance growth of lubricant business in Kenya.

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LETTER OF INTRODUCTION

May 2008

Dear Respondent,

RE: MBA RESEARCH PROJECT

I am a post-graduate student at the University of Nairobi. This questionnaire is designed to gather information on the competitive strategies adopted by lubricant marketers in Kenya.

This study is being carried out for a Management Project Paper as a requirement in partial fulfilment of the Degree of Master in Business Administration, University of Nairobi.

There are no correct or wrong answers to these questions as they are intended to obtain opinions and views.

The information you will provide will be treated in **strict confidence and is strictly for academic purposes only**. In no instance will your name be mentioned in the report. Further confidentiality will be ensured through the necessary coding of the findings.

Your assistance in filling this questionnaire will be highly appreciated.

Yours faithfully

Julius KINOKO
Student

Jeremiah Kagwe
Supervisor

QUESTIONNAIRE

PART A: BACKGROUND COMPANY INFORMATION

1. Name of your organization.....
2. Year of incorporation.....
3. Ownership (please tick appropriately)
Local Multinational Other
4. Is your company publicly quoted at the Nairobi stock exchange?
Yes No
5. Does your company own a lubricants blending plant?
Yes No

PART B: COMPETITION IN THE BUSINESS ENVIRONMENT

6. How would you rate the state of competition in the industry?
Very stiff Stiff Fairly stiff Not stiff
7. What reasons would you give for your answer in Question (6) above?
.....
.....
.....
8. In your opinion, how do customers view your current prices?
Very High High Fair Low Very Low

9. What impact have the following market forces had on your business? (Use the scale below)

1. No impact 2. Little impact 3. Moderate impact 4. Great impact 5. Very great impact

	1	2	3	4	5
Existing competition	()	()	()	()	()
New Market Entrants	()	()	()	()	()
Increased customer sophistication	()	()	()	()	()
Counterfeit products	()	()	()	()	()

10. How do you rate your competitors on each of the following aspects? (Use the scale below)

	1. Very weak	2. Weak	3. Moderate	4. Strong	5. Very strong
	1	2	3	4	5
Product quality	()	()	()	()	()
Customer service	()	()	()	()	()
Growth Potential	()	()	()	()	()
Technical support services	()	()	()	()	()
Product diversity	()	()	()	()	()

11. How would you rate the importance of the following after-sales services to your customers? (Use the scale below)

	1. Not important	2. Minor importance	3. Some importance	4. Important	5. Very important
	1	2	3	4	5
Oil analysis	()	()	()	()	()
Used oil collection	()	()	()	()	()
Lubricant training	()	()	()	()	()
Lubrication survey	()	()	()	()	()
Provision of lubricating equipment	()	()	()	()	()
Other services----- (specify and score)	()	()	()	()	()

12. To what extent do the following factors influence competition in the lubricant business? (Use the scale below)

	1. No extent	2. Little extent	3. Moderate extent	4. Great extent	5. Very great extent
	1	2	3	4	5
Price wars	()	()	()	()	()
OEM recommendation	()	()	()	()	()
Brand Loyalty	()	()	()	()	()
Switching costs	()	()	()	()	()
Unique products	()	()	()	()	()
Other factors----- (specify and score)	()	()	()	()	()

13. In your view, how do you think the following factors influences lubricant business retention or acquisition of new business? (Use the scale below)

1. No influence at all 2. Little influence 3. Moderate influence 4. Great influence
5. Very great influence

	1	2	3	4	5
Low prices	()	()	()	()	()
Investment at customer premises	()	()	()	()	()
Technical support services	()	()	()	()	()
Broad product range	()	()	()	()	()
Customer care	()	()	()	()	()
Trade terms	()	()	()	()	()
Other factors----- (specify and score)	()	()	()	()	()

PART C: COMPETITIVE STRATEGIES EMPLOYED

Please indicate the extent to which the following action plans are used to overcome competition in the lubricants market (Use the scale below)

1. Not used at all 2. Little extent 3. Moderately used 4. Great extent 5. Very great extent

a) Product Offering

	1	2	3	4	5
Offering Lubricants not available in the competition	()	()	()	()	()
Offering lubricants recommended by OEM's	()	()	()	()	()
Recommending lubricants used by other customers	()	()	()	()	()
Offering a wide range of lubricants to customers	()	()	()	()	()
Offering unique lubricants for special applications	()	()	()	()	()

b) Price Offering

	1	2	3	4	5
Keeping your prices higher than competition	()	()	()	()	()
Keeping your prices same as competition	()	()	()	()	()
Keeping your prices lower than competition	()	()	()	()	()
Offering volume discounts	()	()	()	()	()
Offering extended credit terms to customers	()	()	()	()	()

	1	2	3	4	5
c) Service offering					
Offering various after-sales services	()	()	()	()	()
Offering lubrication equipment	()	()	()	()	()
Being close to the customer	()	()	()	()	()
Offering free lubricants for trial purposes	()	()	()	()	()
Having good feedback system with customers	()	()	()	()	()

d) Distribution					
Having exclusive lubricants distributors	()	()	()	()	()
Avoiding distributors used by competition	()	()	()	()	()
Using efficient transporters	()	()	()	()	()
Having lubricants distributors in the major towns	()	()	()	()	()

e) Marketing					
Offering free branded gifts to customers	()	()	()	()	()
Use of sales promotions	()	()	()	()	()
Use of advertising campaigns	()	()	()	()	()

f) Human Resource					
Recruiting only competent staff for lubricants	()	()	()	()	()
Training staff in product knowledge	()	()	()	()	()
Training staff in customer care	()	()	()	()	()

g) In your view, what other strategies are used to overcome competition in the lubricants market in Kenya

Thank you very much for completing the questionnaire.