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# Relationship between Threat of Substitutes and Competitive Advantage of Large Multinationals in Kenyan Beverage Industry

**Esther Njambi**
DBA Research Scholar, United States International University, Nairobi, Kenya
**Peter Lewa**
Professor, Department of Management, United States International University, Nairobi, Kenya
**Paul Katuse**
Associate Professor, Department of Strategic Management, United States International University, Kenya

***Abstract:***
*The threat of substitutes is determined by factors like brand loyalty of customers, close customer relationships, switching costs for customers, the relative price for performance of substitutes and current trends. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability. The beverage industry as a whole faces challenges as a result of the slumping economy and changes in consumers' consumption patterns due to increased health consciousness. There is fierce competition that forces companies to diversify their product range in an effort to better satisfy the customers. Organizations thus, have been forced to implement changes to align themselves with the changes in the environment as well as to realize their set goals.*
*This paper sought to answer how do substitute products affect competitive advantage of large multinational firms in Kenya? A descriptive survey design was used to achieve the purpose of this paper reflecting the philosophy of positivism. This paper adopted a cross sectional survey research design. The population was the Beverage Industry with the target population being drawn from the three Beverage Companies in Kenya totalling 230. Yamane's (1967) formula was used to calculate sample sizes of the respondents. A proportional sample of 146 respondents (60 from EABL, 50 from Coca Cola and 36 from Nestle Foods Ltd) was selected. Questionnaires were used as the main instrument for primary data collection since the paper was concerned with variables that cannot be directly observed such as views, opinions, perceptions and feelings of the respondents. The analysis was based on 136 respondents who completed and returned the questionnaires forming a response rate of 93.2%. Descriptive statistics was used to generate frequencies and percentages as well as mean scores and standard deviation. Inferential analysis was also used to analyse findings which aimed to establish the relationship between the independent variables and the dependent variable mainly Chi-square statistics, Karl Pearson's Product Moment Correlation analysis and Bi-Variant analysis.*
*This paper finds that availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business' commodity or service. The paper concludes that substitute product constrains the ability of firms in an industry to raise prices. The paper recommends that since substitutes are posing challenges to the firms' products, the multinational firms in the Kenyan beverage industry should research and understand the growing health trend of its consumers and innovate appropriately, realize the world is becoming a global village and adapt by taking advantage of the growing middle class through dynamic product propositions.*

***Keywords:*** *Threat of substitutes, competitive advantage, multinationals, beverage industry*

## 1. Introduction

According to Porter (1985) a threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products. Similarly, to the threat of new entrants, the treat of substitutes is determined by factors like brand loyalty of customers, close customer relationships, switching costs for customers, the relative price for performance of substitutes and current trends.

Gaining and sustaining competitive advantage is the overarching objective of firms' strategy. One of the big cornerstones of industry and competitive analysis involves carefully studying the industry's competitive process to discover the main sources of competitive pressure and how strong they are. Alam, Azim and Islam (2010) explain that the first fundamental determinant of a firm's profitability is industry attractiveness. Porter's five forces model provides a flexible framework for describing and assessing competitive pressures in an industry and industry attractiveness. Based on this analysis, a company can develop a competitive strategy for gaining and sustaining competitive advantages over rival firms and thereby generating above average return on investment

Deriving from the agriculture industry in definition, the food and beverage industry is divided into two major segments. Those two segments are production and distribution of edible goods. (Markusen, 1984). The beverage industry is one of the sectors of the wider economy that has witnessed immense brand on product proliferation. There is fierce competition that forces companies to diversify their product range in an effort to better satisfy the customers. Organizations thus, have been forced to implement changes to align themselves with the changes in the environment as well as to realize their set goals (Ngetich, 2010). A study and estimation of business competitive environment assists in evaluating factors contributing to competitive ability and success.

Many large companies in the beverage industry are in the category of Multinational Corporations (MNCs). A Multinational Corporation is the single most important actor in international business. It dominates by virtue of the scope and size of its international transactions. Some MNC's are so powerful that they command resources several times the GDPs of most countries. Due to their sizes, Multinational Corporations enjoy considerable scale economies in production, packaging, financing, distribution, advertising etc. A major distinguishing character of Multinational Corporations is they enjoy economies of scope, which is performance of various distinct activities within the same environment. By their nature, MNC's may be able to produce at lower costs high quality goods than the local firms owing to their scale economies. This affords consumers a variety as well as higher quality of goods. Kenya hosts two hundred and twenty-six foreign Multinational Corporations (see Appendix). MNC's provide developing countries like Kenya with critical financial infrastructure and enormous resources for economic and social development (Muthiani, 2012).

The threat of substitute products or services is always present, but these threats are easy to overlook because they may appear to be very different from the industry's product. When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry's profit potential by placing a ceiling on prices. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry's product. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability—and often growth potential (Porter, 1985). Strategists should be particularly alert to changes in other industries that may make them attractive substitutes when they were not before identities (Porter, 1980).

The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability. The strength of rivalry reflects not just the intensity of competition but also the basis of competition. Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. The degree to which rivalry drives down an industry's profit potential depends on the intensity with which companies compete and on the basis on which they compete. Rivalry can be positive sum, or actually increase the average profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of price, products, services, features, or brand identities (Porter, 1980).

## 2. Research Problem

The beverage industry as a whole faces challenges as a result of the slumping economy and changes in consumers' consumption patterns due to increased health consciousness (Public Health Law and Policy, 2011). Deriving from the agriculture industry in definition, the food and beverage industry is divided into two major segments. Those two segments are production and distribution of edible goods. According to Musia (2013) the beverage industry is one of the sectors of the wider economy that has witnessed immense brand on product proliferation. There is fierce competition that forces companies to diversify their product range in an effort to better satisfy the customers (Cantner, Kruger & Rhein, 2009). Organizations thus, have been forced to implement changes to align themselves with the changes in the environment as well as to realize their set goals.

Organizations need an analysis of internal and external environments, and an adjustment according to such varying environments. This assists in making profit and utilizing business opportunities which are derived from creating prominent features in business and competition (Johnson & Scholes, 2002; Nadeau & Casselman, 2008). The beverages industry constitutes a significant portion of the manufacturing sector in Kenya and therefore contributes towards employment, revenue collection by government and the export of products to earn foreign exchange. It is also an industry that has linkages with other sectors and industries such as transportation, glass making and advertising.

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. From the foregoing, it is evident that threat of Substitutes affects the competitive advantage of large multinationals in the Kenyan Beverage Industry. It was in this light that the current paper sought to establish the relationship between threat of substitutes and competitive advantage of large multinationals in the Kenyan Beverage Industry where the context of focus was on Coca-Cola, East African Breweries Limited and Nestlé Food.

## 3. Resource Based Theory

This paper is based on the resource based theory. According to Warnier, Weppe and Lecocq (2013), Resource Based Theory (RBT) is based on earlier studies, notably the work of Penrose (1959) among others, and has been developed in work of Wernerfelt (1984) which is regularly cited in research asserting a resources approach. For Penrose, the essence of the firm is strongly linked to the concept of resources since she defines it as "a collection of productive resources, where the choice of different uses of these resources over time is determined by administrative decision" (Penrose, 1959, p. 21). While the work of Penrose (1959) concerning the growth of the firm considers all resources (productive and administrative) globally, research in strategic management has then mainly focused on a certain type of resources, i.e. strategic resources. The heterogeneous nature of resources and their uneven distribution between competing firms is one of the cornerstones of RBT as it helps to explain competitive advantage (Peteraf, 1993).

However, the concept of heterogeneity is defined in a restrictive way since, in the end, only strategic resources are taken into consideration in the analysis: "it signifies, simply, that strategic resources are distributed unevenly across firms, or that different firms possess different bundles of strategically relevant resources" (Peteraf & Barney, 2003). However, not all resources offer the possibility of developing sustainable competitive advantage and the work of Barney (1991) has identified the different attributes a resource must have in order to create such an advantage. According to the VRIN (valuable, rare, inimitable and non-substitutable) model (Barney, 1991); a valuable and rare resource can create a sustainable competitive advantage if it is also inimitable and non-substitutable (Barney and Clark, 2007). Resource-based theory of the firm suggests that firm resources and capabilities influence the growth and performance of the firm (Barney, 1991; Mahoney and Pandian, 1992). The resource-based theory focuses on costly to copy firm resources that could be a source of sustainable competitive advantage (Barney, 1991).

Resource-based theory stems from the principle that the source of firm's competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. That is rather than simply evaluating environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses (Barney, 1995). The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance (Ainuddin, Beamish, Hulland, and Rouse, 2007). This theory views the firm as a bundle of resources and capabilities which can be strategically focused on: (a) factor market imperfections; (b) the heterogeneity of firms; (c) varying degrees of specialization; and (d) the limited transferability of corporate resources. According to this view, the competitiveness of a firm depends on identifying its core competence and the capability to deploy it. The paper reviews the resource based view and measures its applicability as well as its contribution to the firms' performance.

Firm's resources consist of all assets both tangible and intangible, human and non-human that are possessed or controlled by the firm and that permit it to devise and apply value-enhancing strategies (Barney, 1991). Examples of resources are brand names, in-house knowledge of technology, capital, etc. Resources and capabilities that are valuable, uncommon, poorly imitable and non-substitutable (Barney, 1991) comprise the firm's unique or core competencies (Prahalad and Hamel, 1990) and therefore present a lasting competitive advantage. Intangible resources are more likely than tangible resources to generate competitive advantage (Hitt et al., 2001). Specifically, intangible firm-specific resources such as knowledge permit firms to add up value to incoming factors of production (Hitt et al., 2001). It represents competitive advantage for a firm (Collis and Montgomery, 1995; Post, 1997; Markides, 1997; Bogner et al., 1999). Such an advantage is developed over time and cannot easily be imitated. Core competencies are the collective learning in the organization (Prahalad and Hamel, 1990).

Barney (1991) regards resources as those controlled by a firm that allow the firm to formulate and implement strategies that expand its efficiency and effectiveness. He developed four criteria for assessing what types of resources would present sustainable competitive advantage. These were value creation for the customers, rarity compared to the competition, inimitability, and substitutability. It is important to mention, explicitly, that knowledge is one competitive advantage that is difficult and time consuming to imitate. It must be encouraged and developed as part of organization learning and organization memory as it is used. Knowledge is a core competence that does not weaken nor is it consumed with use. As resources cannot at all times be transferred or imitated, organizations must look internally to locate the real sources. The resources that the firm can build up have a major influence on their strategies (Barney, 1996) since they might guide the firm's decision making (Grant, 1991).

**4. Threat of Substitute Products or Services**

A substitute product is one that can satisfy the same need with another although the products appear to be different. According to Porter, "Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge" (Porter, 1986). To the extent that switching costs are low, substitutes may have a strong effect on an industry. It at times is a challenging task, for organizations to categorize the possible substitute products or services as this task would mean identification of products or services that can satisfy the need, even though the products or services may not easily appear to be substitutes (Hunger &Wheelen, 2011).

Alam et al., (2010) discusses the following as factors that expound on threat posed by substitute products: *Low Switching Costs* – When it is easy for a customer to switch to a substitute product at a less or no switching cost substitute product there exists a great threat; *Customer Loyalty* – when customers have low level of loyalty and price is the primary motivator, the threat of substitutes is great; *Income level of customers* – consumers of all income groups cannot consume the other substitutes, consumer purchasing power will determine which products to consume; *Tastes and preferences* – changing the tastes and preferences of customers is very difficult and thus once a product is entrenched in a market, a new entrant would undertake high costs of promotions and marketing to achieve consumer trial and ultimate switch; *Frequency of consumption* – how frequently a commodity is consumed creates opportunities for that commodity to earn greater revenue and would thus become a threat to substitution.

In the beverage industry, firms are affected by the competition of the related markets. For example, fruit juices with the mineral water. In this case the availability of substitutes affects the companies' ability to increase the price or to change the properties of their products. These substitutes are especially important in markets where there are several competitors in a narrow market or those in which it is difficult to quickly increase the supply in the industry. There is threat of substitute products or services, by the fact that in this industry there are products in the market that are growing to maturity in their product life cycle for example, products like Coca-Cola, Fanta.

## 5. Research Methodology

The paper adopted the ontology of objectivism and used a cross sectional survey research design. Kenya's food and beverage industry is made up of more than 1,200 businesses. This ranges from small enterprises to large multinational companies (Trade and Investment, 2012). The Beverage industry falls under the Fast Moving Consumer Goods Companies (FMCG) which is divided into two categories 1) Alcoholic and 2) Non-Alcoholic. The Non-Alcoholic category is further divided into two – liquids and solid or powder. The research was carried out on one large Multinationals from each category using the following criteria to select the companies. From all the categories, the researcher selected the organization which has the highest market capitalization, listed company in the Nairobi Stock Exchange, as well as the company with the highest Asset Base and turnover. The companies that were researched were; East African Breweries Limited, Coca Cola (Nairobi Bottlers Limited) and Nestlé Foods.

The paper employed multi-methods, using both quantitative and qualitative techniques, in data collection with more emphasis on quantitative methods. Questionnaires was used as the main instrument for primary data collection. Semi-structured questionnaires were applied as they enabled the researcher to balance between the quantity and the quality of data collected as well as enable more data to be collected. Questionnaires were used since the researcher was concerned with variables that cannot be directly observed such as views, opinions, perceptions and feelings of the respondents. A pilot study was conducted using five selected middle management level within the three large Multinational firms of the Kenyan Beverage Industry to pretest the instrumentation that were used during data collection and analysis. The findings of the pretest indicated that substitute products had a coefficient of 0.821. These findings correlate with Mugenda & Mugenda (2012) argument that coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability. The analysis of this paper was based on 136 respondents who completed and returned the questionnaires forming a response rate of 93.2%.

| Variables | Reliability Cronbach's Alpha | Number of Items | Comments |
|---|---|---|---|
| Substitute products | 0.821 | 7 | Accepted |

*Table 1: Reliability Test of Construct*

Descriptive statistics was used to analyse the collected data into tables, charts with frequency distribution and percentages which are a vital part of making sense of the data. A Likert scale was applied in analyzing the data collected. Weighted mean score was then determined. The probability score subsequently given in order to consider the current possibility of the manufacturers facing the competitive force. Score levels were between 5 (highest possibility) and 1 (least possibility). The effectiveness score and the possibility score were multiplied to find the weighted score in order to determine the competitive force that is most influential to the industry. In order to test the hypotheses and generalize the findings to the larger Kenyan market as well as access the strength of the relationship between the independent variable (Porter's Five Forces) and the dependent variable (competitive advantage). Inferential statistics was also used and in particular: 1) Chi-square statistics, Pearson Correlation and Bi-variate regression analysis. The researcher applied the statistical package for social sciences (SPSS) version 20 to code, enter and compute the data.

## 6. Findings

The paper sought to examine the degree to which substitute products affects competitive advantage of the multinational firms in the Kenyan beverage industry. As such, the respondents were requested to indicate their level of agreement with various statements provided on threat of substitutes. A scale of 1 to 5 was provided where: 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree.

| Statements on Threat of Substitutes | Mean | Std. Dev. |
|---|---|---|
| Organization focus on product uniqueness as a value creation measure to guard against threat of substitutes | 3.9231 | .86232 |
| The more attractive the price performance alternative being offered by substitutes, the firmer the lid on industry and organizations' profit | 3.6250 | 1.0020 |
| When guarding against reaping the highest possible returns, costs relating to counter/proactive measure a fundamental consideration as to how far organizations can be proactive or reactive to substitutes | 3.2972 | 1.6102 |
| Substitute products not only limit profits in normal times, but they also reduce the goldmine an industry can reap in boom times | 3.5423 | 1.1772 |
| Substitute products limits the potential returns of the beverage industry by placing a ceiling on the prices firms can profitably charge | 3.3077 | .63043 |
| Advertising, innovation, sales and marketing activities, incentives, product quality, market segmentation, distribution etc. can improve the industry's collective position and in turn the return on equity | 3.3077 | 0.4803 |
| The organizations optimally utilize its assets to realize high returns through innovation to take advantage of the changing tastes and preferences of customers and make it expensive for a new entrant to achieve trial or eventual switch | 4.0857 | 0.37078 |

*Table 2: Agreement on Effects of Substitute Products on Competitive Advantage*

Majority of the respondents agreed that the organizations optimally utilize its assets to realize high returns through innovation to take advantage of the changing tastes and preferences of customers as well as make it expensive for a new entrant to achieve trial or

eventual switch as shown by a mean score of 4.0857. Furthermore, respondents agreed that the organizations focus on product uniqueness as a value creation measure to guard against threat of substitutes as shown by a mean score of 3.9231. Also, the more attractive the price performance alternative being offered by substitutes, the firmer the lid on industry and organizations' profit as shown by a mean score of 3.6250. It was also noted that substitute products not only limit profits in normal times, but they also reduce the goldmine an industry can reap in boom times as shown by a mean score of 3.5423. Further, there was neutrality on the statement that substitute products limits the potential returns of the beverage industry by placing a ceiling on the prices firms can profitably charge as shown by a mean score of 3.3077. Similarly, the respondents noted that advertising, innovation, sales and marketing activities, incentives, product quality, market segmentation, distribution etc. can improve the industry's collective position and in turn the return on equity as shown by a mean score of 3.3077. Finally, when guarding against reaping the highest possible returns, costs relating to counter/proactive measure a fundamental consideration as to how far organizations can be proactive or reactive to substitutes had a mean score of 3.2972.
An analysis was undertaken for the null hypothesis that 'threat of substitute product does not affect competitive advantage of multinational firms in the beverage industry'. The chi-square (I) test was used to determine whether there is a significant difference between the expected frequencies and the observed frequencies in one or more categories.

| Variables | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Threat of substitute product and competitive advantage | 48.362(a) | 2 | 0.004 |

*Table 3: Chi-Square Tests for Threat of Substitute Product and Competitive Advantage*

The chi square statistic was established to be 48.362 with a p-value of 0.004. Hence the researcher concludes that there is an association between the threat of substitute product and competitive advantage of firms in the Kenyan beverage industry. The null hypothesis was therefore rejected.

| Variables | Correlations | Competitive advantage in the beverage industry | Substitute products |
|---|---|---|---|
| **Competitive advantage in the Kenyan beverage industry** | Pearson Correlation | 1 | .166 |
| | Sig. (2-tailed) | . | .024 |
| **Substitute products** | Pearson Correlation | .166 | 1 |
| | Sig. (2-tailed) | .024 | |

*Table 4: Correlation of Threat of Substitute Product and Competitive Advantage*

From the correlation analysis, there was a positive correlation between competitive advantage in the Kenyan beverage industry and substitute products with a correlation value of 0.166 ($p<0.05$). As the value of threat of substitute products increases, so does the value of Competitive Advantage.
A bi-variate regression model to determine the relative importance of the variables with respect to the threat of substitute product on competitive advantage in the Kenyan beverage industry where the focus was on large multinationals revealed that with a constant of zero, the competitive advantage in the Kenyan Beverage Industry was 2.466, a unit increase in substitute products will lead to a 0.230 increase in competitiveness of the competitive advantage in the Kenyan beverage industry. From the regression equation ($\mathbf{Y = \beta_0 + \beta_1 X_1}$), the regression analysis established was: $\mathbf{Y = 2.466 + 0.230X_1}$

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.466 | 0.515 | | 0.917 | 0.367 |
| | Substitute products | 0.230 | 0.096 | 0.215 | 1. 912 | .0182 |

*Table 5: Bi-Variant Analysis on Threat of Substitute Product*

## 7. Discussions

The paper found that optimal utilization of organizations assets realizes high returns through innovation taking advantage of the changing tastes and preferences of customers. This in turn makes it expensive for a new entrant to achieve trial or eventual switch. The organizations focus on product uniqueness as a value creation measure to guard against threat of substitutes, the more attractive the price performance alternative being offered by substitutes, the firmer the lid on industry and organizations' profit and substitute products not only limit profits in normal times, but they also reduce the goldmine an industry can reap in boom times. The chi square statistic was established to be 48.362 with a p-value of 0.004. This illustrates that there is an association between the threat of substitute product and competitive advantage of firms in the Kenyan Beverage Industry. From the correlation analysis, there was a positive correlation between competitive advantage in the Kenyan Beverage Industry and substitute products with a correlation value of 0.166 ($p<0.05$). A bi-variate regression model revealed that a unit increase in substitute products will lead to a 0.230 increase in competitive advantage of the MNCs in the Kenyan Beverage Industry.

The findings of this paper supports findings of Davis, Freedman, Lane, McCall, Nestoriak, and Park, (2006) that the threat of substitute goods and services in a sector has a high impact on the competitive atmosphere for the businesses in that sector and influences those businesses' capacity to realize profitability. From the findings, the availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business' commodity or service. The presence of close substitute goods and services can turn a sector highly competitive and lower profit potential for the businesses in the sector. Alternatively, the absence of close substitute goods and services turns a sector less competitive and raises profit potential for the businesses in the sector.

Elms, Canning, De Kervenoael, Whysall, and Hallsworth (2010), when guarding against reaping the highest possible returns, costs relating to counter/proactive measures are a fundamental consideration as to how far organizations can be proactive or reactive to substitutes. According to Elms et al., (2010), the strength of competitive pressure from substitute products depends on three factors. The first is the extent to which substitute products are available. Second is how satisfactory the substitutes are in terms of quality performance and meeting users' needs. Third is the ease with which buyers can switch to substitutes. The availability of substitutes places limits on the prices that firms in the industry can charge. To counter this, some firms may place high switching costs on their customers. This is done by structuring the service offering in such a way that customers will incur additional costs to change or move to other firms.

There is a general notion that a threat of substitutes exists when a product demand is affected by the price change of a substitute. Riley (2012) indicated that substitute products can be existing or potential products and services which are able to perform the same function. Substitute products can reduce costs, and/or provide better quality performance and better value which very often the result of technological innovation. The Beverage Industry in all major cities is not threatened by substitute products except that in times of recession domestic travel might replace international or overseas travel and certain destinations replace more expensive ones on cost grounds. In theory, substitute products perform same function, reduce costs, and/or provide higher quality performance with better service due to technological advancement (Porter, 1980). In the "lower" strategic groups for tourist traffic, hostels, motels and staying with relatives might replace cheaper beverages. This market is either low-income or cost-conscious, but in any event, it is quite price-sensitive. A beverage operator in anywhere can compete on a low cost basis in a niche segment. It can also compete on the basis of a modern, comfortable but not luxurious beverage situated in a popular and convenient location appearing to offer good value to the cost-conscious visitors.

Whether this strategy is sustainable in the long term is uncertain, given that in an area with good communications and cost-conscious travellers may be prepared to suffer slight inconvenience for cost savings. The importance of location to the target market may be over-rated. The beverage operator may not be able to rely solely on location to retain its market share in a situation of oversupply and consequently intense rivalry. There is no major threat of substitute products specific to a beverage's product and service. A beverage will be subject to powerful buyers only if its marketing strategy concentrates on attracting tour groups, provided no oversupply for the beverage's target market develops. A beverage may not appear to be particularly vulnerable to intense rivalry because of the fragmented nature of the competition in its strategic group and the potential growth rate of its target market. In the "upper" strategic groups, for example, those particularly catering for business traveller, or the upper middle aged and old aged bracket, there is little opportunity for substitute products. Substitute products are not a major present or likely threat to Beverage Industry as a whole.

## 8. Conclusions

The paper found that the organizations optimally utilize its assets to realize high returns through innovation to take advantage of the changing tastes and preferences of customers as well as make it expensive for a new entrant to achieve trial or eventual switch, the organizations focus on product uniqueness as a value creation measure to guard against threat of substitutes, the more attractive the price performance alternative being offered by substitutes, the firmer the lid on industry and organizations' profit and substitute products not only limit profits in normal times, but they also reduce the goldmine an industry can reap in boom times. The availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business' commodity or service.

The paper concludes that substitute product constrains the ability of firms in an industry to raise prices. Owing to the strong relationship between substitutes and the competitive advantage of multinational firms in the beverage industry in Kenya, the strength and effects of substitutes should not be ignored. From the findings, the organizations need to focus on product uniqueness as a value creation measure to guard against threat of substitutes. Advertising, innovation, sales and marketing activities, incentives, product quality, market segmentation, distribution etc. can improve the industry's collective position and in turn the return on equity.

## 9. Recommendations

The paper recommends that since substitutes are posing challenges to the firms' products, the multinational firms in the Kenyan Beverage Industry should research and understand the growing health trend of its consumers and innovate appropriately, realize the world is becoming a global village and adapt by taking advantage of the growing middle class through dynamic product propositions. Further, it is recommended that a MNC's carry out constant study of the strategies taken by firms that offer substitutes and integrate them within their system as partners or be proactive in modifying their products to avoid losing clients to substitute products.

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**Appendix: Multinational Companies Registered in Kenya**

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 1 | ABB Asea Brown Boveri Ltd | Electrical Equipment | Sweden |
| 2 | ABB Ltd | Power & Automation Technologies | Switzerland |
| 3 | Abercrombie & Kent Tours Limited | Tourism | United Kindgom |
| 4 | Achelis Group | Conglomerate | Germany |
| 5 | Acme Press KenyaLimited | Printers | USA |
| 6 | African Highland Produce Company Limited | Agriculture and Fishing | United Kindgom |
| 7 | Afsat Communications | Data Network Solutions | United Kindgom |
| 8 | Air India | Aviation | India |
| 9 | Air Italy | Aviation | Italy |
| 10 | Air Mauritius | Aviation | Mauritius |
| 11 | Air Tanzania | Aviation | Tanzania |
| 12 | Air Zimbambwe | Aviation | Zimbambwe |
| 13 | Airside Ltd | Airport services | Switzerland |
| 14 | Alfa Laval Regional Office | Heat Transfer, Separation & Fluid Handling | Sweden |
| 15 | Amiran Kenya Limited | Wholesale Trade | United Kindgom |
| 16 | Anova East Africa (ANEA) | Fresh & Frozen SeaFood Products | Netherlands |
| 17 | AON Minet Insurance Brokers Limited | Professional Services | United Kindgom |
| 18 | Asahi Shimbun | Media | Japan |
| 19 | Asami Motor Services | Motor Vehicles | Japan |
| 20 | Ashok Leyland | Automobiles and Engines | India |
| 21 | Assa Abloy EA Limited | Manufacturing & Services: Locks, Automatic Security Doors | Sweden |
| 22 | Atlas Copco Eastern Africa Limited | Manufacturers of Generators, Compressors & Industrial Tools | Sweden |
| 23 | Aust-Ang Caterings limited | Hospitality | Germany |
| 24 | Auto Sueco (Volvo) EA Limited | Heavy Equipment | Sweden |
| 25 | Avery Kenya Limited | Weighing Equipment | United Kindgom |
| | Company | Sector | Country of Origin |
| 26 | Avon Rubber Company | Rubber & Polymer Products | United Kindgom |
| 27 | Bank of Baroda | Banking & Finance | India |
| 28 | Barclays Bank of Kenya Limited | Banking | United Kindgom |
| 29 | BASF | Manufacturing & Marketing of a wide range of Chemical Products | Germany |
| 30 | Bata Shoes Company (K) Ltd | Footwear, Sportswear, Sports Equipment and toiletries | Switzerland |
| 31 | Bayer East Africa Ltd | Agricultural chemicals | Germany |
| 32 | Beiersdorf East Africa | Personal care | Germany |
| 33 | Berger Paints | Paints | United Kindgom |
| 34 | Beta Healthcare | Healthcare | United Kindgom |
| 35 | BOC Kenya Limited | Industrial Gases | United Kindgom |
| 36 | Bonar EA Limited | Plastic Bags | United Kindgom |
| 37 | Booker Tate | Development Management & Technical services in Agribusiness | United Kindgom |
| 38 | Brackla Nodor Limited | Dartboards | United Kindgom |
| 39 | British Airways | Aviation | United Kindgom |
| 40 | British American Investment | Finance | Mauritius |
| 41 | British American Tobacco | Tobacco | United Kindgom |
| 42 | British Broadcasting Corporation | Media | United Kindgom |
| 43 | Cadbury Kenya | Confectionary | United Kindgom |
| 44 | Cadila Pharmaceuticals Ltd | Pharmaceutical | India |
| 45 | Caltex Oil Kenya Limited | Oil Refinery Products | USA |
| 46 | Carnaud Metalbox (K) Limited | Metal Packaging | United Kindgom |
| 47 | Castle Brewing Kenya Ltd/SAB Miller | Food & Beverages Products | South Africa |
| 48 | Ceva Animal Health Eastern Africa Ltd | Veterinary health | Sweden |
| 49 | CEVA/TNT Logistics | Logistics | Netherlands |
| 50 | Chase Bank Kenya | Banking | USA |

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 51 | China Central Television (CCTV) | Television broadcasting | China |
| 52 | China Jiangsu International Economic –Technical Cooperation Corporation | Manufacturing & Exporting | China |
| 53 | China national Aero-Technology Import-Export Corporation | Manufacture and trading of Merchandise | China |
| 54 | China Overseas Engineering Corporation | Engineering | China |
| 55 | China Radio International | Media | China |
| 56 | China Road & Bridge Corporation | Construction | China |
| 57 | Chloride Exide-Emmerson | Car Batteries | India |
| 58 | Cisco Systems | Networking Equipment | USA |
| 59 | Citi Bank Limited | Finance | USA |
| 60 | CMA CGM Kenya Limited | Container Transportation and Shipping | France |
| 61 | Coca Cola | Soft Drinks & Beverage Manyfacturing | USA |
| 62 | Colgate-Palmolive (EA) Limited | Personal Care Products | USA |
| 63 | Cosmic Crayon Company EA Limited | Arts, Crafts & Toys | USA |
| 64 | Crown Cork Company (EA) Limited | Packaging Branding | USA |
| 65 | Cussons Company Limited | Personal Care Products | United Kindgom |
| 66 | Daewoo Corporation | Motor Vehicles | Korea |
| 67 | Del Monte | Agriculture: Juice, Fruits | USA |
| 68 | Deloitte Touche Tohmatsu | Professional Services | USA |
| 69 | Delta Air Lines | Aviation | USA |
| 70 | DHL | Courier | Germany |
| 71 | Dow chemicals | Chemicals | China |
| 72 | East African Breweries Limited | Brewing & Manufacturing | United Kindgom |
| 73 | East African Development Bank | Finance | Uganda |
| 74 | Ecobank | Financial Services | Togo |
| 75 | Ecolab East Africa (K) Limited | Chemical Products | USA |

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 76 | Egypt Air | Aviation | Egypt |
| 77 | Eltek | Electronics | Norway |
| 78 | Ericsson Kenya Limited | Telecommunications Equipment | Sweden |
| 79 | Ernst & Young | Professional Services | United Kindgom |
| 80 | Ethiopia Air | Aviation | Ethiopia |
| 81 | Eveready East Africa Limited | Batteries | USA |
| 82 | Fairview Hotel | Hotels | United Kindgom |
| 83 | FedEx Kenya | Courier | USA |
| 84 | Fidelity Bank | Banking | USA |
| 85 | Fila East Africa | Sports Wear | Korea |
| 86 | Firestone East Africa | Parts & Accessories for Motor Vehicles | USA |
| 87 | First Rand Bank | Banking | South Africa |
| 88 | Foton Motors | Automobiles | China |
| 89 | General Electric | Appliances, Aviation, Consumer Electronics | USA |
| 90 | General Motors | Vehicle Assembly | USA |
| 91 | Glaxo Smithkline Kenya Limited | Pharmaceuticals & Health Care Products | United Kindgom |
| 92 | Google | Computer Software | USA |
| 93 | Greif Kenya Limited | Machinery & Equipment | USA |
| 94 | Habib Bank A G Zurich | Banking | Switzerland |
| 95 | Heidelberg East Africa | Cement | Germany |
| 96 | Heineken | Brewery | Netherlands |
| 97 | Henkel Kenya Limited | Personal care | Germany |
| 98 | Holam Brothers EA (Broom and Wade) | Engineering & Manufacturing | United Kindgom |
| 99 | Hotel Inter-Continental Nairobi | Hotels | United Kindgom |
| 100 | Hwan Sung Industries (Kenya) Ltd | Furniture | Korea |

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 101 | Hyundai Corporation | Motor Vehicles | Korea |
| 102 | IBM | Computer Hardware and Software, Consulting and Services | USA |
| 103 | IGE Resources AB Africa | Exploration & Mining | Sweden |
| 104 | Innscor International Franchising | Fast Food Company | Zimbambwe |
| 105 | Interfreight (Kenya) Limited | Supporting transport activities | New Zealand |
| 106 | Itochu Corporation | Trading Company | Japan |
| 107 | Kajima Corporation | General Contracting Services | Japan |
| 108 | Kenindia Assurance Company Ltd | Insurance | India |
| 109 | Kenya Tenri Society | Foreign Development Agency | Japan |
| 110 | KLM Royal Dutch Airlines | Aviation | Netherlands |
| 111 | KPMG | Professional Services | Netherlands |
| 112 | Kuehne+Nagel | Logistics | Germany |
| 113 | L.G. Harris & Co. EA Limited | Painting accessories | United Kindgom |
| 114 | LG Electronics | Electronics | Korea |
| 115 | Maersk Logistics Kenya Ltd | Supporting transport activities | Denmark |
| 116 | Mantrac Group | Authorized Distribution and Support of Caterpillar Construction Machines | Egypt |
| 117 | Manugraph Kenya Ltd | Printing | India |
| 118 | Marshalls EA (Tata) | Motor Vehicles | India |
| 119 | MasterCard | Finacial Services | USA |
| 120 | Matsushita Electrical Industrial | Electrical & Electronic Components | Japan |
| 121 | McCann-Erickson Kenya Limited | Advertising | USA |
| 122 | Microsoft | Computer Software | USA |
| 123 | Minet ICDC Insurance Brokers | Insurance | United Kindgom |
| 124 | Mitsubishi Corporation | Motor Vehicles | Japan |
| 125 | Mitsui & Co Ltd | Widespread-Exploration Power | Japan |
| | Company | Sector | Country of Origin |
| 126 | Mobil Oil Kenya Limited | Petroleum Refinery Products | USA |
| 127 | Nairobi Hilton Hotel | Hotels | United Kindgom |
| 128 | Nec Corporation | IT services and products | Japan |
| 129 | Nestle Foods Kenya Limited | Food products, beverages, and tobacco | Switzerland |
| 130 | Nippon Koei Ltd | General Engineering & Consulting | Japan |
| 131 | Nissan | Motor Vehicle –Urvan (Caravan) | Japan |
| 132 | Nissho Iwai Corporation | Heavy Construction Machinery & Equipment | Japan |
| 133 | Nokia | Telecommunications equipment, internet, computer software | Finland |
| 134 | Novartis (Ciba-Geigy) | Pharmaceuticals | Switzerland |
| 135 | Oilibya | Refined Products | Libya |
| 136 | Old Mutual Group | Financial Services | United Kindgom |
| 137 | Otis Elevators | Elevators & Lifts | USA |
| 138 | Overseas Courier Company | Courier Services | Japan |
| 139 | Pepsi Cola | Food & Beverage | USA |
| 140 | Peugeot Kanya | Motor Vehicles | France |
| 141 | Pfizer Laboratories Limited | Pharmaceuticals | USA |
| 142 | Phillip Medical Systems | Electronic Medical Equipments | Netherlands |
| 143 | Pirelli Tyre | Tyres | Italy |
| 144 | Posterscope Kenya (Aegis Group) | Outdoor Advertising Services | United Kindgom |
| 145 | Praj. Industries Ltd | Engineering & Fabrication, Alcohol & Brewery plants | India |
| 146 | Price Waterhouse Coopers | Auditing & Professional Services | United Kindgom |
| 147 | Private Safaris | Tour Companies | Switzerland |
| 148 | Procter & Gamble Services Limited | Consumer Goods | USA |
| 149 | Qualcomm | Telecommunications Equipment & Semiconductors | USA |
| 150 | Raymond Woolen Mills ( Kenya ) Ltd | Textiles and clothing | India |

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 151 | Reckitt Benckiser | Toiletries & Domestic Chemicals | United Kingdom |
| 152 | Regal Press Kenya Limited | Printing | Canada |
| 153 | Rentokil Limited | Business Services | United Kingdom |
| 154 | Reuters | Media | United Kingdom |
| 155 | Roche Products | Pharmaceuticals | Switzerland |
| 156 | Royal Dutch Shell | Petroleum Products | Netherlands |
| 157 | Ryden International | Property Consultants | United Kingdom |
| 158 | S G S Kenya Ltd | Custom Inspection & Valuation | Switzerland |
| 159 | Saab Automobile AB | Automobiles, Defence and security | Sweden |
| 160 | SAB Miller | Brewing | United Kingdom |
| 161 | Sadolin paints(Akzo Nobel) | Paints | Denmark |
| 162 | Sage Group | Computer Software | United Kingdom |
| 163 | Samsung | Electronics | Korea |
| 164 | Sandvik (Kenya) | Engineering: tooling, materials technology, mining and construction | Sweden |
| 165 | Sanyo Armco | Electronics & Home Appliances | Japan |
| 166 | SC Johnson & Johnson | Consumer Goods | USA |
| 167 | Scala (EA) Ltd | Computers-Software Services | Sweden |
| 168 | Scania (Kenya Grange) | Motor Vehicles | Sweden |
| 169 | Schenker Ltd | Logistics Services | Germany |
| 170 | Schindler Ltd | Manufacture, Maintenance and Modernization of Elevators & Escalators | Switzerland |
| 171 | SDV Transami | Freight Forwarders | France |
| 172 | Securicor | Courier, Guarding & Alarm Services | United Kingdom |
| 173 | Seminis Vegetable Seeds Holland | Agriculture - Vegetable Seeds | Netherlands |
| 174 | SERA Software East Africa | IT | Netherlands |
| 175 | Shell-British Petroleum | Petroleum Products | United Kingdom |
| | Company | Sector | Country of Origin |
| 176 | Sher Flowers | Floriculture | India |
| 177 | Siemens | Telecommunications and Electrical Equipment | Germany |
| 178 | SIETCO Development Corporation | Construction | China |
| 179 | Silent Night | Furniture | United Kingdom |
| 180 | Skanska | Construction Services | Sweden |
| 181 | SKF (Kenya) Ltd | Bearing manufacture | Sweden |
| 182 | Solar World East Africa | Photovoltaic products/renewable energy | Germany |
| 183 | Stanbic Bank Kenya Limited | Finance | South Africa |
| 184 | Standard Chartered Bank Kenya Limited | Finance | United Kingdom |
| 185 | Steers | Food and Beverage | South Africa |
| 186 | Sumitomo Corporation | Widespread products | Japan |
| 187 | Swedfund International AB | Financial Services and support for investments | Sweden |
| 188 | Syngenta East Africa | Chemicals | Switzerland |
| 189 | Tata Chemicals (Magadi Soda) | Soda Ash mining | India |
| 190 | Tata Motors | Automobiles | India |
| 191 | Technogym | Fitness & Rehabilitation Equipment | Italy |
| 192 | Tetra Pak Ltd | Integrated Processing, Packaging & Distribution Line | Sweden |
| 193 | Texchem Ltd | Textile Chemical Products | Malaysia |
| 194 | The Wrigley Company (EA) | Confectionary/Food Processing | USA |
| 195 | Tibbett & Britten (Excel) Kenya | Warehousing & Distribution | USA |
| 196 | Tiomin Resources Inc. | Mining | Canada |
| 197 | Total Kenya Limited | Petroleum Products | France |
| 198 | Toyota Kenya | Motor Vehicles | Japan |
| 199 | Treadsetters Tyres | Tyres | United Kingdom |
| 200 | Tullow Oil | Oil & Gas Exploration | United Kingdom |

| | Company | Sector | Country of Origin |
|---|---|---|---|
| 201 | UAP Provincial Insurance Company Limited | Insurance | United Kindgom |
| 202 | UB Pharma Ltd | Pharmaceutical | India |
| 203 | UDV Kenya | Distillery | United Kindgom |
| 204 | Ulf Ashchan Safaris | Tourism | Sweden |
| 205 | Unigraphics Kenya Limited | Printers | Canada |
| 206 | Unilab Kenya | Prescription and consumer health products | Philippines |
| 207 | Unilever Kenya Limited | Consumer Goods | United Kindgom |
| 208 | United Apparels EPZ | Clothing manufacture | Sri Lanka |
| 209 | Van Leer-Balmer Lwarie &Co | Manufacture of industrial packaging, greases and lubricants | India |
| 210 | Visa Inc. | Financial Services | USA |
| 211 | Vitacress Kenya Limited | Agriculture | United Kindgom |
| 212 | Vitafoam | Foam Mattresses | United Kindgom |
| 213 | Vodafone | Telecommunications | United Kindgom |
| 214 | Vvestergaard Frandsen | Public health | Switzerland |
| 215 | WEC Lines | Shipping | Netherlands |
| 216 | Weetabix | Breakfast Cereal | United Kindgom |
| 217 | Weurth (Kenya ) Limited | Machinery | Germany |
| 218 | Wigglesworth & Company Limited | Production & Merchandising Raw Fiber,Sisal, Hemp etc. | United Kindgom |
| 219 | Williamson Tea Holdings | Cultivation & Sale of Tea | United Kindgom |
| 220 | Woolworths | Retails | South Africa |
| 221 | Xinhua News Agency | Media | China |
| 222 | Yellow Wings Air Services Ltd | Air Charter Services | Switzerland |
| 223 | Zakhem Interntional Construction Limited | Construction and Engineering | Lebanon |

*Source: Kenya National Bureau of Statistics Economic Survey, 2007*