STRATEGIES ADOPTED BY MOBILE PHONE COMPANIES IN KENYA TO GAIN COMPETITIVE ADVANTAGE

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ABSTRACT

By August 2008 there was four mobile companies controlled by CCK namely, Safaricom Ltd, Airtel Kenya Ltd, Essar (YU) and Telkom Kenya, which are currently competing to get customers in the highly competitive industry. According to Cartwright (2002), competition is the main driving force leading marketers to search for areas of competitive advantage that will lead to greater financial success. For each of the four companies to survive in the market from challenges like, volatile customer demands, technological changes and globalization they need to continuously assess the environment, trace the root of competition and adopt strategies that will earn them a competitive advantage over the rivals. The purpose of this study was to determine the strategies adopted by mobile phone companies in Kenya to gain competitive advantage. This study will be significant to CCK in regulating competition in the telecommunication sector. This study will establish the root of competition and how strategies like cost leadership, differentiation strategy and focus strategy are used gain competitive advantage. The data was collected from the four mobile companies in Kenya namely Safaricom Ltd, Airtel Kenya Ltd, Essar (YU) and Telkom Kenya. The sample size was 80 top managers from 10 departments of each of the four companies using non-probability sampling technique. Data was collected using close ended and open ended questionnaires, and data was analyzed through descriptive statistics on quantitative data and content analysis on qualitative data. The study found out that there existed a strong relationship between strategies adopted by the mobile phone companies to gain competitive advantage, cost leadership, differentiation and focus also positively affected competitiveness. Therefore the purpose of adopting competitive strategies is to enable institutions promote healthy competition.

Keywords: *Strategies Adopted By Mobile Phone Companies to Gain Competitive Advantage*

Introduction

Strategy is the direction and scope of an organization over the long term, which achieves advantage through its configuration of resources within changing environments and fulfills stakeholders' expectations (Johnson and Scholes, 2003). Porter (1998) described competitive strategy as taking offensive or defensive actions to create a defendable position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm. In the dynamic markets and technologies that companies and organizations operate in today, there is great importance to have a sustainable competitive advantage.

Porter (1980) argued that operational effectiveness, though necessary for superior performance, is not sufficient because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in activities that are much more difficult to match. The main goal of a competitive strategy is therefore to achieve a sustainable competitive advantage over the other players in the industry.

Walker (2004) points out that in order to achieve competitive advantage, a firm must offer value to customers at a cost that produces economic performance superior to rivals. The firm must then defend this position from competition. He further concludes that the two major elements of competitive advantage are: positioning the product line more effectively than the competitors' and defending the sources of this market position against rivals. The two most prominent sources of competitive advantage can be found in the business' cost structure and its ability to differentiate the business from its competitors (Pearce and Robinson, 2007).

The mobile phone industry in Kenya has come a long way to what we have today. Before 1998, all telecommunications in Kenya were controlled by the state-owned monopoly Kenya Posts and Telecommunications Corporation (KP&TC). In the year 1998, the Kenyan Parliament passed the Kenya Telecommunications Act as proposed by the Communication Commission of Kenya (CCK).CCK then set up Telkom Kenya in 1999. Mobile phone telephony in Kenya started in the year 2000 when both Kencell(rebranded as Celtel in 2004,Zain in 2008 and now Airtel) and Safaricom Limited were launched on 5th May and 19th October 1998 respectively (www.cck.go.ke).

Safaricom Limited started as a department of Kenya Posts & Telecommunications Corporation and launched its operations in 1993.By the year 2000, Safaricom Limited started operating in Kenya as a private limited company where 60% of their shares were held by Telkom Kenya Ltd and 40% were held by Vodaphone UK.In March 2008, 25% of the shares owned by Telkom Kenya were sold to the Public (www.safaricom.co.ke).

Kencell Communications Limited on the other hand was a joint venture consisting of Vivendi Telecom International (a telecommunications operator in France)and Sameer Group(One of the largest business conglomerates in Kenya with strong and stable presence in various sectors of the Kenyan economy including agriculture, construction, banking and manufacturing (www.cck.go.ke).

Statement of the Problem

The business environment within which the mobile telephony sector operates has been very volatile (Robinson, 2003). Political anxieties, competition from new entrants, social reforms, technological advancements and globalization are some of the challenges that have greatly affected the growth of this sector. As such, it is very important for a company to establish a competitive advantage which is sustainable, meaning it is not easily eroded by environmental changes or imitated by existing and potential competitors (Porter, 1980).

Companies pursue competitive strategies to gain competitive advantage that allows them to outperform rivals and achieve average profitability. Developing a competitive strategy is essentially developing a broad formula of how a business in question would compete successfully in the relevant industry.

Any business strategy employed should greatly emphasize on improvements in the competitive position of the firm's products and services in the industry. Porter (1998) emphasizes that competition is the core to the success or failure of firms and that every competing firm should have a competing strategy which will relate the firm to its environment.Firms do not exist in a vacuum and are dependent on the environment. A firm's external environment will consist of all the conditions and forces that affect its strategic options and define its competitive situation. A dynamic environment will, therefore, mean that firms have to compete more intensely (Robinson, 1997).

Mobile telephony in Kenya is an industry that has been created by technological innovations and various studies have been conducted on this industry in Kenya.Maina (2001) carried out a research on perceived service quality and she found out that there is a significant difference between the customer expectations and the management's perception in this industry.

Towet (2002) conducted a study on perceived risks on the use of the mobile phone and found some of the perceived risks by the users as financial and social risks. Muturi (2004) conducted a survey on the factors that determine customer loyalty to mobile service providers and found out factors such as quality of customer service, reliability of the services, affordability of services and products, among others.Ngobia (2004) on his research about the basis of competition in the mobile phone industry in Kenya found out that competition in the industry was crucial both for survival of existing players as well as for long term sustainable and profitable existence of industry players.

The above mentioned researchers have addressed various topics in this industry and in regard to strategy but none has done the strategies adopted by mobile phone companies in Kenya to gain competitive advantage, mainly the key players: Safaricom Limited,Airtel Kenya,Orange and Yu.

This study therefore sought to establish the competitive strategies adopted by mobile telephony companies in Kenya in order to gain competitive advantage in this volatile environment, and sought to answer the question: What are the strategies adopted by the mobile phone companies in Kenya to gain competitive advantage?

Objectives of the Study

General Objective

The general objective of this study was to determine the strategies adopted by mobile phone companies in Kenya to build competitive advantage.

Specific Objectives

The study was based on the following research objectives:

(i) To determine the effect of cost leadership strategy to gain competitive advantage in the mobile phone industry in Kenya.

(ii) To establish the effect of product/service differentiation on building competitive advantage in the mobile phone industry in Kenya

(iii) To identify the effect of focus strategy on building competitive advantage in the mobile phone industry in Kenya

Literature Review

The concept of competition has played a major role in promoting economic efficiency among companies in any given industry. Over time, this concept has taken on different definitions and meanings. Stigler (1987) defines competition as “a rivalry between individuals, groups or nations and it arises whenever two or more parties strive for something that all cannot obtain.” The intensity in competition is dependent on the customer structure and customer behavior (Porter, 1980).Competition is a dynamic process and is not a new concept (Ekelund and Hébert, 1981). It has existed as far back, and Smith (1776), Ricardo (1817), Mill (1848) and all contributed to its evolution. Machovec (1995) and Kirzner (1997) provide recent surveys of the dynamic interpretation of competition.

In the process of evaluating the effects of competition, Cournot (1838) pioneered the re-invention of competition as a market structure. Other contributions by Knight (1921) have reinforced, refined, and perfected Cournot's initial efforts. Stigler (1957) and McNulty (1968) provide excellent accounts of the historical evolution of the meaning of competition. As often happens, the original meaning of competition had largely been lost. Schumpeter (1942) envisions a dynamic world in which new products and technologies constantly drive out old products and technologies. It is possible to view Schumpeter’s competition as a broader, deeper definition of quality competition. In his vision of competition, the kinds of competitive activities he deems most significant should be clear. In the long run, what separates the successful from the unsuccessful competitors is the ability to create, invent, and be innovative.

According to Cartwright (2002), competition is the main driving force leading marketers to search for areas of competitive advantage that will lead to greater financial success. He asserts that, new competitors are attracted to areas of opportunity. Over time, prices can be adjusted downwards through competition and/or production efficiencies. New buyers join in buying the favored offerings. He further explains that, with every few exceptions, all organizations face a degree of competition. There are still a number of monopolies, that is, organizations that have no competitors within their chosen market place.

Porter (1998:3) argued that the intensity of competition in an industry is neither a matter of coincidence nor bad luck, but rather, its underlying economic structure, and this goes beyond the behavior of the current competitors. The following models Sources of competition and three generic strategies by Porter have been advanced to tackle competition so as to competitively handle competition and have a competitive edge or advantage over competitors:-

Empirical Review

Michieka (2008) studied the application of competitive strategies to the challenges of increased competition faced by Safaricom airtime dealers in Nairobi Central Business District and found that various strategies have been applied such as expansion, diversification, corporate social responsibilities, and joint ventures among others.

Kithaka (2003) studied the basis of competition in the mobile phone industry in Kenya, the fact that the two dominant players (Safaricom and Airtel) in this industry have been engaged in fierce rivalry in their effort to outmaneuver each other in the market so as to control market share, despite the existence of large untapped market. He found out that these two companies have been applying various strategies as their basis of competition in an effort to win more subscribers and main long-term customer loyalty. Key among their basis of competition was seen to be cost of their products and services, advertising, customer care, network infrastructure, Supply Chain Management Policies, Corporate Social Responsibility and human resource, among others.

University of Nairobi did another study on strategic marketing and competitive advantage of firms in the telecommunication industry in Kenya. This study aimed to establish the influence of strategic marketing on competitive advantage and also determine the strategic marketing practices as used to gain competitive advantage. It was found out thatthe industries have each played a part in creating brand loyalty to the customers and perception through strategic marketing and to achieve competitive advantage it’s the provision of stability and trust plus a combination of variety in services that has made the companies that perform well do as they do and those who have a less percentage in market share have been thus due to the duration they have been in the market industry. (business.uonbi.ac.ke).

Data Analysis/Findings

4.2.2 State of competition in Mobile phone Industry in Kenya

Table 4.3 and figure 4.3 indicates the responses to the question posed to the staff, asking them to describe the state of competition in Mobile phone Industry in Kenya, 70% said competition was high in the mobile phone industry in Kenya, while 7% said it was low.

These findings agreed with Cartwright (2002), that competition is the main driving force leading marketers to search for areas of competitive advantage that will lead to greater financial success.

Table 4.3 Rate competition in the mobile phone industry in Kenya

Respondents Place of work		How do you rate competition in the mobile phone industry in Kenya?							
		High	%	Average	%	Low	%	Total	%
Company you work for	Safaricom	10	13	7	9	3	4	20	25
	Airtel	12	15	6	7	2	2	20	25
	Orange	15	19	4	5	1	1	20	25
	YU Mobile	18	23	2	2	0	0	20	25
Total		**55**	**70**	**19**	**23**	**6**	**7**	**80**	**100**

4.2.9 Cost Leadership Strategy to Gain Competitive Advantage

Respondents were asked whether they agree that pricing is a strategy used to build competitive advantage within their company. 80% agreed it is a strategy used within their company while 20% said it is not used. This information is shown in table 4.10 and figure 4.11 below.

Table 4.10: Do you agree that pricing is a strategy used within your company to build competitive advantage?

Respondents place of work		Do you agree that pricing is a strategy used within your company to build competitive advantage?					
		Yes	%	No	%	Total	%
Company you work for	Safaricom	10	13	10	13	**20**	**25**
	Airtel	18	23	2	2	**20**	**25**
	Orange	16	20	4	4	**20**	**25**
	YU Mobile	19	24	1	1	**20**	**25**
Total		**63**	**80**	**17**	**20**	**80**	**100**

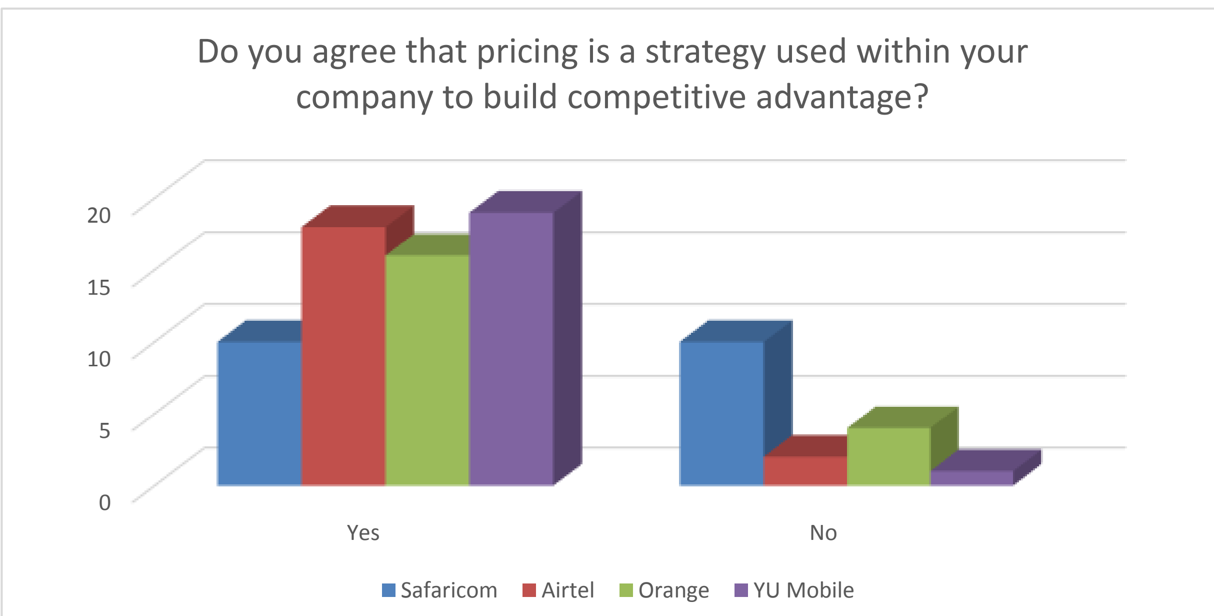

Figure 4.11: Do you agree that pricing is a strategy used within your company to build competitive advantage?

Also asked to what extent does pricing affect these given factors that leads to competitive advantage, they gave their response as shown in table 4.11 and figure 4.12, 88% Said it greatly affected profit levels in the mobile phone industry and 69% said it had little or no effect on customer loyalty

Table 4.11: To what extent do pricing affect the following factors that leads to competitive advantage?

Competitive advantage		**To what extent do pricing affect the following factors that leads to competitive advantage?**									
		No Extent	**%**	**Low Extent**	**%**	**Moderate Extent**	**%**	**Great Extent**	**%**	**Very Great Extent**	**%**
Effects on	Customer base	0	0	0	0	30	38	10	12	40	50
	Profit levels	0	0	0	0	10	12	10	12	60	76
	Customer loyalty	40	50	15	19	20	25	2	2	3	4
	Market share	10	12	5	6	5	6	10	12	50	64

4.2.12: Correlation on building competitive advantage to strategies used in mobile phone industry in Kenya.

The respondents rated the strategies used on a scale of 1 to 5 where 1 meant the strategy had a very low impact to the state of competition and 5 had the greatest impact to competition in the industry. They also rated the usage on the strategy within the industry on a scale of 1 to 10 where 1 was not used and 10 mostly used. This was represented in table 4.15 and figure 4.14 below:

Table 4.15: Relation between strategies used and state of competition in Mobile phone industry in Kenya

Respondents		State of Competition in Mobile industry in Kenya	
		impact on state of competition	**Rate strategy is used to gain competitive advantage**
Strategy used	**Cost leadership**	2	5
	Focus	4	8
	Differential	5	9

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