INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN 2278 – 0211 (Online)

Competitive Strategies' Effects on the Market Share of Independent Petroleum Companies in Kenya

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Abstract:
To stay afloat and sustain its competitive advantage any organisation must continuously review its organisational strategies in line with the industry in which it operates. The ever changing environment has forced players in the petroleum industry to adopt various strategies so as to survive. This study investigatedthe effects of competitive strategies used by Independent Petroleum Companies (IPCs) of Nairobi, Kenya, on their market share and their daily operations.A survey research supported by a descriptive design was used in the study.A sample population of twenty seven (27) registered petroleum companies was purposively selected as the sample of the study.Results indicatethat different competitive strategies were used in different magnitudes by the IPCs. Low cost leadership and product differentiation were the least used competitive strategies. On the other hand, the use of market segmentation and convenience retailing strategies was very high. The study found a strong correlation (0.7) between the competitive strategies employed by IPCs and market share.The study also found out that apart from market segmentation and convenience retailing, other strategies like overnight parking of public service vehicles, car washing, tyre sales and vehicle servicing are also mostly used by independent petroleum companies to increase their market share in Kenya.The study majorly recommends that local independent petroleum companies should identify and capitalize on their strengthswhich they enjoy over their multinational competitors to compete effectively in the Kenyan market.

Key words*: Competitive, strategies, cost leadership,differentiation, segmentation*

1. Introduction

1.1. Background to the Study
In the 1940s-50s market environments were relatively stable and organizations planning systems were based on extrapolation of current year sales and environmental trends (Donnelly 1992).Researchers assert that many companies have increasingly adopted different competitive strategies due to the increasingly turbulent environment (Ndungu, 2006).Competition is the state within a market setting where firms work and set strategies to gain advantage or greater success over each other(Pearce and Robinson 2007).Porter (1979) highlightedcost leadership, differentiation and focus as generic competitive strategies used by firms. According to this scholar, competition in an industry is characterized byrivalry among existing firms,threat of substitutes,buyer bargaining power,supplier power; and entry barriers or threat to entry.Consequently, a company's performance is closely linked to competitive marketing strategies it adopts(Baker, M.J., and Start, S. 1992).

2. Literature Review

2.1. Competitive Strategies
The most widely applied marketing strategy is perhaps McCarthy's "4 Ps"(Baker and Start, 1992). This marketing-mix involves four key variables, namely Price, Product, Place and Promotion. "P" as "Price" is generally a fee or a charge that is competitive in the

market and enables a full cost recovery. “P” as “Product” refers primarily to quality (contents, brands, and water service lines) and quantity (capacity or storage) of goods and services. The latter must meet stakeholders’ needs, practice, habit, belief, attitude and value or displays an appealing idea, brand or a label that represents the benefits resulting from consumption of the said production(Martinsen, 2008). “P” as “Place” stands for administrative distribution of goods and services in the market. It includes the organisation of service providers (suppliers) and users (clients) into specific physical and social networks for easy supply of goods and services to the market and communication. “P” as “Promotion” is the most important activity of any marketing strategy. It encompasses public relations, promotional activities and advertising or publicity. Companies are called to use effective means of communication to create or re-create awareness on their goods and services to sustain their adoption by clients (Doyle, 1992).

Milles and Snow (1978) introduced the *Defender,* the *Analyser,Reactor* and the *Prospector*among other strategies used by firms to achieve competitive advantage. Due to their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers (Pearce and Robinson, 2007). Milles and Snow (1978) link success in performance of organization to types of adaptive strategies that management chooses to engage, since each has its own competitive strategy for responding to the environment, and each has a particular configuration of technology, structure and processes that is consistent with its strategy.

According to Doyle,(1992),the ability of a company to outperform its competition depends onability to take advantage of market activity trends; ability to capture and protect ‘unfair share’ of markets; ability to capture premium pricing; prudent creation and introduction of new products.Porter (1998), states that a firm can uselow cost leadership, differentiation strategy and the market focus strategy as generic strategies to seek long-term competitive advantage.A firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle." Hence, Breene and Nunes (2005), in their research and experience with clients,could demonstrate that what distinguishes high performers from their competitors is the consistent way they construct and maintain this competitive essence.

This study sought to unveil the effectiveness of competitive strategies on the market share of independent petroleum companies. It specifically investigated the effects of pricing strategy and the use of segmentation, differentiation, cost leadership and other competitive strategies among Independent Petroleum Companies (IPCs) of Nairobi, Kenya, on their market share and their daily operations. The following sections present the research methodology and key findings and discussions arising from the study.

3. Research Methodology

This study used a descriptive research design.Descriptive studies are not only restricted to fact findings but may often result in the formulation of important principles of knowledge and solutions to significant problems(Kerlinger,1986).A descriptive study is concerned with finding out who, what, where or how much, and is used when one needs to determine characteristics associated with a subject population(Cooper and Schindler, 2001). The fifty five companies operating in Nairobi area were the target population.Twenty seven petroleum companies were purposively picked to participate in this study.Copper et al (2001) assert that the basic idea of sampling is that by selecting some of the elements in a population, conclusions may be drawn.This study used primary data obtained through the use of a structured questionnaire.A total of 27 questionnaires were distributed and all were returned, representing a 100% response rate.The questionnaire contained closed and open ended questions that sought further explanations from the respondents. The questionnaire was used since it is economical, easy to administer and analyse.Data was analysed by use of statistical package for social sciences (SPSS) software.

4. Results and Discussion

Majority of the companies (79%) use the pricing strategy to a small extent implying it is insignificant (Fig. 1). This could be due to the existing government retail pump prices control and the nature of the product whose origin is external and significantly controlled by external suppliers who determine pricing. According to Baker, (1992) companies are therefore called uponto use effective means of communication to create or re-create awareness on their goods and services to sustain their adoption by clients.

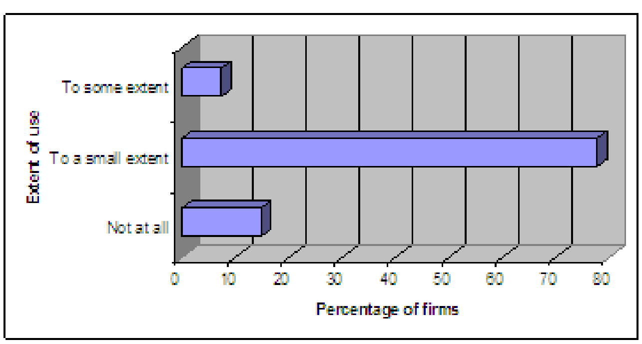

Figure 1: Use of Pricing as a Competitive Strategy

Fig.2 shows that a relatively large number of independent petroleum companies use segmentation as a competitive strategy (44%) to a large great extent. 30% use the strategy to some extend and 19% to a small extent. 7% of independent petroleum companies use segmentation to a very small extent. This implies that independent petroleum companies have over the years become sensitive to customer needs within certain markets and have responded accordingly. This is in agreement with the report on status of petroleum subsector in Kenya by Institute of Economic Affairs (2006).

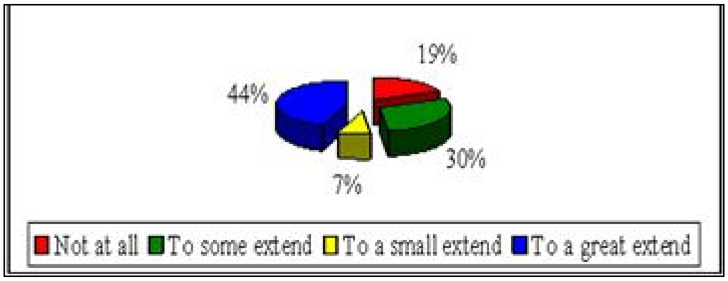

Figure 2: Use of Segmentation Strategy

The study reveals that independent petroleum companies in Nairobi do not quite use cost leadership in gaining competitive advantage over their rivals. As shown in Fig. 3, close to 50% of the firms do not use the strategy at all, while the others 50% or so use it to some extent or small extent. These companies do not enjoy large economies of scale in order to be cost leaders and hence they pick prices from the large multinational companies.

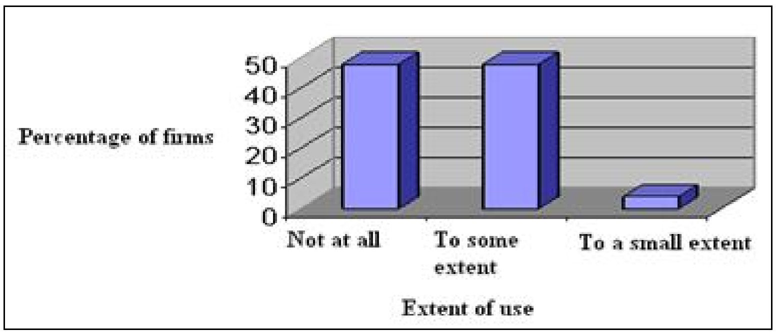

Figure 3: Use of Cost Leadership Strategy

This has been complicated further by the price control mechanism by the ministry of energy implemented from the year 2010 which caps maximum fuel prices for various regions in the country. These finding is similar to that of Porter (1979) who also noted that a low cost leader must have optimal production costs, low prices and high margins which lack in the IPCs. Thence, companies tend to rely more on convenience retailing, tyre sales,carwash and vehicle service strategies as shown in Fig.4. These strategies are used to a large extend by most of the independent petroleum companies in Nairobi.Differentiation strategywas found to be uncommon among the companies in this study. Almost all the companies did not use differentiation as a strategy. This could be explained by the fact that the product is practically the same and consumers are not likely to perceive differences in quality among companies.

Convenience retailing is one of the strategies which has been successfully and widely practiced in the petroleum sector. It involves presenting the product to consumer's at the most suitable locations for access. Most of the independent petroleum companies are situated along major roads and intersections in Nairobi and this is definitely convenient for motorists who happen to be the majority of customers. These adaptations by most IPCs are in agreement with Milles and Snow (1978) who stated that success in performance of organisations depends on the adaptive strategies that the management chooses to engage. The above "other strategies" are unique and have enabled the IPCs to compete effectively with the multinationals.Vehicle service and parking is also a major strategy used especially to attract public transport drivers, especially "matatu" mini –bus drivers, who leave their vehicles to spend the night at the petrol stations waiting to resume work the next day. After servicing and night stay most of the drivers fuel the vehicles at the same stations which significantly contribute to increased sales. Some of the stations offer free windscreen cleaning, carwash services at competitive prices, goods shops or have small hotels and bars in order to attract more customers.

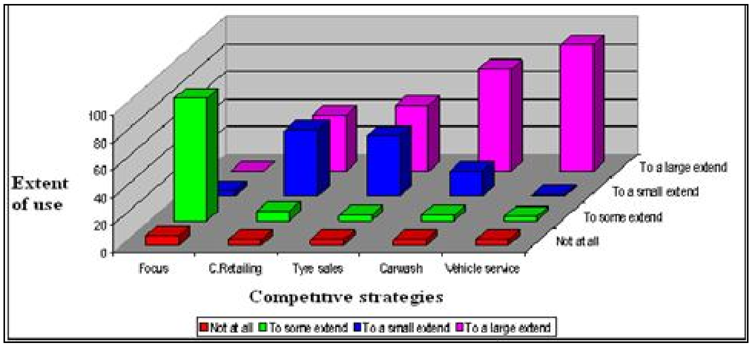

Figure 4: Use of other competitive strategies

Pearce and Robinson (2007) highlighted that survival in the market, growth and profitability were the three main economic goals that defined company's performance and guided its strategic behaviour.Companies in every industry are seeking ways to get a clear, accurate view of operational performance and they need an effective and reliable approach to connect operational performance to financial results. Ansoff et al. (1970) argued that long range competitive strategic planning does pay and further demonstrated that competitive strategies and operational measuresrequiredemand forecast accuracy, the perfect customer order, lead-time reduction, velocity, right first time (quality), schedule achievement and on-time new product introduction are core operational measures that can be leveraged to fine tune a company's enterprise-wide business process and achieve a higher return on capital employed.Capital,(2008),concluded that though formal planners tended to outperform informal or non-planners in financial success, studies linking strategic planning and performance are still inconclusive

5. Conclusion

Given their small size, their operation in new markets, weak asset base, low market share and weak forward and backward integration, the Independent Petroleum Companies (IPCs) are unlikely to succeed if they use the competitive strategies employed by their elder resource endowed and large rivals. Moreover, these independent dealers have to contend with the problem of age and newness, which has givena death blow to many small firms elsewhere. That is why, most IPCs in Kenya do not use cost leadership to a large extend.Differentiation strategy is the least used strategy by independent petroleum companies in Kenya because the main product which is fuel is basically the same for all companies.A relatively large number of IPCs use segmentation strategy that consequently influences their market share.Convenience retailing has had a remarkable impact on the market share of independent petroleum companies in Kenya.The study clearly shows that there are various effects of the competitive strategies employed on the market share of independent petroleum companies in Kenya.

6. Recommendation

The independent petroleum companies in Kenyaneed to put more emphasis on a combination of competitive strategies to increase their market share.Local independent petroleum companies should also identify and capitalize on their strengthswhich they enjoy over their multinational counterparts.Independent petroleum companies should form a strong association or lobby which will help them articulate their issues collectively when engaging the government.

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