COMPETITIVE ADVANTAGE AND MARKET SHARE OF TELECOMMUNICATION INDUSTRY IN KENYA

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DECLARATION

This project is my original work and has not been presented for a degree/diploma/certificate in any other institution.

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DEDICATION

I dedicate this project to my daughter Khloe Wangui Chege and my husband James Chege Njuguna for their continuous encouragement and support. I also dedicate this work to my parents Mr. & Mrs. Alex Nuthu who have always urged me pursue my dreams.

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LIST OF ACRONYMS

3G	Third Generations
4G	Fourth Generations
CA	Communications Authority of Kenya
CDMA	Code Division Multiple Access
EAC	East African Community
GSM	Global System for Mobile communications
ITU	International Telecommunications Union
KCA	Kenya Communications Act
KPTC	Kenya Posts and Telecommunications Corporation
MVNO	Mobile Virtual Network Operator
SIM	Subscriber Interface Module
TEAMS	The East Africa Marine System
TKL	Telkom Kenya Limited

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ABSTRACT

Firms across all industries continue to face the most disruptive market conditions in decades. Increased competition has only accelerated and the battle for market share is now more aggressive in the telecommunication industry. The objective of the study was to determine how competitive advantage strategies applied by firms in the telecommunication industry in Kenya influences the market share in the industry. Market share is one of the indicators used to measure the performance of a firm, which is determined by the number of subscribers in the network or the percentage of revenue the firm makes in relation to the others in the market. In order to satisfy the objective of the study, a census study was conducted since the number of firms involved is small. Descriptive survey research design was adopted and data collected from three key players in the telecommunication industry in Kenya (Safaricom ltd, Airtel and Orange). Primary data was collected through a structured interview guide while secondary data was collected by use of desk search techniques from published reports and other documents. Content analysis was used to analyze the qualitative data collected. The study established that all the firms were using differentiation, cost leadership and focus strategies. The usage of the strategies resulted to formulation of products, services, policies and procedures which enhance their businesses. The level of investments in technology contributes largely to the firm economies of scale thus bringing down the cost of production. The findings indicate that the extent of technological innovations adopted by Safaricom is superior in the market. The choice of focus strategy adopted by a firm helps immensely in defining its market share. The firms face similar challenges in the implementation of focus strategy. The researcher recommends that the firms should invest in various technologies and create a wide reliable network infrastructure to enable them grow their market share.

Keywords: competitive advantage, competitive strategy, market share, telecommunication industry

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A large slice of the pie is the dream of every firm in business (Simphiwe & Muthoka, 2013). The Kenyan firms are not left behind on this fact and thus the heightened competition in this industry dictates the need for the firms to strategize on how to acquire the superiority to emerge at the top through competitive advantage. This superiority is gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation, in a way that competitors desire, but cannot reach (Barney, 2002).Competitive advantage arises when a firm is able to create more economic value than rival firms (Barney & Hesterly, 2010). This stems out of the value the firm is able to create for its buyers that exceeds the firm's cost of creating it. Porter (1985) defined value as what buyers are willing to pay, which stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. Competitive advantage can arise from cost leadership, differentiation, focus and technology (Porter, 1980). Competitive strategy determines the relative position of a firm within the industry. This positioning enables a firm to gain a large market share which plays a big factor in the performance of a firm since it determines whether the firm's profits are above or below the industry average. A good strategy derives an edge in the industry and enables the firm to position itself well in the market therefore earning high rates of return.

The year 1997 marked the end of the telecommunication monopolistic market due to the entry of Safaricom limited and introduced a duopoly market consisting of Safaricom and Telkom Kenya (Mureithi, 2002). The duopoly market was replaced by an oligopoly market structure with the entrance of Kencell in the year 2000 (Nyabiage, 2010).Oligopoly is the theory of imperfect competition as experienced in the Kenyan telecommunication industry. The industry contains only few competing firms; Safaricom, Airtel, YU and Orange Kenya. Each firm has enough market power to prevent it being a price-taker, but each firm is subject to enough inter-firm

rivalry to prevent it from owning the demand curve (Lipsey & Chrystal, 2004). The firms realize that each move they take may get a response from the competitors and therefore they adopt a competitive strategic behavior by taking explicit account of the impact of their decisions and of the reactions they expect from the competing firms. The oligopolistic behavior in this industry causes a big dilemma on whether the firms should compete or cooperate. If they were to cooperate they would make more profit as a group, however one firm may make more profits for itself if it defects while the other cooperates (Lipsey & Chrystal, 2004). The telecommunication firms in Kenya have tried to adopt these strategies of cooperating and have resulted in disagreement with others like Airtel and YU setting prices too low to win more customers from the competitors (Chabwinja, 2011; Mark, 2012). The regulator Communication Authority of Kenya (CA) has tried to create Nash equilibrium by setting the termination rates across the networks which resulted to losses for companies like Safaricom and Orange Kenya (Mark, 2011). The push was from Airtel Kenya to reduce the tariff further down. The firms have resulted to game theory whereby their strategies involves a rational decision making process expecting a reaction from the competitors on every move the firms take and hence the need to cultivate a competitive advantage for the firms in the industry.

The blurring of traditional fixed lines, operators offering new flexible innovative products, and crossing over into new categories has created a highly competitive industry. A result of this change is significantly higher customer churn as providers and operators "exchange" subscribers on a monthly basis. One would say, "My customer today is your acquisition target tomorrow and vice versa."This heightened competition in the industry has necessitated the firms to develop a competitive advantage to counter the competition. To counter the churn rates and win more customers the industry has been experiencing tough price wars in battle for market share. Cross-network tariffs have been a key battleground for the service providers in a market where subscriber growth has been on a slowdown trend and the average revenue per user (ARPU) which is a critical measure of performance in the telecoms sector is also falling (Communications Commission of Kenya, 2011). The price tariff wars experienced in 2010 needed the intervention of the Communications Commission of Kenya (CCK) [1]by introducing

[1]Communications Commission of Kenya (CCK) has changed to Communications Authority of Kenya (CA) in 2014

tough competition rules that among other things required the regulator to set and approve tariffs for the dominant operator. In August 2010, Zain accused the market leader Safaricom of sabotaging its traffic after the firm had cut down its tariffs. Zain accused Safaricom of blocking its calls as a way to down play its move in tariff reduction (Okuttah, 2010). In 2010, Safaricom was the dominant player in Kenya's telecoms scene with 78.3 per cent of the market share. Zain had 10.6 per cent, Orange 5.6 per cent while Yu trailed with 5.4 per cent (Communications Commission of Kenya, 2011). Safaricom competitive advantage over the rivals was evident since it did not incorporate the lower tariff wars and instead chose to strengthen its network and added value to its subscribers by use of innovation (CCK Annual Report 2013). Michael Joseph[2] stated "We cannot sell minutes at a loss. Let them reduce rates, but it won't be long. A business must make returns". He added that what was needed in the industry was effective competition through product innovation (Daily Nation, 2010).

Okuttah (2011) explains that the 69.9% market share that Safaricom holds in the voice segment of telecoms market based on its subscriber base and 81% by revenue is above the threshold for presumption of dominance. CA argues that in established competition case law, sustained market shares of over 50% give rise to a refutable presumption of dominance while market shares of over 40% are suggestive of the possibility of dominance. Based on the above evidence, the regulator concluded that Safaricom market share by far exceeds the thresholds where firms are typically presumed to be dominant. On the balance therefore, Safaricom has an enduring Significant Market Power in mobile voice and SMS services that enables it to behave, to an appreciable extent, independently of its competitors, customers and ultimately consumers. The domination is attributed to competitive advantage the company has gained over its rivals being a first mover and having established a well laid network for its customers.

Telecommunication firms in Kenya have realized that competition is at the core of their success or failure since it determines the appropriateness of a firm's activities that can contribute to its performance. The firms are therefore looking for competitive strategies in search for a favorable competitive position in the industry. The aim of these strategies is to establish a large market share and sustainable position against the forces that determine the industry competition. The

[2] The Retired CEO of Safaricom Kenya

choice on the competitive strategy that a firm needs to apply is determined by the factors that will bring long term profitability to the firm due to the utilization of its products by the customers. Competitive strategy has the power to make a firm in an industry more or less attractive and at the same time can improve or erode its position within the same industry. The strategy therefore shapes the environment in a firm's favor.

Industry attractiveness is a fundamental determinant of a firm's ability to grow and retain its market share. The telecommunication firms must ensure that the strategies that they are embracing must grow out of a sophisticated understanding of the rules of competition that determine industry's attractiveness. Porter's five competitive forces provide a framework for understanding industries and competitors, formulating an overall competitive strategy and describe the various competitive forces that determine the attractiveness of an industry (Porter, 1980). The framework discusses how the forces change over time and how they can be influenced through strategy to achieve a competitive advantage. The competitive forces are: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors. The collective strength of these forces determines the firm's performance since they influence the prices, costs, and elements of return on investment.

The fundamental basis of performance in the long run is sustainable competitive advantage. Managers recognize the importance of cost advantage and they have therefore come up with many strategic plans to establish cost leadership or cost reduction as the goals to attract more subscribers in the market. Firms have a great difficulty in assessing the cost positions of competitors which is an essential step in assessing their own relative positions if they want to compete on cost. Due to the complexity in cost analysis, value chain tool is often used to analyze the behavior of costs, the determinants of relative cost position, and the ways firms can gain a sustainable cost advantage while minimizing their cost disadvantage (Porter & Kramer, 2006). Major cost drivers can be used to determine the cost behavior of value activities in a firm. The use of different value chains in the industry brings about different firms relative cost position thus affecting their performance. To remain competitive the firms have embraced major cost drivers; economies of scale, learning curves, the pattern of capacity utilization, linkages,

interrelationships, integration, timing, discretionary policies, location, and institutional factors. To gain cost advantage the firms should control cost drivers and reconfigure the value chain by adopting different efficient ways to design, produce, distribute, or market the products they are offering to the market.

Differentiation allows the firm to command a premium price, to sell more of its product at a given price, or to gain equivalent benefits such as greater buyer loyalty (Porter, 1985). The telecommunication firms have been able to differentiate themselves in regard to the breadth of their activities or their competitive scope. This scope has been created through a number of factors; ability to serve customers' needs everywhere, simplified maintenance of the customers, single points of sale and customer service, and superior compatibility of the products they are offering to the customers in the market. Differentiation leads to good performance only when the value perceived by the buyer exceeds the cost of differentiation. The sustainability of the sources of uniqueness that are protected by barriers to imitation leads to a sustainable competitive advantage for the firm (Srivastava, Fahey, & Christensen, 2001).

Everything that a telecommunication firm does involves a large number of technologies, whether in the production process or in the product. The significance of a technology for competition is not a function of its prominence in the physical product but rather any of the technologies involved in a firm can have a significant impact on competition (Porter, 1985). Technological change is one of the principal drivers of competition. Information technology plays a prominent role in industry structural change, as well as creating new products. Technology is also a great equalizer, eroding the competitive advantage of even well-developed firms and propelling others to the fore front in competition. Technology affects competitive advantage if it has a significant role in determining relative cost position or differentiation of its products. Due to the power of technological change to influence the industry structure and competitive advantage, a firm's technology becomes an essential ingredient in its overall competitive strategy (Barczak, 1995).

Innovation is one of the principal ways of attacking well established competitors. The choice of whether to seek technological leadership or followership is a key issue in technology strategy. Sustainability of a technological lead is a function of four factors: the source of the technological

change, the presence or absence of a sustainable cost or differentiation advantage in technology development activity, relative technological skills, and the rate of technology diffusion. A successful technological strategy will lead to a sustainable competitive advantage, shift cost or uniqueness drivers in favor of the firm, lead to first mover advantages, and improve the overall firm's structure market share. Safaricom has been on the lead in introducing new innovations and technologies to the market and this has enabled them to maintain their subscribers in the network.

1.2 Problem Statement

It is evident from the heightened competition of the firms in the telecommunication industry in Kenya that the market share keep changing due to the oligopolistic nature of the market. Competition improves the performance of any industry at the same time ensuring quality of services offered to customers but can also kill the market share of a firm if not dealt with strategically. Intense competition within the Kenyan telecommunication sector has led to a struggle to survive among the service providers (Waema, 2007).The mobile market shares measured by the number of subscriptions have maintained a similar trend over a period with Safaricom limited holding the largest market share in subscriptions. The number of mobile subscriptions per operator and the respective market shares are as shown in Figure 5. The market leader, Safaricom has maintained its market share despite it being in the midst of the competition while the other rivals, Orange, Airtel and YU have seen an erosion of their market share time and again[3]. This raises a big question on why are the other firms in the industry not able to measure up to the market leader-Safaricom. Is there a market slice for them? Why is the market share amongst the four operators in the telecommunications industry in Kenya skewed in favor of one operator? What strategies can they employ to grow and maintain the subscriber base already in place? This research sought to answer these questions intensively by analyzing competitive advantage and how it affects the market share in telecommunication industry in Kenya. Studies have focused more on innovation strategies, competitive advantage and overall firm performance (Letangule & Letting, 2012). There is however need to delve more to specific effects of competitive advantage in relation to the performance of the telecommunication industry in terms

[3]See Figure 5 for market share

of its market share. Therefore, this study probes into competitive advantage and market share of the telecommunication industry in Kenya.

1.3 Study Objectives

The main objective of the study was to analyze the effect of competitive advantage on market share of the telecommunication industry in Kenya.

The specific objectives for the study are;

1. To determine how cost leadership strategy affects the growth of market share in telecommunication industry in Kenya.
2. To establish how differentiation strategies affect market share of the telecommunication industry in Kenya.
3. To find out the effects of focus strategy on the market share of the telecommunication industry in Kenya.

1.4 Research Questions

The research questions for the study are;

1. In what ways does cost leadership strategy affect the growth of the market share of the telecommunication industry in Kenya?
2. To what extent does differentiation strategy affect telecommunication industry market share?
3. How does focus strategy influence the market share of the telecommunication industry in Kenya?

1.5 Justification of the Study

Performance of any company is a key debate to its survival in the current market economy. Research has been done locally on competitive strategies focusing majorly on innovation strategies and competitive advantage (Letangule & Letting, 2012).Studies have also been done on positioning strategy in telecommunication industry (Chelimo, 2012). There exists a research

gap in the study and particularly based on the Kenyan market environment to whether there competitive advantage affects the market share of the firms in the industry.

This study therefore is timely and important to the firms in the telecommunication industry as it will assist the telecommunication firms to fully grasp the relationship between competitive advantage and market share. It provides fresh expertise into possible ways they can fully take advantage of their Research and Development department to attain and sustain competitive advantage. This descriptive study will also contribute to researchers and scholars as it would form a basis for further research as acknowledged by Uma (Uma Sekaran, 2013).

1.6 Scope of the Study

The study focused on sources of competitive advantage as ways of achieving a large market share for the telecommunications industry in Kenya. Market share of the three dominant firms will be used as a measure of performance. According to CA (CCK, 2011), the dominant firms are Safaricom Limited, Airtel Kenya and Orange Kenya (Telkom).

1.7 Definition of operational terms

Competitive advantage: This is the superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation, in a way that competitors desire, but cannot reach (Porter M. E., 1985).

Competitive strategy: This is a plan on how a firm will compete, formulated by the firm after evaluating its strengths and weaknesses compare to those of its competitors (Kay, 2011).

Cost leadership strategy: Its gaining advantages by reducing a firms cost below those of its competitors (Barney & Hesterly, 2010).

Differentiation strategy: It entails creating a product that is perceived to be unique and of superior quality compared to the others in the market (Barney J. B., 2002)

Focus strategy: It involves focusing on a particular group, segment of the product line, or geographic market (Porter M. , 1980).

Market Share: Market share is the percentage of business or sales a company exert out of total business or sales by all competitors combined in any given market (Internet Center for Management and Business Administration, Inc., 2010).

Oligopoly: A market dominated by a few large producers of a homogenous or differentiated product (Lipsey & Chrystal, 2004).

Technology: This is the purposeful application of information in the design, Production and utilization of goods and services, and in the organization of human activities (Mwololo & Ndung'u, 2010).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses existing literature in regards to telecommunication industry in Kenya, competitive advantage and Market share. Any superior competitive advantage results to growing the number of subscriber base thus increasing the market share of a firm. The use of firm resources and sustainable competitive advantage is an important concept in this study. It is often observed that companies position themselves based on their strength, or the advantages they possess compared to their competitors. Theoretical framework encompasses the game theory as used to tackle the oligopolistic nature of the telecommunication industry, Michael Porter's competitive strategies theory and resource based view model.

2.2Telecommunication industry

Telecommunication is the transmission of information over significant distances to communicate. In earlier times, telecommunications involved the use of visual signals, such as beacons, smoke signals, semaphore telegraphs, signal flags, and optical heliographs, or audio messages such as coded drumbeats, lung-blown horns, and loud whistles. In modern times, telecommunications involves the use of electrical devices such as the telegraph, telephone, radio, and microwave communications. Communication channels make use of fiber optics and their associated electronics, orbiting satellites and the Internet. Modern telecommunications industry players produce communication equipment and deliver a set of voice, data, and broadband services using wire line or wired infrastructure of cables, networks, servers, computers, and satellites(Tanwar, 2013).

Telecommunications as an Industry plays an important role in the world economy and the worldwide telecommunication industry's revenue was estimated to be $3.85 trillion in 2008.The service revenue of the global telecommunications industry was estimated to be $1.7 trillion in 2008, and according to the new industry market study, telecommunications services revenue worldwide will grow from $2.1 trillion in 2014 to $2.4 trillion in 2019 at a combined average

growth rate of 2.1 percent (Insight Research Corporation, 2014). The telecommunications industry can be classified as equipment sector and services sector. Equipment sector is comprised of companies that manufacture products that are used by both customers and other companies in the same sector (Krammer, 2007). Customers use these products to access telecommunications services, whereas other companies use these products to create and maintain telecommunications infrastructure and deliver telecom services. Equipment sector includes satellite and broadcast network equipment, wireless and wire line equipment, as well as computer networking equipment. Services Sector is also comprised of wired, wireless services and internet and other broadband services (Krammer, 2007).

Telecommunications services in Kenya were first introduced in 1888. Up to 1977 telecommunications services in Kenya were managed as part of the East African Community (EAC) regional network with neighboring Tanzania and Uganda. In 1977 the Community collapsed, and the Kenya Government established the Kenya Posts and Telecommunications Corporation (KPTC) which run for twenty-two years on a monopoly basis until 1999 when the Government launched telecommunications sector reform, introducing competition in certain market segments and disbanding KPTC (Letangule & Letting, 2012).

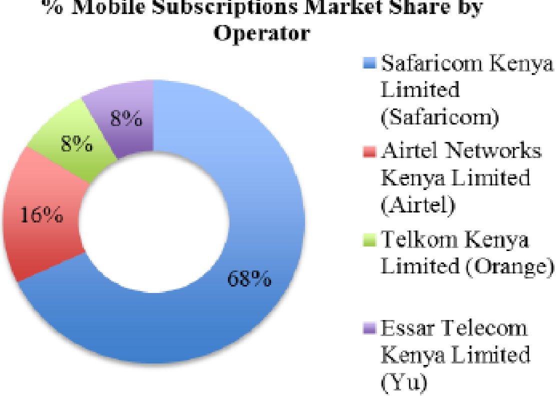
In 1998 Kenya Communications Act (KCA 98) was enacted by parliament which set out a new liberalization for the development of telecommunications in Kenya. At the same time KPTC was disbanded under the Act of 1977.The basis of these actions was a policy statement of 1997 setting out the Government vision of telecommunications development up to 2015(Mureithi, 2002).

In 2000, Kencell was launched in Kenya and rebranded to Celtel in 2004, to Zain in 2008 and finally Airtel in 2010.During this transition the company's market share still plummeted from 46%, in 2001 as Kencell to 18% in 2005 as Celtel, to its current 15.3% as Airtel (Abacus). Kencell used segmentation strategy for its market, targeting the rich. To them, then, the mobile phone and calling was not meant for everyone. It went for corporate and rich businessmen or women and executives in companies. It employed per minute billing, a big undoing that its arch rival Safaricom capitalized, overtaking it to become market leader, which it has firmly held to

date. Around 2002, Safaricom began rebranding itself as a “cheap” network. It began a billing system based on seconds rather than its rival’s minutes. Taking advantage of Kenyan’s peculiar calling habits where the average phone call lasts only a few seconds, Safaricom found a comfort zone. Although, Kencell later changed its tariffs to per-second billing, the damage had been done. When Kencell sold its 40 per cent stake to Celtel International; the firm adopted a pan-African marketing strategy. In the meantime, Safaricom localized advertisements that helped draw in millions of customers. Celtel later rebranded to Zain Kenya due to a change in shareholding. Safaricom has grown to become the market leader, setting a record with Sh23 billion in net profits the highest amount ever reported in the corporate Kenya (Kamau & Nyabiage, 2014).

The year 2008 Telkom Kenya Limited which is a joint venture with France Telecom SA and the Kenya Government entered the market with its Orange brand. Telkom Kenya Limited had been providing fixed line and wireless telecommunication services using Code Division Multiple Access (CDMA) technology and now offers consolidated services using the GSM technology. The rebranding to orange Kenya did not help the company to make any profits since they had projected to make net profits by 2012 and later launch an IPO by 2015(TeleGeography, 2011).Essar Telecom Kenya Limited (formerly Econet Wireless Kenya Limited) followed suite when it rolled out its services in November of the same year. Essar Telecom Kenya Limited is owned by the Essar group of India.

The oligopolistic nature of these firms is characterized by a small number of competing firms, by homogeneous products, and by high entry and exit costs. Safaricom and Airtel have a large stake in the Kenyan market. According to the Communications Authority of Kenya, CA June 2012, and Safaricom Limited boasts of the largest market share at 69.9% followed by Airtel with 15.2%, Orange with 8% and Essar telecom with 6.4% (Bharti Airtel Limited, 2013). This shows that the telecommunications industry is still skewed towards dominant players Safaricom and Airtel (Communications Commission of Kenya, 2011). Although Safaricom has been a dominant player, Bharti's Airtel Kenya boosted its market share to 15% from 11% in the first quarter of 2012 and captured 60% of new mobile customers each month (Simphiwe & Muthoka, 2013).



(Communications Authority of Kenya, September 2014)

Figure 1: Mobile subscriptions per operator

2.3 Theories on competitive advantage

2.3.1 Oligopoly

Oligopoly is a market structure in which a small number of firms compete. The firms in oligopoly might produce an identical product and compete only on price, or they might produce a differentiated product and compete on price, product quality, and marketing (Parkin, 2010). This involves competition among a few rival firms and the outcome for each is dependent on the behavior of the others. In formulating strategies, a firm in an oligopoly market must attempt to anticipate the reactions of others (Lipsey & Chrystal, 2004). Natural or legal barriers may prevent the entry of new firms. In the Kenyan market, the firms compete on price, product quality and marketing. Natural barriers inhibit entry of new firms. This includes economies of scales and demand. The cost of investing in the telecommunication firms is too high and since Safaricom has been able to establish the infrastructure needed thus it enjoys economies of scale. Its high market share also increases the demand for its products in the market. With the small number of firms in this market, the rate of interdependence is very high. Each firm's actions influence the profits of all the other firms.

In the Kenyan telecommunication market price wars have been the major rivalry among the firms in an attempt to win a large market share. Safaricom has dominated the Kenyan market due to the large market share from the millions of subscribers and the billions of profits it makes.

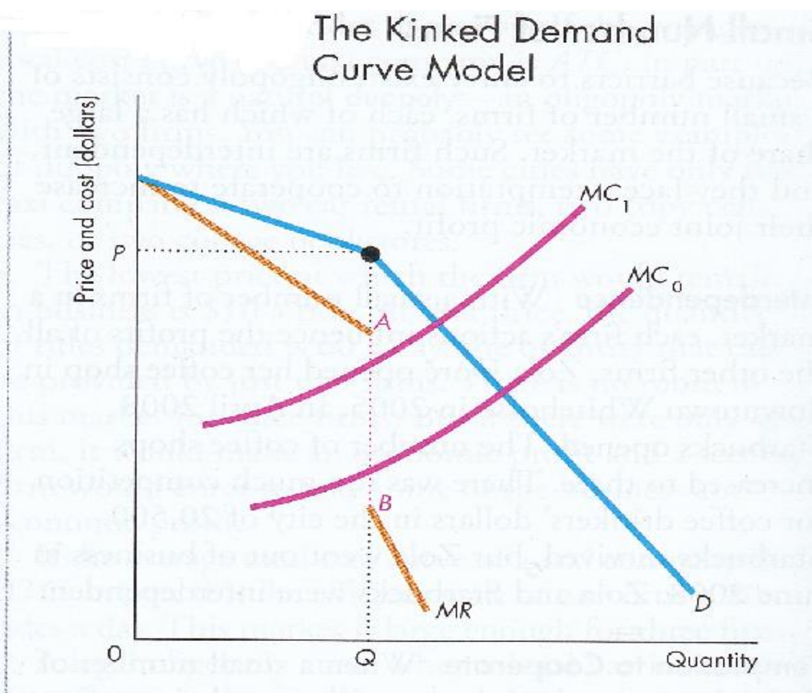
Safaricom earned Sh23 billion in profits in the year ending March 2014 and the firm's customers increased by 11.07 per cent to 21.6 million in the same (Mumo, 2014). The situation may change due to three companies issued with Mobile Virtual Network Operator (MVNO) licenses by CA. Kenya's largest bank by customer base, Equity, is one of the entrants to the telecommunication sector through its subsidiary, Finserve Africa Ltd. The other MVNOs are Zioncell and Mobile Pay Ltd, which owns the Tangaza Pesa brand. With its strong banking foundation, Equity Bank's expected products are seen as the most likely to erode Safaricom's competitiveness especially in mobile money transfers (Mumo, 2014).

Several models have been developed to explain the oligopolistic pricing and output behavior. The models are: game theory models and traditional models; kinked demand curve, collusive pricing, and price leadership.

Game theory is the study of how people behave in strategic situations. It's a tool for studying strategic behavior which takes into account the expected behavior of others and the recognition of mutual interdependence. The theory gives a rational behavior in interactive decision making problems. The game element arises because the outcome depends not only on the choices made by one player, but also on what other players choose to do at the same time or subsequently. Every firm aims to maximize its payoff by choosing specific actions like reduction of mobile price tariff to attract more customers, but the actual outcome depends on what all other competitors do. A solution to these games is for every firm to come up with a dominant strategy which is the best response independent of what the other players do (Lipsey & Chrystal, 2004).

Kinked-demand curve is based on assumption that each firm believes that if it raises its prices, others will not follow, but if it cuts its price, other firms will cut theirs.

Observations in oligopolistic industries suggest that a firm's rivals will match price declines below ***p*** as they act to prevent the price cutter from taking their customers. But they will ignore price increases above ***p*** because the rivals of the price increasing firm stand to gain the business lost by the price booster. Demand is highly elastic above the going price ***p*** but much less elastic or even inelastic below ***p*** (McConnell, Brue, & Flynn, 2009).



The price in an oligopoly market is *P*. Each firm believes it faces the demand curve *D*. At prices above *P*, a small price rise brings a big decrease in the quantity sold because other firms do not raise their prices. At prices below *P*, even a big price cut brings only a small increase in the quantity sold because other firms also cut their prices. Because the demand curve is kinked, the marginal revenue curve, *MR*, has a break *AB*. Profit is maximized by producing *Q*. The marginal cost curve passes through the break in the marginal revenue curve. Changes in marginal cost inside the range *AB* leave the price and quantity unchanged. (Parkin, 2010)

Figure 2: Kinked Demand Curve

On the demand side, the kinked-demand curve gives each oligopolist reason to believe that any change in price will be for the worse. If it raises its price, many of its customers will desert it. If it lowers its price, its sales at best will increase very modestly since rivals will match the lower price. This explains the price inflexibility in non-collusive oligopolistic industries.

The disadvantages are quite obvious since the non-collusiveness increases uncertainties. There is a danger of price wars breaking out, especially during general business recession. A new firm may surmount entry barriers and initiate aggressive price cutting to gain a foothold in the market. The rigidity in prices may affect profits if general inflationary pressures increase costs.

Airtel and YU[4] have been leaders in cutting prices to try and win over the market share from other firms. The lack of sustainability of their prices has led to losses over and over again. This has also erupted price wars in the industry with other firms like orange trying to maintain their customers and thus reducing the prices.

Collusive pricing occurs when firms agree to fix prices, divide up the market, or otherwise restrict competition among the firms. This reduces uncertainties; increase profits, and perhaps prohibit the entry of new rivals. Collusion may be in various forms. The most comprehensive form is the cartel where a group of producers creates a formal written agreement specifying how much each member will produce and charge. Output is controlled, the market divided up in order to maintain the agreed upon price. This is an overt collusion that is open to view.
In many other situation to avoid legality; since most cartels are illegal, "gentlemen agreements" are made. These covert collusions are unwritten, informal understandings where executives reach verbal or tacit understandings on product price, leaving the market shares to be decided by non-price competition. The informality makes them difficult to detect (Lipsey & Chrystal, 2004).

Cartels are often difficult to establish and maintain. Differences in costs and demand curves make them hard to agree on price. This is common in industries where products are highly differentiated and change frequently. Telecommunication industry is such. Another hindrance to cartels is the number of firms. If there are many firms it's more difficult to create a cartel or some other form of price collusion. Cheating is a major possibility as indicated by game theory model. Secret price cutting to increase sales and profit is very tempting for oligopolists. Recession serves as an enemy to collusion because falling markets increase average total cost. The greater prices and profits that result from collusion may attract new entrants, including foreign firms. Legal obstacles prohibit cartels and price fixing collusion. In the Kenyan markets cartels have not been made due to the CA law that works against collusion to promote fair competition.
Price leadership entails a type of implicit understanding by which oligopolists can coordinate prices without engaging in outright collusion based on formal agreements and secret meetings. A

[4] YU exited the market in 2014 due to losses and was bought by Safaricom and Airtel

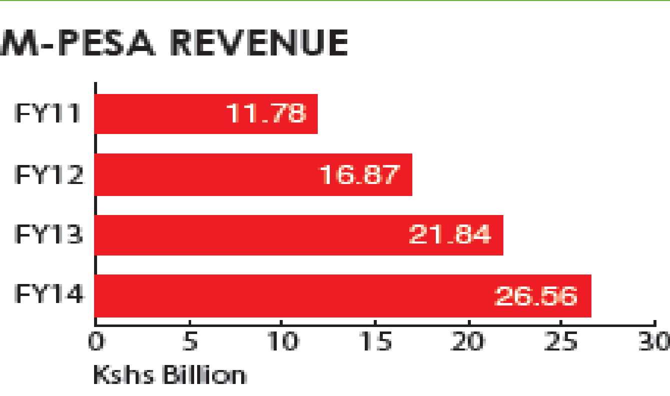
"dominant firm" usually the largest or most efficient in the market initiates price changes and all other firms automatically follows the leader. This dominant firm has a big cost advantage over other firms and produces a large part of the industry output. This is the very case in the Kenyan market whereby Safaricom is the dominant firm; due to its large market share and its infrastructure, and thus is does not depend on the others to set its price. Currently it charges the highest prices in voice and data products but is still able to realize billions of profits.

2.3.2 Michael Porter's Three Generic Strategies on Competitive Advantage

Strategy theorist Michael Porter (1980) stated that there are three potentially successful generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation, or focus. Michael Porter argues that a firm can successfully pursue more than one approach as its primary target. Competitive advantage is about how a firm puts the generic strategies into practice, i.e. how does a firm gain a sustainable cost advantage? How can it differentiate itself from competitors? It's an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Ideally, the firm should seek to try to achieve some position that is difficult or impossible for rivals to imitate. Competitive advantage is based on the ability to respond to evolving opportunities which depends on business processes or capabilities. Business success involves choosing the right capabilities to build, managing them carefully, and exploiting them fully.

In the telecommunication industry in Kenya, some of the firms have already gained a competitive advantage from the quality of the products they offer in the market. Safaricom ltd has been on the lead with the Mpesa product that has been reaping a bigger slice of their profits (TalkNow-TelecomAfrica, 2010) due to its inimitability. This product has proven to be one of the best products in the industry since its inception for there has been an upward trend on the uptake of the firm's services due to Mpesa. Customers are tied to the network due to the advantages they get from the transaction services.

The following chart shows how the Mpesa revenue has improved from financial year (FY) 2011 to 2014.



(Safaricom, 2014)

Figure 3: Mpesa Revenue

2.3.2.1 Cost Leadership Advantage

Cost leadership strategy focuses on gaining advantages by reducing a firms cost below those of its competitors. This requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like service, sales, advertising, etc(Barney & Hesterly, 2010). Different technologies that the firms apply to manage the business can also be a source of competitive advantage. Technological hardware such as machines and robots can be used in place of human resource which cuts the cost of paying the employees. Technological software of firms such as the quality of relations between labour and management and quality of the managerial controls all have an impact on the economic costs of the firm. Having low cost position yields a firm above average returns in its industry despite the presence of strong competitive forces. In the telecommunication industry low cost means offering lower tariff prices in the market. This acts as a defensive mechanism since it helps in retaining customers to the network thus protecting against the rate of switching and substitution and helps grow the market share. This is a strategy that has been used by Airtel to compete against its biggest rival Safaricom by lowering its tariffs in the market and attracting many customers to the network. The sustainability of the cost leadership strategy is however a major issue since the firm has to achieve the large market share for it to gain a competitive advantage since the strategy requires a heavy up front capital investment in state of the art equipment and start-up losses to build the market share. These are some major risks associated with the strategy since the other

firms can invest in the same state of the art facilities and therefore nullify the past investments or learning. This reflects the case of YU-Essar where after lowering the tariffs in order to compete in the market, the strategy was not sustainable and led to big losses which has been a contributing factor to its pulling out in the market (Fripp, 2012).

The indicators for overall cost leadership includes: scale economies, experience, low input costs and technological advantages.

Economies of scale are a source of cost advantage for a firm due to the increase in size of the firm which is associated with lower costs of production. With high levels of production a firm is able to purchase and use specialized tools that cannot be kept in operation in small firms. In the telecommunication industry this translates to high investments in technology due to the increased number of subscribers, building more network facilities, increased employee specialization which brings efficiency that reduces firm costs. A firm is also able to achieve economies of scope due to the shared assets across geographical locations which reduce the cost of investing in new assets.

Firms with great experience in dealing with a certain product or service will have the lowest cost in the industry and thus will have a cost based advantage. The refinement of practices due to learning within and across activities is a source of lower costs. Differences in learning rates across firms in an industry are determined by their capabilities, which are based on investments on employee expertise and training. Organizational policies also play a major role in exploiting the learning benefits once they are identified by the firms investing on them (Walker, 2004). Experience can lead the firm in making policy choices on the products and services to offer, ones to discontinue, and the pricing.

A firm can have lower costs than its rivals due to access to inputs such as labor, land, capital, materials, information, and technology. Cheaper manufactured products from countries like china can be a source of low cost. Access to cheaper land to build a base station will reduce the cost of capital investment. Labor such as interns from colleges will lower the cost of recruiting

than hiring experienced personnel who demands for high pays. Partnerships between firms can be a source of lower cost of information and technology.

Different technologies that firms employ may be a source of cost advantage as stated earlier since larger firms may have technological based cost advantages that reflect their ability to exploit economies of scale. These include machines, computers and other physical tools that a firm uses to manage their business. Technological hardware like robots can be used in place of human labor. Software can also be incorporated in enhancing quality and efficiency of the firms.

2.3.2.2 Differentiation

Differentiation entails creating a product that is perceived to be unique and of superior quality compared to the others in the market. This can be achieved through establishing a unique design and brand image, innovative technology, product features, superior customer service, or dealer network. Safaricom network has been a differentiator in the market since the firm has established a good elaborative network of dealers which has been able to reach millions of Kenyans even in the rural areas. This ensures that the availability of its services and products like airtime, Mpesa services, and Sim replacement is well in reach to the customers. This has enabled it to retain leadership in the market since the other companies are still struggling with getting dealers on board to offer their services. Airtel has created a niche with its unique brand of post-paid services that the other firms have been unable to compete with. Safaricom started the post-paid service and has declared that it making losses on the product and therefore it has terminated the service (Okutoyi, 2014; Otuki, 2014). Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins which avoids a low cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. The uniqueness of the product and brand Mpesa has created a strong entry barrier to the other mobile money transfer providers in the market. The loyalty gained by the customers from the product creates insulation against the competitions thus Safaricom does not compete on low cost position since it has already established its differentiation strategy. There is however a series of risks associated to this strategy. Customers often forego some of the features, services, or the brand uniqueness

possessed by the differentiator for large cost savings. If the differentiated firm gets too far behind on cost due to technological change or inattention, the low cost firm may overtake the differentiator. The customer's needs also change with time and become more sophisticated and this leads to the differentiating factor fall. Imitation has also narrowed the perceived differentiation which is a common occurrence in mature industries like telecommunication.

What can be said in retrospect to the telecommunication industry is that brand loyalty is truly experienced only to some degree in the mobile service sector with some customers shifting from network to network. For instance when Bharti Airtel lowered the voice tariff call in 2011 the total number of subscriber base in Kenya increased to 20.1 Million. Safaricom, lost part of its market share to rivals who were charging lower tariffs, dropping by 4.9 per cent from the previous quarter's 80.7 per cent. Airtel, saw its market share rise by 4.4 per cent, Telkom Orange's market share also rose by 1.3 per cent while the tariff wars hived 0.7 per cent off Essar Telecom (Communications Commission of Kenya, 2011).

The retention of large market share by Safaricom in the wake of stiff competition and lower calling rates by the rivals, Airtel, Yu and Orange, can be attributed to effective brand management. Alongside brand management it can also be pointed out that coverage has always been a crucial factor especially given that the Kenyan market has ties all over the country through relatives in rural areas (Waema, 2007).
The indicators of differentiation strategy include: technological innovation, brand and reputation, delivery and location

The management of innovation requires technology (White & Bruton, 2007). Innovation is the process whereby new and improved products, processes, materials, and services are developed and transferred to a market where they are appropriate (Rubenstein, 1989). Positioning the product with superior technology implies better design, features, and functionality than the competitors. Customer needs are varied across the market and some buyers require higher functionality and features so that a broader range of tasks can be performed with higher quality outcomes. Others prefer low technologies for lower prices. The interplay between technological

innovation and customer buying patterns is central to competition in technology-intensive industries like the telecommunication industry.

The rate of technological change is very important in the telecommunications industry as it is rapid and the more advanced the technology, the more competitive the entity. Some customers withhold from investing in most advanced technology in the expectation that it will be supplanted in the near future. Due to the nature of competition, the telecommunication companies have from time to time developed innovative products to enable them stay competitive and increase their market share. The notable routes that have been pursued in this regard include the introduction of M payment M banking, loyalty schemes, and data services (Awour, 2012).

Brand loyalty is becoming increasingly important due to its core element status in company strategy and management and also to its financial significance when quantifying intangible assets. Brand loyalty can be defined as a concept which the consumer associates with the brand and the related product. This association is based on analysis of the assets which constitute brand perceived value, their inter-relations and derived aspects such as brand extension.
The most important relationship between a firm and its customers depends on the firm's reputation in its marketplace (Walker, 2004). The brand and reputation signals the level of product quality or performance. Firms with strong brands and reputations are better positioned in markets involving inter-firm cooperation than firms with failed histories of partnerships. Building strong brand loyalty is dependent on creating positive, strong, and unique associations that will help buyers differentiate it from other available brands.

Introducing a product at the right time can create product differentiation since the delivery of a product within a specified time frame is a key performance attribute. Being a first mover in this industry can create a perception among customers that the products or services of the firm are somehow more valuable than those from other firms.

Location adds value when the firm is close enough to its customers to lower the cost of coordination in handling logistics or other activities. Geographical scope extends the location advantage to multiple regions whereby firms with facilities in multiple locations are better positioned to serve customers with a comparable geographical reach. Location differentiation can be enhanced by used of distribution channels and dealerships in this industry.

2.3.2.3 Focus

This entails focusing on a particular group, segment of the product line, or geographic market. The strategy is built to service a particular target very well effectively and more efficiently than the competitors who are competing more broadly. As a result the firm is able to achieve differentiation from meeting the needs of the particular target, or lower costs in serving this target, or both. The focus strategy involves a trade-off between market share and sales volume.

The focus strategy on fixed land line service from Orange has been targeted to office users and corporate businesses, which has captured a market share for the company since it was started. Other products like Mshwari and Vuma Online by Safaricom have targeted the Jua kali industry and the youth who could not directly get loans from the commercial banks due to lack of collateral. The youth makes up the largest population of the Kenyan country and therefore any product targeted to them earns the firm a huge market share (Okulo, 2014).

Safaricom on the other hand entered the market with the mass market strategy in mind. They targeted the middle income families which took a large part of the population. At the time the mobile companies seemed punitive with their unattractive rates but it was out of their hands seeing that they were taxed heavily (Mureithi, 2002). Later due to the high competition from Safaricom, Kencell began to fail it was sold off to Celtel, Zain and Bharti Airtel and was rebranded as such. Through the translation process the firm lost most of the users due to the confusion created (Abacus). Though it was able to attract some of the middle income families with its attractive pricing, there was a lot of skepticism from consumers by virtue of it being remembered as Kencell and Zain which were discriminatory to them thus creating positioning error (Mureithi, 2002). Orange, a third entrant to the telecommunications market, has had most of its focus emphasized on data services as opposed to voice services. This was based on their

competitive strategy as they sought to capitalize on their core competency as they deemed voice services to be "crowded" and unprofitable. The other competitors have taken the same strategy and are also competing on Data services with the biggest competitor to Orange being Safaricom.
The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.
Focus strategy indicators includes: Cost Focus, Differentiation focus and market needs.

In cost focus a firm seeks a cost advantage in its target segment. A company that has a narrow market and an advantage of a low-cost business model may opt for the cost focus strategy. This is a very challenging approach for many companies, because niche markets with limited overall buying power can inhibit your ability to buy products and supplies at lower costs. Thus, a company that manages to set up a low-cost operation and distribution system can build a huge competitive advantage. Efficient operational processes, investments in automated inventory and management technology systems and effective marketing and pricing to attract targeted customers can contribute to success using this strategy.

Differentiation focus a firm seeks differentiation in its target segment. Differentiation focus is a bit more feasible, because it is a match between a niche provider with specific expertise and a narrow market with particular needs. This can be used by small firms to gain advantages over large firms competitors. Specialized or customized products, personalized service, knowledgeable experts and customer relationship programs are among the benefits small companies may leverage to develop loyalty and market share when targeting a narrow market.

The strongest advantages with a focus strategy result when a narrow market has particular needs not already addressed by the mass market. A Firm with the ability to develop or offer a distinct product or service solution to meet niche preferences usually grows its market share and finds profitability. A key challenge results when larger service providers recognize the niche market needs and offer a competing solution at an equal or lower price. Firms that use Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and

the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

2.3.3 Technology

Technology is the application of science or knowledge to commerce and industry. The term can be defined as the knowledge, products, processes, tools, and systems used in the creation of goods or in the provision of services. Technology is the knowledge that makes the technological process possible (Mwololo & Ndung'u, 2010). Technological change creates both opportunity as firms begin to explore how to use technology to create new products and services, and threats, as technological change forces firms to rethink their technological strategies (Barney & Hesterly, 2010).

According to Porter, technological change is a principal driver of competition; plays a major role in industry structural change and creates new industries, and technology is a greater equalizer, eroding competitive advantage of firms and propelling others to forefront, and a diffused technological change affects each of the competitive forces (Porter M. E., 2008).He further notes that that technology has been the driving force in the 20th century and promises to hold the same or greater importance in the 21st century.

A further argument however indicates that companies today cannot afford to view technology as a luxury; technology must be engaged to achieve superior capabilities over rival firms (Krammer, 2007). They no longer have a choice whether or not to use it but instead must weigh its impact on their value proposition. As technology advances the relative value and time to invest on the technology should be assessed to avoid lagging behind in the market. Technology has also become an integral part of all firms. The stage of technological development of a firm's network critically affects its business strategies. These technological factors affect not only the costs of providing services, and thus access pricing, but they also critically influence the types of services that can be provided via the communications network.

In his book, "*Looking inside for competitive advantage*", Barney attributes cost advantages to different technologies that firms employ to manage their business. In the Kenyan market, the service providers have embarked on providing 3G data services to enhance the quality of data usage among the customers. The 3G technology is quite a big investment. In Kenyan news Citizen Business review the former Permanent Secretary, Ministry of Information and Communication in Kenya Dr. Bitange Ndemo gave reasons to why companies like YU-Essar were exiting the market. He stated the failure to invest in new technologies like the 3G and therefore the company only relied on Voice revenues which have been on a decline, therefore lacking a competitive advantage when it came to data services (Kimani, 2012). All other companies were noted to have invested but Safaricom is on the lead which has enabled it to effectively serve its huge market share thus making high business profits.

Solomon and Letting (2012) in their study on effect of innovation strategies on performance of firms in the telecommunication sector in Kenya, recommends that the firms should ensure that they adapt to the new technology. This is necessary so as to cope with the fast changing trends of technology since competitive pressures faced by hardware vendors on these end user technologies tend to experience a higher degree of volatility and change due to the influence of users and consumers. They argue that technology innovation encourages ease of flow of information and fast delivery to the intended persons. Efficient adoption of technology innovation strategies requires reliable infrastructure and enough financial resources. The telecommunication operators invest in these new technologies to be able to cross-sell additional mobile services and increase revenue from the consumption of these services. Among the various notable technological innovations in the telecommunication industry in Kenya are Mobile money transfer services, Mobile banking, Ring back tones, Mobile applications stores and cloud computing among others.

Kenya has been on the fore front in encouraging technology advancement in the country to create a competitive advantage of the nation in the world. This is evident by the starting of Konza city which is expected to cement Kenya's role as a regional technology leader in Africa. With a well-developed technology sector, Kenya became the first country in Africa to open its government to the public by making millions of pages of internal governments documents

available online. Mobile money transfer from Safaricom, M-Pesa is now being used all over the world for purchases and money transfers (IT News Africa, 2013).

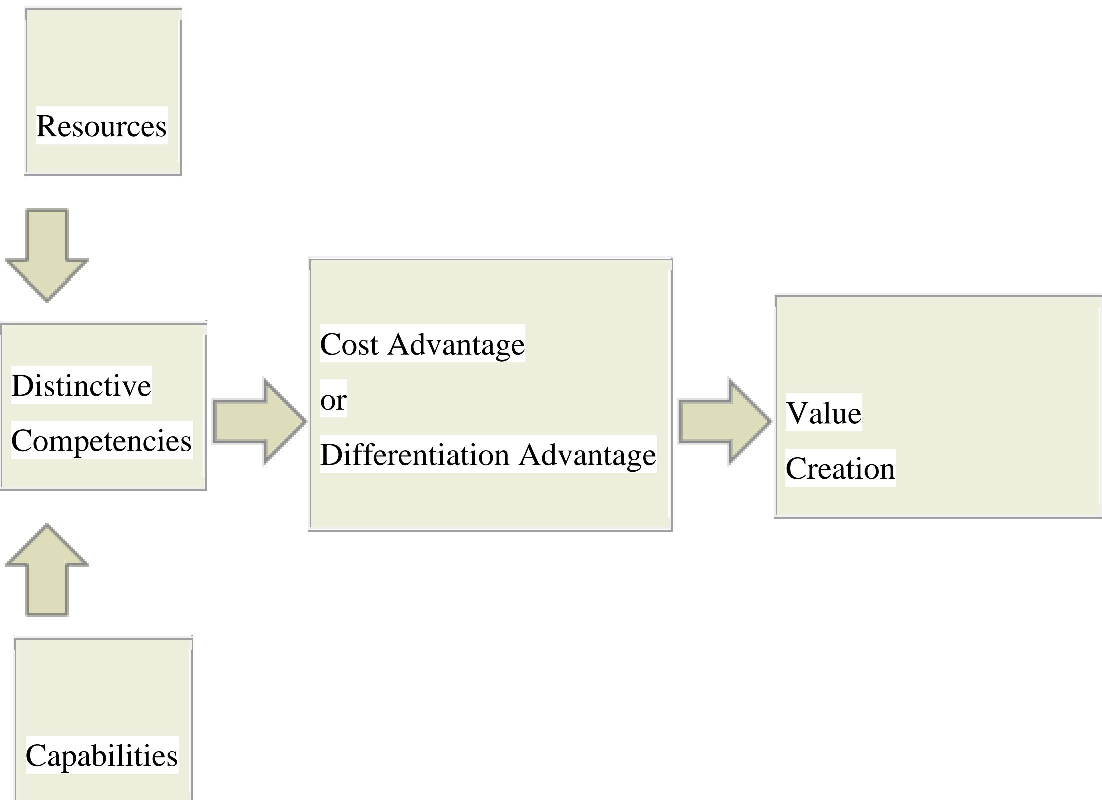
In the telecommunication market, Safaricom is leading in technology investment since it is already investing in 4G network while the others are still struggling to invest on 3G networks (Telecomafrica, 2011). In June 23rd 2014 the Safaricom offered app developers a platform in which they can test their innovations at no cost. Safaricom chief executive officer, Bob Collymore, stated that: "offering support to app developers can propel innovative solutions for numerous challenges plaguing the country" (Safaricom, 2012).This is an effort to ensure they create innovative products that will meet the demand from the customers thereby growing their customer base and also reducing the churn rate. Technology therefore is not a passive component of a firm rather it's a critical part of a firm's strategic success that should be actively chosen and constantly evaluated with adjustments made as necessary (Kimani, 2012) to create a long term competitive advantage for the firm.

2.3.4 Resource Based View Model

The resource-based view (RBV) is an economic theory that suggests that a firm performance is a function of the type of resources and capabilities controlled by the firm (Barney & Hesterly, 2010). RBV is argues that a basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the firm's bundle of resources can help it sustain above average returns.

The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:

A Model of Competitive Advantage



(Internet Center for Management and Business Administration, Inc., 2010)

Figure 4: Resource Based View Model

Resources include the tangible and intangible assets that a firm controls that it can use to conceive and implement its strategies. Capabilities are a subset of a firm's resources since they are the tangible and intangible assets that enable a firm to take full advantage of the other resources it controls. A firm's resources and capabilities include all of the financial, physical, human, and organizational assets used by a firm to develop, manufacture, and deliver products or services to its customers. Financial resources include debt, equity, retained earnings, and so forth. Physical resources include the machines, manufacturing facilities, and buildings firms use in their operations. Human resources include all the experience, knowledge, judgment, risk taking propensity, and wisdom of individuals associated with a firm. Organizational resources

include the history, relationships, trust, and organizational culture that are attributes of groups of individuals associated with a firm, along with a firm's formal reporting structure, explicit management control systems, and compensation policies (Barney, 2002).

The VRIO framework was designed as a tool of analyzing the different resources and capabilities a firm might possess and the potential of each of these to generate competitive advantages. The acronym stands for value, Rarity, Imitability, and Organization. If a resource is valuable, rare, and costly to imitate, exploiting it will generate a sustained competitive advantage. The organization acts as an adjustment factor in the VRIO framework. If a firm has valuable, rare and costly-to-imitate resource and capability but fails to manage or organize itself to take full advantage of this resource, some of its potential for competitive advantage could be lost.

A major resource and capability in the telecommunication firms include the level of technology and innovation. The primary drive for growth in this industry is also associated with the speed of new technology implementation, which extends the market potential by introducing new services, and developing new capabilities to key players, as well as reducing their costs. To compete effectively and perform the company has to embrace the new technology and keep up with the innovations to offer the support the consumers need as well as products that are up to date. The company has to be at the fore front in chasing the new innovations in the market to meet the changing consumer needs (Srivastava, Fahey, & Christensen, 2001). Safaricom is able to rely on this fact and has developed various products like Mpesa, Mkesho, Mshwari, which have enabled them to retain its customers on its network even after the voice business has reached maturity and is no longer a notable source of income for them.

Although a firm's resources and capabilities may have added value in the past, changes in customer tastes, industry structure, or technology can render them less valuable in the future, thus the need to keep ahead with the technological innovation. Innovation is one of the sources of competitive advantage. It can be described as some new factor created that allows any kind of advantage on competition. It can also be achieved by improvements on all the firms products; evolution and by the conditions of the domestic environment. Innovation is also analyzed as the opportunity to create new markets, which brings a higher market share on the future. Through

Mpesa Safaricom has created a new market through Mshwari product that now caters for a larger market share that had remained untapped by the other firms in the banking and telecommunication industry. Innovation has also brought about the launch of apps to enhance the services being offered by the companies. Orange Kenya launched the first e-care app in the Kenyan market which offers Orange mobile subscribers a personalized account management experience, allowing them to check their credit balance, recharge their account and manage their subscription of Orange services (Telkom Kenya Ltd, 2014). The product named myOrange has enabled the customers to appreciate the use of mobile phones to resolve some of the issues they had to call customer care for and thus enhancing convenience and reliability.

Human resource is a capability of the workforce which determines the performance of the company. For instance Safaricom poaches for the most talented in the market and thus the competence enables them to compete effectively against their rivals in the market. They also offer them good remuneration packages and thus they are able to maintain them in the company reducing cost of turnover. They have started welfare programs whereby the nursing mothers are able to report with their babies to work. This makes them one of the biggest choices for people looking for employment.

Brand names and loyalty is a resource for the company in that customers are bound to remain in a company due to the name it has created for itself or the products they have for the customers creates loyalty and dependence to the firm (Rothaermel, 2007). Indians are most likely to use Airtel since it’s an Indian firm because they identify with the name and therefore it becomes hard for Orange and Safaricom to penetrate that market. The mobile money transfer market has been dominated by Safaricom Mpesa and therefore the brand name becomes a resource for the company regardless of the charges for the transaction. Customer’s loyalties blinds them from cost analysis since the other competitors offers the same transactions for free or on lower fees but still have not been able to capture the market share from Safaricom.

The amount of capital a company has determines its organizational capabilities. Telkom Kenya has been in place for a long time being initially part of the government and has been able to accumulate a lot of assets. It hosts the internet services for other companies and therefore it’s

able to offer their data services at cheaper rates than all players in the market. Safaricom has over the years reported profits and this has enabled the company to enhance its assets and grow its network thus reaching more people than all the other companies.

Culture is an element of a firm's general environment which is a means of achieving a cutting edge in the organization. It involves the values, beliefs, and norms that guide the behavior in a society. These values, beliefs and norms define what is right and wrong, acceptable and unacceptable, fashionable and unfashionable. A winning culture will ensure that the company settles for nothing less but quality products and services. This is very evident in the case of Safaricom whereby the company has set the pace and keeps going which has been culminated into its workforce to aim at nothing else but the best. On the other hand Orange Kenya is still struggling to get rid of the old monopoly culture from its staff since majority of its workers worked in the government owned KPTC. Failure to understand the changes in culture can have a very large impact on the ability of a firm to gain a competitive advantage (Barney & Hesterly, 2010). This makes the company lag behind when competing in a competitive environment.

2.4Market share

Market share is the percentage of business or sales a company exerts out of total business or sales by all competitors combined in any given market (Internet Center for Management and Business Administration, Inc., 2010). In the telecommunication industry the market share is also determined by the number of subscribers in the market. Market share is one of the primary indicators companies use to measure how well they are doing versus competitors. The firm's performance relative to competitors can be measured by the proportion of the market that the firm is able to capture. This proportion is referred to as the firm's market share and is calculated as follows:

Market Share = Firm's Sales / Total Market Sales (Internet Center for Management and Business Administration, Inc., 2010)

Market share = (Firm's number of subscribers/Total number of subscribers in the market) *100 (Communications Commission of Kenya, 2011)

This information on market share is always readily available from the CA and can be accessed online. An increase and decrease on market share may affect profits, so managers typically adjust operations and marketing strategies to increase or decrease it as needed. The mobile market shares measured by the number of subscriptions have maintained a similar trend over the period with Safaricom limited holding the largest market share in subscriptions. The number of mobile subscriptions per operator and the respective market shares are as shown below (Communications Authority of Kenya, September 2014).

Source: CA, Operators' Returns,

Figure 5: Market Share

Percentage Share in Mobile Revenue

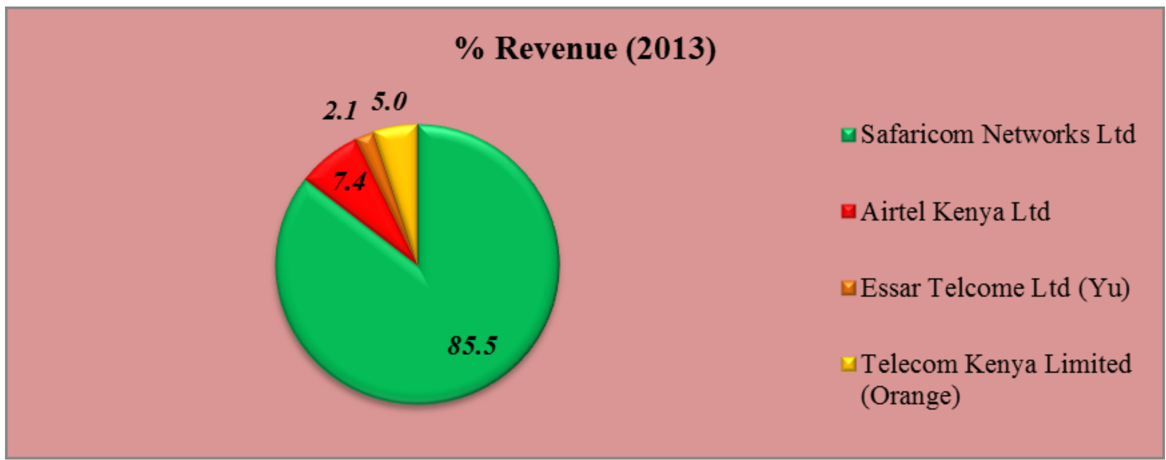


Figure 6: Percentage Share in Mobile Revenue

Analysis of the mobile data/internet subscriptions showed that, Safaricom Limited, Airtel Networks and Essar Telecom lost their market shares while Telkom Kenya (Orange) gained.

Mobile data/internet subscription by operator

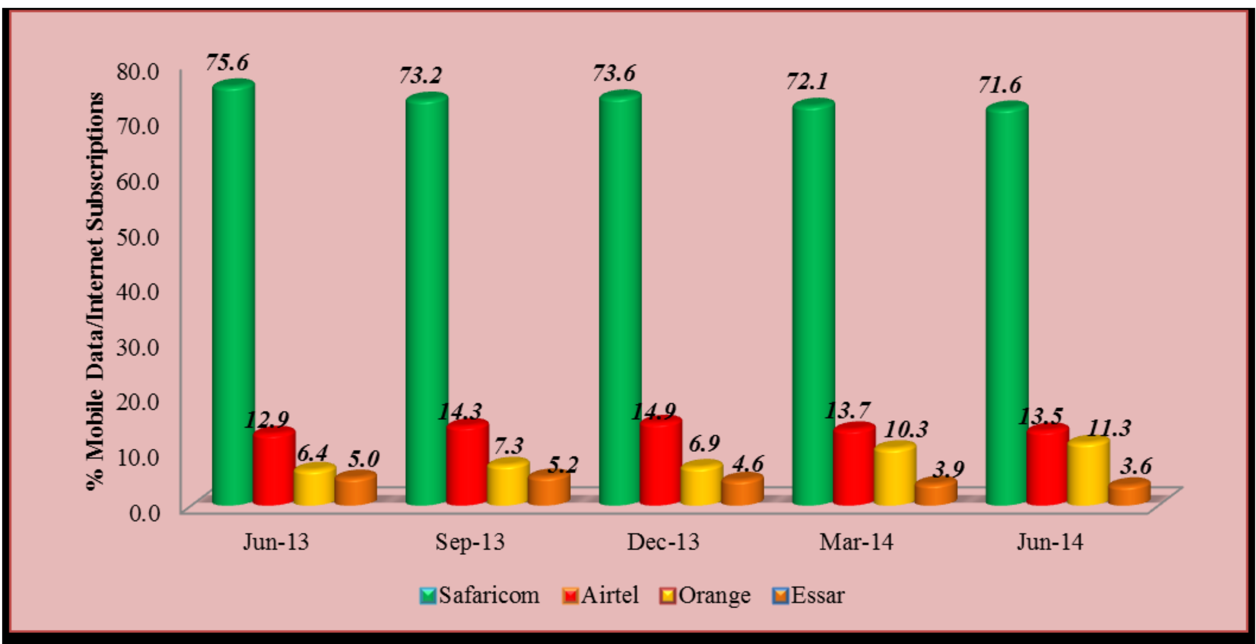


Figure 7: Mobile data/internet subscription by operator

2.5 Conceptual Framework

From the literature Market share is influenced by competitive advantage which is realized by overall cost leadership, differentiation and focus strategies. The conceptual framework is based on the theoretical models and is as indicated on Figure 8.

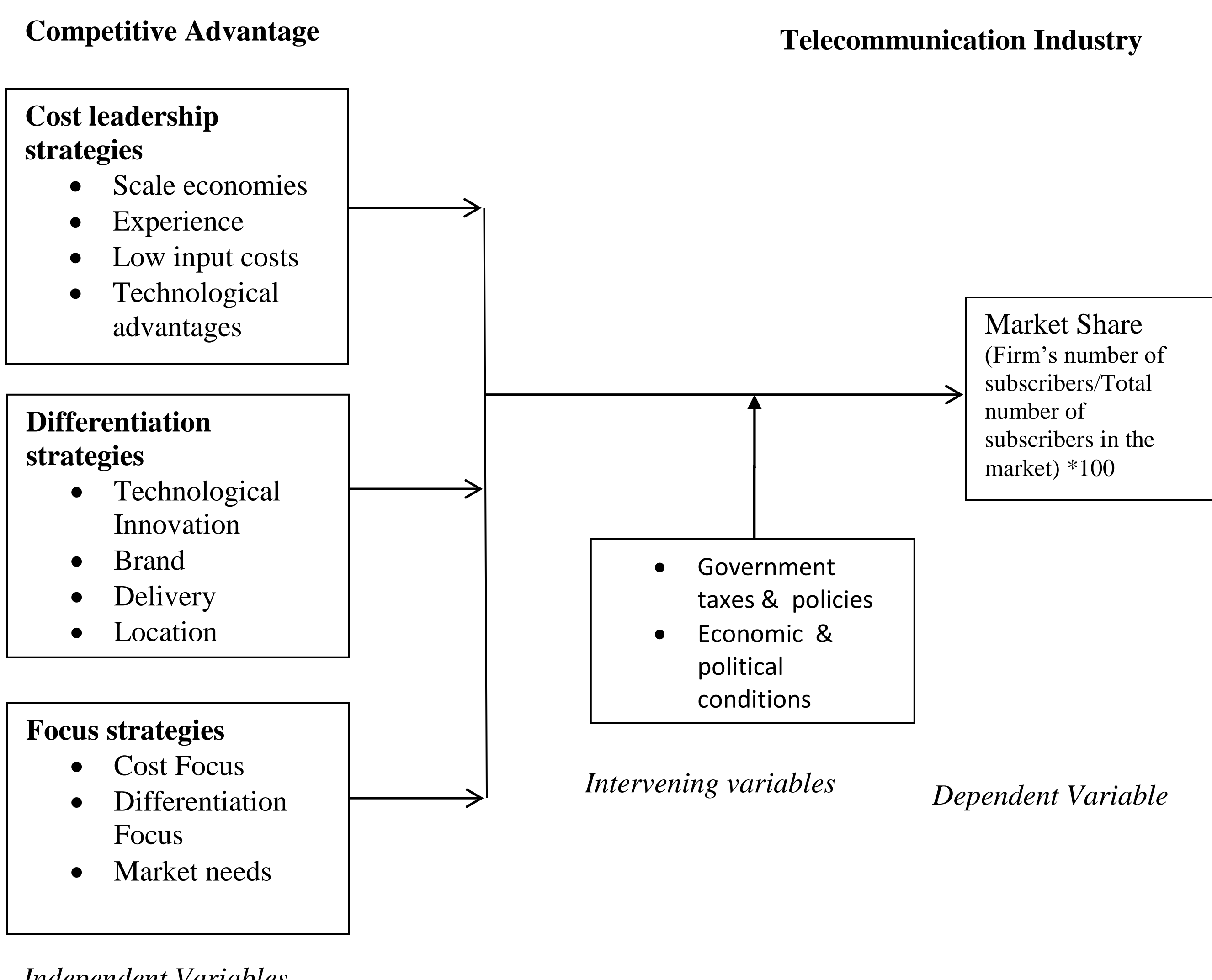


Figure 8: Conceptual Framework

Operationalization of variables

The various variables included in the conceptual framework were measured by administering an interview guide that had questions on the strategies as explained below.

Overall cost leadership was measured by scale of economies, experience through training and expertise, low input costs from cheap sources of labor and other raw materials and technological advantages from investments in technological hardware and software to assist in efficiency in running of the firm.

Differentiation was measured by the rate of technological innovation to produce customized products, brand loyalty where the consumers relate with the products, delivery of the right product at the right time and the availability of the products due to accessible location of distribution channels.

Focus strategy was measured by the use of low cost business models to attract targeted customers, customized products and services given to a particular niche and segmentation of the market due to the various market needs relating with demographics.

Market share was measured using the number of subscribers in the network as shown in Figure 5.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the overall methodology that was used to carry out this research. It embodies; the research design, the research population, data collection methods, research procedures and the methodology.

3.2 Research design

The study adopted a descriptive research design in determining the effect of competitive advantage to the market share of telecommunication industry in Kenya. Hopkins (2000) suggested that descriptive studies aim is to determine the relationship between an independent variable and a dependent or outcome variable in a population, establishing the associations and causality between variables.

Cost leadership, differentiation and focus strategies were explored as the independent variables that influence the dependent/outcome variable market share. According to Kothari (2004) the design is flexible and allows the researcher to consider many different aspects of a problem hence helping the researcher to gain new insights and ideas about a problem. Descriptive study helps a researcher to make certain simple decisions and can offer ideas for probe and more research (Sekaran & Bougie, 2013).Letangule and Letting (2012) successfully used descriptive survey design in their studies.

3.3 Population

A population is a complete set of individuals with some common observable characteristics (Maina, 2012). A group of people, events, or things of interest for which the researcher wants to make inferences based on sample statistics (Sekaran & Bougie, 2013). For the purposes of this research, the population of interest was companies that deliver telecom services and they include; Safaricom Kenya Ltd, Airtel Kenya Ltd, Orange Kenya Ltd and Yu Ltd. The research concentrated on Safaricom, Airtel and Orange since Yu exited the market by being sold to Airtel and Safaricom in august 2014 (Okuttah, 2014). A census study was conducted since the number of firms is small. A census is a study of every unit, in a population. It is known as a complete enumeration, which means a complete count. The interviewees of this study were management staff in marketing and

strategy departments since they were well versed with the competitive advantage strategies adopted by their firms to counter the competition in the operating environment and grow their market share.

3.4 Data Collection

The researcher used both primary and secondary data. Primary data was collected with the aid of a structured interview guide while secondary data was collected by use of desk search techniques from published reports and other documents. An interview guide is a set of questions that the interviewer asks when interviewing. The interview guide consisted of open-ended questions. The open-ended questions enable the researcher to collect qualitative data. This was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the study.

3.5 Data analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis was adopted in this study to enable the researcher to describe, interpret and at the same time criticize the subject matter of the research which is difficult to do numerically. The qualitative analysis was done using content analysis. Content analysis is defined as a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. It involves observation and detailed description of objects, items or things that comprise the object of study. Secondary data was analyzed by use of descriptive statistical tools such as frequencies.

CHAPTER FOUR

EMPIRICAL FINDINGS AND DISCUSSIONS

4.1 Introduction

The research objective was to analyze the effect of competitive advantage on market share of the telecommunication industry in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same and is divided into two sections namely; respondents profile and company's profile. Under company's profile we have two sections dealing with market competition analysis and the various competitive advantage strategies applied by firms in the industry.

4.2 Respondents Profile

The interviewees comprised of management staff in the marketing and strategy departments. Six respondents, two from each company were interviewed and represented a response rate of 100%. The study, in an effort to ascertain their competence and conversance with matters regarding companies were asked questions on their current position. The study found that all the respondents were in managerial positions. The researcher also inquired on the number of years that the respondents had worked for the organization. This is represented in Table 1.

Table 1: Number of Years Worked

Number of Years Worked	Frequency	Percentage
1-2 years	2	33.3
2- 3Years	3	50
More than 3 years	1	16.6
Total	6	100

From Table 1, 33.3% of the respondents had worked for 1 to 2years, 50% above two years and below three years, whilst 16.6 % had worked for more than three years. Since all respondents had worked for the organization for above one year, their responses show a sufficient understanding of the companies' concepts of strategy, competitive strategy and competitive advantage. This is based on

the fact that the telecommunication industry is very agile and competitive strategies are formulated regularly to cope with the industry's competition (Kay, 2011).

4.3 Market Competitive Analysis

The respondents were asked to indicate their competitiveness in the market and the response was as shown in Table 2 below:

Table 2: Market Competitiveness

Firm	Competitive Response
Airtel	2nd in the market
Orange	3rd in the market
Safaricom	1st in the market

Market competitive analysis helps a company to understand their position in the market and thus know the various competitive strategies to apply in the industry. From Table 2, all the firms are aware of their competitiveness in the market.

The respondents were asked about the factors contributing to market competitiveness and the response was indicated in Table 3 below:

Table 3: Factors contributing to competitiveness

Factor	Frequency	Percentage %
Good products and services	3	100
Good customer care	3	100
Innovative products	3	100
Brand awareness and campaigns	1	33
Good strategies and reliability	1	33
Flexibility	1	33

From the findings in Table 3, all companies indicated that the factors contributing to competitiveness are good products and services, good customer care and innovative products. This concurs with Chelimo (2012)that the product itself is the core around which all positioning strategies revolve on the firm's competitiveness. This agrees with the research findings that demonstrate that Safaricom has been very competitive due to its Mpesa product as shown in Figure 2.Safaricom indicated brand awareness and campaigns as an additional factor to their competitiveness. Safaricom has used localized advertisements to draw millions in per second billing tariff. Orange used good strategies and reliability, while Airtel indicated flexibility as additional factors enhancing competitiveness in the market.

Table 4 shows the methods used by the companies for carrying out market competition analysis. Market analysis helps the firms to understand their positioning in the market and thus come up with strategies to reinforce their position.

Table 4: Market Analysis

Methods	**Frequency**	**Percentage %**
Independent research institutions	3	100
CA reports	3	100
Brand ambassadors	1	100
Cold calling	2	67
Retail outlets feedback	1	33
Live chats	1	33
Social media	3	100

The findings indicate that all firms used independent research institutions, CA reports and social media to assist in carrying out competition analysis. Cold calling[5] was a method used by both Airtel and Orange. Selecting brand ambassadors to go to the field and interact with the customers

[5]Cold calling is the solicitation of information from potential customers who have had no prior contact with the salesperson who is conducting the call.

and solicit feedback was a method used by Airtel. Orange used feedback obtained from their retail outlets to analyse their market competition. Safaricom had a highly innovative method of using live chats where they engage with the customers. They also use zindua café which is an online platform where customers are encouraged to share innovations.

Respondents were asked about the Product or service that faces stiffest competition in the market. Both Airtel and Orange indicated that their mobile money transfer services faced stiffest competition from Safaricom Mpesa service. This is due to the level of innovation associated with Mpesa service such that the service has the VRIO characteristics in the RBV theory. The competition is unable to imitate the service and thus it becomes a big challenge to their services. Safaricom on the other hand indicated that Voice is the product that faces stiffest competition due to the price tariff wars that have been hitting the market currently, initiated by Airtel. From the literature review it's evident that Low pricing strategy has been embraced by Airtel to frustrate its competitors in voice. This findings concurs with Wagitu (2011) on strategic responses adopted by Airtel Kenya to competition where he states that Airtel has been able to cope with the stiff competition by offering a low calling rate across all networks and a low calling rate internationally

The researcher sought to know how the firms have dealt with the competition they are facing in the industry. All the firms agreed that they have engaged on vigorous promotions and campaigns like "Tetemesha" from Safaricom, advertisements like "Do your math" from orange, "Vurumisha Mamili" from Airtel to maintain brand awareness. Introducing cheaper phones, special offers and treats for the customers are strategies adopted by Orange. Airtel has embraced low tariff strategy, recruiting more Airtel money agents to enhance its competitiveness in the market. Safaricom has maintained a top of mind awareness to enhance brand attraction and innovative products. This is as a result of the ongoing price tariff wars which have brought erosion of market share with subscribers moving from one network to the other. All the firms have used loyalty programs to reward their customers.

4.4 Effect of Competitive Advantage on Market Share

Based on the data collected it is evident that all the telecommunication companies have adopted the various competitive advantage strategies in order to gain market share. As discussed in the literature

review, these strategies include: Cost leadership strategy that focuses on gaining advantages by reducing a firms cost below those of its competitors, differentiation strategy that creates a product perceived to be unique compared to the others in the market, and focus strategy based on differentiation-concentrating on a narrow buyer segment and outcompeting by offering niche members customized attributes that meet their tastes and requirements better than rivals products

Cost Leadership Strategy

To obtain this data, the researcher had formulated various questions to guide on the cost leadership strategy. All companies have embraced various strategies to achieve economies of scale as a source of cost advantage as shown in the findings below.

The respondents were asked about their Subscriber base to enable the researcher to determine the size of the firm. The findings are as indicated in Table 5:

Table 5: Subscriber base response

Firm	Subscriber Base
Airtel	2nd in the market
Orange	3rd in the market
Safaricom	1st in the market

The size of the firm base is attributed to lowering the cost of production. Safaricom enjoys the biggest subscriber base to the point of being declared to have market dominance since it goes beyond the 50% mark[6]. Thus in terms of cost of production it's able to enjoy economies of scale due to the high subscriber base unlike its other competitors. This is in line with the oligopoly theory on price leadership which states that the dominant firm has a big cost advantage over the other firms and produces a large part of the industry output. This has enabled the company to retain and grow its subscribers thus its dominancy in the market. These findings concur with (Simphiwe & Muthoka, 2013) in a study conducted on the barriers to entry of Kenya's Telecommunication Industry. The dominance of one operator is a big challenge to new entrants in the industry and to the

[6] See Figure 5 on market share

existing operators. A new entrant attempting to penetrate the market is forced to adopt a low pricing strategy in a bid to attract customers from Safaricom.

A firm's geographical reach is as a result of investing on more network facilities. High investments in building more network facilities help reduce the costs of running the firms due to increased efficiency. The researcher thus sought to find the geographical reach of the firm's to help determine the level of investments in the network facilities. Airtel indicated that its coverage was very good in all major towns but not so good in marginalized areas. They also indicated that it was evenly spread. Orange indicated that it has covered major towns and are covering more towns but currently the reach is not wide enough. Safaricom indicated that their coverage was vast, covered all towns in urban and rural areas. Safaricom in the year 2014 invested 27.8 billion in improving the quality, capacity and coverage of its network (Safaricom Limited, 2014) . Safaricom response was clear on how they are keen on growing their geographical reach. Airtel and orange had similar responses on investing on upcoming towns and major towns. Orange has been upgrading most of its 2G sites to 3G sites to increase its share (Telegeography, 2015). Since Orange and Airtel are not making the billions made by Safaricom, their geographical reach is a limitation to enjoying economies of scale due to lack of high investments in network technologies. RBV theory states that a firm's performance is a function of the type of resources and capabilities it controls. These finding agrees with the theory since they indicate why Safaricom is performing better than its rivals as a result of high investments in the network.

On shared assets response, all the three companies have invested on shared assets in pursuit of reducing the cost of investing in new assets. These assets are the base transceiver stations and towers. The operators are in an aggressive pursuit of lean business models which has led to this evolution, with many now turning to tower sharing as a viable option. Increasing competition, along with investments in ever-changing technology, has been pushing these operators towards new ways of maintaining margins. Considering that building and operating infrastructure is a significant cost for the operators, it is the ideal way to find quick wins. The shared infrastructure by the operators primarily consists of: Active infrastructure include spectrum, switches, and antennae. Passive infrastructures include towers, BTS shelters, and power. Backhaul includes

Core network elements such as switching centers, GPRS service nodes, transmission equipment and all links connecting elements of the core network (KPMG Africa Limited, 2011). Kenyan companies have shared mostly the passive infrastructure like BTS shelters and towers. This has led the three firms to enjoy economies of scales due to the cut down on expenditure from low infrastructure spending, low network operation cost due to sharing of site rent, power and fuel expenses, enhanced focus on service innovation since there is alleviation on pressure of network roll out and cost management allowing the firms to focus on customer service in the already highly competitive and customer centric industry. This becomes especially important in a regulatory environment demanding fast rollout of services as in the case of the Kenyan industry.

The respondents were asked to describe the level of experience in the market. The response was as indicated in Table 6:

Table 6: Level of Experience

Experience	Frequency	Percentage
Low	1	16.7
Average:	3	50
High	2	33.3
Total	6	100

Of the respondents from Airtel, 16.7 % indicated that their level of experience is low. He attributed it to services that have been stagnant in the market for a long time especially Airtel money. The other respondent from Airtel felt that their experience in the market is average. Orange respondents indicated that their experience was average mostly attributed to the number of years they have been in the market. Safaricom respondents were confident that their level of experience in the market was very high. They attributed this to being market leaders in innovative products. This experience that the firms have in the market enables them to reduce the cost of production since firms with great experience in dealing with a certain product or service will have the lowest cost of production in the industry. Experience is a key ingredient in helping a firm to make policy choices on products and services to offer, the ones to discontinue and the pricing. These findings concur with the literature review on price leadership theory where the

dominant firm doesn't need the input of others in deciding the products to offer or the pricing (Lipsey & Chrystal, 2004).

Kenyan telecommunication firms have reviewed various products and services and discontinued some due to losses. The firms have also refined various practices due to the learning curve within and across activities in the various organizations. Orange has invested on employee training and expertise by ensuring that all employees can access an online training skills port program and acquire new skills. Safaricom and Airtel have invested heavily on training their staff and even sponsoring them to go outside the country in pursuit of new knowledge in the ever changing technologies. Safaricom takes the lead since they are able to invest on a bigger budget than its competitors and thus the learning rate for Safaricom is higher than the others. Differences in learning rates across firms in an industry are determined by their capabilities. Safaricom has been a market leader in redefining its products. Recently the firm announced investing on 4G technology (Mutegi, 2014)whereas Orange is in pursuit of upgrading its 2G network in the major towns to 3G. Orange recently switched off its CDMA network due to the high cost of operations in an attempt to redefining its products and services (Kariuki, 2015). Airtel has in the past (2013) discontinued unlimited internet bundles but reinstated it (2015) after the completion offered the product in the market(telecompaper, 2013).Airtel has also revamped its Airtel money service in an effort to make it compete with Mpesa. They have lowered the cost of sending money to zero to win more customers. Safaricom discontinued its unlimited bundles tariff (Techlimbo, 2012)and postpaid tariff and introduced a new one with different terms as it indicated that the previous offer was not profitable(Otuki, 2014).

On technological investments the firms have put various technological investments in place to enhance their quality and efficiency to achieve a cost advantage. All the firms identified Network upgrade as the key technological investment to support high capacity services. Airtel has come up with a centralized method of reporting to minimize duplication. Orange has introduced new online payment software for postpaid payments in an attempt to increase revenue collection and reduce time for queuing in their retail shops. Safaricom has automated various services to increase efficiency. They have also introduced e-shop where customers can shop online. They

are also keen on investing on the Mpesa service to ensure it's a world class service. Orange and Airtel are still struggling on their mobile money solutions since they have been unable to win subscribers already in the Mpesa platform. With Mpesa being a cash cow for Safaricom, the firm has been able to invest largely from the profits and become a market leader in technological investments. RBV model states that technology and innovation are a major resource and capability in the telecommunication firms since they enable the companies to compete effectively and perform.

The respondents were asked about the strategies they have put in place to achieve low costs of production. All the firms have put low input costs as one of the strategy to achieve competitive advantage. Low cost of production from use of scratch cards to electronic top ups is a strategy eminent in the three firms. This has also been beefed up by the use of the mobile money platforms (Orange money, Airtel Money, Mpesa), credit transfers, credit advances, online repayments which have cut down the cost of printing top up cards. Infrastructure sharing is also a strategy the firms have embraced to bring cost of production down. Orange in particular has ceased printing of hard copy bills for their postpaid customers to e-bill accounts whereby the customers access their bills online. Airtel has sourced for low skilled sales force to reduce on the cost of labor. They have also refined their courier services to ensure they send less by authorization. The push by CA to reduce the interconnection rates has brought the production costs of the firms down. Safaricom has also reduced costs by restructuring the organization structure to reduce duties duplication and coming up with a lean executive team with fewer reporting layers to support the company's growth in the increasingly competitive market. These agrees with cost leadership theory on technological based cost advantages that allows firms to exploit economies of scale due to achieving low input cost from the different technologies applied.

Differentiation strategy

Differentiation strategy focuses on creating perception on uniqueness in the way the products and services of a firm are presented to the customer different from the other competitors. Since most of the firms' products and services offered to the customers are the same, the firms have to look for other ways to differentiate themselves in order to grow and retain their customers.

The researcher sought to understand how the companies have integrated their uniqueness in the market. Airtel has created a unique performance structure by decentralizing key performance indicators to various agents and giving different titles for the same roles. They also described their uniqueness based on the unbeatable offers they have in the market. The current Unliminet campaign on bundles was cited as a good example that is keeping the competitors on check. Orange uniqueness was described as the integration of various services making the service provider a one stop shop for all the communication needs. Safaricom respondents described their uniqueness in the way they present their products by offering highly innovated products that the competitors are unable to imitate like Mpesa thus being the market leader. They also described their advertising and marketing to be very unique in the market. Professor Neil Kay states that competitive strategy is achieved by high level of advertising since this creates demand for new product. Advertising is characterized as informative due to letting the potential customer know the product exists, and its characteristics and persuasive by encouraging the customer to switch brands (Kay, 2011).

On technological innovation Airtel unliminet service was described as the latest product with better features to serve the customers in the market. They also described the phone and data bundling service whereby a phone’s serial number is awarded a particular data bundle when activated to be very innovative. Orange has brought a range of affordable phones like the Orange Klif smart phone which is the cheapest in the market with the latest Firefox operating system. They also talked of My Orange app which helps customers locate their shops country wide as well as give the customers a range of all their integrated services. They have also launched orange Api challenge for startups to ensure that the best ideas on existing Apis are rewarded. Safaricom interviewees described Mpesa as the best innovated product in the company but also talked of the new Big Box that allows users to access free to air channels and video on demand downloads. Safaricom has also partnered with Google to launch Waze an interactive mobile application that offers motorists access to accurate and real-time traffic information, based on crowd-sourced data from other road users. They are also seeking for a license to operate a commercial free to air television station in pursuit of internet broadcasting. Technological

innovation is one source of differentiation on a company's products. When a product is positioned to be superior in technology it implies better designs, features, and functionalities compared to the competitors. These findings were in accord with the competitive advantage theory by obtaining differentiation due to technological innovations.

With the industry being very rapid, the rate of technological change is very vital in determining a competitive strategy in the market. Thus, the researcher asked about the rate at which the firms introduce new products. The response is tabulated in Table 7.

Table 7: Rate of introducing New Products

Firms	Rate
Airtel	Semi annually
Orange	quarterly
Safaricom	Monthly

From Table 7, Safaricom indicated that they introduced new products monthly or review the existing ones. Orange indicated that the rate of introducing new products is quarterly while as for Airtel is semiannually. Safaricom interviewees indicated that they were market leaders especially on products that were highly innovative due to the costs of investments required. Orange and Airtel agreed to be more of followers due to fact that investment on new products requires big financial inputs which are based on analysis of the company's profitability. Being a first mover creates a perception among customers that the products or services of the firm are somehow more valuable than those of the competitors thus creating product differentiation.

On what the companies are doing to maintain loyalty and good reputation, all the firms attested to having various loyalty programs to reward their customers in the network. More so they are all involved in brand awareness campaigns through advertising and sending spontaneous texts to their subscribers, social media campaigns and giving out merchandise like caps, t-shirts, paper bags, key rings etc. Airtel has identified its brand with cheap tariffs to win more customers. Orange is strengthening its brand with the latest Kaduda phone to win the unreached mass market who cannot afford expensive phones. Safaricom has an academy to support new talents in

ICT technology. They also have Spark fund which supports local based ICT startups. My market is a service provided by Safaricom to allow customers local information and commerce from the phone freely. Brand Loyalty and reputation is a core element in a company's strategy and management. The firms have to win more customers, retain them and also ensure they are the brand of choice. To be noted was the Safaricom aggressive marketing and rewards like the "Tetemesha na Safaricom" which has challenged the other competitors and is one of the agenda in its dominancy case that is been handled by the CA. Safaricom brand seems to be unique and has created a strong entry barrier to other providers in the market. These findings agree with the study carried out on barriers to entry of Kenya's telecommunication industry (Simphiwe & Muthoka, 2013).

The researcher asked the respondents to rate the extent to which their distribution channels facilities accessibility of their products and services. Airtel responded to having few distribution channels compared to the market leader hence the accessibility in the market was not wide enough. They also cited that they are recruiting more channels through establishment of Airtel money agents. Orange indicated that they have a challenge in accessibility in the market due to very few outlets in the country. Safaricom indicated that their distribution is very vast and thus very accessible to their customers. Accessibility to products and services is a source of competitive advantage. Most of the firms have been able to reach majority of the customers in urban towns. Safaricom has reached more in the rural areas due to a well-established network of dealers and partners with over 40,000 (Safaricom Limited, 2015) outlets that the other firms have not attained. Airtel has 10,000 outlets (Airtel Kenya, 2015) which is a quarter of the market leader outlets. Safaricom dealers are able to perform Mpesa transactions, sim replacements and stocks airtime. Orange and Airtel have not been able to reach the rural areas due to the limited number of partners thus cutting on their distribution which affects their sales and reducing their profitability. Safaricom has also been able to cover a large geographical scope since they are able to invest largely on the expansion of the network. This has enhanced its location differentiation above the other firms in the market in line with competitive advantage theory.

Focus strategy

This strategy aims at making the company target a particular group, segment of the product line, or geographical market to capture their unique characteristics. The respondents were asked about the

use of focus strategy in handling their markets. All firms have segmented their local market according to their various needs and wants and by so doing the companies tailor their products to these unique markets. Airtel responded with its low calling rate strategy to win more subscribers. They have also assigned various base stations specific calling rates to attract the customers being served in the area. The Airtel unliminet offer is targeted to the youth who spends a lot of time surfing and Airtel club 10 for youth. Orange has tailored products like fixed land line for office users, Home talk for home users. They have also tried to capture the youths with the Sms bundle offers. Safaricom gave examples of coming up with lower denomination calling cards of five shillings, Okoa Jahazi, as some of the products tailored to meet the lower markets in the industry.

Market needs analysis in all companies is carried out in a similar manner with market competitive analysis as shown in Table 4. Similar agents, departments, people are involved in this analysis. Market needs analysis helps realize the various market needs which enable a firm to develop a distinct product or service solution to meet niche preferences and thus grow the market share. This leads to better understanding of the dynamics of their particular markets and the unique needs of the customers within it. The firms have relied on the results to develop uniquely low-cost or well-specified products for their segmented markets. This in turn helps them to serve customers in their market uniquely well and build strong brand loyalty amongst their customers thus increasing and retaining their market shares.

Various challenges have been encountered while focusing on particular segments. Price tariff war is a common challenge to all the firms where one firm reduces its tariff and the others follow suit. This brings loses since the customers expected to be attracted by the price leader ends up not moving thus the firm encounters low margins. Sabotage from rival networks was also reported by all firms. The firms feel that when they are running certain promotions that tend to be very attractive to customers, their competitors frustrate their customers by sabotaging their interconnections. These findings agree with the oligopoly behaviors on kinked demand curve and collusive pricing as discussed in the literature review.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter sets out to discuss the summary of the findings, draw conclusions, and make recommendations.

5.2 Summary of the findings

It's evident that the war for market share keeps getting tougher day by day. The findings indicate that the telecommunication firms have all adopted the three competitive advantage strategies to fight competition and win market share. The extent of strategy execution is what is different in the three companies. Safaricom being the market leader in the Kenyan telecommunication industry has an advantage due to the big market share and this has translated to higher profits. As a result the company is able to execute its strategies promptly. The level of investments in technology contributes largely to the firm economies of scale and thus brings cost of production down. The geographical reach helps the firm enjoy economies. The findings indicate the extent of technological innovations adopted by Safaricom to be superior in the market. Their geographical reach is also unmatched in market and thus cost advantage gained from economies of scale and economies of scope.

The findings also indicate that the firms have differentiated themselves uniquely in the market; however the level of innovation in a company's products plays a big role in winning the subscribers. This is evident from the various technological advantages Safaricom has gained over its rivals. Mpesa as a product has the VRIO characteristics explained in the RBV theory, since the other firms have been unable to imitate it. This has enabled Safaricom retain its market share in the midst of the tariff wars. Customers are tied to the network due to the advantages they gain from the product and its accessibility. Venturing to other businesses e.g. Big box, Mkesho, through innovation has also helped differentiate Safaricom from the competitors and thus grow its market share. The unique strategy of aggressive marketing to create brand awareness applied by Safaricom over its rivals has enabled the firm to retain a large market share in the wake of stiff competition since it has created a top of the mind awareness to its customers through the vigorous advertisements and

campaigns. Letangule & Letting (2012) found out that aggressive marketing campaign in the telecommunication industry affected a company's profitability. Alongside brand management it can also be pointed out that coverage has always been a crucial factor especially given that the Kenyan market has ties all over the country through relatives in rural areas a factor that has been addressed well by the market leader through establishing an efficient distribution channel and thus allowing accessibility to services and products.

Finally, the findings indicate that the choice of the focus strategy adopted by a firm due to a clear understanding of its market needs helps defines its market share. This is in agreement with the study on innovation strategies and competitive advantage in the telecommunication industry in Kenya (Muita, 2013)who established that understanding customer needs was the major reason for success levels of products in the market and this can be attributed to lead to a superior competitive advantage. Safaricom focus has always been the mass market strategy which made it rise above its predecessor Airtel and has since maintained its lead. The Kenyan economy is majorly made of the middle income families and thus the choice of lower denominations of calling cards, credit advance, and credit transfers reaped big time for the firms and especially the market leader. The firms face similar challenges in their implementation of the focus strategy.

5.3 Conclusion

The study concludes that adoption of competitive advantage strategies has affected the market share of the telecommunication firms. Further, the rate of execution and the choice of the strategies implemented affect the performance of the firms. Differentiation strategy has a high effect on the market share compared to other strategies since Safaricom attributes its uniqueness to its innovativeness in the market which results to a high market share as shown in Figure 5. Firms that have employed technological innovations in defining products for their markets, aggressive marketing campaigns, and brand awareness have greatly affected their market share. Market analysis allows the firms to understand their customer needs which is a major source of competitive advantage

5.4 Recommendations

The study recommends that for all the firms in the telecommunication sector to realize increase number of customers, for their business to grow further and also for them to invest more they should embrace the adoption of competitive advantage strategies. The study also recommends that the firms should also ensure that they adapt the new innovative technologies in order to cope with the fast changing technology. To invest in the various technologies, there should be enough financial resources and a reliable network infrastructure.

5.5 Recommendations for further research

Future research should look at;

1. The impact of market maturity on the competitiveness of Kenyan telecommunications companies.
2. The effect of newly licensed MVNOs e.g. Finserve on the market share of the telecommunication companies.
3. The effects of the dominancy battle filed by other competitors on Safaricom market share.

5.6 Limitations of the Study

The volatility of the telecommunication industry affects the market share on day to day basis. The researcher could not keep up with the day to day battles being experienced in the market and how they are affecting the market share.

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APPENDIX I

INTERVIEW GUIDE

Objective of the interview process

1. To analyze the effect of competitive advantage on market share of the telecommunication industry in Kenya.

SECTION A

Respondent Profile:

1. What is your current position in the company?
2. For how long have you held this position?

SECTION B

Company Profile:

Market competitiveness analysis

3. In a few words please rate your competitiveness in the market?
4. What would you say are some of the factors that have contributed to this competitiveness?
5. Please explain to me how your company carries out market competition analysis?
6. Among the products/services given to your customers, which in your view faces the stiffest competition in the market?
7. How have you dealt with this competition?

Competitive advantage strategies adopted to gain market share

a) Cost leadership strategy

8. Please expound on ways your company enjoys Economies of scale
    i. Describe your subscriber base?
    ii. How is your geographical reach?
    iii. Are there shared assets with other providers?
9. How can you describe your level of experience in the market?

10. Are there practices you have refined due to the learning curve in the company?
11. Briefly describe the various technological investments you have put in the company?
12. Kindly explain some of the strategies you have adopted to achieve low input costs of production?

b) Differentiation strategy

13. Kindly describe your uniqueness in the market?
14. What are some of the innovative products/services you have introduced to the market lately?
15. How can you describe the rate at which you introduce new products in the market?
16. In your own words, describe what the company is doing to maintain its loyalty and reputation from the customers?
17. Rate the extent to which your distribution channel facilitates accessibility of your services and products to your customers?

c) Focus strategy

18. Please explain how you use focus as a strategy to handle your market?
19. What are some of the customized products/services you offer to the customers?
20. Kindly explain how you carry out an analysis of your market needs?
21. Are there any challenges you have encountered when focusing on a particular segment of the market?

APPENDIX II

LIST OF ORGANIZATIONS

1. Safaricom Limited

2. Airtel Kenya

3. Essar Kenya

4. Orange Kenya

Source: Communications Authority of Kenya Website, 2014

APPENDIX III

KABARAK BUSINESS SCHOOL

P.O. Private Bag, 20157
Kabarak, KENYA
Email: deanbusiness@kabarak.ac.ke

Tel: 020-2035181
Fax: 254-51-343529/343012
www.kabarak.ac.ke

23rd April, 2015

To Whom It May Concern:

Dear Sir/Madam,

RE: IRENE WANJIRU NUTHU – GMB/NE/0721/05/13

This is to confirm that the above named is a bonafide student of Kabarak University pursuing a Master of Business Administration Degree (Strategic Management Option).

Irene has completed her coursework and currently carrying out a study on the "Competitive Advantage and Market Share of Telecommunication Industry in Kenya."

Your assistance will be highly appreciated.

Thank you.

Yours faithfully,

KABARAK UNIVERSITY
DEAN,
BUSINESS SCHOOL
23 APR 2015
P. O. PRIVATE BAG 20157, KABARAK

Prof. A. M. Katwalo
DEAN

Kabarak University Moral Code
As members of Kabarak University family, we purpose at all times and all places, to set apart in one's heart, Jesus as Lord.
(1 Peter 3:15)