ASSESSMENT OF COST LEADERSHIP STRATEGY ON
ENHANCING COMPETITIVE ADVANTAGE
A SURVEY OF KENYA’S TELECOMMUNICATION INDUSTRY

BY

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DECLARATION

I declare that this research proposal is my original work and has not been presented for academic purposes in any other university or institution of higher learning for award of degree or academic credit. All references from various sources have been acknowledged as required.

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May God bless you abundantly.
DEDICATION

This research is dedicated to my Mother (Gladys) who toiled to ensure I was brought up as a disciplined, responsible and educated individual.

Rest in Peace Mama.
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<td>Business Monitor International</td>
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<td>SPACE</td>
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DEFINITION OF TERMS

Cost leadership strategy
The cost leadership strategy represents attempts by firms to generate competitive advantage by achieving the lowest cost in the industry. The focus of firms implementing a cost leadership strategy is on stringent cost control and efficiency in all areas of operation (Porter, 2002).

Competitive advantage
Is the strategic advantage one business entity has over its rival entities within its competitive industry.

Standardized products
Products of same features or qualities.

Flagship
The most important product or the product with the highest market share that a company produces.

Fast mover advantage
Getting to market fast and achieving dominance (Johnson, Scholes and Whittington, 2008).

Strategy
Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competencies with aim of fulfilling stakeholder expectations.
ABSTRACT

Tough economic times, stiff competition, globalization among other macroeconomic factors have led companies to adopt strategies that would enable them to remain competitive in whichever industry they are operating in. One of these strategies that is currently gaining currency in Kenya and globally among many large organizations is the Cost leadership strategy. Companies are adopting stringent measures to curb costs and lower prices while at the same time striving to provide value to customers so as to enhance their competitiveness in the market. The study focused on the telecommunications industry in Kenya, an industry that has seen brutal price wars in the last few years between the main players which are Safaricom, Airtel, Telecom’s Orange and Essar’s Yu. The study intended to establish how variables such as low pricing, economies of scale, controlled costs and resources contributed to the enhancement of competitive advantage. The study adopted the descriptive research design that focused on the relationship between strategies the organizations are employing to win more customers and the resultant competitiveness they have achieved so far.

Stratified random sampling technique was used to select sample population. Eighty people were selected from a population of four hundred and three employees of industry players Safaricom, Bharti Airtel, Orange and Yu mobile. The respondents were selected from strategic management, sales and marketing management and representatives and finance and human resources management. Data was collected from both primary and secondary sources. Primary data was collected using personal interview and questionnaires developed by the researcher and administered with the help of trained research assistants while secondary data was collected through review of relevant literatures. Data was analyzed using microsoft excel, descriptive analysis and result presented in pie charts, graphs and tables. The results will be presented to management of these organizations for considerations on how to enhance their competitive advantage in the industry.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Cost leadership strategy is a generic strategy that combines both lowering cost and providing value to the customer (Porter, 2002). This strategy can be used by a firm to gain competitive advantage in a very competitive industry such as telecommunication, banking etc. Companies that choose a Cost-leadership strategy offer relatively standardized products with features or characteristics that are acceptable to customers—in other words, with a minimum level of differentiation—at the lowest competitive price. Customers receive value when a company successfully implements a cost leadership strategy (Kanter and Bird, 2009).

According to Simister (2011) competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Porter (2002) adds that competitive advantage involves creating and sustaining superior performance with a new introduction. To achieve sustained price based competitive advantage a company has to win price war, achieve reduced costs of operations, fast mover advantage and market dominance.

Johnson, Scholes and Whittington, (2008) observe that companies that wish to be successful by following a cost-leadership strategy must maintain constant efforts aimed at lowering their costs (relative to competitors' costs) and creating value for customers. Cost-reduction strategies include; building efficient-scale facilities, establishing tight control of production and overhead costs, minimizing the costs of sales, product research and development, and investing in state-of-the-art manufacturing technologies. Implementing and maintaining a cost leadership strategy means that a company must consider its value chain of primary and secondary activities and effectively link those activities, if it is to be successful. The critical focus in successfully implementing a cost leadership strategy is on efficiency and cost reduction, regardless of the value-creating activity (Johnson, Scholes and Whittington, 2008).
A company’s focus throughout each of its primary and secondary value-creating activities is based on; simplification of processes and procedures, achieving efficiency and effectiveness, reducing costs, monitoring the costs of activities provided by others that interface with the company's inbound and outbound logistics (Baroto and Abdullah, 2011).

Following from his work on analysing the competitive forces in an industry, Porter (2002) suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarised in the figure below:

**Figure 1: Business level strategies**

![Figure 1: Business level strategies](image)

*Source: Porter (2002)*

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Many large organizations that have currently adopted the cost leadership strategy include giant beverage company, Coca-cola, GlaxoSmithKline Limited and Safaricom Limited. While opening the annual sales conference in Nairobi, GSK East...
Africa General manager, John Musunga (2012) said that the organization had achieved a 28% growth in 2011 over 2010. Most of this growth was attributed to the successful implementation of cost leadership strategy which started in 2010.

1.1.1 Telecommunication Industry

This study will focus on telecommunication industry which is a broad industry with a huge turnover. The forecasts unveil that total revenue of Kenya’s telecom market will grow by 42 percent from $1.39 billion in 2008 to $1.98 billion by 2013. Among these, 78 percent of the total revenue to be generated by the mobile sector (Valdecantos, 2009).

The telecoms industry in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete and vertical have coalesced across their old boundaries with a massive investment of capital - much of it originating from private sector participants (PwC reports, 2009).

The result is new markets, new players, and new challenges. Market liberalization efforts have also picked up ensuring the successful partial privatisation of Telkom Kenya Ltd (December 2007), divestment of GoK’s 25% stake in Safaricom Ltd through a public listing (May 2008), and the launch of fourth mobile operator Econet Wireless Kenya (November 2008). This has resulted into some of the world’s best known telecommunication providers – Vodafone, France Telecoms and Essar Communications through their investments in Safaricom Limited, Telkom Kenya Limited and Econet Limited respectively - being major players in the Kenyan market (PwC reports, 2009).

Ongoing infrastructural developments by operators have largely been focused on network expansion for increased nationwide coverage (McLeods, 2012).

At the end of June 2010 Business Monitor International (BMI) estimates were 20.165mn mobile phone subscribers in Kenya. Market leader Safaricom remained dominant with a market share of 79.1%, while alternative operators Bharti Airtel's
Zain Kenya, Essar Telekom Kenya (Yu) and Orange Kenya had 11.2%, 7.4% and 2.3% market shares respectively (Research and Markets, 2011). Airtel was the first to slash tariffs in August 2010 in a move believed to be targeted at eroding Safaricom's market share. Airtel slashed its prices by up to 80% (McLeods, 2012). But with all four operators adopting a similar value-led strategy, BMI expect that long-term competitiveness will depend on operators' network quality and coverage, ability to provide market-friendly data and value-added services, and the financial muscle to maintain low margins for an extended period (Research and Markets, 2011).

For a firm to sustain this strategy it should have deep pockets to subsidize its operations such as production and marketing as positive results take time to be realized (Johnson, Scholes and Whittington, 2008). The study will investigate whether low pricing attracts more customers and its sustainability, the effect of economies of scale, the role of controlled costs and logistics and supply chain management in enhancement of competitive advantage and the resources required to successfully implement cost leadership. At the end, the study will seek to establish whether cost leadership strategy has improved the competitive advantage of the players in the telecommunication industry.

1.2 Statement of the Problem

Low cost strategy is centered on the capability of the company to produce and deliver products of competitive quality at lower costs. Cost leadership strategy is much more than cost reduction initiatives that get a lot of prominence in strategic planning and review session of any company as a means to improve the bottom line of a company by improving its efficiency (Simister, 2011). Some companies use their efficient cost structures to protect their markets from the competitors by responding to competitors' move of making in-roads in the market space by reducing prices. Such reactive response may, however make a company predominantly inward focused. When a company is able to transform the efforts of cost reduction into cost advantage for customers the company can be said to be successfully pursuing low cost leadership strategy (Simister, 2011).

In the case of Kenya’s telecommunication industry price war has erupted with Airtel Kenya slashing prices by close to 80% in August 2010 (Research and Markets, 2011).
However doubts exist whether Airtel which commands an 11% market share has been able to gain a bigger market share from Safaricom, the major industry player with 79% share by the end of Quarter 3 2010 (Research and Markets, 2011). With all four operators adopting a similar value-led strategy it is expected that long-term competitiveness will depend not only on lower calling tariffs but also on other value adding activities such as operators' network quality and coverage, ability to provide market-friendly data and value-added services such as safaricom’s money transfer service also known as Mpesa, and the financial muscle to maintain low margins for an extended period (Research and Markets, 2011). This clearly shows that there is a gap on how to successfully implement cost leadership strategy so as to gain bigger market share.

Therefore it is against this background that has shown that companies are not growing significantly even with very low cost offers to clients and the fact that minimal studies have been done in the area of cost leadership strategy as a competitive tool, which necessitated a study that would carry out an assessment of the role of cost leadership strategy in enhancing Competitive Advantage in the telecommunication industry in Kenya. The assessment included investigations as to how firms in various industries have managed to use this strategy to enhance their market share. The study investigated the benefits and challenges of successful implementation of cost leadership strategy using various concepts, theories and past studies.

1.3 Objectives of the study

1.3.1 General objective
Assessment of Cost leadership strategy on enhancing competitive advantage in telecommunication industry.

1.3.2 Specific objectives
1. To determine whether low prices enhances competitive advantage.
2. To establish whether economies of scale leads to competitive advantage.
3. To determine the role of controlled costs on sustenance of a competitive advantage.
4. To determine the role of distribution network in enhancing competitive advantage.
1.4 Research Questions

1. What is the level to which low pricing enhances competitive advantage?
2. What is the effect of economies of scale on enhancing competitive advantage?
3. What is the role of controlled costs on enhancing competitive advantage?
4. What is the role of distribution network in enhancing competitive advantage?

1.5 Significance of the study

With the numerous economic and social challenges currently facing many commercial enterprises, it is important for firms to get out of their comfort zones and confront competition with strategies that are sustainable and can help to achieve socio-economic success and in the process enhance an organization's competitive advantage. This is because the current consumer is very informed and is able to identify brands and/or services which offer value for money.

This study will benefit large and small organizations by proposing how to control costs and enroll more customers. This research will also benefit students of strategic management in understanding the role cost leadership strategy in a competitive environment. The study undertakes to elaborate the fact that this strategy is sustainable and dispel the notion that the main component of the strategy, which is low price offering is only useful as a short term market penetration strategy. The study will set a basis for further research in this area which has not been fully explored.

1.6 Scope of the study

The study will focus on the role of cost leadership strategy in enhancing competitive advantage in telecommunication industry in Kenya. The study will engage top management, sales and marketing managers and staff from Safaricom, Airtel, Orange and Yu mobile telephone companies as. The study will be carried out in Nairobi being the headquarters of all these organizations.

1.7 Limitations of the study

The researcher is expected to face challenges. First the respondents could be suspicious of the study and subsequently be reluctant to divulge information on their strategies. Secondly some respondents might be tempted to give skewed information
in favor of their organization and thirdly the concept might be new to some respondents and as such their responses might not be in tandem with the study.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter reviews literature which contains information related to area of study which investigates the role of cost leadership strategy in enhancing competitive advantage of a firm. It involves reviews of empirical studies, historical records, government reports and newspaper accounts (Flick, 2011). This chapter also reviews literature on various theories and concepts that have been brought forward by other scholars and researchers in the area of strategic management. The chapter also outlines articles touching on telecommunication industry such as turnover, players and their competitive activities.

2.2 Theoretical Review
The study aims at analyzing the cost-leadership strategy as a means of enhancing competitive advantage of a firms in an industry. According to Porter (2002) this is one of the three generic strategies that can be used by a firm to counter the market forces and gain competitive advantage in an industry. The other generic strategies are differentiation and focus. Here the independent variable is cost leadership strategy whereas the competitive advantage is the dependent variable. The requirements for cost leadership strategy includes measures such as low pricing of goods or services, standardized goods, economies of scale, controlling costs and reduced margins (Johnson, Scholes and Whittington 2008). By fulfilling these conditions the firm will then have an outcome that will enable it be ahead of competitors by achieving market dominance. As such the study will analyze the various theories and concepts that touch on cost-leadership strategy and sustainable competitive advantage.

2.2.1 Bases of Competitive Advantage;

2.2.1.1 The strategy ‘Clock’
Porter (2002) proposed three different generic strategies by which an organization can achieve competitive advantage. These were overall cost leadership, differentiation and focus. However over the years many people have confused cost leadership with low prices. To remove such confusion market-facing generic strategy similar to those used by Bowman and D’Aveni, 1995 have been used. These are based on the principle that organizations can achieve competitive advantage by providing their customers with
what they want, or need, better or more effectively than competitors. Customers will choose which offering to accept based on their perception of value-for-money. This consists of the combination of price and customer perceived product or service benefits of each offering. This is a proposition that conforms to Porters Theory and the strategy clock (Fig 1) enshrines Porters categories of differentiation and focus alongside price (Bowman, 1995).

Figure 2: Bowman’s strategy cock

Source: Adopted from the work of Cliff Bowman, 1995

Position 1 explains low price/low value- ‘No frills’

Firms do not usually choose to compete in this category. This is the "bargain basement" bin and not a lot of companies want to be in this position. Rather it's a position they find themselves forced to compete in because their product lacks differentiated value. The only way to "make it" here is through cost effectively selling volume, and by continually attracting new customers. The firm will not be winning any customer loyalty contests, but may be able to sustain itself as long as it stays one step ahead of the consumer. Products are inferior but the prices are attractive enough to convince consumers to try them once. This is risky because should there be changes in certain macro environmental factors, such as increased taxes, that would dictate even a slight price review upwards most customers would opt for other more value adding products or services. The customers are only attracted by low prices.
Position 2 explains low Price

Companies competing in this category are the low cost leaders. These are the companies that drive prices down to bare minimums, and they balance very low margins with very high volume. If low cost leaders have large enough volume or strong strategic reasons for their position, they can sustain this approach and become a powerful force in the market. If they don't, they can trigger price wars that only benefit consumers, as the prices are unsustainable over anything but the shortest of terms. Walmart is a key example of a low price competitor that persuades suppliers to enter the low price arena with the promise of extremely high volumes.

Position 3 explains hybrid (moderate price/moderate differentiation).

Hybrids are interesting companies. They offer products at a low cost, but offer products with a higher perceived value than those of other low cost competitors. Volume is an issue here but these companies build a reputation of offering fair prices for reasonable goods. Good examples of companies that pursue this strategy are discount department stores. The quality and value is good and the consumer is assured of reasonable prices. This combination builds customer loyalty.

Position 4 explains differentiation

Companies that differentiate offer their customers high perceived-value. To be able to afford to do this they either increase their price and sustain themselves through higher margins, or they keep their prices low and seek greater market share. Branding is important with differentiation strategies as it allows a company to become synonymous with quality as well as a price point. Nike is known for high quality and premium prices; Reebok is also a strong brand but it provides high value with a lower premium.

Position 5 explains focused differentiation

These are designer products: High perceived value and high prices. Consumers will buy in this category based on perceived value alone. The product does not necessarily have to have any more real value, but the perception of value is enough to charge very large premiums. Gucci, Armani, Rolls Royce are some of the examples. If you believe pulling up in your Rolls Royce Silver Shadow is worth 25 times more than in an
economy Ford then you will pay the premium. Highly targeted markets and high margins are the ways these companies survive.

Position 6 explains increased price/standard product

Sometimes companies take a gamble and simply increase their prices without any increase to the value side of the equation. When the price increase is accepted, they enjoy higher profitability. When it isn't, their share of the market plummets, until they make an adjustment to their price or value. This strategy may work in the short term, but it is not a long-term proposition as an unjustified price premium will soon be discovered in a competitive market.

Position 7 explains high price/low value

This is classic monopoly pricing, in a market where only one company offers the goods or service. A monopolist doesn't have to be concerned about adding value because, if customers need what is offered, they will pay the price set, period. Fortunately for consumers in a market economy, monopolies do not last very long, if they ever get started, and companies are forced to compete on a more level playing field.

Position 8 explains low value/standard price

Any company that pursues this type of strategy will lose market share. If you have a low value product, the only way you will sell it is on price. You can't sell day-old bread at fresh prices. Mark it down a few cents, and suddenly you have a viable product.

Positions 6, 7, and 8 are not viable competitive strategies in truly competitive marketplaces. There will always be competitors offering better quality products at lower prices so value and price have to be aligned correctly. When considering which competitive strategy to pursue, here are some questions that should be asked.

If an organization intends to compete on price, is it a price leader? Can it sustain a cost leader position? Can it control it costs and sustain a good margin? Is it able to exploit all of the cost advantages at its disposal? Can it balance low price against the perception of too low value? Is its cost advantage limited to one or a few small
market segments? Are these segments capable of sustaining the business, given the volume and margins it projects?

If it intends to compete on perceived value; Does it have a well-identified target market? Does it understand what its target market truly values? Is it aware of the perceived value its competitor's products? Are there areas of differentiation that it can capitalize on that others cannot easily copy? Does it have alternate methods of differentiation in the event it loses its competitive advantage in that area?

Bowman's Strategy Clock is a very useful model to help one understand how companies compete in the marketplace. By looking at the different combinations of price and perceived value, an organization can begin to choose a position of competitive advantage that makes sense for its competencies. This is a powerful way of looking at how to establish and sustain a competitive position in a market driven economy. By understanding these eight basic strategic positions, an organization can analyze and evaluate its current strategy and determine if adjustments might improve its overall competitive position (Johnson, Scholes and Whittington 2008).

2.2.1.2 The SPACE Matrix

The Strategic Position and Action Evaluation Matrix (SPACE Matrix) is a useful guide to help in deciding which strategy is most appropriate in which situation (Simister, 2011). The SPACE Matrix assesses the business across four dimensions; Industry Attractiveness (IA), Environmental Stability (ES), Competitive Advantage (CA), Financial Strength (FS) to come to a recommended strategic thrust which can be: 1) An Aggressive strategy 2) A Defensive strategy 3) A Conservative strategy 4) A Competitive strategy.
The diagram above shows favorable positions in all four dimensions and therefore the business can follow an aggressive strategy as it leverages its strengths into the opportunities available. The strong position in environmental stability means that the business does not have to hold back a good proportion of its financial strength to protect the business in difficult times but can be used to finance growth strategies – (Ansoff Growth Matrix). For example in Kenya since we are currently operating in difficult and unpredictable economic environment many organizations today have adopted defensive strategies of wait and see. They are holding onto their resources.

SPACE Analysis recommends that businesses in a strong position take the following actions: 1) Continue to invest in innovation to sustain and build the competitive advantage which exists. 2) Cover any moves made by competitors to develop alternative competitive advantages. Close off the opportunities to build a differentiated value proposition that may prove attractive to segments of the market. 4) Aggressively build market share by moving above the fair value line in the customer value map. 5) Raise the stakes for other competitors to play the game. This may be through rapid product innovations, marketing campaigns or reducing prices to levels that competitors find difficult to match. 6) Grow within the market through acquisitions. 7) Follow up on possible opportunities in the market including backward or forward vertical integration. This would reduce cost of operations or production. 8) Move into related markets which complement the existing position (Simister, 2011). This aggressive, offensive strategy will make it tough for competitors to trade and
certainly difficult to build up the resources to challenge for market leadership unless they have very deep pockets.

According to Simister (2011), the two big concerns in this very favorable position are: 1) Avoid complacency – business can seem also too easy but new threats may come from substitute markets or as technology makes different sectors converge. 2) Avoid running afoul of anti-competition policies. Sometimes a business that is too strong can attract the attention of regulators and especially if it uses predatory pricing aimed at driving competitors out of business.

2.2.2 Kenya’s Telecommunication industry 2011-2012

Business Monitor International (BMI) Qtr 2 2012 update to the Kenya Telecommunications market report incorporates market data from the Communications Commission of Kenya (CCK) relating to the end of September 2011. It also contains analysis of key regulatory and industry developments in the telecoms sector and BMI’s five-year growth forecast for the mobile, fixed-line and internet sectors.

Kenya's mobile market returned to strong subscriber growth in Q3 2011 after a slowdown in Half 1 2011, which BMI attributed to the discounting of inactive SIMs and increasing mobile saturation in urban areas. According to market data published by the CCK, the mobile market expanded by just 4.8% during Q3 2011 with net additions of 1.217mn subscribers to reach 26.494mn. This was significantly more than net additions of just 312,000 subscribers or growth of 1.2%, in H1 2011. All four mobile operators in the country recorded positive growth in Q3 2011, with market leader Safaricom accounting for 48.8% of net additions and second-ranked Airtel accounting for 45.9%. Essar and Orange accounted 3.9% and 1.4% respectively of net additions in Q3 2011 (Business Monitor International, 2012).

BMI believes the surge in mobile subscriptions in Q3 2011 was due to promotions run by the operators as opposed to network expansion to underserved areas. However, the view is that rural expansion is vital for sustainable subscriber growth in the medium term. Total mobile subscriptions to reach 39.5mn by 2016, with a penetration rate of 83.1% (Business Monitor International 2012).
Renewed efforts at rural roll-out will boost subscriber growth over the forecast period (Business Monitor International 2012). In a bid to encourage network expansion to underserved areas, the Kenyan government reduced spectrum fees by an average of 41% in October 2011 (Business Monitor International, 2012). However, operators are increasingly investing in high value services such as mobile data to drive revenue growth as opposed to network expansion in rural areas characterized by high input costs among other reasons (Research and Markets, 2011).

According to the CCK (2012), the number of internet users in Kenya reached 14.3mn by September 2011. The regulator's data also showed a steady growth in mobile data access lines, although it did not reveal the number of 3G-based mobile internet connections. Orange Kenya launched commercial 3G services in August 2011 and Airtel is expected to follow suit by April 2012. This is expected, along with network investment by fixed network broadband service providers, to drive growth in the internet sector. Broadband penetration is forecasted at 1.8% by 2016 (Business Monitor International, 2012).

It is possible to achieve competitive advantage in such a way in which it can be preserved over time. This depends on a firm's robustness of core competencies (Johnson, Scholes and Whittington, 2008). Price based competitive advantage can be sustained in a number of ways.

2.2.3 Low Price offering

This can also be referred to as strategic pricing. The INSEAD research suggest that successful innovation is also characterized by strategic prices that create demand and win customers not just from within the current industry but also from other industries. Successful companies focus on the costs of alternatives and substitutes, not just prevailing prices in their own industries.

According to easyJet annual report of 2006 by providing low prices the Airline had grown from initially six hired aircrafts in 1995 working in one route to owning 122 aircrafts in 2006 flying to 74 airports carrying over 33 million passengers per annum (Johnson, Scholes and Whittington, 2008). Yet the aircraft continued to give customers care and convenience just as other premium airlines. According to the organization's
annual reports some of the strategies used to reduce cost were ticket-less travel, no free lunch, reduction on ground handling costs and efficient use of airports (Johnson, Scholes and Whittington, 2008).

The successful start with strategic price, allow for profit and work back into what makes the cost target. The business model then has to hit the cost target without losing utility or increasing price: replacing conventional raw materials with newer cheaper ones, eliminating or outsourcing low added value activities in the supply chain, digitizing activities e.g. internet ordering and exchanges. Using partnerships to build and reinforce capabilities is also critical.

Major barriers in understanding and attitudes towards the innovation may be of decisive importance to success. Hurdles to adoption may come from employees threatened by the launch of innovation and what it does to their role, partners e.g. Distributors sidestepped by direct sales channels or society at large. Obstacles should be identified at the outset and dealt with effectively. In fact, there is evidence that the best innovators turn their customers and colleagues into collaborators by presenting them with an idea they can improve on- not fait accompli- so they have a stake in the innovation (Piercy, 2002).

Price- based strategy can take two routes which are No frills and Low pricing strategy as explained below.

2.2.3.1 'No frills' strategy
This strategy combines a low price, low perceived product or service benefits and a focus on price sensitive market segment. (Johnson, Scholes and Whittington, 2008). These segments may exist for a number of reasons. The products or services are commodity like. Customers do not discern or value differences in the offering of different suppliers. So price becomes the key competitive issue. Basic foodstuffs-particularly in developing economies are an example. Johnson, Scholes and Whittington (2008) found that where the buyers have high power and/or low switching costs, building customer loyalty is difficult. So pricing remains the defining factor. Where there are a small number of providers with similar market share and the cost structure is similar and new product/service features are quickly imitated, price becomes the key competitive weapon.
2.2.3.2 Low-price strategy

This strategy seeks to achieve a lower price than competitors whilst trying to maintain similar perceived products or service benefits to those offered by competitors (Johnson, Scholes and Whittington 2008). A case study of Japanese cars observes that, during the 1960s and 1970s the Japanese car manufacturers entered the European market by targeting the low cost/low-added-value sector, which they believed would not be defended by European manufacturers. Their no frills products were seen as cheap and bought with few added value expectations (Johnson, Scholes and Whittington, 2008). The sales volume that this produced and the experience gained from this market entry strategy allowed them to form a bridgehead into Europe and develop other more profitable strategies. By late 1970s the improved quality of their cars changed perception that their cars were as good as those of European competitors. However Japanese vehicles continued to be sold at cheaper price hence more volumes (Johnson, Scholes and Whittington, 2008).

If a business unit aims to achieve competitive advantage through low pricing strategy, it has to try to identify and focus on a market segment that is unattractive to competitors and in this way avoid competitive pressures to erode price. However a more challenging situation is where there is competition on the basis of price. This is a common occurrence in the public sector and commodity-like markets.

This is the "bargain basement" bin and not a lot of companies want to be in this position. Companies find themselves forced to compete in this position because their product lacks differentiated value. The only way to "make it" here is through cost effectively selling volume, and by continually attracting new customers. The firm will not be winning any customer loyalty contests, but may be able to sustain itself as long as it stays one step ahead of the consumer. Products are inferior but the prices are attractive enough to convince consumers to try them once. This is risky because should there be changes in certain macro environmental factors, such as increased taxes, that would dictate even a slight price review upwards most customers would opt for other more value adding products or services (Bowman, 1998).
2.2.4 Economies of scale
One of the most cited sources of cost advantage for a firm is its size. There is a relationship between firm size measured in terms of volume of production - and costs - measured in terms of average costs per unit of production. The optimal volume of production is reached when the average costs per unit of production is minimum (Simister, 2011). At the start of the 29th century Ford’s vision was customer centric in terms of “bringing cars to the mass public”, yet he did not tune into the detailed desires of car buyers. What made Ford so special was his determination to reduce the cost of making a car, year after year by introducing mass production techniques made possible by selling higher volumes. This created a wonderful virtuous circle – lower costs meant lower prices which created more volume which led to lower costs (Simister, 2011).

2.2.4.1 Sources of economies of scale are:

Volume of production and specialized machines: A company with a high level of production, it is able to purchase and use specialized manufacturing tools that cannot be kept in operation in small companies (Simister, 2011). According to Simister (2011), research has shown that if you need to produce a product which requires a machine and the machine can produce up to 1,000 units per day, the cost of having the machine available (owning or leasing) is the same regardless of the volume produced. It doesn’t matter if you produce 1, 10, 100 or 1,000 units, the total cost is the same. What does change is the unit cost. The more you produce, the lower the average cost per unit as the fixed cost is spread over more units.

Volume of production and cost of plant and equipment: A high volume of production may allow a firm to build larger manufacturing operations. Large-volume firms will be able to build lower per unit cost of manufacturing operations and will hence have lower average costs of production (Jaquier, 2003).

Volume of production and employees specialization: High volumes of production are also associated with high levels of employee specialization. Adam Smith first observed that cost advantages may be associated with the division of labor (Simister, 2011). A firm with high volumes of production can spread its overheads costs (accounting, control, R&D,) over more units (Jaquier, 2003).
2.2.4.2 Diseconomies of scale

Benefits of economy of scale can still be affected negatively by various obstacles which work in the opposite or diseconomies of scale as explained below. Sources of diseconomies of scale are:

- Physical limits to efficient size: There are physical limitations to the size of some manufacturing processes (Jaquier, 2003).

Communication costs: Ideally, all employees of a firm would have one-on-one with each other so they know exactly what the other workers are doing. A firm with a single worker does not require any communication between employees. A firm with two workers requires one communication channel, directly between those two workers. A firm with three workers requires three communication channels between employees.

The one-on-one channels of communication grow more rapidly than the number of workers, thus increasing the time, and therefore cost, of communication. At some point one-on-one communications between all workers becomes impractical; therefore only certain groups of employees will communicate with one another (salespeople with salespeople, production workers with production workers, etc.). This reduced communication slows, but doesn't stop, the increase in time and money with firm growth, but also costs additional money, due to duplication of effort, owing to this reduced level of communication (Simister, 2012).

Managerial diseconomies: As a firm increases in size, it often increases in complexity, and the ability of managers to control and operate it efficiently becomes limited. The more employees a firm has, the larger percentage of the workforce will be "management" (this refers to management of people, as opposed to management of other resources). A company with a single worker doesn't need any managers. A firm with five employees might employ one as a manager and the other four as workers. If that manager does nothing other than manage the workers under them, then the productivity of the firm has been reduced by 20%. A firm with 21 employees might have 16 workers, 4 supervisors, and 1 manager. If neither the manager nor supervisors do anything but manage the people under them, then we now have reduced productivity by 5/21 or 23.8%. Thus, the larger the firm, the lower the percentage of "line workers".
To be sure, companies with higher worker-to-manager ratios and that have "working managers" (who perform other important tasks in addition to managing the people under them) will have their productivity less negatively impacted by growth, but the effect is still there. Managers are necessary to manage a large, complex company, but should be considered a "necessary evil" as they also reduce overall productivity. Also note that higher level managers get higher level pay, and thus cost the company more than their numbers would indicate. For example, a company with 16 workers at $10/hr, 4 supervisors at $20/hr and 1 manager at $30/hr is spending $270/hr, $110/hr (41%) of which is on management. The ratio of managers and supervisors to the workers they oversee is referred to as the "span of control" and is different in different types of organizations (Simister, 2011).

Worker motivation: A third source of diseconomies of scale depends on the relationship between firm size, employee specialization and employee motivation. One of the advantages of high volumes of production is that it allows workers to specialize in smaller and more narrowly defined production tasks. However, researchers suggest that these types of specialized jobs can be demotivating for employees and can affect productivity and quality. Solutions have been participation schemes, quality circles, etc.

Distance to markets and suppliers: A source of diseconomies of scale can be the distance between a large manufacturing facility and the place where the goods are sold, or the places where essential raw materials are purchased which can lead to large transportation costs (Simister, 2011). Possible solutions to diseconomies of scale include, delegation of decision-making (empowerment), making jobs more interesting (job enrichment), splitting employees into teams (teamwork) (Simister, 2011).

2.2.4.3 The learning curve
The learning-curve model attempts to relate the volume of production and costs over time. Economies of scale focus on the relationship between the volumes of production at a given point in time and average unit costs. The learning-curve focuses on the relationship between the cumulative volume of production and average unit costs (Simister, 2011).

Cost leadership strategies have traditionally been based upon the economies of scale, gained through sales volume. This is why market share is considered to be so
important in many industries for achieving a sustainable competitive advantage. However, if volume is to be the basis for cost leadership then it is preferable for that volume to be gained early in the market life cycle. The "learning curve" concept demonstrates the value of early market share gains – the higher your share relative to your competitors the lower your costs should be. This cost advantage can be used strategically to assume a position of price leader and, if appropriate, to make it impossible for higher-cost competitors to survive (Simister, 2011).

2.2.5 Strategic Importance of Distribution in Marketing

Product distribution (or place) is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries. While some businesses can handle all factors and aspects of its own distribution, others require some level of distribution partnership.

Choosing the right distribution channel to move products or services to the end user is a long-term strategic decision and varies according to the product, service and market. When choosing a distribution strategy, a marketer must determine what value a channel member adds to the firm's products and/or service (Mysoul, 2008). A well-chosen channel is necessary because it constitutes a significant competitive advantage and is designed to save on cost, improve and increase efficiency, provide routinization of transactions, provide a larger customer base, and allows businesses to focus on other aspects of the organization. (Ruskin, 2003). It is important that the channel also provide businesses with strategic promotion, brand strategy, and provide convenience for customers while bridging the gap between the assortment of goods and services generated by producers and those in demand from consumers. Poorly chosen channels can have long-term consequences and can ultimately lead to a superior product or services failure in the market. Having access to good distribution is fundamental to good marketing. Within the distribution channel is the ability to use intermediaries to strategically market a product or service (Mysoul, 2008).

In short, distribution describes all the logistics involved in delivering a company's products or services to the right place, at the right time, for the lowest cost. In the unending efforts to realize these goals, the channels of distribution selected by a
business play a vital role in this process. Well-chosen channels constitute a significant competitive advantage, while poorly conceived or chosen channels can doom even a superior product or service to failure in the market (Ruskin, 2003).

2.2.6 Controlling costs.
It might be cheaper to use expertise of a specialist than to do something in-house: McDonalds has partnerships with regional distributors servicing all outlets in a region to reduce delivery and ordering costs (Piercy, 2002). A firm can drive down costs by developing and maintaining its capabilities.

Other ways of controlling cost are,

**Renegotiate all contracts annually.** A smart company policy is not to have the life of a contract exceed one year. This forces annual bidding or at least renewal discussions with the current suppliers. Almost always these discussions will result in lower cost of goods. A multi-year contract will usually favor the vendor. Of course this is a lot of work. But it sure pays out (Odland, 2012).

**Match terms with turns.** Each item in an inventory moves at a different rate. And yet suppliers normally apply a one-size-fits-all approach to payment terms. An organization can reduce its working capital to zero if payment terms were matched with the inventory turns of each item. By negotiating this into its contracts it incents the suppliers only to sell the best moving items and to work with the organization to improve inventory productivity. The results will free up cash that can be deployed elsewhere in the business and improve profits (Odland, 2012).

2.2.7 Resources
For cost leadership strategy to succeed there is need for adequate resources some of which are mentioned below.

2.2.7.1 Differential Low-Cost Access to Factors of Production
Differential low-cost access to factors of production may create cost differences among firms producing similar products in an industry. Factors of production are any inputs used by a firm in conducting its business activities. They include labor (human resources), capital, land, raw materials and knowledge (Simister, 2011). Taking a case of McDonalds a basic fast food restaurant, they are able to keep prices low through a
division of labor that allows it to hire and train inexperienced employees rather than trained cooks. It also relies on few managers who typically earn higher wages. These staff savings allow the company to offer its foods at bargain prices (Smith, 2010).

2.2.7.2 Technological Advantages Independent of Scale
A possible source of cost advantage - not depending on economies of scale - may be the different technologies that firms employ to manage their business. Technologies include not only technological hardware of companies but also technological software of firms (quality of relations among labor and management, an organization's culture, the quality of managerial controls). All these characteristics of a firm have an impact on a firm's economic costs (Simister, 2011).

2.2.7.3 Flexible Manufacturing Systems
A flexible manufacturing system is a computer-controlled process used to produce a variety of products in moderate, flexible quantities. It enables companies to achieve the flexibility necessary to simultaneously respond to changes in customer needs and preferences while maintaining the low-cost advantages of large-scale manufacturing. This increases a company's ability to engage in a low-cost strategy (Simister, 2011).

2.2.7.4 Information Networks across Companies
Information networks enable a company to co-ordinate interdependencies between internally- and externally performed value-creating activities to increase flexibility and responsiveness. Examples include real-time linkages between manufacturers and suppliers or subcontractors, or between retailers and suppliers. These linkages can improve time-to-market of new products by co-coordinating design and production activities and reduce out-of-stock occurrences by shortening the order-restock cycle (Simister, 2011).

2.2.7.5 Total Quality Management Systems
These systems have been established to improve product quality (from a customer perspective) and to improve productivity in the performance of the internal value-creating activities. Improving product quality focuses the attention of customers on product reliability, performance and utility, and enables the company to differentiate
its products and charge higher prices, while lowering the costs of manufacturing and service (Simister, 2010).

Other researchers propose that product and system innovations have the potential to lower costs and increase differentiation through quality improvement efforts, process innovations, product innovations, and system innovations (Minarik, 2007). Empirical evidence in support of this argument was provided by Oskarsson & Sjöberg in 1994: A case study of Motorola and the mobile telephone industry revealed three technologies that are both cost and performance driving. Minarik, (2007) concludes that as per Oskarsson & Sjöberg 1994 motorola case study product differentiation is essential for cost leadership strategy to be meaningful.

According to Simister (2011), key assumptions upon which total quality management (TQM) systems are based are as follows:

1) The costs of poor quality exceed the costs of developing processes that produce high quality products and services (in other words, it is less costly to do things right the first time).

2) Employees care about their work and will take the initiative to improve it (but, only if the company provides the resources, tools, and training necessary and management listens to their ideas).

Simister, (2011) continue to observe that since companies are systems of highly interdependent parts, decision processes must be integrated and include participation from all affected functional areas. Responsibility for effective TQM rests with top-level managers who must support TQM processes and appropriately design the company so that employees can function effectively.

2.3 Empirical review
In this study carried out by Montgomery (1995), entitled creating micro marketing pricing strategies using supermarket scanner data study, micro- marketing refers to the customization of marketing mix variables to the store level. The study shows how prices could be customized to the store level, rather than adopting a uniform pricing policy across all stores (Montgomery, 1995). A basis for these customized pricing strategies is as a result of differences in inter brand competition across stores. These
changes in inter brand competition area related to demographic and competitive characteristics of the store’s trading area. This study finds that profitable micro-marketing pricing strategies can be implemented. These pricing strategies can increase expected operating profits by more than 25%. This paper has shown that store-level differences in demand at the product can be measured. Furthermore these differences in price sensitivities translate into significant profit gains for the retailer. Results of the study indicate that micro-marketing strategies result in roughly a 2-3% increase in gross profits (Montgomery, 1995).

An Empirical Analysis of Determinants of Retailer Pricing Strategy by Shankar and Bolton (2004), found that competitor factors explain the most variance in retailer pricing strategy. Only in the cases of price-promotion coordination and relative brand price do category and chain factors explain much variance in retailer pricing. These findings are derived from a simultaneous equation model of how underlying dimensions of retailers’ pricing strategies are influenced by variables representing the market, chain, store, category, brand, customer, and competition (Shankar and Bolton, 2004).

The optical scanner data base describes 1,364 brand-store combinations from six categories of consumer packaged goods in five U.S. markets over a two-year time period. The study classifies retailers’ pricing strategies based on four underlying dimensions: price consistency, price-promotion intensity, price-promotion coordination, and relative brand price (Shankar and Bolton, 2004). These four pricing dimensions are statistically related to: (1) competitor price and deal frequency (competitor factors), (2) storability and necessity (category factors), (3) chain positioning and size (chain factors), (4) store size and assortment (store factors), (5) brand preference and advertising (brand factors), and (6) own-price and deal elasticities (customer factors). These findings are useful to retailers profiling alternative pricing strategies, and to manufacturers customizing the levels of marketing support spending for different retailers (Shankar and Bolton, 2004).

Katrishen and Scordish (1998) carried out a study to investigate whether multinational insurers achieve economies of scale in the USA. Using a time-series, cross-sectional
design, it analyzes the relationship between expenses and output of multinational insurers. The study found that multinational insurers achieve economies of scale only up to a point, and rather than benefitting from scale, the most internationally diverse insurers suffer diseconomies. The conclusion is that the benefits of extensive foreign acquisitions by insurers are questionable (Katrishen and Scordish, 1998).

A study of sources of competitive advantage for small independent neighborhood drugstore retailers was done by McGee and Love, (1999) and lessons derived. The retailers in this group focused primarily on developing and maintaining capabilities in cost control and tight control over pricing. These pharmacies can be said to compete with a cost-leadership generic strategy. The other capabilities received considerably less emphasis. The pharmacies were clustered in different categories which were; Cluster one representing small retailers who attempted to develop and maintain strengths in each of the four areas of distinctive competencies. These "well-rounded" retailers might be said to leave little to chance and did not ignore any major competency. Cluster two represented retailers who were the polar opposite of those in cluster one. Pharmacies labeled "lacks capabilities" do not make any concerted effort to develop or maintain any of the patterns of distinctive competencies. In cluster three, "promotion and presentation," firms placed a relatively greater emphasis on advertising, public relations activities, and store layout. Finally, the pharmacies in the fourth cluster, "control and cost containment," focused primarily on competencies involving cost containment and tight control over the store. These firms tended to compete primarily on price.

In this study an ANOVA was then used to assess the performance differences among the four identified "retailing types." Performance was measured using the construct developed in the factor analysis, and statistically significant differences were detected (p. < .001). Moreover, a Turkey-Kramer paired comparison produced identifiable patterns of performance. "Well rounded" retailers outperformed all other retailers.

"Control and cost containment" and "promotion and presentation" outperformed those firms in the "lacks capabilities" category, but were essentially equal to each other. There was also a significant difference between "well rounded" retailers and those
that focused on a single group of competencies. In other words, the "well rounded"
retailers reported higher levels of performance than all other groups of retailers
(McGee and Love, 1999).

Retailers who chose to develop and exploit a single group of competencies reported
higher levels of performance than those retailers who lacked all or nearly all of the
competencies, but still reported lower levels of performance than those retailers who
focused on all competencies. The findings of this study suggest, instead, that superior
customer service may simply be the price of entry into the competitive environment.
That is, superior customer service is now demanded by customers to such a degree
that providing it simply allows the firm to remain in business but no longer provides a
competitive advantage and that is where other complementing strategies such as cost
leadership which leads to competitive pricing plays an important role (McGee and
Love, 1999).

Dong, Xin Xu and Xiaogue Zhu, (2009) did a study on Information Technology in
Supply Chains information systems research: The Value of IT-Enabled Resources
Under Competition. This study, seek to better understand the value of information
technology (IT) in supply chain contexts. Grounded in the resource-based theory in
conjunction with transaction cost economics, it develops a conceptual model that links
three IT-related resources (backend integration, managerial skills, and partner
support) to firm performance improvement. Using data of 743 manufacturing firms,
the analysis indicates significant contribution of IT to supply chains, which is
generated through development of the digitally enabled integration capability and
manifested at the process level along the supply chain (Dong, Xin Xu and Xiaogue
Zhu, 2009).

The technological resource alone, however, does not hold the answer to IT value
creation. In fact, managerial skills, which enable adaptations on supply chain
processes and corporate strategy to accommodate the use of IT, are shown to play the
strongest role in IT value creation. Furthermore, backend integration and managerial
skills are found to be more valuable in more competitive environments. While
commodity-like resources have diminishing value under competition, integration and
managerial resources become even stronger. Overall, the results of the study shed
light on the key drivers of IT-enabled supply chains, and provide insights into how competition shapes IT value (Dong, Xin Xu and Xiaogue Zhu, 2009).

In the conclusion of this paper IT value is assessed in the context of digitally enabled supply chains, which has emerged as one of the major areas for companies to leverage IT to improve firm performance in global operations. This paper identifies intangible resources, especially managerial skills and partner support, as key value drivers that work together with backend integration to improve firm performance, highlighting that integration, managerial, and relational resources are critical in the global supply chain contexts (Dong, Xin Xu and Xiaogue Zhu, 2009).

2.4 Research Gaps

Many organizations have tried to implement the Porter’s generic strategy of Cost-Leadership but due to dynamic macro-environment the success rate has been at best minimal. There are several potential pitfalls when competing on price (Johnson, Scholes and Whittington 2008). These are:

Margin reduction. Although tactical advantage may be gained by reducing price it is likely to be followed by competitors. This can lead to inability to reinvest to develop the product or service and result in a loss of perceived benefit of the product. In the long run, a low price-strategy cannot be pursued without a low-cost base. However low cost itself is not a basis for advantage. Managers often pursue low-cost strategies that do not give them competitive advantage. The key challenge is how costs can be reduced in ways which others cannot match such that a low-cost strategy might give a sustainable competitive advantage (Johnson, Scholes and Whittington, 2008).

Customers start to associate low price with low product / service benefits. This can be countered by focusing in markets where low pricing is valued by customers but other features are not (Johnson, Scholes and Whittington, 2008).

Cost reductions might result in an inability to pursue a differentiation strategy. For example outsourcing IT systems for reasons of cost efficiency may mean that no one takes a strategic view of how competitive advantage might be achieved through IT. For example according to Gumbus and Lyon (2002) balance scorecards can be used to reflect the interdependence of different performance factors which together will
determine success or failure in an organization. Some of the indicators for critical success factors are capacity utilization, process capability, leadership competence, rank in customer survey. Philip Electronics uses balanced scorecard to manage its diverse product lines and divisions around the world (Gumbus and Lyon, 2002).

This study will attempt to fill the gaps associated with customers’ perception of associating low price to low quality and pursuing cost leadership strategy alongside differentiation strategy.

2.5 Conceptual Frame Work

Figure 4: Conceptual Frame Work

Independent variable

![Diagram]

Source; Researcher (2012)

The conceptual framework shows pictorial representation of the gains expected out of adopting Cost Leadership Strategy in a commercial enterprise. Cost leadership strategy constitutes the following variables; Low pricing, economies of scale, controlled cost and resources. The gain is competitive advantage which is the
dependent variable. The measures of competitive advantage are; winning price war, first mover advantage, reduced costs and market dominance.

Low pricing: Variables are standardized products and low margins (Simister, 2011).
Economies of scale: Variables are mass production, low cost of production, mass market and low pricing (Johnson, Scholes and Whittington, 2008).

Controlled costs are achieved when the cost of production and operation is low and wastage is minimal. It can also be achieved through employee multi-tasking, training of employees on efficiency and using more efficient technology such as 3G in case of data processing or using of biometrics to manage customer data. A firm’s management also needs to put in place austerity measures to lower costs (Dong, Xin Xu and Xiaoguo Zhu, 2009).

Distribution describes all the logistics involved in delivering a company's products or services to the right place, at the right time, for the lowest cost. In the unending efforts to realize these goals, the channels of distribution selected by a business play a vital role in this process. Well-chosen channels constitute a significant competitive advantage, while poorly conceived or chosen channels can doom even a superior product or service to failure in the market.

The intervening variable is competitor activities. Competition can imitate or adopt strategies that might counter low cost strategy and as a result limit the success of this strategy. For example a competitor with deep pockets might offer even lower prices for long subsequently gaining a bigger market share (Simister, 2011).
CHAPTER THREE
METHODODOLOGY

3.1 Introduction
This chapter describes the research design, target population, sampling strategy, data collection tools and instruments and data analysis methods.

3.2 Research Design
The research design is a master plan or framework or blue print specifying the methods and procedures for collecting and analyzing the needed information. It specifies the details of the procedures necessary for obtaining the information needed to structure or solve the marketing research problems. This study adopted a descriptive research design. Descriptive research is a process of collecting data in order to test hypothesis or answer questions concerning the current status of the subject matter that was used in this study. A descriptive survey design allows researchers to gather information, summarize, present and interpret it for the purpose of clarification. (Mugenda and Mugenda, 2003).

3.3 Population
According to Mugenda & Mugenda (2003), population refers to the entire group of individuals, events or subjects having a common observable characteristic. Target population was 685 employees from Safaricom, Airtel, Orange and Yu mobile companies which included strategic managers, sales and marketing managers and representatives, finance and human resources managers. This category of population were targeted because they are directly involved in the full implementation and success of this strategy. The top management being the top decision making organ, owners of the overall corporate strategic objectives and custodians of the organizations’ resources are responsible for approval and funding of any strategy. The functional, sales, marketing, finance and human resources managers are responsible for the execution of the strategy. The sales team is in direct contact with the market.

The population was drawn from the telecommunications companies as shown in the table below.
Table 1: Target population

<table>
<thead>
<tr>
<th>Company</th>
<th>Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safaricom</td>
<td>140</td>
</tr>
<tr>
<td>Airtel</td>
<td>100</td>
</tr>
<tr>
<td>Orange</td>
<td>77</td>
</tr>
<tr>
<td>Yu</td>
<td>86</td>
</tr>
<tr>
<td>Total</td>
<td>403</td>
</tr>
</tbody>
</table>

Source: Researcher (2012)

3.4 Sampling

3.4.1 Sample Strategy
The study adopted a stratified random sampling technique which is a probability sampling method. According to Mugenda and Mugenda (2003), the goal of stratified sampling is to achieve desired representation from various sub groups in the population. Mugenda continues to assert that in this method, the subjects are selected in such a way that the existing sub groups in the population are more or less reproduced in the sample. The sample was determined using descriptive statistics which allowed the researcher to divide the sample into appropriate strata that are mutually exclusive. According to Coopers and Schindler (2002) stratified sampling gives statistical efficiency, increase on a sample provides adequate data for analyzing the various sub-population and enables different research methods and procedures to be used in different strata.

3.4.2 Sample size
This study being descriptive in nurture used a sample size of 80 people selected from a target population of 403 people (representing 20%), selected from different categories. The sample size according to Mugenda and Mugenda (2003) depends on factors such as the number of variables in the study, the type of research design, the method of data collection and the size of accessible population. Denscombe (2007) poised that, the sample must be carefully selected to be representative of the population and the researcher also needs to ensure that the subdivisions entailed in the analysis are accurately catered for. The table below is a caption of the sampling strategy.
Table 2: Sampling strategy.

<table>
<thead>
<tr>
<th>Category</th>
<th>Sampling frame</th>
<th>Percentage</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Management</td>
<td>20</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Sales Management and representatives</td>
<td>140</td>
<td>20</td>
<td>28</td>
</tr>
<tr>
<td>Marketing Management</td>
<td>107</td>
<td>20</td>
<td>21.4</td>
</tr>
<tr>
<td>Finance Management</td>
<td>76</td>
<td>20</td>
<td>15.2</td>
</tr>
<tr>
<td>Human Resources Management</td>
<td>60</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>403</td>
<td>20</td>
<td>80.6</td>
</tr>
</tbody>
</table>

Source: Researcher (2012)

The study primarily covered individuals in Nairobi, the headquarters.

3.5 Data collection

3.5.1 Types of data
Data was collected from both primary and secondary sources. Primary data included all new data collected by the researcher directly from respondents. Consistency and accuracy of primary data was maintained for it to be useful in the research process. Secondary data on the other hand includes all already published data required for the purpose of the research. This information was obtained from books, journals, research papers, newspapers, magazines and written speeches.

3.5.2 Research Instruments
Primary data was collected using questionnaires and personal interviews. The questionnaire had three parts; the first part had questions on the general information about the respondent in relation to the case study. The responses to this part involved marking the right answer. The second part has questions on the competitive strategy carried out by the organization while the third part had questions relating to results of the strategy. Responses to the questions in part two and three were captured in Likert scale which gauged the degree of response in terms of strength or weakness on a scale of one to five. The respondents gave one response for each question answered. The fourth part consisted of open ended questions related to the strategy where the respondents were required to input extra ideas of their own.

The questionnaire was constructed in a structured format and the respondents were guided by the research assistants through the illustrated answers. As for the personal interview the researcher used semi-structured expert interviews. This is because the aim was to retrieve the expertise of the interviewees in the area of cost leadership
strategy. Open questions were combined with focused ones. A number of interviews were developed to guide as an orientation for the interviewers.

Secondary data was collected from reference materials, which have key information helpful to the research study. Collection of secondary data was obtained through desk research, by using various sources including, publications research agencies, press, newspapers, libraries and internet.

3.5.3 Validity and Reliability

Validity is the accuracy and meaningfulness of inferences, which are based on the research results. According to Mugenda and Mugenda (2003) this is the degree to which an instrument measures what it is supposed to measure for a particular group. The instruments for this study i.e. questionnaire and interview questions were validated by the supervisor through constant consultations with the researcher and reference books used in the study. This was repeated until sufficient questions are generated to enquire into all aspects identified for the study.

The questionnaire is designed by the researcher based on the research questions that have been pre-tested to ascertain the suitability of the tool before the actual administration. Pilot testing was done through the use of sample size of ten respondents from GlaxoSmithKline (GSK) limited sales and marketing department. GSK is one of the large organizations which has successfully used cost-leadership strategy. This is important as it enabled the researcher to identify misunderstandings, ambiguities or inadequate items. Cronbach’s alpha will be used to measure internal consistency or reliability of the scale to be used. Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Santos, Lippke and Pope, 1998). Alpha coefficient ranges in value from 0 to 1 and was used to describe the multi- point formatted questionnaires. The target will be to achieve a score of 0.7 which is a more acceptable reliability coefficient. The questionnaire took an estimated time of ten minutes to be completed.

Research assistants, was trained on how to communicate with the respondents using the questionnaire tool. The respondents in the pre-test did not however participate in the main study.
3.6 Data collection process
Data was collected using questionnaires and by personal interviews. The questionnaire was constructed in a structured format and the respondents were guided by the research assistants through the illustrated answers, to ensure that they understood easily and respond suitably.

In case a respondent is busy, drop and pick method was used. The respondent was allowed to take time with the questionnaire for accurate response. The questionnaire was then picked at an appropriate time. The interview guides was used for personal interview of the top management. This is because top managers must understand the motive of the interview and often times can only be seen on appointments. The researcher sought appointments with interviewees. The interview session was expected take not more than 20 minutes. To eliminate any suspicions from the respondents, the researcher obtained a letter from Kenyatta University confirming that he is a research student. The researcher then used this letter to request for permission from Safaricom, Airtel, Orange and YU mobile companies top management to be offered a chance to conduct surveys on the organization.

3.7 Data Analysis and Presentation
After the data is collected it was interpreted using descriptive statistics. In this study, frequency distribution and measures of central tendency such as mean, mode and median was calculated. The analyzed data was to be presented by use of pie charts, bar graphs, tables, frequencies and percentages.

Data was analyzed using Micro soft excel, descriptive analysis and result presented in pie charts, graphs and tables.

The results formed the basis for conclusions and recommendations.
CHAPTER FOUR.
DATA ANALYSIS AND PRESENTATION.

4.1 Introduction
This presents the analysis of data collected from the field through the use of questionnaires and interview questions from the respondents. The findings of the study in this chapter will be analyzed and presented in form of frequency tables, numerical values, pie charts and bar graphs. The presented data will further be followed by a summary interpretation of the obtained results of the study guided by the research objectives.

4.2 Demographics.

4.2.1 Respondents' companies.

The data was mainly collected from four major telecommunication companies in Kenya namely Airtel, Safaricom, Orange and Yu mobile. The total number of respondents from the companies surveyed totaled to 66 respondents. Out of the 66 respondents 28 of them worked at Safaricom which represented 42% of the total respondents sampled and this being majority of respondents sampled. Respondents who were sampled at Airtel totaled to 19 and this represented 29% of the total sample. Employees sampled at Orange and Yu mobile represented 23% and 6% respectively.

Source, (Survey data, 2012)
4.2.2 Respondent’s profession.

Source (Survey data, 2012)

The data on the study topic was collected from a total of 66 respondents through four major telecommunication companies in Kenya. According to the questionnaire, the respondents were expected to be either one of the four work professional categories namely Top management, sales managers, Brand manager or other specific profession at these communication companies. The data collected showed that 24% respondents from the four companies worked as sales managers, 5% of the respondent worked at the top management level while 32% of the respondent represented retail sales representatives. 10% worked in the offices of human resource, 6% in the finance department and 15% of the respondents worked as customer care agents.
4.2.3 Gender of the respondents.

Source (Survey data, 2012)

The data collected within the four telecommunication companies established that majority of the respondents sampled were of the feminine gender. The numbers of female sampled were at 55% while their male counter parts stood at 45% slightly below the female gender.
Table 3. 4.2.4 Respondents’ period of experience.

<table>
<thead>
<tr>
<th>YEARS OF WORK EXPERIENCE</th>
<th>FREQUENCY</th>
<th>% RESPONSE</th>
<th>MEAN -YRS OF WORK EXPERIENCE</th>
<th>MODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0yrs-4yrs</td>
<td>17</td>
<td>26%</td>
<td>7.05</td>
<td></td>
</tr>
<tr>
<td>5yrs-9yrs</td>
<td>34</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10yrs-14yrs</td>
<td>9</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 15yrs</td>
<td>6</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source (Survey data, 2012)

The data collected through the questionnaire on respondents’ work experience on their affiliate companies showed that majority of the respondents have worked in these companies for a period of 5 to 9 years while those respondents with work experience of over 15 years had the least frequency in the sample size. Out of the total number of respondents sampled, 34 respondents representing 52% of the total sample group had had work experience of between 5 to 9 years. This number was followed by respondents with work experience of between 0 to 4 years and represented 26% of the total sample size. Respondents with 10 to 14 years and over 15 years work experience followed at 13% and 9% respectively. The mean number of years of experience was 7.05 this shows that the average years of work experience fall in the cluster between 5-9 years age bracket.
Table 4. 4.3 Strategies employed by telecommunication companies to increase market share

<table>
<thead>
<tr>
<th>Strategy on increasing market share score</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has reduced the calling tariffs</td>
<td>50%</td>
<td>21.4%</td>
<td>7.1%</td>
<td>7.1%</td>
<td>14.2%</td>
</tr>
<tr>
<td>The low tariffs are sustainable</td>
<td>21.4%</td>
<td>57.1%</td>
<td>12.2%</td>
<td>9.3%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is releasing many cheap offers to customers</td>
<td>7.5%</td>
<td>34.8%</td>
<td>21.2%</td>
<td>14.2%</td>
<td>21.2%</td>
</tr>
<tr>
<td>The company has created enough awareness on quality and affordability of services</td>
<td>78.2%</td>
<td>14.2%</td>
<td>0%</td>
<td>7.5%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is currently controlling its costs</td>
<td>42.8%</td>
<td>21.2%</td>
<td>27.1%</td>
<td>9.6%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is currently increasing investment on logistics and supply chain management</td>
<td>51.5%</td>
<td>18.2%</td>
<td>25.8%</td>
<td>5.4%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is expanding its distribution network</td>
<td>56%</td>
<td>18.2%</td>
<td>7.5%</td>
<td>18.2%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is reaching out to the masses</td>
<td>72.7%</td>
<td>7.5%</td>
<td>0%</td>
<td>14.2%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source (Survey data, 2012)

The study aimed to find out strategies the four sampled telecommunication companies were utilizing in order to increase the market share. Through use of questionnaire and interview questionnaires administered to the research subjects, the researcher was able to collect data on various strategies employed by these telecommunication establishments. The respondents were required to subscribe to one of each strategy by indicating the degree to which each strategy was being employed in their respective companies. The degree at which the strategy applied to individual company was indicated by answers such as strongly agree, agree, neutral, disagree and strongly disagree. When the respondents were asked if their individual companies reduced calling tariffs as a strategy to gain market share, 50% of the respondent strongly agreed that indeed this strategy was used in their individual companies to gain market share. 21.4% of the sampled respondent agreed that the strategy was used in their companies. 7.1% of the respondents however remained neutral over the use of this strategy in their companies. 7.1% and 14.2% of the sample group disagreed and strongly disagreed respectively over the use of this strategy in their companies.
When asked whether the reduced low tariffs as a strategy were sustainable, 21.4% of the respondents strongly agreed. 57.1% agreed, 12.2% remained neutral while 9.3% disagreed.

The researcher also wanted to know if these telecommunication companies were releasing many other cheaper offers to customers to gain market share. 7.5% of the sample group strongly agreed that their companies were giving out many cheaper offers to gain market share. 34.8% agreed that this strategy was being utilized in their companies. 21.2% of the respondents remained neutral on the application of this strategy in the companies. 14.2% and 21.2% disagreed and strongly disagreed respectively. When asked whether the telecommunication companies they worked for had created enough awareness on quality and affordability of services, 78.2% of the sample group strongly agreed, 14.3% agreed while 7.5% disagreed.

On whether the company was currently controlling its costs, 42.8% strongly agreed, 21.2% agreed, 27.1% remained neutral while 9.6% disagreed. When asked if their companies was currently increasing investment on logistics and supply chain management, 51.5% strongly agreed, 18.2% agreed, 25.8% remained neutral while 5.4% disagreed.

The researcher wanted to know whether these companies were expanding their distribution network, 51.5% strongly agreed, 18.2% agreed, 7.5% remained neutral while 18.2% disagreed.

Finally, 56% of the respondents strongly agreed that their individual companies were reaching to the masses to gain more market share. 36.4% agreed while 7.5% of the respondents remained neutral.
Table 5 4.4 Effect of the Cost Leadership strategy to the organization.

<table>
<thead>
<tr>
<th>Impact of the strategy score</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company’s market share has improved</td>
<td>31.9%</td>
<td>46.7%</td>
<td>7.3%</td>
<td>14.6%</td>
<td>0%</td>
</tr>
<tr>
<td>Many people concur that services are of high quality</td>
<td>39.4%</td>
<td>20.2%</td>
<td>21.2%</td>
<td>19.2%</td>
<td>0%</td>
</tr>
<tr>
<td>The number of people enrolling to use the company’s services has increased significantly</td>
<td>62.1%</td>
<td>21.2%</td>
<td>16.5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The company is enjoying economies of scale</td>
<td>40.9%</td>
<td>26.6%</td>
<td>27.3%</td>
<td>5.2%</td>
<td>0%</td>
</tr>
<tr>
<td>The company’s services are reaching many customers</td>
<td>72.7%</td>
<td>27.3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The costs of operation are manageable</td>
<td>10.6%</td>
<td>48.4%</td>
<td>33.3%</td>
<td>7.3%</td>
<td>0%</td>
</tr>
<tr>
<td>The company’s profits have increased</td>
<td>42.4%</td>
<td>37.8%</td>
<td>10.6%</td>
<td>9.1%</td>
<td>0%</td>
</tr>
<tr>
<td>The organization’s equity has grown</td>
<td>39.4%</td>
<td>21.2%</td>
<td>34.8%</td>
<td>4.6%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source (Survey data, 2012)

The researcher wanted to establish how effective were the strategies applied by the four telecommunication companies. When the respondents were asked whether the strategy applied by the individual companies improved the market share, 31.9% strongly agreed, 46.7% agreed, 7.3% remained neutral while 14.6% disagreed. When asked if the strategies applied by these companies increased the quality of services provided, 39.4% strongly agreed, 20.2% agreed, 21.2% were neutral while 14.6% disagreed. The researcher also wanted to determine whether the strategies applied increased the number of subscribers. The data collected showed that 62.1% strongly agreed that the strategy used by their individual companies increased significantly the number of subscribers. 21.2% agreed while 16.5% remained neutral. On whether the strategies applied ensured that these companies enjoyed economies of scale 40.9% strongly agreed, 26.6% agreed, 27.3% remained neutral however 5.2% disagreed with the proposition. The study needed to establish if the strategies applied reflected in the companies reaching many customers. The data collected showed that 72.7% of the respondents strongly agreed that the strategies applied by respondents’ individual companies ensured that more customers were reached. 27.3% of the respondent agreed to this proposal. When asked if the cost of operation in these firms were
manageable, 10.6% of the respondents strongly agreed, 48.4% agreed while 33.3% and 7.3% remained neutral and disagreed respectively. On whether the companies’ profits had increased significantly as a result of the strategies applied, 42.4% strongly agreed, 37.8 agreed, 10.6% remained neutral while 9.1% disagreed. Finally the question as to whether the companies’ equity increased as a result of the strategies applied, 39.4% of the respondents strongly agreed that the strategies applied by their individual companies translated to increase to company’s equity. 21.2% agreed while 34.8% remained neutral. 4.6% of the respondents however disagreed with the proposition.

Table 6 4.4.1 Impact of the strategies on companies’ resources.

<table>
<thead>
<tr>
<th>Impact on the organization’s resources score</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has increased the number of employees</td>
<td>45.5%</td>
<td>42.4%</td>
<td>7.6%</td>
<td>4.5%</td>
<td>0%</td>
</tr>
<tr>
<td>The organization has increased allocations for advertising</td>
<td>25.8%</td>
<td>54.5%</td>
<td>19.6%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The organization has developed Total Quality Management systems</td>
<td>13.6%</td>
<td>21.2%</td>
<td>40.9%</td>
<td>6%</td>
<td>18.3%</td>
</tr>
<tr>
<td>The overall expenses have increased</td>
<td>36.3%</td>
<td>18.2%</td>
<td>16.7%</td>
<td>28.8%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source (Survey data, 2012)

The study aimed to establish the impact of the strategies applied by the four telecommunication companies on the firms’ resources. When asked if the organizations had increased the number of employees, 45.5% strongly agreed to this proposition, 42.4% agreed, 7.6% remained neutral while 4.5% disagreed. The researcher wanted to know whether the four companies had increased allocations for advertising 25.8% strongly agreed, 54.5% agreed while 19.6% remained neutral. On whether their individual companies had developed a total quality management systems, 13.6% strongly agreed, 21.2% agreed while 40.9% remained neutral. 6% of the respondents however disagreed and 18.3% strongly disagreeing. When asked whether the company’s overall expenses had increased, 36.3% strongly agreed, 18.2 agreed while 16.7% and 28.8% disagreed and strongly disagreed respectively.
4.5 Challenges facing successful implementation of cost leadership strategy.

Source (Survey data, 2012)

The respondents were asked what challenges they thought inhibited successful implementation of cost leadership strategy. 1% thought that stiff competition among the telecommunication inhibited successful implementation of the cost leadership strategy in the four telecommunication companies. 34%, who formed the majority of respondents on this question, thought that high cost of implementation of this strategy in the organization prevented successful implementation of this strategy. 12% of the respondents had the opinion that management and leadership related challenges inhibited successful implementation of this strategy. 16% of the respondents however thought that constraints associated with employee training would prevent successful implementation of this strategy. 27% of the sampled group thought that government policy on tariffs prevented successful implementation of cost leadership strategy. 3% thought that the national economy status was a challenge in implementation of this strategy in organizations while 7% did not respond to this question.
4.6 Factors that would make the strategy more beneficial to the organization.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased market share</td>
<td>14%</td>
</tr>
<tr>
<td>Improved national economy</td>
<td>22%</td>
</tr>
<tr>
<td>Intensive marketing</td>
<td>8%</td>
</tr>
<tr>
<td>Improved government policies</td>
<td>36%</td>
</tr>
<tr>
<td>Involvement of top management</td>
<td>16%</td>
</tr>
<tr>
<td>Employee training</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source (Survey data, 2012)

The researcher wanted to establish what other factors would make the strategy more beneficial to the organization. According to the data collected, 14% of the respondents thought that increased market share would make the strategy more beneficial to the organization. 22% had the opinion that improvement of the national economy would make the strategy more beneficial to respondents' companies. 8% responded that intensive marketing would make the strategy more beneficial. 36% had it that improvement of government policies on tariffs would make the strategy more beneficial to the organizations. Majority of the respondent thought that cost management would make the strategy more beneficial to the organization. 16% of the respondents thought that involvement of the top management in implementation of this strategy would make it more beneficial to these telecommunication companies. 4% thought that employees training would make the strategy more beneficial to the organization.
SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction
This chapter will summarize the finding of this study as per the data acquired and analyzed in chapter four. This section will conclude by giving the conclusion and recommendation of this study. In addition to this, the section will also provide a suggestion for further research. The sample frame for this study was 66 individuals sampled from different levels of management and departments from the four telecommunication companies studied.

5.2 Major findings of the study.
5.2.1 Biographical findings.
The study was carried out in the month of September in four largest telecommunication companies in Kenya with the aim of assessing the cost leadership strategy on enhancing competitive advantage. The companies surveyed included Airtel, Safaricom, Orange and YU mobile companies. The study surveyed a total of 66 employees working for these companies. Safaricom provided the largest number of respondents during the survey at 42% of the total number while YU mobile company provided the least number of respondents at 6%.

These employees worked at different levels within these organizations and closely interacted with customers. The data collected were acquired from sales managers, retail sales representative, financial analysts, top managers, customers care personnel and employees from human resource department. The data reflects that most of the employees surveyed worked as retail sales representative at 32% of the total respondents sampled. The data also indicted that majority of the retail sales representative sampled come from the Safaricom. Sales managers and customer care personnel both stood at 24% and 15% respectively. Financial analysts were at 6% while top managers stood at 5%. Finally employees from human resource department represented 10% of the sample group. The employees sampled were believed to have the knowledge of cost leadership concept and thus were able to respond effectively to the questionnaires.

On the gender of the respondents, the study found out that 55% of the respondents surveyed were of female to gender while 45% of the respondents were male. The
study needed to establish the professional experience of the respondents surveyed. The study found out that most of the respondents who formed 52% of the respondents had a work experience of between 5 to 9 years in their individual companies. This group was mostly sales managers and sales representatives from the surveyed telecommunication firms. Respondents with 0-4 years experience formed 26% of the sampled group and this group was generally made up of youthful employees who had recently joined the firm. This category of employees worked mostly as retail sales representative and customer care agents within the four sampled companies. Employees sampled with 10 to 14 years and 15 years work experience formed 13% and 9% respectively. This group was made up of staff with vast experience in the telecommunication industry. Top managers and sales representatives formed this category.

5.3 Strategies employed by telecommunication companies to increase market share.
The study aimed to investigate the strategies largely employed by the four telecommunication companies surveyed to increase their market share. Several strategies were described by the researcher using a likert scale and the respondent was required to select the degree to which the strategy applied to his or her individual organizations. The data collected by the study found out that 78.2% of the respondents strongly agreed that if companies created enough awareness of quality and affordable services, they would increase their market share. This strategy encompasses intensive marketing of telecommunication services and products. The respondents surveyed however, strongly disagreed with the suggestion that releasing more cheap offers to customers, would greatly increase their market share. This opinion was shared by 21.2% of the respondents sampled unlike 7.5% of the respondents who strongly agreed to this preposition. Other strategies that were strongly agreed upon included companies reaching out to the masses which had a strong approval of 72.7%, strategy on companies expanding their distribution network attracted a strong approval of respondents at 56%, Companies increasing investments on logistics and supply chain management was at 51.5% and finally the strategy on companies controlling cost got an a strong approval rate 42.8% from the respondents. In essence the correlation between expanded distribution network and tapping in into the mass market shows that the successful implementation of cost leadership strategy
is dependent on these variables. From the survey it is also clear that companies are focused on controlling cost for their low cost offering strategy to be successful.

5.4 Effect of the strategy to the organization.

The study investigated the effects of strategies employed by the four telecommunication companies surveyed in this study. The researcher wanted to determine whether the applied strategies translated into increase of market share and profitability of these companies. The data collected showed that 31.9% of the respondent strongly agreed to the increase in market share. 14.6% of the respondent however disagreed that this proposition was true. 39.4% of the respondent strongly agreed that the strategies applied by their individual organization resulted in high quality services. In terms of market coverage majority of the respondents unanimously recognized that the strategies resulted in services reaching more customers. This proposition to expand coverage was strongly approved and this represented 72.7% of all the respondents sampled. 62.1% of the respondents strongly agreed that the number of people using services provided by the four telecommunication companies had increased significantly due to implementation of the strategies. The data also indicated that 40.9% of all the respondents thought these strategies enabled companies to enjoy economies of scale. The proposition that attracted the lowest approval rate was effect of strategies making operational cost more manageable which was strongly agreed by only 10.6%.

5.4.1 Impact of the strategies on companies' resources.

Impact of these strategies on organizations’ resources was also investigated by the researcher. This was to establish what kind of resource requirements and constraints are key to success implementation of cost leadership strategy. Majority of the respondents surveyed shared the opinion that the companies’ services were reaching customers hence increased profits by these firms. However other opinions that were strongly agreed upon by majority of the respondents were that increased service to consumers had an impact on company’s resources in that more headcounts were neede, resource allocation to advertisements increased, and investment on Total Quality Management were required which were in essence an increase on operational costs. These opinions were strongly agreed upon by 45.5%, 25% and 36.3%
respectively of the respondents sampled. Opinion on whether these strategies resulted in increased profitability was strongly approved by 42.4%.

5.5 Challenges facing successful implementation of cost leadership strategy.
The data collected through the use of questionnaire and interview questions categorized these challenges facing successful implementation of this strategy. These challenges included those associated with the cost of implementation, market share, national economy, marketing and government policies on tariffs. According to the data collected, 34% of the respondents identified implementation cost as the biggest challenge for implementation of this strategy. 3% of the respondent had the opinion that the national economic condition characterized high inflation rate made the cost of implementation of a new strategy rather expensive. 27% of the respondents argued that government policies was a challenge that prevented one level playing field for all telecommunication companies to implement this strategy. 16% of the respondents thought that for a company to be able to implement this strategy employee training would be required and this also posed as a challenge for the implementation. 12% thought that the biggest challenge laid in management and leadership of these firms to implement this strategy.

5.6 Factors that would make the strategy more beneficial to the organization.
When the respondents were asked which other factors would make the cost leadership strategy more beneficial to telecommunication companies, 36% of the respondent argued that improvement of government policies on tariffs would make the cost leadership strategy more beneficial to the organization. This number was followed by 22% who thought that improvement of national economy would reflect on the strategy being more beneficial. Other opinion included management involvement in the implementation at 16% and employee training at 4%. 21.2% of the respondents sampled did not respond to this particular question.

5.7 Conclusion.
Cost leadership strategy is a relatively new concept in Kenya in many sectors. The concept involves gaining competitive advantage by lowering cost and providing value to the customer (Porter, 2002). The Kenyan telecommunication industry has been characterized by stiff competition among the four major companies in the country.
The four telecommunication industries include Safaricom, Airtel, YU mobile and Orange. These firms have been involved in price wars with airtel and Yu mobile companies drastically slashing their prices with the hope to gaining more market share. Safaricom currently enjoys the biggest market share. Cost leadership strategy presents an opportunity to be explored by the four major telecommunication firms in the country in order to increase the market share and profitability. The results from the study clearly showed that employees at these telecommunication firms were new to the concept of cost leadership. For this concept to be successfully implemented, more training needs to be done for the employees and management to gain more insight and knowledge of the concept. The management of these organizations have a major role to play in the implementation of this strategy. The study also indicated major external challenges that may impede implementation of this strategy within organizations. If well implemented this strategy can enable the companies gain the much needed market share and at the same time provide quality products and services. The study shows that one major impediment of implementation is the high cost. Though a good number of respondents agree that the organizations are currently enjoying profits due to increased market share in the long term the high costs of operations might eat into these profits and subsequently deny the firms resources to reinvest in more new competitive strategies and value adding activities in future.

5.8 Recommendation.

The study explored strategies used by the four telecommunication industries and investigated how viable the cost leadership strategy would be for these companies. The data collected showed that there were significant challenges in the implementation of cost leadership strategy in the four telecommunication companies. The following recommendation may enable these companies to effectively implement the cost leadership strategy.

The concept of cost leadership needs to be extensively explored due to its benefits especially in a highly competitive market such as the Kenyan telecommunication sector. Extensive training on this concept through workshops and seminars to increase awareness of should be initiated. With adequate knowledge this strategy can be implemented successfully.

The government policy on tariff on telecommunication should be restructured through involvement of all stakeholders so that playing field is leveled. Top management of
these organizations can take deliberate steps to engage policy makers in addressing this concern. These companies should increase awareness of low cost products and services through increased marketing to attract more customers and gain more market share. Top management should provide leadership and capacity to implement this strategy in their organizations. Potentials of this strategy especially in the Kenyan market should be explored with the intention of obtaining a sustainable competitive advantage.

The study recommends further research on, one how organizations can adapt to government regulatory and compliance framework and still be able to operate effectively and secondly since every organization is offering basement pricing, which cost containment measures, can be suitable in Kenya’s telecommunication industry so as to enhance competitiveness.
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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Kenyatta University
P.O Box 43844-00100
Nairobi

2nd August 2012

Dear Respondent

RE: COLLECTION OF SURVEY DATA

I am a post graduate student of Kenyatta University undertaking Masters in Business Administration. In order to full fill the degree requirement, I am taking undertaking a management research project on Cost Leadership strategy. The study is entitled;

“Assessment of Cost leadership strategy in enhancing competitive advantage. A survey of Telecommunication industry in Kenya”

You have been selected to be one of the respondents of this study. Kindly assist me to collect data by filling out the accompanying questionnaire or fielding questions in a brief interview session. A research assistant will take you through the questionnaire or the interview.

The information you provide will be used exclusively for academic purposes and in strict confidence. Your name will not appear in my report.

Your co-operation will be highly appreciated.

Thanking you in advance.

Yours faithfully

ANTONY DINGA- MBA Student

cc. Mrs. P. Genga— Project Supervisor
APPENDIX II: QUESTIONNAIRE

Section 1: Demographics

Tick where appropriate

1. Which Company do you work for?
   - Safaricom []
   - Airtel []
   - Orange []
   - Yu []

2. Kindly indicate your designation?
   - Top Management []
   - Sales Manager []
   - Brand Manager []
   - Other (Specify) []

3. Indicate Sex
   - Male []
   - Female []

4. Indicate how long you have worked for this company?
   - 0-4 Years []
   - 5-9 Years []
   - 10-14 Years []
   - Over 15 Years []

Section 2: What strategies is your company employing to increase market share?

5. To what extent do you agree with the following statements about the strategies being used by your organization to increase market share? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

<table>
<thead>
<tr>
<th>Strategy on increasing market share score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has reduced the calling tariffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The low tariffs are sustainable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company is releasing many cheap offers to customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has created enough awareness on quality and affordability of services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company is currently controlling its costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The company is currently increasing investment on logistics and supply chain management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company is expanding its distribution network</td>
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<td></td>
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</tr>
<tr>
<td>The company is reaching out to the masses</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
Section 3: What is the effect of this strategy to the organization?

6. To what extent do you agree with the following statements about the results of your organization’s strategies? Rate using a scale of 1 to 5 where 1 is Strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

<table>
<thead>
<tr>
<th>Impact of the strategy score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company’s market share has improved</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Many people concur that services are of high quality</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>The number of people enrolling to use the company’s services has increased significantly</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>The company is enjoying economies of scale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company’s services are reaching many customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The costs of operation are manageable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company’s profits have increased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organization’s equity has grown</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. To what extent do you agree with the following statements about the impact of the strategy on the organization’s resources? Rate using a scale of 1 to 5 where 1 is Strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

<table>
<thead>
<tr>
<th>Impact on the organization’s resources score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has increased the number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organization has increased allocations for advertising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organization has developed Total Quality Management systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The overall expenses have increased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 4:

(7) What are the challenges to the successful implementation of cost leadership strategy?

A) ____________________________________________________________

B) ____________________________________________________________

C) ____________________________________________________________

D) ____________________________________________________________
Section 5:

(8) In your view, what other factor(s) do you think would make the strategy more beneficial to the organization?

A) 

B) 

C) 

D) 

Thank you for your participation in the questionnaire.
APPENDIX III: INTERVIEW GUIDE

General information.
- Kindly let’s start by telling me your name?
- Which organization do you work for?
- What is your designation in the organization?
- Would you briefly describe your main role(s) in the organization? (Probe for job description)
- How long have you worked in this organization?

Strategies
- How would you describe the word strategy?
- What strategies have been in use?
- How often do you review your strategies?
- Who determines the type of strategy to be adopted?
- When did you launch the cost leadership strategy?
- How do you measure the success of your strategies?
- What are pros and cons of cost leadership strategy?

Resource requirements
- What kinds of resources have enabled you to implement this strategy?
- How would you describe financial investments involved in the implementation? (Probe for figures if possible)
- Any new or additional training needs for the staff? (Probe for types and nature of training).
- Have you increased your head count? (Probe for figures).
- How about distribution? Have you opened it up to more players? (If yes, probe for the criteria of enlisting)

Results of the strategy
- How would you describe your current market share? (Probe for figures)
- What is the general feeling of your customers? Do they still believe in the quality of your services? (Probe for indicators or measures)
- How about the company’s equity in the industry? How significant is the improvement? (Probe for the rate of growth)
- How competitive are you now?
• From your experience do you think increased enrolment of customers has led to economies of scale? (If yes, probe by what percentage)

• What do you think needs to be done to improve on this strategy?

Thank you for your time.
APPENDIX IV: RESEARCH BUDGET

Table 6: Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal Typing</td>
<td>3,500</td>
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<tr>
<td>Printing</td>
<td>20,000</td>
</tr>
<tr>
<td>Photocopying</td>
<td>5,000</td>
</tr>
<tr>
<td>Transport for research Assistants</td>
<td>20,000</td>
</tr>
<tr>
<td>Data Entry</td>
<td>5,000</td>
</tr>
<tr>
<td>Formatting &amp; editing</td>
<td>5,000</td>
</tr>
<tr>
<td>Honoraria</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73,500</strong></td>
</tr>
</tbody>
</table>

The source of the research budget is self sponsored
APPENDIX V: IMPLEMENTATION PLAN

Table 7: Implementation Plan

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time frame</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal writing</td>
<td>November 24\textsuperscript{th} 2011 to December 30\textsuperscript{th} 2011</td>
<td>3 weeks</td>
</tr>
<tr>
<td>Corrections</td>
<td>January 2012 to July 2012</td>
<td>6 Months</td>
</tr>
<tr>
<td>Defence</td>
<td>August 14\textsuperscript{th} 2012 to August 14\textsuperscript{th} 2012</td>
<td>1 day</td>
</tr>
<tr>
<td>Data corrections</td>
<td>August 15\textsuperscript{th} 2012 to August 30\textsuperscript{th} 2012</td>
<td>2 Weeks</td>
</tr>
<tr>
<td>Data collection</td>
<td>September 1\textsuperscript{st} 2012 to Sept 30\textsuperscript{th} 2012</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Presentation</td>
<td>October 1\textsuperscript{st} 2012 to October 14\textsuperscript{th} 2012</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Corrections</td>
<td>October 14\textsuperscript{th} 2012 to October 21\textsuperscript{st} 2012</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Binding and production</td>
<td>October 22\textsuperscript{nd} 2012 to October 24\textsuperscript{th} 2012</td>
<td>2 days</td>
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