A STUDY ON COMPETITIVENESS IN THE
SUPERMARKET INDUSTRY IN KENYA USING
PORTER’S FIVE FORCES

BY

ABDIAZIZ M. KULMIA

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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A Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

SUMMER 2014
STUDENT’S DECLARATION

I declare that this is my original work and has not been submitted to any other university or college institution or except the United States International University in Nairobi for academic credit.

Signed: ___________________________  Date: ___________________________

ABDIAZIZ M. KULMIA (ID 636637)

This project has been submitted for examination with my consent as the appointed supervisor.

Signed: ___________________________  Date: ___________________________

Prof. Peter M. Lewa

Signed: ___________________________  Date: ___________________________

Dean, Chandaria School of Business
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ABSTRACT

The study sought to analyze the competitiveness of the supermarket industry in Kenya using Porters Five Forces model. The objectives of the study were to assess the effect of the bargaining power of suppliers, bargaining power of consumers, threat of substitutes, current level of competitive rivalry and threat of new entrants on competition within the supermarket industry in Kenya.

This study used descriptive research design. The target population of this study was 309 staff working in the marketing departments in Nakumatt, Uchumi, Naivas and Tuskys. This study adopted a stratified random sampling method to select 30% of the target population. The sample size of this study was therefore 93 respondents. This study used primary data that was collected using semi-structured questionnaires. Content analysis was used to analyze qualitative data and the findings were then presented in a prose form. On the other hand, inferential and descriptive statistics were applied to analyze the quantitative data using scientific software called Statistical Package for Social Sciences (SPSS version 20). Descriptive statistics included mean, standard deviation, frequency and percentages. In relation to inferential statistics, the study used correlation analysis to establish the relationship between the independent and the dependent variables. Data was then presented in tables, bar charts and pie charts.

The study established that the bargaining power of suppliers was influencing the competition in the supermarket industry most, followed by bargaining power of consumers, threat of substitutes, current level of competitive rivalry and threat of new entrants. The study also established that it is not difficult for suppliers to enter their business, that purchases from the suppliers represent a large portion of the suppliers business and that the supermarkets stock various brands from different suppliers hence reducing the power of suppliers. The study also established that the bargaining power of consumers has an effect on the pricing and location of the supermarkets. It was revealed that there were threats of substitutes in the supermarket industry such as shopping malls. It was also found that there are no government policies regulating entry into the supermarket industry.

The study concludes that entrants in the industry, current level of competitive rivalry, threat of substitutes, bargaining power of consumers and bargaining power of suppliers
positively and significantly influence competitiveness within the supermarket industry in Kenya.

This study recommends that the relationship between the supermarkets and the suppliers be maintained healthy. The study also recommends that future marketing and expansion plans by the managements of the supermarkets should address the pricing and location of the new branches. This study also recommends that further studies be conducted on the competitiveness of the supermarket industry in Kenya to cover other major upcoming supermarkets in Kenya such as Ukwala and Kassmart.
ACKNOWLEDGEMENT

First of all I extend my gratitude to the Almighty God for providing me with strength; knowledge and vitality that helped make this project a reality.

To my wife and dear parents, words cannot express my gratitude for all the priceless treasures you have freely imparted in my life, one being the importance of education. I appreciate the sacrifices you willingly made to ensure that I become an empowered man and a lighthouse in my generation. I owe a great deal of gratitude to my family members for their unfailing moral support throughout my period of study and for understanding and appreciating the demand of the course in terms of time and resources.

I cannot forget my class mates who have been a source of inspiration throughout my study and for assisting me in sourcing for information and materials for this project.

I acknowledge with gratitude my supervisor, whose patience, guidance, encouragement, suggestions and constructive criticisms were instrumental in the success of this project. To the lecturers of USIU who taught me, I am very thankful.
DEDICATION

I dedicate this work to my family for their understanding and support during my period of study. To my parents, my sisters and brothers for their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.
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ACRONYMS AND ABBREVIATIONS

ERP: Enterprise Resource Planning
R&D: Research and Development
SAP: Systems, Applications and Products
UK: United Kingdom
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Prosperous business people are those who can steer their organizations through the turbulent environment, and do it better than competition. Though easy in theory, in practice, it is not easy to do (Rhim & Cooper, 2005). Many competitive industries are very difficult to penetrate, despite all the techniques that may be available to utilize. Any firm that is seeking success has to look at the competition, and likewise, be aware of ways in which competition affects its strategies. A method of analyzing competition is by doing industry analysis. Porter (1980) analyzed the forces influencing competitiveness in an industry and the elements of industry structure. He derived that the foundations of industry structure are bargaining power of buyers, bargaining power of suppliers, threat of new entrants and the threat of substitute products.

According to Wan and Beil (2009), the core task of a strategist is to comprehend and cope up with competition. Although, most managers habitually define competition in a narrow sense, whereby they make an assumption that competition only happen among today’s direct competitors. Nevertheless, competition for higher profits goes far beyond reputable industry opponents to also include the other four competition forces, which include bargaining power of suppliers, threat of potential entrants, bargaining power of buyers, and threat of substitute products or services (West, 2009). The comprehensive opposition that has resulted from all the five forces helps to describe the industries outline and gives a formation on the nature of competitive relations within a particular industry (Dobbs, 2014).

Where the forces are so powerful and strong, as they are currently in trade sectors such as the textiles, airlines, and hotels, approximately no business gets an advantage of earning good looking returns on investment (Solomon & Rabolt, 2004). When the forces are quite benign, as they currently are in the software, toiletries, and soft drinks industries, then many businesses become profitable. The business structure normally coerces profitability and competition. This is regardless of whether the business offers services or products, is mature or emerging, regulated or unregulated, low tech or high tech (Porter, 1985). Having a proper understanding of the competitive forces, and their fundamental causes,
brings to light the foundation of a business present profitability while giving a structure for anticipating and positively influencing competition and profit-making over a period of time. A healthy business framework should be of great concern to the strategists just like their own business, when it comes to matters of competition. Comprehension of a business framework is very vital as it always leads to an effectual strategic positioning (Renko, Sustic, & Butigan, 2011). Also, standing firm against the competitive forces and shaping them up to a business errand is very vital to strategy.

According to Porter (2004), competing firms in an industry can be threatened by new or potential entrants and substitutes. For instance in different markets, barriers to new entrants can exist, as well as barriers to overall competitiveness. These barriers may be related to technical characteristics of commodities, perishability of the product, bulkiness; production characteristics – for instance small scale producers incurring higher transport costs; production support systems; availability of market information, processing and distribution functions - economies of scale, and laws; rules and standards - hygiene requirements and sizing (Renko, Sustic & Butigan, 2011).

These factors can also be instigated by Government through its legislative bodies or other market intermediaries and players to make the threat of new entrants even more real. These include a variety of measures like containerization, packaging, pricing, product safety, mechanical handling, standard laws, rules and regulations governing permissible forms of cooperation and competition; unusual brand marks or reputations; spot or contact trading, allowed channels of distribution and so on (Parker & Lehmann, 2011). All these can either facilitate the entry of a newcomer or make the incumbent be particularly on guard and responsive or pose as a barrier to potential entrants. Porter (1980) further postulates that there are three generic approaches to adopt in order to outperform competitors in an industry - overall cost leadership, differentiation and focus.

Many Supermarkets have grown rapidly in recent years by adopting aggressive strategies to attract customers mainly due to emergence of new supermarket formats and intense competition between supermarkets. Macristina (2012) in his study on the rapid rise of supermarkets in developing countries, induced organizational, institutional and technological change as relevant factors. He highlighted that with the fast transformation of the retail sector, supermarkets’ growth rose from roughly 15% in (1990) to 55% in (2002) in Latin America. The same situation prevails in East Africa. These changes have
intensified competition and some supermarkets for instance are moving to centralized procurement decisions. Supermarkets that have embraced modern strategies continue to rapidly gain market share at the expense of competitors who do not.

In Kenya, supermarkets are not a new concept as regardless of the any challenges facing owners, there are currently 220 supermarkets in the country. The major supermarkets such as Nakumatt, Uchumi and Tuskys are found mainly in the main urban centers. However, it is Nakumatt and Uchumi that have enjoyed the largest share of the market. They have for a long time held on 65% of the market. Things have been changing within the market being split even more to accommodate other upcoming supermarket brands. These upcoming branches have managed to overcome the barriers created by the large supermarkets and with that the threat of new entrants has never been so strong. This has been manifested in form of more branches being opened by the upcoming supermarkets such as Tuskys in most parts of urban centers. This has brought serious challenges to the hold of the market share by large traditional supermarkets (Bonanno & Lopez, 2009).

Macristina (2012) further argues that retailers who faced threats from discounters responded with lower prices and increased promotions. Furthermore some firms may either reduce the level of the service that they offer or adopt differentiation strategies or try to distinguish themselves by offering various price/service combinations.

Seiders and Tigert (2000) studied the impact of supercenters on traditional food retailers in four markets and found that supercenters were gaining 15% to 20% of primary shoppers and an even greater proportion of secondary shoppers. Shoppers were not willing to trade off location convenience or, in some cases, quality and assortment of products. Hence, big retailers continue to rapidly gain share at the expense of competitors who do not strategize.

There are very many aspects of the supermarket industry that have led to the growth of competition and increase of firms. The main factors however are urbanization and demand. The ‘all under one roof’ convenience has become increasingly popular with many Kenyans especially those living in urban centers. This can be attributed to the fact that most of the people residing in urban centers have little time to shop and hence they find the supermarkets to be time-saving as they can buy all they need in one place at reasonable prices (Macristina, 2012). Again, the increase in population has also
contributed to the success in the supermarket industry. More people reflect more sales and hence more demand. This has been evidenced by the many branches that are being opened in most parts of the urban centers.

With the increase in competition comes the increase in the bargaining power of the buyers of these supermarkets. Most people have a choice among the several brands that are in existence. This has led to price wars between the brands trying to maintain and potentially gain more customers. Tharnurjan & Seneviratne, (2009), observed that the consumer power is low when the switching costs from one product to another are simple. In this context, a customer can easily switch from one brand to another without too much a difference. This is because the price wars tend to be almost similar for most of the brands. Each brand must know how the other is selling. The suppliers, especially horticultural suppliers, relatively higher power when compared to a few years back. According to Borges-Tiago (2008), this particular power is high when the market is made of few but large suppliers. Most of the horticulture suppliers are few and large. They collect produce from the gardens and transport it to supermarkets covering all the transport and storage costs. However, there is a trend emerging whereby the supermarkets are aiming at reducing this power by integrating backwards. They are coming up with their own means of transport and obtain their produce direct from the farmers.

In the Kenyan Supermarket industry, much analysis has not been done to gauge how Porter’s five model framework is shaping competitive posturing between major supermarkets as well as the medium sized ones’ and it was therefore the aim of this study to analyze competitiveness in the supermarket industry in Kenya using Porters’ five models.

1.2 Statement of the Problem

The global business environment today and shifting economic activities between and within regions are imposing new competitive pressures on companies, which in turn create the necessity for competitiveness (Tharnurjan & Seneviratne, 2009).

On the other hand, technologies have simplified the communication integration of consumers and suppliers, building broader information sharing processes and improving business performance (Borges-Tiago, 2008). The emergence of these two, have for instance given consumers greater bargaining power by providing them with full
information about actual market prices and even supplier costs. This is true for supermarkets in Kenya.

The supermarkets industry in Kenya has had many entrants of late, which increases competition in the industry. Due to the increase competition, suppliers' power has increased as most suppliers can sell to more than one retail chain.

In order to remain competitive, Supermarkets are adopting different strategies to serve a given segment of consumers. It is however noteworthy, that strategies should be based on empirical evidence. Several research studies have been conducted on competition in the supermarket industry globally and in Kenya. For instance, Obonyo (2013) did an evaluation of marketing strategies adopted by supermarkets for competitive edge: a case of Kisii town supermarkets and established that marketing strategies like, pricing, place and differentiation influence the competitive edge of supermarkets. On the other hand, Bonanno and Lopez (2009) did a study on competition effects of supermarket services and established that using service competition; supermarkets differentiate themselves from competitors and successfully attract less price-sensitive consumers. Nevertheless, there have been no major studies that have been conducted in Kenya to analyze how Porter’s forces are influencing competition in the supermarket industry. Therefore, there was a need to study the ways in which Porter’s forces are affecting competition among supermarkets in the country.

1.3 Purpose of the Study

The purpose of this study was to evaluate competition among supermarkets in Kenya using Michael Porter’s five forces model.

1.4 Research Questions

This study sought to address the following set of research questions;

1.4.1 What is the bargaining power of suppliers within the supermarket industry in Kenya?
1.4.2 How is the bargaining power of consumers impacting on competitiveness within the supermarket industry in Kenya?
1.4.3 How is the threat of substitutes affecting the competition in the supermarket industry?
1.4.4 What is the current level of competitive rivalry and how does it impact generally on competition?
1.4.5 How is the threat of new entrants affecting competition within the supermarket industry in Kenya?

1.5 Importance of the Study
Several parties will benefit from the findings of this study. These include supermarkets management and owners, consumers, government and policy makers as well as academicians and researchers.

1.5.1 Supermarkets Management and Owners
This study was intended to educate supermarket owners and other stakeholders on how Porter’s forces were influencing competition in their industry. In addition, the study intended to inform supermarket stakeholders on competitive strategies to adopt in order to attract more customers as compared to competition for a greater market share.

1.5.2 Consumers
Consumers benefit from this study as it helps them understand the various strategies that supermarkets adopt and this enlightened them to devise ways of having even greater bargaining power.

1.5.3 Government and Policy Makers
To the government of Kenya and policy makers, the study provides information that can be used to formulate policies to govern and regulate the supermarket industry in Kenya. In addition, the study provides information that can be used to formulate policies that protect stakeholders and consumers.

1.5.4 Academicians and Researchers
To researchers and academicians, the study adds to the body of knowledge on evaluation of competition among supermarkets using Michael Porter’s five forces model. The study
also provides a base upon which other studies on evaluation of competition in various industries using Michael Porter’s five forces model can be conducted.

1.6 Scope of the Study

This project focused on analyzing competition between major supermarkets in Kenya using Porter’s model. The study was limited to 93 staff working at the headquarters of the main supermarkets in Kenya, which include Nakumatt, Uchumi, Naivas and Tuskys. Data was collected between 5th July 2014 and 10th July 2014.

Limitations expected to be experienced during the research include non-response to the questionnaires. The researcher intended to overcome this limitation by using his personal relationship with majority of employees to get them to fill in the questionnaires. Another limitation expected was failure by the supermarkets to disclose their strategy to the researcher thereby rendering research data unavailable.

1.7 Definition of Terms

1.7.1 Competition

The act or process of trying to get or win something (such as a prize or a higher level of success) that someone else is also trying to get or win (Round, 2006).

1.7.2 Porter’s five forces model

It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level (Parker & Lehmann, 2011).

1.7.3 Threat of new Entrants:

The threat new competitors pose to existing competitors in an industry (Sacconaghi, Garfunkel & Colledge, 2005).

1.7.4 Power of Suppliers
The pressure suppliers can exert on businesses by raising prices, lowering quality, or reducing availability of their products (Wan & Beil, 2009).

1.7.5 Bargaining Power of Buyers

The pressure consumers can exert on businesses to get them to provide higher quality products, better customer service, and lower prices (Solomon & Rabolt, 2004).

1.7.6 Existing competitive rivalry between Suppliers

The extent to which firms within an industry put pressure on one another and limit each other’s profit potential (Smith, 2004).

1.8 Chapter Summary

This chapter has given an overview of the research problem by discussing the background of the problem and statement of the problem. It has also stated the purpose of conducting the study as well specifying the research questions it aims to answer; it has also clearly defined the scope of the study.

Chapter two reviewed literature on the use of Michael Porter’s five forces model in evaluation of competition. Chapter three provides the study methodology in line with the research questions of the study. Chapter four presents data analysis and presentation of the findings and chapter five presents a discussion of key data findings, conclusion and recommendations.
2.0 LITERATURE REVIEW

2.1 Introduction

The chapter presents a review of literature on the use of Michael Porter’s five forces model in evaluation of competition among supermarkets in Kenya using Michael Porter’s five forces model. Section on 2.1 provides an introduction. Section 2.2 provides literature on the bargaining power of suppliers. Section 2.3 provides literature on the bargaining power of consumers. Section 2.4 provides literature on threat of substitute products. Section 2.5 provides literature on existing competitive rivalry between suppliers. Section 2.6 provides literature on threats of new market entrants. Section provides a chapter summary.

2.2 Bargaining Power of Suppliers

Porter critically acknowledged the five competitive forces that have given shape to every business and every market. These forces establish the strength of a competition and hence the productivity and attractiveness of a business (Porter, 1980). The goal of a business strategy should be to change these competitive forces in a manner that advances the position of the business in a market. Porter’s model holds up analysis of the driving forces in an industry. On the basis of the information resulting from the Five Forces Analysis, the management of a business can make a decision on how to exploit certain characteristics of their business (Porter, 2004).

2.2.1 Supplier Power

Supplier power is the extent of control that a goods and services supplier exert on a buyer. The highly powerful a supplier is in relation to the buyer, the higher the influence the supplier has. This influence can be employed in lowering the buyer’s profits through highly beneficial pricing, restrictive quality of the goods or services or shifting a number of costs on the buyer. There are several conditions that show that a supplier group has power. One, it is dominated by a few firms and is highly concentrated than the sector
where it sells. Two, it is not expected to compete with alternate goods for sale in the sector (Bonanno & Lopez, 2009). Three, the sector is not among the supplier’s main customers. Four, its goods are a significant part of the buyer’s dealing. Five, if goods are differentiated or there are developed switching costs. And finally, it causes a forward integrations specific threat. Hence, the supplier power that Porter has explored includes a number of determining elements. One, if suppliers are concentrated in relation to buyers or if there is a small number of suppliers and a lot of buyers, then the bargaining power of the supplier becomes high. Two, in case the switching costs of the buyer or the cost of the buyer changing from one supplier’s goods to another are high, the suppliers power remains high too (Nair, Narasimhan & Bendoly, 2011). Three, if suppliers can effortlessly forward integrate or embark on producing the buyer’s goods themselves, the power of the supplier goes high. Four, if the buyer fails to be keen on the price changes or is ignorant of the goods, the power of the supplier goes high. Five, if the supplier’s goods are highly differentiated, the power of the supplier goes high. Six, if the buyer fails to represent a huge section of the sales by the supplier, the supplier’s power remains high. Finally, if alternative goods are out of stock in the market, the power of the supplier goes high. And evidently, if the opposite happens for the above elements, the power of the supplier is low (Matsa, 2011).

Powerful suppliers tend to capture more value for themselves by engaging in shifting of costs to other industry participants, limiting services or quality or charging higher prices. Suppliers with high bargaining power, including labor suppliers, can effectively squeeze profits out of an industry that does not have the capacity to pass on cost increases in its own prices (Bonanno & Lopez, 2009). For instance, Microsoft has largely contributed to profitability erosion amongst manufacturers of personal computer by raising prices of their operating systems. Personal computers manufacturers, competing aggressively for customers who can easily switch to their competitors, have limited freedom to increase their prices accordingly (Nair, Narasimhan & Bendoly, 2011). A supplier group has more power if it is more concentrated than the industry, which is the buyer. The monopoly of Microsoft in operating systems exemplifies this situation particularly when with the PC assemblers’ fragmentation (Matsa, 2011; Renko, Sustic & Butigan, 2011).

Most of the times, the supplier group is not dependent entirely on the industry for its revenues. Suppliers will extract maximum profits from each of the industries provided
they serve many industries (Meredith, 2011). Suppliers will be forced to protect the industry by offering rational pricing and aid in activities like lobbying and R&D provided a given industry accounts for a large part of supplier group’s profit or volume.

In an industry, participants face switching costs in changing suppliers. Where firms have invested heavily in specialized equipments or in training employees on how to operate the equipment, shifting suppliers is hard (Matsa, 2011). Furthermore, firms may have situated their production lines next to the supplier.

Furthermore, when the suppliers’ power is high, it affects the business capacity to serve the target market in various ways. The power of the supplier power can affect the price paid for the pay for products by the target market, the quality and the amount of commodities available for buying, and also the number of firms that will be in a position to remain in the market (Meredith, 2011). This probable business interruption may affect it to look for substitute goods or a new way out to the market's expectations that keeps away from being held captive by a significant supplier. In conclusion, increased supplier power will result to price pressures and quality concerns in the market, encourage alternative goods in the market, and bring about dictating players in the market as well as bringing about supply problems resulting to products shortage in the market (Meredith, 2011).

2.2.2 Switching Cost

Switching cost is the cost a buyer incurs for changing suppliers, because the product specifications of the buyer, purchasing cycle and production equipment are closely tied to the current supplier's operations and products. Switching costs has a high impact on competition. When a consumer encounters switching costs, the normal consumer will not change to the supplier with the lowest price in case the switching costs on the basis of financial cost, effort, timeframe, doubt, and other reasons, prevail over the price discrepancy among the several suppliers. In case this is the scenario, the consumer is assumed to be locked-in to the seller (Livingstone & Tigert, 2008). If a supplier is able to lock-in customers, the supplier can increase prices to a given level without fear of the consumer switching since the extra effects of lock-in put the consumer off from switching. Participants in the industry find it difficult to play suppliers off against one another, when the cost of switching is high. Suppliers avail products that are
differentiated. For instance, companies in the pharmaceutical industry that develop patented drugs with distinctive medical advantages have more power over health maintenance hospitals besides other drug buyers relative to drug companies offering generic products (Marques et al., 2000). There is no product to substitute what the supplier group offers. For instance, pilots’ unions exercise substantial supplier power over airlines partially as there is no better alternative to a well-trained pilot in the cockpit. The supplier group can influentially threaten to integrate forward into the industry. In such a scenario, if participants in an industry realize too much profit as compared to suppliers, they prompt suppliers to enter the market (Magi, 2003).

This force characterizes the suppliers’ power, which can be influenced by key grocery chains and that are afraid of losing their business to the large supermarkets. Consequently, this combines further leading positions of stores such as Asda and Tesco in negotiating for better promotional prices with suppliers that small chains cannot match (Livingstone & Tigert, 2008). In response, suppliers that are based in the UK are also threatened by the growing capability of large retail chains to THEIR products from other countries at cheaper deals. The relationship with sellers can have comparable effects in constraining the strategic freedom of the company and in influencing its margins. The competitive rivalry force has decreased the profit margins for suppliers and supermarket chains (Lal & Rao, 2009).

### 2.2.3 Suppliers-Supermarket Relationship

Suppliers-supermarkets relationship has happened through a number of ways in which the suppliers have been squeezed a little too much. These ways include the last minute orders. In such cases, the suppliers are required to supply produce within 24 hours. This poses a great problem considering that this produce requires a day or two to be harvested and allow time for transportation. This happens both in Kenya and in the UK. Further, the suppliers also face poor terms of payment. The payment in some cases is delayed or in other cases, deductions, which were not agreed upon, are made. In some cases, the suppliers are given very short notices to halt their supply on certain produce. The supplier is forced to shift the adverse effects to the farmer at the bottom of the ladder. Again, there are also cases of unfair charges. This is usually applied when an individual employee responsible for purchases is about to miss their target. In such cases, the suppliers are forced to pay up marketing costs or even loyalty. Still in other cases, the certification
standards for the suppliers are made to be very high. Though certification is necessary so that safety standards are maintained, sometimes the costs are not reasonable especially for those small farmers. This is because they may be forced to invest in expensive, special facilities or chemicals to meet the standards (Solomon & Rabolt, 2004).

The relationship between the supermarkets and the suppliers has deteriorated over the past few years. The supermarkets have abused their suppliers under the pretext that they are seeking to do what is right for their customers. In actual sense they are influence the purchasing power and independence of the consumer through controlling the suppliers. Among the ways in which abuse of the supplier-supermarket relationship occurs include the listing fee. This is translates to additional costs to the supplier. In other instances the supermarkets have returned unsold goods to suppliers. This includes fresh produce which cannot be resold. This translates into passing back of the risk and cost errors of the retailers’ failure to forecast well (West, 2009).

As well, unscheduled promotions by the supermarkets so as to clear stock that was ordered or to outsell their competition cause adverse effects on the supplier’s side. For instance, the supplier’s profits are put under pressure which at times culminates in demand for lower pricing from other customers. Such a move also has the potential to change the consumer’s perception of product value (Round, 2006).

In addition, the supermarkets abuse the power they have over suppliers through demanding lower purchase prices or in other cases they may demand restrictions on the supplies to other retailers. This can cause constrains on the volumes that are made available to the suppliers and may also increase the costs to competitors (West, 2009).

However, this relationship is not all negative as their benefits reaped out of the relationship. Some supermarkets engage in the production process enabling the producer to improve their produce in quantity and in quality. The supermarkets offer a large outlet of produce for the suppliers which facilitate continuous production (Round, 2006).

2.3 Bargaining Power of Consumers

The power of customers is also stated as the outputs market: the capacity of buyers to put the business under pressure, which also impacts the buyer's sensitivity to changes in prices. Businesses can take actions to decrease the power of the buyer, for instance
executing a loyalty program for its customers. The extent to which buyers are in a position to influence market forces is influenced by the how large their purchases are on the basis of the supplier’s income (Solomon & Rabolt, 2004).

Influential clients can at times capture more value on products or services by forcing their prices downwards, insisting on enhanced quality of services, and playing the business partakers against each other, all at the expense of the business productivity (Smith, 2004). Consumers are influential if they have the bargaining power relative to the business participants, particularly if they are sensitive to price, making use of their power mainly to coerce decrease in prices. As for suppliers, different groups of clients may totally differ in their negotiating leverage (Solomon & Rabolt, 2004).

A client group has bargaining power if, there are few consumers, or each one buys in huge volumes that are comparative to the size of one seller (Wan & Beil, 2009). Consumers of large volumes are mostly significant in businesses with high fixed costs, for instance the offshore drilling, telecommunications apparatus, and mass chemicals. Low marginal costs and high fixed costs intensify the pressure on competitors to sustain their capacity filled through decreasing prices (West, 2009).

When the buyer has more bargaining power over the seller, the seller has more influence on the seller. This influence can be used to determine the profits of the seller. This is because the buyer dictates the prices that the seller can charge for the products. This is facilitated by concentration of consumers because the seller will depend on the market for their revenue hence they must to be in good terms. The amount of products that the customers purchase also determines the bargaining power. If the customer buys in large quantities and has a big financial power, the seller will do more for the buyer to ensure that they keep the customer. This is because such a buyer might decide to integrate backwards making the seller to be of little use to them.

In conclusion, there are several factors that can raise the buyers bargaining power. In general, a market is highly attractive when the customers have reduced power to put in place the terms and conditions for their purchasing. Highly powerful customers put pressure on business profits. Customers are for the most part powerful in various scenarios in the market. One, when the customer group is highly concentrated than the seller, or buys in huge volumes in relation to the sales of the seller. For instance, thinking
about the situation of small scale producers of vegetables and fruits. Such producers are given a contract to supply the huge supermarkets and so they commit huge amounts of their supply to these contracts (West, 2009). As a result, they get to a risk of high amount of losses if the resultant produce fails to meet their customers or the supermarkets strict quality criterion used. In such a case, the buyers which are the supermarkets are much superior and so can put forth pressure on these small scale suppliers. Two, when the goods or services being supplied to the market are highly undifferentiated. In such a case, the bargaining power of the buyer is very much increased. In most cases, the bargaining power of the buyer is to a great extent increased when making use of the Internet to assess goods and services and also compare their different prices. This is for the most part the case for standardized goods, for instance batteries. Three, when buyers represent a considerable proportion of the purchaser’s costs, in which scenario these costs end up being exposed to great examination. In several cases for instance, buyers do examine and negotiate on the prices of vehicles, possibly due to their huge cost within the buyers yearly purchases (Smith, 2004).

Four, when the switching costs are few and low for instance, redesign of the customer’s goods or service, compensation of design or improvement costs. In such a case, the customers can consequently without difficulty switch to a substitute supplier. Five, when the customer has the capacity to take over the seller i.e. backward integration. A good number of supermarkets and fast-food shops that are doing very well end up having their own farms thereby taking over their suppliers’ business (Smith, 2004). Six, when the customer’s goods or services are not greatly influenced by the quality of the supplier’s goods. In such a case, the customer would only go ahead a buy on the basis of the costs. For instance, a firm that produces energy from biofuel has no interest in what the biomass is buy their high interest is on how cheap it is. Seven, when the customers earn small profits. In such a scenario the customers will put pressure on the prices of suppliers to lower them thereby intending to raise their margins. For instance, an expedient store which produces a small profit margin would make efforts to put pressure on its sellers so that they lower costs hence they increase profits. Finally, when the customer has full knowledge about the cost structure of the supplier or his competitive situation, he becomes powerful. In such a case, the customer can make use of this knowledge to pressurize the supplier (Solomon & Rabolt, 2004).
2.3.1 Switching Costs

The products in the industry are standardized or undifferentiated. When buyers believe that they can most of the times get a comparable product, they tend to play one seller against the other. Buyers face few changing costs in times of changing vendors (Wan & Beil, 2009). In addition, buyers can effectively threaten to integrate backward and make these products themselves if the sellers are making too much profit. Soft drinks and beer producers have for a long time controlled the power of packaging manufacturers by threatening to produce, and sometimes packaging materials themselves (Smith, 2004).

A buyer group is sensitive to price if the product it is buying from the industry corresponds to a considerable fraction of its procurement budget of cost structure. In this case, buyers most probably, bargain hard and shop around, as consumers do when searching for home mortgages (Smith, 2004). Buyers will be less sensitive to price when the product sold by an industry is a small percentage of the costs or expenditures of buyers. The group of buyers earns low profits or otherwise they are under pressure to trim its costs of purchasing. Highly profitable customers to the contrary, are more often than not less sensitive to price.

In the Kenyan industry, the consumer switching costs are relatively low. This can be attributed to the many branches and brands of supermarket spread out in the urban centers. The consumers do not incur much cost when switching especially those that do not buy in bulk. According to Bonanno & Lopez (2009), consumers shop for convenience and not brand loyalty. A consumer will shop at a certain supermarket rather due to its closeness and convenience in terms of transportation and not based on loyalty to a certain brand. Brand loyalty in the supermarket occurs only when two competitive brands have branches that are in close proximity to one another. This shows that switching costs are relatively low in the supermarket industry in Kenya.

There are a number of implications when the buyer bargaining power is relatively low. For instance, this creates more competition as this situation favors the small supermarkets as well. The ultimate success in this industry remains to be capturing most customers through promotional means. The quality and pricing of products in most of these supermarkets in the Kenyan context have become distinguishing factors for many consumers. They make their choices based on these factors.
According to Sacconaghi, Garfunkel and Colledge (2005), the buyers’ products or services quality is less affected by the products of the industry. Where quality is highly affected by the products of the industry, buyers are most of the times less sensitive to price. When renting or purchasing production quality cameras for example, makers of major motion pictures go for highly reliable equipment that incorporate the latest features. They are not restricted by price. The product in the industry has little effect on the other costs of the buyer. Here, buyers are limited by price (Round, 2006). Buyers will be more interested in the quality of a product rather than its price especially when an industry’s service or product can meets its costs many times over by enhancing performance or reducing material, labor or other costs. Good examples include services such as tax accounting. On the same note, buyers are very sensitive to the price of services such as investment especially where poor performance can be costly and embarrassing (Rhim & Cooper, 2005; Rhim & Cooper, 2005).

Consumers who are not final users such as distributors can be considered and analyzed as other buyers with the exception of one addition (Bonanno & Lopez, 2009).

The addition is that the customers will have more bargaining power if they are able to influence the customers decisions downstream regarding purchasing. Examples include agricultural equipment distributors, electronics retailers and jewelry retailers (Renko, Sustic & Butigan, 2011).

In very many instances, producers strive to reduce channel clout by arrangements that are exclusive by marketing directly to end users or with specific retailers of distributors. Component manufacturers strive to build up power over the assemblers by introducing certain preferences for their component parts with downstream customers (Porter & Kramer, 2011). Numerous retail chains have concentrated on the bargaining power of their customers to enhance their competitiveness (Newman & Cullen, 2007).

2.3.2 Customer Retention

For instance, the famous loyalty card of Tesco is the most successful customer retention strategy that considerably increases the Tesco's profitability. In meeting the needs of their customers, they have customized their service; have ensured better choices, low prices and in-store promotions constant flow. In recent past an important change in food retailing industry has taken place as a result of a large demand of consumers doing the
The majority of their shopping in supermarkets that portrays a greater need for supermarkets to sell non-food items (Abrahams, 2006). This has also provided supermarkets with a new strategic venture into new markets of banking, pharmacies, etc. In addition, customers have become more conscious of the issues surrounding fairer trade as well as the influence of western consumers on the aspirations and expectations of Third World producers. Further, ethically sound production of consumer produce like coffee, cocoa and tea is viable, and such products are now extensively available at the majority of large chains (Neven et al., 2008).

Supermarkets have evolved from selling particular lines of products to virtually every item that they deem necessary for the ordinary shoppers. Some have even gone beyond the norm to offer sale of cars and other assets that are require long procedures for purchase. This has been a strategy to establish reliance and customer loyalty in these supermarkets so that they can think of nowhere else to do shopping.

Most supermarkets have also endeavored to tap into the convenience offered by mobile banking. This service has been influential in the industry as most customers look for where there is utmost convenience for their shopping. Due to this, most supermarkets have collaborated with mobile banking service providers. It has become the new platform for competition especially in Kenya where plastic money has not been heard of in the supermarket industry hitherto.

2.4 Threat of Substitute Products

By Porter’s definition, threat of substitute products is the availability of a commodity or a service that the buyer can buy in place of the firm’s product or service. A substitute good or service is a good or service from a different firm that gives similar advantages to the buyer as the good or service offered by the business within the sector. In accordance to Porter study, threat of substitute goods moulds the competitive organization of a sector. The threat of substitute goods and services in a sector has a high impact on the competitive atmosphere for the businesses in that sector and influences those businesses’ capacity to realize profitability (Davis et al., 2006). The availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business’ commodity or service. The presence of close substitute goods and services can turn a sector highly
competitive and lower profit potential for the businesses in the sector. Alternatively, the absence of close substitute goods and services turns a sector less competitive and raises profit potential for the businesses in the sector. A good example of a threat of substitute goods is the beverage sector as a result of the market having a big number of competitors (Chidmi & Lopez, 2007).

There are a number of elements that establish whether or not there exists a threat of substitute goods or services in a sector. First, the buyers switching costs is a major factor. In case the buyer’s switching costs are very low, this implies that there is small if anything hindering the buyer from paying for the substitute good or service as an alternative to the business’ good or service. As a result, the threat of substitute goods and services goes high. The second element the affect the threat of substitute goods or services is the relative price performance of substitute. In case the substitute good or service is at lower price compared to the business’ good or service, a ceiling on the market price of the business’ goods and services is created. As a result of these, there emerges a threat of substitute goods and services high risk. The third element influencing the threat of substitute products is the quality of the substitute product compared to the business product. In case the substitute good or service is of the same or better quality in relation to the business’ goods and services, the threat of substitute goods and services goes up (Elms et al., 2010).

The fourth element the affects the threat of substitutes is the roles, features, or performance of the substitutes. Sometimes the functions, performance or features of the substitute goods and services are equivalent or better than the business’ goods and services. In such a scenario, the threat of substitute goods and services greatly increases (Dobbs, 2014). Other elements include the buyer inclination towards the substitute, supposed level of commodity differentiation, number of substitute goods and services present in the market and ease of substitution. Alternatively, the substitute good or service is highly expensive, has low quality, its functions are below in level compared to the business’ goods and service and the buyer’s costs of switching are high. In such a case, there exists a low threat of substitute products. Hence, if there is absence of close substitute for the business’ good and service, then the threat of substitute products is low (Brooks, Doucette & Sorofman, 2005).
When analyzing a certain sector, all of the above elements on the threat of substitute goods and services may have an effect but some certainly will. Also, for those elements that apply to a given sector, some may pose a high threat of substitute products and some may pose a low threat. Since the results may not constantly be direct, it is essential to reflect on the degree of the scrutiny and the particular situations of the given business and sector when applying these statistics to assess the competitive organization and profit prospect of a market (Elms et al., 2010).

Substitute goods and services limit a sector’s possible returns by setting an upper limit on the prices that businesses within that sector can set to realize a profit. As the price-performance option brought forth by substitute goods and services becomes more striking, it becomes still highly difficult for those businesses to realize a profit (Dobbs, 2014). Demand for products that are substitutes can also lower the demand for business services and goods. Substitute goods and services can also set up strong competition in times of normal economy and lower prospective profit rises in times of positive economy. Identifying substitute goods and services entails looking for other goods or services that can carry out similar function as the business’ goods or services. Also, positioning a business’ goods or services against the products that are substitutes may happen through collective sector actions, for instance, constant advertising by sector’s participants (Chidmi & Lopez, 2007)

A substitute service or good performs a similar function as a product availed by an industry. For example, videoconferencing is considered to be a substitute service for travel. On the other hand, plastic is a substitute product for aluminum (Kukar-Kinney, Xia & Monroe, 2007). Further, E-mail is a substitute service for express mail. Occasionally, the threat of substitution is indirect of downstream, if a substitute product plays the role of a buyer industry’s product. For example, lawn-care services and products are in many instances threatened when multi-family residence in urban centers replace for single-family residence in the suburbs (Elms et al., 2010).

Substitute products are always present. However, they easily overlooked as they seem to vary from the industry’s product. Take a person searching for a gift for Father’s Day, power tools and neckties may be substitutes (Dobbs, 2014). This is a substitute to do without or to buy a used product instead of a new one. When the threat of substitutes increases, industry profits reduce. Substitute products or services limit the profits of a
given industry substantially by putting up a ceiling on prices. When an industry fails to separate itself from substitutes marketing, product performance or other means, it suffers with regard to profits – and often growth potential (Davis et al., 2006).

As indicated by Bonanno and Lopez (2009), substitute products or services not only reduce profits in normal times, they also decrease the bonanza an industry can reap in good times. In emerging economies, for example, the increase in demand for telephone lines that are wired has been capped as many consumers opt for making a mobile telephone their only phone line (Chidmi & Lopez, 2007). The threat of a substitute increases provided it offers an attractive price-performance trade-off to the products in the given industry. For example, established providers of long-distance telephone service have suffered from the entry of internet-based phone services like Skype and Vonage. Similarly, video rental outlets grapple with satellite and cable video-on-demand services emergence as well as the arrival of internet video sites such as Google’s YouTube (Chidmi & Lopez, 2007).

According to Bridwell and Chun-Jui (2005) the switching cost of a buyer to the substitute product is low. For instance, shifting from a proprietary, branded drug to a generic drug in most cases entails minimal costs which explain why the change to generics the fall in prices is so substantial and rapid. Strategists should be alert specifically to shifts in other industries that can be in a position to create attractiveness of the substitutes when they were not before (Brown, Fee & Thomas, 2009). For instance, improvements in plastic materials allowed some companies to substitute for steel in various automobile components. In this way, competitive discontinuities or changes in technology in seemingly not associated with businesses can cause major impacts on the profitability industry. The threat for substitution can also change favoring an industry that augurs well for its future growth potential and productivity (Brooks, Doucette & Sorofman, 2005).

In Kenya, supermarkets do not face strong threats to their business. This is because most of their customers find supermarkets to be very convenient since they are relatively well distributed than convenience stores especially in urban centers. Supermarkets have opened up branches in many parts including malls to ensure that consumers depend on them for shopping. Good promotional efforts have also been influential in securing a good hold of the market against convenient shops, bakeries and other potential substitutes for supermarkets. Most of these supermarkets have also engaged in backward integration.
They also pack their own sugar, rice and maize filthier. In addition, they make their own breads and cakes.
2.4.1 Supply-Side Economies of Scale

These economies of the financial system occur when the businesses that produce more volumes have the benefit of reduced costs per unit since they can extend the fixed costs over several other units, make use of more proficient technology, or order improved terms from suppliers (Brooks, Doucette & Sorofman, 2005). Supply-side economics hamper entry which forces the hopeful entrant either to come into the business on a large scale or to agree to a cost disadvantage. When coming into the business on a large scale there is need for dislocation of well-established competitors.

Economies of scale can be practically found in almost all activities in the value chain, the significance varies by the industry. For lawn care originations such as the Scotts Miracle-Gro, the most crucial scale economies can be obtained in the chain of supply through media adverts (Brooks, Doucette & Sorofman, 2005).

2.4.2 Customer Switching Costs

These are the fixed costs that consumers pay for when they change the suppliers. Such costs often come about because a consumer who changes sellers must also switch the specifications of the product, retrain their workers to make proper use of the new product, or even further change the procedures and the information systems (Davis et al., 2006).

When the switching costs are high, it becomes very difficult for a new entrant to gain customers. A good example of a product with a relatively higher switching cost is the Enterprise Resource Planning (ERP) software (Dobbs, 2014). In the event that a business installs SAP’s ERP system, the price of changing to a new vendor is exorbitant because of entrenched data, by the fact that the internal processes have been modified to SAP, major retraining requirements, and the mission-critical character of the submissions (Elms et al., 2010; Chidmi & Lopez, 2007).

2.5 Existing Competitive Rivalry between Suppliers

The degree of rivalry amongst competitors in a sector refers to the degree to which businesses within a sector put pressure on each other and restrict each other’s profit prospective. In case the rivalry is severe, competitors are making attempts to steal the returns and the share of the market from each other (Smith, 2004). This in turn lowers
profit prospective for all businesses within the sector. In accordance to the Porter’s framework, the magnitude of rivalry amongst businesses is one of the major forces that design the competitive organization of a sector. Porter’s degree of rivalry in a sector has a great impact on the competitive atmosphere and affects the capacity of existing businesses to realize profitability. High degree of rivalry implies that competitors are violently targeting the markets of one another and violently pricing goods and services. This represents possible costs to each and every competitor within the business sector. High degree of competitive rivalry consequently makes a sector highly competitive and lower profit prospective for the existing businesses. Consequently, low degree of competitive rivalry can make a sector less competitive and raises profit prospective for the existing businesses (Sacconaghi, Garfunkel & Colledge, 2005).

A number of elements determine the degree of competitive rivalry in a business sector. The first element affecting the degree of rivalry is the number of competitors in a business sector. In case the sector consists of a huge number of competitors, the rivalry will be highly intense in the market. The second element that influences rivalry intensity in the market is the competitors being of equal share of the market or size. In case the competitors are of the same in terms of market share as well as the size, the degree of rivalry will as well rise (Elms et al., 2010). The third element influencing the rivalry degree in a business sector is the rate of growth for the sector. In case an industry rate of growth is slow, the degree of rivalry greatly increases. The fourth element is the fixed costs whereby in case the costs in a given industry are high, the competitive rivalry will as well be intense. The fifth element is products differentiation. In case the sector’s goods and services are undifferentiated, the rivalry degree will be intense. The sixth elements are the brand loyalty and buyers switching costs. In case customers’ loyalty towards the brand is of no consequence and switching costs of the buyer are minimal, the sector’s rivalry will intensify (Bridwell & Chun-Jui, 2005). The seventh element is the competitors’ diversity. In case competitors are tactically diverse in that they position themselves in a different way from the rest of the competitors, the rivalry of the sector will be intense. The eighth element is production capacity. In case a business sector has surplus production capacity, there will be high rivalry amongst competitors. The final element is exit barriers. In case the losses and costs that come if a business ceases operations are high, there will be a high degree of rivalry amongst industry businesses. Also, if the opposite happens for all the elements, the degree of industry rivalry amongst
competitors will reduce. For instance, a small number of businesses in the sector, an understandable market leader, high rate of sector growth, reduced fixed costs, greatly differentiated goods and services, widespread brand loyalties, huge buyer switching costs, lack of surplus production capacity, absence of competitors strategic diversity, and reduced exit barriers all implies that the degree of rivalry amongst existing businesses is low (Davis et al., 2006).

Lal and Rao (2009) state that opposition amongst competitors takes various common forms that include price discounting, innovative product introductions, advertisements, and general service improvements. High opposition restricts the profitability of a business (Bridwell & Chun-Jui, 2005). The extent to which rivalry and opposition forces down the potential of a given business to realize profits greatly depends on the strength with which businesses compete and also on the basis on which they compete. The strength of competition and opposition is utmost when the competitors many or are approximately equal in size and influence. In such circumstances, competitors always find it tricky to avoid poaching business (Smith, 2004). Without a business leader, practices that are more often than not desirable for the business usually go without being enforced. Hence, this leads to a slow growth of the business. Slow growth often leads to rivalry for market share. Also the exit barriers heighten. The exit barriers and the other side of the entry barriers arise; this is because of things such as the specialized assets or management’s loyalty to a certain business (Elms et al., 2010).

Newman and Cullen (2007) state that the barriers mentioned above keep businesses in the market albeit they may be receiving very low or negative returns. Surplus capacity continues to be used, and the profitability of vigorous competitors suffers as the weak competitors hang on. Competitors are greatly dedicated to the business and have ambition for leadership, particularly if they have aims that go far beyond the financial achievements in the specific business. Responsibility to a business may crop up for various reasons (Brooks, Doucette, & Sorofman, 2005). For instance, public-owned competitors may have objectives that include employment or reputation. Most businesses do not know very well their competitors, this is for the reason that they lack familiarity with one another; they have varied approach to competition, or very different objectives (Sacconaghi, Garfunkel & Colledge, 2005).
The opposition’s intensity depicts the strength of the competition and also the foundation and the basis of the competition. The scope on which competition may take place, and whether the competitors come together to compete on the same scope, is very weighty to the profitability that will be realized (Davis et al., 2006).

2.5.1 Price Rivalry

Round (2006) indicated rivalry is particularly unhelpful to productivity if it exclusively gravitates to price, because price rivalry moves profits openly from a business to its clients. Price cuts are typically simple for rivals to see and match, this is likely to make the consecutive rounds to be of retaliation in nature. Constant price rivalry as well, trains clients to be less focused on product features and the services offered. There is a likelihood of price wars, if products or services of the competitors are almost similar and there are few switching costs for the buyers (Rhim & Cooper, 2005). This stimulates the rivals to cut down their prices so as to bring on board new customers. Marginal costs are low while fixed costs are high. This generates very intense pressure for rivals to reduce prices far below their average costs. Many basic-resources businesses like paper and aluminum undergo this problem, particularly if demand is not on the rise (Renko, Sustic & Butigan, 2011).

The capability must be prolonged in large increments to be proficient. The need for large capacity growth upset the business’ supply demand balance and this frequently leads to a lengthy and recurring episode of overcapacity and price reduction. Porter and Kramer (2011) argue that the product may be perishable. Perishability generates an intense enticement to reduce prices and sell a product while it is still valuable. Many more services and products are perishable than what is typically thought. Just like fruits and vegetables do rot, replicas of computers are perishable, because sooner or later they become obsolete. Information may be considered perishable if it is spread all over or becomes old-fashioned, thereby losing its worth. Services can also be perishable. For example hotel accommodations may be considered perishable in the sense that vacant capacities can by no means be recovered (Parker & Lehmann, 2011).

2.5.2 Profitability

Other than the dimension of price, competition is less likely to grind down profitability for the reason that it advances customer value and can maintain the higher prices. Also,
competition that has been focused on such dimensions mostly enhances their worth in relation to other alternatives or raises the barriers to face the new entrants (Newman & Cullen, 2007). While non-price competitions may at times heighten to level that confront the business profitability, this rarely happens as compared to that of price competition. As significant as the dimensions of competition is whether competitors participate on similar dimensions. When several rivals target to attain similar needs or participate on the same characteristics, often the outcome is zero-sum rivalry. It is here that one firm’s profit is another firm’s loss, hence driving down profitability (Neven et al., 2008).

While price rivalry faces an intense threat than non-price rivalry of becoming zero-sum, this may not occur if businesses were to take good care to sub-divide their markets, aiming their low price offerings to various clients (Nair, Narasimhan & Bendoly, 2011). Competition can be positive-sum, or essentially enhance the average profitability of a business, when each and every rival targets to meet the wants of various client segments, with various blends of price, features, products, services, or brand identities (Meredith, 2011). Such rivalry can not only bear a superior standard profitability, but also enlarge the business, as the requirements of more client groups are better met. The chance for positive-sum competition increases in businesses that are interested in serving miscellaneous customer groups. With a comprehensible understanding of the structural foundations of competition, strategists can at times initiate a change on the nature of rivalry in a more constructive manner (Matsa, 2011).

2.5.3 Horticultural Supply System

The increase in the number of supermarkets has directly affected the supply system of the horticultural system. There has been increase in modern irrigation system whereby large suppliers have stifled the small suppliers but supplying to most of the supermarkets. This has led to increase of large suppliers who are cultivating large tracts of land to meet the supply demanded. In addition, these farmers have also increased their reliance on more capital intensive production methods. This has resulted into 60-70% higher labor and land productivity compared to traditional-channel farmers (Magi, 2003).

Further, the supermarkets have continually cut the link established by the middlemen between them and the farmers. This has benefited those farmers that deal directly with the supermarkets recording on average 40% gross profit margin. The supermarket channel
also offers reduced expenses and risks which enhances profitability for both parties. This has seen many farmers seeking the supermarket channel and increasing their produce drastically (Marques et al., 2000).

2.6 Threat of New Market Entrants

Frequently, new entrants to a business in most cases come along with an aspiration and new capacity to gain market share which exerts more pressure on expenses, prices and the rate of investment needed to compete (Marques et al., 2000; Livingstone & Tigert, 2008). Especially when the new entrants branch out from other markets, they can influence the current capacities and cash flows hence surprising the rivalry, this is just as Pepsi did when it came into the bottled water business. Microsoft also did the same when it actually started offering internet browsers. Apple is also a perfect example as it also joined the music distribution industry (Marques et al., 2000).

Another example of the threats of new entrants was the UK grocery market. This grocery market was mainly dominated by few rivals, which included their major brands of Tesco, Asda, Sainsbury’s and Safeway. Ritz (2005) states that 30% of the grocery market was transformed into supermarket-dominated businesses. Most of the huge chains created their authority due to operating competence. Hence, it led them to possess a stronger barrier for new businesses which yearn to get into the grocery market. It became very hard for newcomers to get enough capital because of huge fixed costs and extremely established supply chains. Other barriers included economies of scale and isolation that was attained by Tesco and Asda. This was observed in their violent operational strategy in product development, advertising activity and enhanced distribution (Magi, 2003).

Entry barriers are the advantages that the incumbents have over new entrants. There are seven chief sources of these entry barriers, which includes the demand-side benefits of scale, customer switching costs, supply-side of scale, capital necessities, uneven success to allocation channels, anticipated retaliation, limiting government policy, and incumbency benefits irrespective of size (Lal & Rao, 2009).

2.6.1 Supply-Side Economies of Scale

These economies of the financial system occur when the businesses that produce more volumes have the benefit of reduced costs per unit since they can extend the fixed costs
over several other units, make use of more proficient technology, or order improved terms from suppliers (Brooks, Doucette & Sorofman, 2005). Supply-side economics hamper entry forcing the hopeful entrant to either come into the business on a large scale or to agree to a cost disadvantage. Economies of scale can be practically found in almost all activities in the value chain, the significance varies by the industry.

### 2.6.2 Demand-Side Benefits of Scale

These benefits, also referred to as network effects, come up in organizations where a consumer’s readiness and willingness to pay for a business product amplify with the number of other consumers who also shop frequently at the business. Consumers may confide more in bigger companies for an important goods or services. A consumer may also consider it worthy to be in a ‘network’ with a large number of fellow clients (Brown, Fee & Thomas, 2009). For example, online auction accomplices may be fascinated by an eBay just because it grants very prospective trading partners. Demand-side benefits of scale deject entrance by restraining the willingness of clients to purchase from a newcomer and by lowering the price the newcomer is capable of having a command until it creates wide base of clients (Chidmi & Lopez, 2007).

### 2.6.3 Customer Switching Costs

These are fixed costs that consumers pay for when they change the suppliers. Such costs arise in most cases because a consumer who changes suppliers must also switch the specifications of the product (Davis et al., 2006).

The higher the switching costs, the tougher it will be for a new entrant to gain customers. A good example of a product with a relatively higher switching cost is the Enterprise Resource Planning (ERP) software (Dobbs, 2014). In the event that a business installs SAP’s ERP system, the price of changing to a new vendor is exorbitant because of entrenched data, by the fact that the internal processes have been modified to SAP, major retraining requirements, and the mission-critical character of the submissions (Elms et al., 2010; Chidmi & Lopez, 2007).
2.6.4 Capital Requirements

The necessity to put in huge monetary resources so as to compete often discourages new entrants. Capital may be significant not only for fixed amenities, but also to create inventories, spread client credit and finance startup losses (Harvey, 2000). The barrier is precisely vast if the capital is required for unrecoverable, thus harder-to-finance expenses, such as development and research or up-front publicity. While the major businesses have monetary resources to force their way into any industry, the immense capital prerequisites in specific fields restricts the likely group of entrants (Kukar-Kinney, Xia & Monroe, 2007).

On the contrary, in areas like that of tax preparation services or short-haul trucking capital prerequisites are fewer and aspiring entrants are in plenty. It is very vital not to exaggerate the extent to which capital prerequisites alone discourage any entry (Lal & Rao, 2009; Harvey, 2000). If business returns are striking and are anticipated to be the same for long, and if capital markets are resourceful, financiers will grant the entrants with the funds they need. For example air carriers, financing is made available to them so as to buy luxurious airplanes because of their very high auction worth, this is one major reason as to why there is increased purchase of aircrafts across boundaries (Livingstone & Tigert, 2008; Renko, Sustic & Butigan, 2011).

2.6.5 Incumbency Advantages Independent of Size

Regardless of the size, incumbents do have cost and value benefits that are not obtainable to their potential competitors. Such benefits emanate from proprietary technology, preemption of the most encouraging geographic locations, special access to the excellent sources of raw material, increasing knowledge that allows the incumbents to study on how to produce more proficiently or well-known brand identities (Magi, 2003).

These benefits can be from sources such as proprietary technology, special access to the excellent sources of raw material, preemption of the most encouraging geographic locations, well-known brand identities, or increasing knowledge that allows the incumbents to study on how to produce more proficiently (Magi, 2003). Entrants strive to evade such benefits. For instance Upstart discounters like the Target and Wal-Mart, have
positioned their stores in self-supporting sites rather than regional shopping centers where recognized department stores were well well-established (Matsa, 2011).

**2.6.6 Unequal Access to Distribution Channels**

The new entrant should protect allocation of its product or service. For instance, for a new food item to replace others from the shelves of a supermarket, it must utilize price breaks, and advertisements (Meredith, 2011; Matsa, 2011). The more regulated the retail and wholesale shops are for a new entrance, and also the more the rivals there are tying them up then the harder it will be for entry into such an industry. At times accessibility to allocation is very high, making it to be a tough barrier for new entrants causing them to avoid distribution channels or rather they make their own. Therefore, upstart reduced-cost aircrafts have shunned distribution channels through the travel representatives hence they have persuaded passengers to book flight on the internet (Nair, Narasimhan & Bendoly, 2011).

**2.6.7 Restrictive Government Policy**

As indicated by Meredith (2011) the restrictive government policy can hold back or help have new direct entry, as well as increase (or reduce) the other entry barriers. The government also has authority to restrict or even close in advance entry into the industries via licensing necessities and limitations on foreign financing. Regulated businesses like that of taxi services, liquor selling and airlines are examples that are evident that these government policies can create other entry barriers through such ways as open exclusive rules or rights that guard proprietary technology from being replicated. It is also true that government policies can also relieve entry for newcomers, either through direct financial assistance, or indirectly by funding basic research and making it obtainable to all firms whether old or new (Neven et al., 2008).

Evaluation of entry barriers should take place in line with the capacity of the aspiring entrants. These potential entrants can be start-ups, foreign firms, or businesses in connected industries. Going with the above stated illustrations, strategists ought to be attentive to the imaginative ways newcomers might discover to evade apparent barriers (Parker & Lehmann, 2011; Nair, Narasimhan & Bendoly, 2011).
2.6.8 Expected Retaliation

How the incumbents react may largely influence the decisions of potential entrants, or make them to completely avoid an industry (Renko, Sustic & Butigan, 2011). If reaction is dynamic and prolonged sufficiently, then the potential benefit of taking part in the industry can drop far below the capital cost. Incumbents frequently utilize public declarations and responses to a single entrant to communicate to other potential entrants about their endeavors to shield the market share (Porter, 2008).

Newcomers are more than likely to anticipate revenge if; formerly the incumbents responded dynamically to new entrants; incumbents own significant resources to retaliate, including extra money and unexploited borrowing power, obtainable productive capabilities, or clout with distribution channels and clients (Rhim & Cooper, 2005).

Incumbents may shelve down prices since they are committed to retaining their market share at all expenses or for the reason that the industry has high fixed costs, which generate an intense inspiration to drop prices so as to fill up the surplus capacity. Growth of industries is rather slow; hence newcomers can increase volume by taking it away from incumbents (Sacconaghi, Garfunkel & Colledge, 2005).

A scrutiny of difficulties to entry and anticipated retribution is evidently critical for any business thinking of entrance into a new industry. The challenge is to obtain ways to conquer the entry barriers without nullifying, through profound investment, the productivity of taking part in the industry (Solomon & Rabolt, 2004; Rhim & Cooper, 2005).

2.7 Chapter Summary

This chapter presented a review of literature in relation to the objectives of the study. The chapter started with an overview of the porter’s five forces, followed by existing competitive rivalry between suppliers, threat of new market entrants, bargaining power of buyers, power of suppliers and threat of substitute products. Chapter three will highlight the research methodology of the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The methodology is provided in this chapter. The methodology is aligned to the research questions. The methodology consists of research design, the population and sampling design, data collection methods, research procedures and data analysis and methods.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). In addition Kothari (2004) observed that research design is a blueprint which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money. This study used descriptive research design. This design refers to a set of methods and procedures that describe variables. It involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data. The design was considered appropriate because it also provides an in depth and comprehensive inquiry required to be conducted to have a description of the subject under study namely; to evaluate competition among supermarkets in Kenya using Michael Porter’s five forces model. The dependent variable was competition in the supermarket industry and the dependent variables were bargaining power of supplier, bargaining power of consumers, threat of substitutes, current level of competitive rivalry and threat of new entrants.

3.3 Population and Sampling Design

3.3.1 Population

Mugenda and Mugenda (2003) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The target population of this study was staff working in the marketing departments at the head offices of Nakumatt, Uchumi, Naivas and Tuskys supermarkets. According to Bizzcommunity (2014), Nakumatt had 68 staffs working in the marketing department,
Uchumi had 76, Naivas had 73 and Tuskys had 83. The target population of this study was therefore be 309 individuals.

**Table 3.1: Population Distribution**

<table>
<thead>
<tr>
<th>Supermarket</th>
<th>Staff in the marketing department</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nakumatt</td>
<td>68</td>
<td>22.01</td>
</tr>
<tr>
<td>Uchumi</td>
<td>76</td>
<td>24.60</td>
</tr>
<tr>
<td>Naivas</td>
<td>73</td>
<td>23.62</td>
</tr>
<tr>
<td>Tuskys</td>
<td>83</td>
<td>26.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>309</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Bizzcommunity (2014)

### 3.3.2 Sampling Design

According to Kothari (2004), a sampling design is a work plan of design that specifies the sampling frame, the sample size and sample selection.

#### 3.3.2.1 Sampling Frame

A sampling frame is the listing of all the population elements from which a sample was drawn. It is a correct and complete listing of population members only (Cooper & Schindler, 2006). The sampling frame of this study was obtained from Bizzcommunity (2014) and comprised of staff working the marketing departments in Nakumatt, Uchumi, Naivas and Tuskys.

#### 3.3.2.2 Sampling Technique

This study adopted a stratified random sampling method to select 30% of the target population. Stratified random sampling was defined as a method of sampling involving grouping of a population into smaller categories known as strata. The strata in this study comprised of Nakumatt, Uchumi, Naivas and Tuskys. According to Kothari (2004) strata should be formed on the basis of the members shared characteristics or attributes and hence this study only focused on the staff working in the marketing departments. A random sample from each stratum was taken in a number proportional (30% from each stratum) to the stratum's size when compared to the population. These strata subsets were then pooled to form a random sample.
3.3.2.3 Sample Size

The sample size of this study was 93 respondents who were working in the marketing departments in Nakumatt, Uchumi, Naivas and Tuskys. According to Mugenda and Mugenda (2003) for a sample to be considered as good representation, it should be between 10 and 30%.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Supermarket</th>
<th>Staff in the marketing department</th>
<th>Sampling Percent</th>
<th>Sample Size</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nakumatt</td>
<td>71</td>
<td>30</td>
<td>21</td>
<td>22.01</td>
</tr>
<tr>
<td>Uchumi</td>
<td>82</td>
<td>30</td>
<td>25</td>
<td>24.60</td>
</tr>
<tr>
<td>Naivas</td>
<td>73</td>
<td>30</td>
<td>22</td>
<td>23.62</td>
</tr>
<tr>
<td>Tuskys</td>
<td>83</td>
<td>30</td>
<td>25</td>
<td>26.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>309</strong></td>
<td><strong>30</strong></td>
<td><strong>93</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

This study mainly used primary data. Primary data according to Kothari (2004) is the data collected a fresh for the first time while secondary data is that data that has already been collected and passed through statistical process. Semi-structured questionnaires were used in this study to collect data. Questionnaires are the most commonly used methods when respondents can be reached and are willing to co-operate. These methods can reach a large number of subjects who are able to read and write independently and since the employees working the marketing departments of the four supermarkets can read and write, the use of questionnaires were the best method to use in this study. Mugenda and Mugenda (2003) observed that, questionnaires are very economical in terms of time, energy and finances.

The questionnaire comprised of six sections. The first section comprised of the respondents general information while all the other five sections focused on the five objectives of the study. The questionnaire was arranged in terms of objectives.
3.5 Research Procedures

After developing the questionnaires, the researcher conducted a pilot test to test the reliability and the validity of the instrument. A pilot test as a stage where research instruments (tests, questionnaires, observation schedules, etc.) are administered to a number of individuals in the target population who are not included in the sample size so as to test the reliability and validity of the instruments. The researcher selected a pilot group of 5 staff from the Tuskys Imara to participate in the pilot test. The reliability of the questionnaires was measured statistically using Cronbach’s alpha. Internal consistency techniques were applied using Cronbach’s Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda and Mugenda, 2003).

To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the supervisor. This helped to improve the validity of the data that is collected.

Before going to the field for data collection, the researcher obtained a data collection letter from the university. In addition, the researcher sought permission from the top management of the four supermarkets to collect data.

The study used drop and pick up later method to collect the data. The researcher then started with Tuskys headquarters along Mombasa Road. This was followed by Uchumi headquarters in Industrial Area (KNTC complex), Naivas headquarters in Industrial area (Sameer Africa Business Park) and finished with Nakumatt headquarters in Industrial Area (behind Panari Hotel). When dropping the questionnaires, the researcher informed the respondents the data was only used for academic purposes only. After dropping the questionnaires in the headquarters of the four supermarkets, the researcher collected them after four days.

3.6 Data Analysis Methods

According to Cooper & Schindler (2006), data analysis involves decrease of accumulated data to a size that is manageable, coming up with summaries, looking for patterns and applying statistical techniques. Additionally, Kothari (2004) indicates that analysis of data
is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making.

Content analysis was used to analyze qualitative data and the findings were then presented in a prose form. On the other hand, Statistical Package for Social Sciences (SPSS version 20) will be used to analyze quantitative data. Using this program quantitative data was analyzed using inferential and descriptive statistics. Descriptive statistics such as mean, standard deviation, frequency and percentages were used to profile sample characteristics and major patterns emerging from the data. In relation to inferential statistics, the study used correlation analysis. This was used to establish the relationship between the independent and the dependent variables. Data was then presented in a tables, bar charts and pie charts.

3.7 Chapter Summary

This chapter presented the methodology that was used in the collecting and analyzing data. The chapter began with the research design, followed by the population and sampling design, data collection methods, research procedures and data analysis and methods. Chapter four will present data analysis and presentation of the findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the data analysis and interpretation of the findings. The purpose of this study was to evaluate competition among supermarkets in Kenya using Michael Porter’s five forces model. The study also sought to establish the effect of bargaining power of suppliers, bargaining power of consumers, threat of substitutes and new entry into the supermarket industry and current level of competitive rivalry on the competitiveness within the supermarket industry in Kenya.

The sample size of this study was 93 staffs working in the department of finance in the marketing departments in Nakumatt, Uchumi, Naivas and Tuskys. Out of 93 individuals, 90 comprehensively filled and returned their questionnaires. This represents a 96.77% response rate. This correlates with Mugenda and Mugenda (2003) argument that a response rate of 50% is sufficient for analysis and reporting; a response rate of 60% is good while a response rate of 70% and over is excellent. This evidently shows that the response rate in this study was excellent and hence the responses can be used to make inferences in relation to the supermarkets industry in Kenya.

![Figure 4.1 Response rate](image-url)

Figure 4.1 Response rate
4.2 General Information

In this section, the respondents were requested to indicate their gender, highest level of education, work experience in the supermarket industry and the level of competitiveness in their supermarkets.

4.2.1 Gender of the Respondents

The respondents were requested to indicate their gender. From the findings, 55.56% of the respondents indicated that they were female while 44.44% indicated that they were male. These findings show that majority of the respondents were male. Implying that the supermarket industry in Kenya had ensured gender equality in recruiting the marketers.

![Figure 4.2: Gender of the Respondents](image)

4.2.2 Highest Level of Education

The respondents were requested to indicate their highest level of education. According to the findings, 47.78% of the respondents indicated that they had university education, 25.56% had college education, 14.44% had secondary education while 12.22% of the respondents had postgraduate education. These findings clearly show that most of the respondents had university education. Implying that their responses were based on knowledge and education.
4.2.3 Work Experience

With an intention to establish the respondents work experience, the respondents were requested to indicate the duration of time they had been working in the supermarket industry. From the findings, 62.22% of the respondents reported that they had been working in the supermarket industry for 3 to 9 years, 32.22% indicated 9 to 12 years while 13.33% indicated a period of above 12 years. Additionally, 3.33% of the respondents indicated that they had been working in the supermarket industry for a period of less than 3 years. This shows that most of the respondents had been working in the supermarket industry for 3 to 9 years. So they had substantial experience and could therefore be relied upon in their responses.
4.2.4 Level of Competitiveness

The respondents were further asked to indicate the level of competitiveness of their respective supermarkets. From the findings, 37.78% of the respondents indicated that the level of competitiveness of their respective supermarket was good, 25.56% indicated it was excellent, 13.22% indicated it was moderate, 12.22% indicated it was bad while 11.11% indicated it was poor. These findings clearly show that the level of competitiveness in the supermarket industry in Kenya is good. This implies that all the supermarkets in Kenya have to look for a competitive edge so as to remain competitive in the supermarket industry.

![Level of Competitiveness](Image)

**Figure 4.5: Level of Competitiveness**

4.3 Bargaining Power of Suppliers

The study sought to establish the level of bargaining power of suppliers within the supermarket industry in Kenya.

4.3.1 Main Suppliers in the Industry

The respondents were asked to indicate the main suppliers to the respondents’ supermarket. The respondents indicated the following as some of their main suppliers: continental freighters and products, food products manufacturers, beauty products manufacturers Eveready East Africa, Global apparels Kenya Ltd., just to mention but a few.
4.3.2 Suppliers and the Competition

The study sought to find out whether their suppliers supply the same products to their competitors. From the findings, 94.44% of the respondents their suppliers supplied the same products to their competition while 5.56% indicated their suppliers did not supply the same products to their competitors. It can be deduced that the suppliers supplied the same products to the competition. This implies that all the supermarkets in Kenya were getting products from the same suppliers and hence the products were the same.

Figure 4.6: Suppliers and the Competition

4.3.3 Bargaining Power of Suppliers

From the findings, the respondents agreed with a mean of 4.354 and a standard deviation of 0.128 that it is not difficult for their suppliers to enter their business, sell directly to their customers, and become their direct competitor. In addition, the respondents agreed with a mean of 4.243 and a standard deviation of 0.765 that purchases from their suppliers represent a large portion of the suppliers business. Also, the respondents agreed with a mean of 4.213 and a standard deviation of 0.454 that they stock various brands from different suppliers hence reducing the power of suppliers. Further, the respondents also agreed with a mean of 4.172 and a standard deviation of 0.536 that their organization is well informed about their supplier’s product and market. Additionally, the respondents agreed with a mean of 4.111 and standard deviation of 0.492 that there are a large number of potential input suppliers. The respondents also agreed with a mean of 3.876 and a
standard deviation of 0.674 that their organization purchases ordinary products. Finally, the respondents agreed with a mean of 2.324 and a standard deviation of 0.434 that their organization can easily switch to substitute products from other suppliers.

This implies that new entrants can enter into the supermarket industry in Kenya and all supermarkets in Kenya were relying on products from their suppliers. However, various supermarkets were stocking products from various suppliers so as to reduce their power. In addition, it is easy for supermarkets to switch to substitute products from other suppliers.

Table 4.1: Statements in relation to the bargaining power of suppliers

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are a large number of potential input suppliers</td>
<td>4.111</td>
<td>0.492</td>
</tr>
<tr>
<td>Their organization purchases ordinary products</td>
<td>3.876</td>
<td>0.674</td>
</tr>
<tr>
<td>Purchases from their suppliers represent a large portion of the suppliers business</td>
<td>4.243</td>
<td>0.765</td>
</tr>
<tr>
<td>It is not difficult for their suppliers to enter their business, sell directly to their customers, and become their direct competitor</td>
<td>4.354</td>
<td>0.128</td>
</tr>
<tr>
<td>Their organization can easily switch to substitute products from other suppliers?</td>
<td>2.324</td>
<td>0.434</td>
</tr>
<tr>
<td>Their organization is well informed about their supplier’s product and market</td>
<td>4.172</td>
<td>0.536</td>
</tr>
<tr>
<td>We stock various brands from different suppliers hence reducing the power of suppliers</td>
<td>4.213</td>
<td>0.454</td>
</tr>
</tbody>
</table>

4.4 Current Level of Competitive Rivalry

The study sought to establish the level of competitive rivalry and its impact on the competition in the supermarket industry in Kenya.

4.4.1 Competitors in the Supermarket Industry

The respondents were also asked to indicate whether there were many competitors in the supermarket industry. From the findings, 86.67% of the respondents indicated there were
many competitors in the supermarket industry while 13.33% indicated there were not. From these findings we can deduce that there were many competitors in the supermarket industry implying that competition was very stiff.

Figure 4.7: Current Level of Competitive Rivalry

The respondents were also requested to name some of their competitors. The researcher obtained the following list from the respondents. Those from Nakumatt indicated Uchumi, Naivas, Ukwala, Kassmart, and Tuskys. Those from Naivas indicated Uchumi, Ukwala, Nakumatt, Kassmart and Tuskys. Those from Uchumi indicated Naivas, Ukwala, Nakumatt, Kassmart and Tuskys. Those from Tuskys indicated Naivas, Ukwala, Uchumi, Kassmart and Nakumatt.

The respondents were also requested to indicate the strategies used by supermarkets that have increased competition in the industry. The respondents indicated that price variations, promotions and improved customer service are the main strategies used in supermarkets in Kenya and have increased competitiveness in the industry.

4.4.2 Level of Competitive Rivalry

The respondents were asked to indicate their level of agreement with various aspects of competitive rivalry. According to the findings tabled below, the respondents agreed with a mean of 4.243 and a standard deviation of 0.091 that their products are unique. Further, the respondents agreed with a mean of 4.211 and a standard deviation of 0.249 that the
market is growing fast. Also, the respondents agreed with a mean of 4.106 and a standard deviation of 0.362 that there are clear leaders in the market. In addition, the respondents agreed with a mean of 3.511 and a standard deviation of 0.476 that they offer low fixed costs. Additionally, the respondents agreed with a mean of 2.809 and a standard deviation of 0.574 that they store their products to sell at the best times. The respondents also agreed with a mean of 2.456 and a standard deviation of 0.432 that there are a small number of competitors in the industry. Further, the respondents agreed with a mean of 2.004 and a standard deviation of 0.109 that it is easy for competitors to abandon their product. This implies that products from various supermarkets are unique and the supermarket industry is growing fast. In addition, to remain competitive in the market, various supermarkets offer low fixed costs.

Table 4.2: Statements in Relation to the Level of Competitive Rivalry

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a small number of competitors in the industry</td>
<td>2.456</td>
<td>0.432</td>
</tr>
<tr>
<td>We offer low fixed costs</td>
<td>3.511</td>
<td>0.476</td>
</tr>
<tr>
<td>There are clear leaders in the market</td>
<td>4.106</td>
<td>0.362</td>
</tr>
<tr>
<td>The market is growing fast</td>
<td>4.211</td>
<td>0.249</td>
</tr>
<tr>
<td>We store their products to sell at the best times</td>
<td>2.809</td>
<td>0.574</td>
</tr>
<tr>
<td>Their products are unique</td>
<td>4.243</td>
<td>0.091</td>
</tr>
<tr>
<td>It is easy for competitors to abandon their product</td>
<td>2.004</td>
<td>0.109</td>
</tr>
</tbody>
</table>

4.5 Bargaining Power of Consumers

The study sought to establish the level at which the bargaining power of consumers was impacting on competitiveness within the supermarket industry in Kenya.

4.5.1 Bargaining Power of Consumers and Competitiveness

The researcher requested the respondents to indicate whether bargaining power of consumers affect the competitiveness of their organization. From the findings shown in the figure below, 78.89% of the respondents indicated that bargaining power of consumers affect the competitiveness of their organization while 21.11% of the respondents indicated that bargaining power of consumers did not affect the
competitiveness of their organization. This implies that the bargaining power of consumers affect the competitiveness of their organization.

![Pie chart showing 21% No and 79% Yes]

**Figure 4.8: Bargaining Power of Consumers**

The respondents were asked to indicate how the bargaining power of consumers affects the competitiveness of their organization. The respondents responded by indicating that consumers have an effect on the pricing and location of the supermarkets. Those supermarkets with high priced goods have low sales as consumer will go to the next supermarket available with better pricing since most of them are closely located.

### 4.5.2 Bargaining Power of Consumers

The respondents were asked to indicate their level of agreement with various aspects of the bargaining power of consumers. From the findings, the respondents agreed with a mean of 4.243 and a standard deviation of 0.095 that customers are well informed about their product and market. Also, the respondents agreed with a mean of 4.004 and a standard deviation of 0.105 that their products are unique. In addition, the respondents agreed with a mean of 3.809 and a standard deviation of 0.074 that their products represent a small expense for their customers. Further, the respondents agreed with a mean of 2.172 and a standard deviation of 0.506 that it is difficult for customers to switch from their products to those of their competitors. Moreover, the respondents agreed with a mean of 2.111 and a standard deviation of 0.476 that they have enough customers such that losing one is not critical to their success. Additionally, the respondents agreed with a
mean of 2.094 and a standard deviation of 0.844 that it would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products we provide, and compete directly with their supermarkets. This implies that customers are well informed about the products in market. The findings also imply that it is not difficult for customers to switch from the products of one supermarket to those of competitors.

**Table 4.3: Statements in Relation to the Bargaining Power of Consumers**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have enough customers such that losing one is not critical to their success</td>
<td>2.111</td>
<td>0.476</td>
</tr>
<tr>
<td>Their products represent a small expense for their customers</td>
<td>3.809</td>
<td>0.074</td>
</tr>
<tr>
<td>Customers are well informed about their product and market</td>
<td>4.243</td>
<td>0.095</td>
</tr>
<tr>
<td>Their products are unique</td>
<td>4.004</td>
<td>0.105</td>
</tr>
<tr>
<td>It would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products we provide, and compete directly with us</td>
<td>2.094</td>
<td>0.844</td>
</tr>
<tr>
<td>It is difficult for customers to switch from their products to their competitors’ products</td>
<td>2.172</td>
<td>0.506</td>
</tr>
</tbody>
</table>

**4.6 Threat of Substitutes**

The study sought to establish how the threat of substitutes was affecting the competition in the supermarket industry.

**4.6.1 Threats of Substitute in the Supermarket Industry**

The respondents were asked to indicate whether there were any threats of substitute in the supermarket industry. According to the findings, 93.33% of the respondents indicated that there were any threats of substitute in the supermarket industry while 6.67% of the respondents indicated that there were no threats of substitute in the supermarket industry. This implies that there were threats of substitute in the supermarket industry.
The respondents were also requested to indicate the threats. The respondents indicated shopping malls, chain stores and specialized international stores.

4.6.2 Threat of Substitute

The respondents were requested to indicate the extent to which they agree with various aspects of threat of substitute. According to the findings shown in the table below, the respondents agreed with a mean of 4.111 and a standard deviation of 0.876 that their products compared favorably to possible substitutes. The respondents also agreed with a mean of 2.809 and a standard deviation of 0.194 that it is costly for their customers to switch to another product. Additionally, the respondents agreed with a mean of 4.021 and a standard deviation of 0.645 that their customers are loyal to existing products. This implies that products in the supermarket industry compared favorably to possible substitutes. However, it is not costly for customers to switch from one supermarket to another.
Table 4.4: Statements in Relation to the Threat of Substitute

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Their products compare favorably to possible substitutes</td>
<td>4.111</td>
<td>0.876</td>
</tr>
<tr>
<td>It is costly for their customers to switch to another product</td>
<td>2.809</td>
<td>0.194</td>
</tr>
<tr>
<td>Their customers are loyal to existing products</td>
<td>4.021</td>
<td>0.645</td>
</tr>
</tbody>
</table>

4.7 New Entrants into the Industry

The study sought to how the threat of new entrants affecting competition within the supermarket industry in Kenya.

4.7.1 New Entrants into the Industry in the Last Two Years

The researcher requested the respondents to indicate whether there were new entrants into the industry in the last two years. From the findings, 83.33% of the respondents indicated that there were new entrants into the industry in the last two years while 16.67% of the respondents indicated that there were no new entrants into the industry in the last two years. This implies that there are new entrants into the industry in the last two years.

Figure 4.10: New Entrants in the Industry
The researcher further requested the respondents to indicate the new entrants in the last two years. The respondents indicated supermarket brands such as Kassmart and Cleanshelf.

4.7.2 Government Policies Regulating Entry

The respondents were also requested to indicate whether there were any government policies regulating entry into the supermarket industry. According to the findings, 90% of the respondents indicated that there were no government policies regulating entry into the supermarket industry while 10% of the respondents indicated that there were no government policies regulating entry into the supermarket industry. This implies that there were no government policies regulating entry into the supermarket industry.

![Figure 4.11: Government Policies Regulating Entry](image)

4.7.3 Threat of New Entrants

The respondents were requested to indicate the extent to which they agree with the various aspects of threat of entry. According to the findings shown in the table below, the respondents agreed with a mean of 4.3260 and a standard deviation of 0.693 that there is a process or procedure critical to their business. Further, the respondents agreed with a mean of 4.174 and a standard deviation of 0.467 that there are high start-up costs for their business. Also, the respondents agreed with a mean of 4.007 and a standard deviation of 0.873 that customers are loyal to their brand. Additionally, the respondents agreed with a
mean of 3.064 and a standard deviation of 0.747 that assets needed to run their business are unique. Also, the respondents agreed with a mean of 2.853 and a standard deviation of 0.449 that a new competitor will have difficulties acquiring/obtaining needed inputs to compete efficiently. In addition, the respondents further agreed with a mean of 2.739 and a standard deviation of 0.349 that a new competitor will have difficulties in acquiring/obtaining customers. This implies that there are high start-up costs for starting a supermarket and the assets needed to run supermarkets are unique. However, new competitor will not have difficulties acquiring/obtaining needed inputs to compete efficiently or have difficulties in acquiring/obtaining customers.

Table 4.5: Statements in Relation to the Threat of Entry

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are loyal to their brand</td>
<td>4.007</td>
<td>0.873</td>
</tr>
<tr>
<td>There are high start-up costs for their business</td>
<td>4.174</td>
<td>0.467</td>
</tr>
<tr>
<td>Assets needed to run their business are unique</td>
<td>3.064</td>
<td>0.747</td>
</tr>
<tr>
<td>There is a process or procedure critical to their business</td>
<td>4.3260</td>
<td>0.693</td>
</tr>
<tr>
<td>A new competitor will have difficulties in acquiring/obtaining customers</td>
<td>2.739</td>
<td>0.349</td>
</tr>
<tr>
<td>A new competitor will have difficulties acquiring/obtaining needed inputs to compete efficiently</td>
<td>2.853</td>
<td>0.449</td>
</tr>
</tbody>
</table>

4.8 Correlation Analysis

A correlation is a number between -1 and +1 that measures the degree of association between two variables. A positive value for the correlation implies a positive. A negative value for the correlation implies a negative or inverse association.

From the correlation analysis, the study found that there is a positive relationship between the bargaining power of suppliers and competition within the supermarket industry in Kenya, where the correlation coefficients was 0.481 and a p-value of 0.000. The study also found that the bargaining power of consumers and competition within the supermarket industry in Kenya correlate positively with correlation coefficients of 0.306 and p-value of 0.002. The study further established that there is a positive relationship between threat of substitutes and the competition in the supermarket industry with a
correlation coefficient of 0.228 and p-value of 0.021. Additionally, the study found that there is a positive relationship between the current level of competitive rivalry and the competition in the supermarket industry with a correlation coefficient of 0.198 and a p-value of 0.037. Lastly, the study found that there is a positive relationship between the threat of new entrants and affecting competition within the supermarket industry in Kenya with a correlation coefficient of 0.432 and a p-value of 0.022.

This infers that among the four variables, the bargaining power of suppliers was influencing the competition in the supermarket industry most, followed by bargaining power of consumers, threat of substitutes, current level of competitive rivalry and threat of new entrants.

Table 4.6: Correlation coefficients

<table>
<thead>
<tr>
<th></th>
<th>Comp. competition</th>
<th>Bargaining power of suppliers</th>
<th>Bargaining power of consumers</th>
<th>Threat of substitutes</th>
<th>Level of competitive rivalry</th>
<th>Threat of new entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>competition</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining power of suppliers</td>
<td>Pearson Correlation</td>
<td>.481</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining power of consumers</td>
<td>Pearson Correlation</td>
<td>.306</td>
<td>.038</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.803</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>Pearson Correlation</td>
<td>.228</td>
<td>.120</td>
<td>.364</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.021</td>
<td>.428</td>
<td>.013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current level of competitive rivalry</td>
<td>Pearson Correlation</td>
<td>.198</td>
<td>-.252</td>
<td>.027</td>
<td>-.084</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.037</td>
<td>.091</td>
<td>.859</td>
<td>.579</td>
<td></td>
</tr>
<tr>
<td>Threat of new entrants</td>
<td>Pearson Correlation</td>
<td>0.432</td>
<td>0.223</td>
<td>0.254</td>
<td>-0.023</td>
<td>0.633</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.022</td>
<td>0.032</td>
<td>0.052</td>
<td>0.734</td>
<td>0.083</td>
</tr>
</tbody>
</table>
4.9 Chapter Summary

This chapter presented results and findings of the study. The chapter begins with an introduction followed by general information, bargaining power of suppliers, current level of competitive rivalry, bargaining power of customers, threats of substitutes, new entrants into the industry and correlation analysis. Chapter five is on summary of the findings, discussion of key data findings, conclusion and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion on key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of the study.

5.2 Summary

The purpose of this study was to evaluate competition among supermarkets in Kenya using Michael Porter’s five forces model. The study also sought to determine the bargaining power of suppliers, bargaining power of consumers, threat of substitutes, current level of competitive rivalry and threat of new entrants affecting competition within the supermarket industry in Kenya.

This study used descriptive research design. The target population of this study was 309 staff working in the marketing departments in Nakumatt, Uchumi, Naivas and Tuskys. This study adopted a stratified random sampling method to select 30% of the target population. The sample size of this study was therefore 93 respondents. This study used primary data that was collected using semi-structured questionnaires. Content analysis was used to analyze qualitative data and the findings were then presented in a prose form.

On the other hand, inferential and descriptive statistics were used to analyze the quantitative data using Statistical Package for Social Sciences (SPSS version 20). Descriptive statistics included mean, standard deviation, frequency and percentages. In relation to inferential statistics, the study used correlation analysis to establish the relationship between the independent and the dependent variables. Data was then be presented in a tables, bar charts and pie charts.

In relation to the level of bargaining power of suppliers within the supermarket industry in Kenya, the study established that all the supermarkets in Kenya were getting products from the same suppliers and hence the products were the same. In addition, the study found that it is not difficult for their suppliers to enter their business, sell directly to their customers, and become their direct competitor. In addition, purchases from their suppliers represent a large portion of the suppliers business. Further, supermarkets stock various brands from different suppliers hence reducing the power of suppliers.
In relation to the level of competitive rivalry and its impact on the competition in the supermarket industry in Kenya, the study found that there were many competitors in the supermarket industry implying that competition was very stiff. Key competitors include Uchumi, Naivas, Ukwala, Kassmart, Tuskys and Nakumatt. In addition, most products in the supermarkets are unique, the market is growing fast, there are clear leaders in the market and most supermarkets offer low fixed costs.

In relation to the level at which the bargaining power of consumers was impacting on competitiveness within the supermarket industry in Kenya, the study found that the bargaining power of consumers affect the competitiveness of their organization. In addition, it was established that customers are well informed about their product and market but it is difficult for customers to switch from their products to those of their competitors. Moreover, the study found that most supermarkets have enough customers such that losing one is not critical to their success and it would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products we provide, and compete directly with their supermarkets.

In relation to how the threat of substitutes was affecting the competition in the supermarket industry, there were threats of substitute in the supermarket industry. The study also established that products in supermarkets compared favorably to possible substitutes and it is costly for their customers to switch to another product. The study also found that customers are loyal to existing product and it is not costly for customers to switch from one supermarket to another.

In relation to how the threat of new entrants affecting competition within the supermarket industry in Kenya, the study found that there are new entrants into the industry in the last two years. It was also revealed that there were no government policies regulating entry into the supermarket industry. In addition, the study found that there is a process or procedure critical to their business and there are high start-up costs for their business. Also, the study found that customers are loyal to their brand.
5.3 Discussion of key findings

5.3.1 Bargaining power of suppliers

The study established that the main suppliers to the respondents’ supermarket were Continental Freighters and products, Eveready East Africa, Global apparels Kenya Ltd. Powerful suppliers, including labor suppliers, can squeeze profits out of an industry that cannot to pass on cost increases in its own prices (Bonanno & Lopez, 2009). The study established that most of the supermarkets, their suppliers supply the same products to their competitors while over This shows that the suppliers supplied similar products to the competition implying that all the supermarkets in Kenya were getting products from the same suppliers and hence the products were the same (Marques et al., 2000). This indicates that suppliers are highly concentrated in relation to buyers or there are a small number of suppliers and a lot of buyers, hence the bargaining power of the supplier becomes high. Powerful suppliers tend to capture more value for themselves by engaging in shifting of costs to other industry participants, limiting services or quality or charging higher prices. Suppliers with high bargaining power, including labor suppliers, can effectively squeeze profits out of an industry that does not have the capacity to pass on cost increases in its own prices.

Further, it was established that the suppliers supplied the same products to the competition. In relation to statements in relation to the bargaining power of suppliers, the study established that it is not difficult for their suppliers to enter their business. In addition, the study established that purchases from the suppliers represent a large portion of the suppliers business and that the supermarkets stock various brands from different suppliers hence reducing the power of suppliers. If a specific industry accounts for a large part of supplier group’s profit or volume, however, suppliers will be forced to protect the industry by offering reasonable pricing and help in activities like lobbying and R&D (Matsa, 2011).

Also, the study established that the supermarkets are well informed about the supplier’s product and market. Further, the study established that there are a large number of potential input suppliers. According to West (2009), the relationship between the supermarkets and the suppliers has deteriorated over the past few years. The supermarkets have abused their suppliers under the pretext that they are seeking to do what is right for
their customers. In actual sense they are influence the purchasing power and independence of the consumer through controlling the suppliers.

The study also established that the supermarkets’ purchases ordinary products and that the supermarkets’ can easily switch to substitute products from other suppliers. When the cost of switching is high, participants in the industry find it hard to play suppliers off against one another. These findings agree with Meredith (2011) argument that most of the times, the supplier group is not dependent entirely on the industry for its revenues. Suppliers will extract maximum profits from each of the industries provided they serve many industries (Suppliers will be forced to protect the industry by offering rational pricing and aid in activities like lobbying and R&D provided a given industry accounts for a large part of supplier group’s profit or volume. Furthermore, when the suppliers’ power is high, it affects the business capacity to serve the target market in various ways. The power of the supplier power can affect the price paid for the pay for products by the target market, the quality and the amount of commodities available for buying, and also the number of firms that will be in a position to remain in the market

5.3.2 Current level of competitive rivalry

The study also established that there were many competitors in the supermarket industry. The study also found out that the main competitors in the industry were Uchumi, Ukwala, Nakumatt and Naivas. Further, the study found out that price variation, promotions and improved customer service are the main strategies used in supermarkets and have increased competitiveness. Lal and Rao (2009) state that opposition amongst competitors takes various common forms that include price discounting, innovative product introductions, advertisements, and general service improvements.

In addition, the study found out that the supermarkets’ products are unique, there are clear leaders in the market and that the supermarkets offer low fixed costs. Without a business leader, practices that are more often than not desirable for the business usually go without being enforced (Smith, 2004). Also, the study found out that the supermarkets store their products to sell at the best times, that there are a small number of competitors in the industry and that it is easy for competitors to abandon their product.

The study established that products in the supermarkets are unique. In case competitors are tactically diverse in that they position themselves in a different way from the rest of
the competitors, the rivalry of the sector will be intense. Further, the study found that the supermarket industry is growing fast. This implies that since the rate of growth for the Kenyan supermarket business is high, the degree of rivalry can decrease by and by. Also, the study revealed that there are clear leaders in the market and hence the number of competitors in the Kenyan supermarket industry is high indicating that the rivalry will be highly intense in the market even in the coming years.

In addition, the study found that most supermarkets offer low fixed costs. The fact that there are low fixed costs in the Kenyan supermarket industry indicates that the competitive rivalry will as well be minimal. Additionally, most supermarkets were found to store their products to sell at the best times. In case the sector’s goods and services are undifferentiated, the rivalry degree will be intense. This implies that the degree of competitive rivalry will be minimal. Further, the study found that if there are a small number of competitors in the industry, the degree of competitive rivalry will be low. According to Solomon and Rabolt (2004), the power of customers is also stated as the outputs market: the capacity of buyers to put the business under pressure, which also impacts the buyer's sensitivity to changes in prices. Businesses can take actions to decrease the power of the buyer, for instance executing a loyalty program for its customers. The extent to which buyers are in a position to influence market forces is influenced by the how large their purchases are on the basis of the supplier’s income

Moreover, the study established that it is easy for competitors to abandon their product. Since the losses and costs that come in if a business ceases operations are low, there will be a high degree of rivalry amongst industry businesses. The study also indicates that products from various supermarkets are unique and the supermarket industry is growing fast. In addition, to remain competitive in the market, various supermarkets offer low fixed costs. Furthermore, from the study, most supermarkets in Kenya like Nakumatt, Uchumi, Naivas, Ukwala, Kassmart, and Tuskys have almost equal size and market share, hence, the degree of rivalry among them is very high (Davis et al., 2006).

5.3.3 Bargaining power of consumers

With regard to bargaining power of consumers, the study established that bargaining power of consumers affect the competitiveness of the supermarkets. When the buyer has more bargaining power over the seller, the seller has more influence on the seller. This influence can be used to determine the profits of the seller. This is because the buyer
dictates the prices that the seller can charge for the products. This is facilitated by concentration of consumers because the seller will depend on the market for their revenue hence they must to be in good terms. The amount of products that the customers purchase also determines the bargaining power. The study established that bargaining power of consumers have an effect on the pricing and location of the supermarkets and that those supermarkets with high priced goods have low sales as consumer go to the next supermarket available with better pricing since most of them are closely located. The amount of products that the customers purchase also determines the bargaining power. If the customer buys in large quantities and has a big financial power, the seller will do more for the buyer to ensure that they keep the customer (West, 2009).

In relation to agreement with statements in relation to the bargaining power of consumers, the study found out that customers are well informed about their product and market and that the supermarkets’ products are unique. The study found supermarkets’ products represent a small expense for their customers. It also established that it is difficult for customers to switch from their products to those of the supermarkets’ competitors. Moreover, the study also found that the supermarkets have enough customers such that losing one is not critical to their success. Large volume consumers are mainly influential in businesses with high fixed costs, for instance the telecommunications apparatus, offshore drilling, and mass chemicals (Wan & Beil, 2009). Further, the study established that it would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products they provide, and compete directly with their supermarkets.

The study found that customers are well informed about their product and market. This implies that when the customers have full knowledge about the cost structure of the supplier or his competitive situation, he becomes powerful since this knowledge to pressurize the supplier. The study further revealed that most supermarket products are unique. This implies that when the consumer’s goods or services are not greatly influenced by the quality of the supplier’s goods they would only go ahead a buy on the basis of the costs. In addition, the study found that products represent a small expense for their customers. In such a case the customers will put pressure on the prices of suppliers to lower them thereby intending to raise their margins (Davis et al., 2006).
The study found that it is difficult for customers to switch from their products to those of their competitors. This implies that the customers can consequently without difficulty switch to a substitute supplier. Moreover, the study found that most supermarkets have enough customers such that losing one is not critical to their success. This implies that the consumers have low power over the supermarkets. Further, it was established that it would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products we provide, and compete directly with their supermarkets. This in turn reduces the consumers’ power over supermarkets (Solomon & Rabolt, 2004).

5.3.4 Threat of substitutes

The study established that there were threats of substitute in the supermarket industry. Most threats were emanating from shopping malls, chain stores and specialized international stores. This implies that there were threats of substitute in the supermarket industry hence supermarkets must be strategic to be in a position to overcome the threats (Solomon & Rabolt, 2004). Substitute services or products limit the profits of an industry considerably by placing a ceiling on prices (Davis et al., 2006). In regard of statements in relation to the threat of substitute, the study found out that the supermarkets’ products compared favorably to possible substitutes and that it is costly for their customers to switch to another product with the respondents agreeing to a great extent. Additionally, the study found out that the supermarket’s customers are loyal to existing products. The substitution threat can also change in favor of an industry that bodes well for its future growth potential and profitability (Brooks, Doucette & Sorofman, 2005).

The study established most supermarkets products compared favorably to possible substitutes. Since the quality of the substitute product compared favorably to the supermarket product the threat of substitute goods and services to the supermarket products was low. The availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business’ commodity or service. The presence of close substitute goods and services can turn a sector highly competitive and lower profit potential for the businesses in the sector. Alternatively, the absence of close substitute goods and services turns a sector less competitive and raises profit potential for the businesses in the sector.
Also, the study found that the relative price performance of substitute was favorable compared to the supermarkets products, hence there was no ceiling created on the market price of the supermarket products. As a result of these, there emerges lower or no threat of substitute goods and services (Matsa, 2011; Renko, Sustic & Butigan, 2011).

Furthermore, the study established that it is costly for their customers to switch to another product. This shows that the buyers switching costs is a major factor to consider before the consumer switches to a substitute product. According to Bridwell and Chun-Jui (2005) the switching cost of a buyer to the substitute product is low. For instance, shifting from a proprietary, branded drug to a generic drug in most cases entails minimal costs which explain why the change to generics the fall in prices is so substantial and rapid. Strategists should be alert specifically to shifts in other industries that can be in a position to create attractiveness of the substitutes when they were not before. As indicated by Bonanno and Lopez (2009), substitute products or services not only reduce profits in normal times, they also decrease the bonanza an industry can reap in good times. The threat of a substitute increases provided it offers an attractive price-performance trade-off to the products in the given industry. Since the buyer’s switching costs are very high, it implies that there is much hindering the buyer from paying for the substitute products as an alternative to the supermarkets’ products. As a result, the threat of substitute products to the supermarket is low (Matsa, 2011; Renko, Sustic & Butigan, 2011).

Additionally, the study established that most customers are loyal to existing products. Loyalty with the customers for the supermarkets indicates that despite the presence of substitute products to supermarkets products the threat of the substitute products is insignificant to the products. These findings clearly show that products in the supermarket industry compared favorably to possible substitutes. However, it is not costly for customers to switch from one supermarket to another.

5.3.5 New entrants in the industry

In relation to new entrants in the industry, the study found that there are new entrants into the industry in the last two years. It also established that the new entrants in the last two years were Kassmart and Cleanshelf. According to Marques et al. (2000), frequently, new entrants to a business in most cases come along with an aspiration and new capacity to gain market share which exerts more pressure on expenses, prices and the rate of investment needed to compete.
Further, the study established that there were no government policies regulating entry into the supermarket industry. The government also has authority to restrict or even close in advance entry into the industries via licensing necessities and limitations on foreign financing (Neven et al., 2008).

In regard to statements in relation to the new entrants in the industry, it was established that there is a process or procedure critical to their business, there are high start-up costs for their business and that customers are loyal to their brand. Further, the study established that assets needed to run their business are unique. Also, the study established that a new competitor will have difficulties acquiring/obtaining needed inputs to compete efficiently and that a new competitor will have difficulties in acquiring/obtaining customers. While the major businesses have monetary resources to force their way into any industry, the immense capital prerequisites in specific fields restricts the likely group of entrants (Kukar-Kinney, Xia & Monroe, 2007).

The study established that there is a process or procedure critical to their business. this implies that there was low or no threat from new entrants. In addition, there are high start-up costs for their business. this implies that it was not easy for new entrants to venture in the supermarket industry implying that the threats to new entrants were low. According to Harvey (2000), the necessity to put in huge monetary resources so as to compete often discourages new entrants. Capital may be significant not only for fixed amenities, but also to create inventories, spread client credit and finance startup losses. The barrier is precisely vast if the capital is required for unrecoverable, thus harder-to-finance expenses, such as development and research or up-front publicity.

Also, the study revealed that customers are loyal to their brand. This indicates that despite the new entrants, the customers will not shift hence the threat of new entrants is minimal. The study also established that assets needed to run their business are unique hence low threat from new entrants. Also, the study found that a new competitor will have difficulties acquiring/obtaining needed inputs to compete efficiently hence posing low or no threat to the supermarkets (Neven et al., 2008).

In addition, the study revealed that a new competitor will have difficulties in acquiring/obtaining customers hence the competitor may not be a threat to existing supermarkets which are already established. Hence, according to the study, high initial
costs for starting a supermarket and the assets needed to run supermarkets are unique. Nevertheless, new competitor will not have difficulties acquiring/obtaining needed inputs to compete efficiently or have difficulties in acquiring/obtaining customers (Kukar-Kinney, Xia & Monroe, 2007).

5.4 Conclusion

5.4.1 Bargaining Power of Suppliers

The study concludes that there is a positive relationship between the bargaining power of suppliers and competition in the supermarket industry in Kenya. The study further concludes that it is not difficult for their suppliers to enter their business, that purchases from the suppliers represent a large portion of the suppliers business and that the supermarkets stock various brands from different suppliers hence reducing the power of suppliers. The study also concludes that there are a large number of potential input suppliers and that the supermarkets’ purchases ordinary products. It is further concluded that the supermarkets’ can easily switch to substitute products from other suppliers.

5.4.2 Bargaining Power of Consumers

The study concludes that there is a positive relationship between bargaining power of consumers and competitiveness within the supermarket industry in Kenya. The study established that bargaining power of consumers have an effect on the pricing and location of the supermarkets. Those supermarkets with high priced goods have low sales as consumer go to the next supermarket available with better pricing since most of them are closely located.

Additionally, the study concludes that it is difficult for customers to switch from their products to those of the supermarkets’ competitors. The study further concludes that the supermarkets do not have enough customers such that losing one is not critical to their success. It is further concluded that it would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products they provide, and compete directly with their supermarkets.

5.4.3 Threat of substitutes

The study concludes that there is a positive relationship between threat of substitutes and the competition in the supermarket industry in Kenya. The study therefore concludes that
there were threats of substitute in the supermarket industry. One notable threat was identified to be shopping malls. In addition, the study concludes that the supermarket’s customers are loyal to existing products.

5.4.4 Current Level of Competitive Rivalry

The study concludes that there is a positive relationship between current level of competitive rivalry and the competition in the supermarket industry. The study concludes that there are many competitors in the supermarket industry. Further, the study concludes that the studied supermarkets were serious competitors to one another. Further, the study concludes that price variations, promotions and improved customer service are the main strategies used in supermarkets and have increased competitiveness. In addition, the study concludes that the supermarkets’ products are unique, there are clear leaders in the market and that the supermarkets offer low fixed costs. Also, the study concludes that the supermarkets store their products to sell at the best times, that there are a small number of competitors in the industry and that it is easy for competitors to abandon their product.

5.4.5 New entrants in the industry

The study found that there is a positive relationship between new entrants in the industry and the competition in the supermarket industry. The study concludes that there are no government policies regulating entry into the supermarket industry. The study further concludes that there is a process or procedure critical to their business, there are high start-up costs for their business and that customers are loyal to their brand. In addition, the study concludes that assets needed to run their business are unique in such a way that a new competitor will have difficulties acquiring/obtaining needed inputs to compete efficiently. Also, the study concludes that a new competitor will have difficulties in acquiring/obtaining customers.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Bargaining power of suppliers

The study established that the suppliers to the supermarkets supply the same products to the competition. This study recommends that the relationship between the supermarkets and the suppliers be maintained healthy. This is because the suppliers have a high
bargaining power. Failure to do so will result in suppliers failing to supply for that particular supermarket giving their competitor the edge.

5.5.1.2 Bargaining power of consumers

The study further established that bargaining power of consumers have an effect on the pricing and location of the supermarkets. This study therefore recommends that future marketing and expansion plans by the managements of the supermarkets should address the pricing and location of the new branches. In addition, the pricing of current branches should be reviewed in accordance with the location. This is to say that those branches that are not strategically located should have low pricing than those that are strategically.

5.5.1.3 Threat of substitutes

In the supermarket industry, a notable threat was identified to be shopping malls. This study therefore recommends that supermarkets make plans to ensure they have branches located in virtually all shopping malls and that their prices within those malls are competitive enough to attract consumers. They should also offer after-sale services to the consumers given that the shopping malls are very competitive.

5.5.1.4 Current level of competitive rivalry

The study established that the studied supermarkets were serious competitors to one another. It is recommended that the thoroughly examine their internal and external environments to find sources of competitive advantage. Once they identify their competitive advantage over competition, they should utilize them maximally.

5.5.1.5 New entrants in the industry

The study established that there are no government policies regulating entry into the supermarket industry. This study recommends that the government imposes regulations for entry into the supermarket industry. This is because too many supermarkets will render the entire industry a non-feasible and disorganized industry with the suppliers taking advantage of the supermarkets. In addition, the supermarkets would not enjoy adequate sales for them to remunerate their employees as is required by the law.
5.5.2 Recommendation for further studies

This project was focused on analyzing competition between major supermarkets in Kenya using Porter’s model. It was further limited to the headquarters of the supermarkets in Kenya, which include Nakumatt, Uchumi, Naivas and Tuskys. This study therefore recommends that further studies be conducted to cover other major upcoming supermarkets in Kenya such as Ukwala and Kassmart. This will ensure that the findings obtained are representative of most players in the industry. Further studies should also be conducted on all other branches of the supermarkets and not just the headquarters.
REFERENCES


APPENDICES

Appendix I: Questionnaire

I am in my final year in United States International University Pursuing a Master of Business Administration. As part of the requirement for graduation, I’m undertaking a research Study on "the competitiveness in the supermarket industry in Kenya using porter’s forces". In this regard, I’m kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research.

General Information

1. Gender
   - Female [ ]
   - Male [ ]

2. State your highest level of education
   - Secondary School [ ]
   - College [ ]
   - University [ ]
   - Postgraduate [ ]

3. For how long have you been working in your organization?
   - Less than 3 years [ ]
   - 3 to 9 years [ ]
   - 9 to 12 years [ ]
   - Above 12 years [ ]

4. How do you rate the competitiveness of your organization as compared to other in the supermarket industry?
   - Excellent [ ]
   - Good [ ]
   - Moderate [ ]
   - Bad [ ]
   - Poor [ ]

Bargaining power of suppliers

5. Who are your main suppliers?
   ..................................................................................................................................................
   ..................................................................................................................................................
   ..................................................................................................................................................

6. Do your suppliers supply the same products to your competitors?
   Yes [ ]
   No [ ]

7. To what extent do you agree with the following statements in relation to the bargaining power of suppliers?
<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are a large number of potential input suppliers</td>
<td></td>
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</tr>
<tr>
<td>Their organization purchases ordinary products</td>
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<tr>
<td>Purchases from their suppliers represent a large portion of the suppliers business</td>
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<tr>
<td>It is not difficult for their suppliers to enter their business, sell directly to their customers, and become their direct competitor</td>
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<tr>
<td>Their organization can easily switch to substitute products from other suppliers?</td>
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<tr>
<td>Their organization is well informed about their supplier’s product and market</td>
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<tr>
<td>We stock various brands from different suppliers hence reducing the power of suppliers</td>
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</tbody>
</table>

**Current level of competitive rivalry**

8. Are there many competitors in the supermarket industry?
   Yes [ ] No [ ]

9. If yes name them.
   ............................................................................................................................
   ............................................................................................................................

10. Which strategies used by supermarkets have increased competition in the industry?
    ............................................................................................................................
    ............................................................................................................................
    ............................................................................................................................
11. To what extent do you agree with the following statements in relation to the level of competitive rivalry in the supermarket industry?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a small number of competitors in the industry</td>
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<tr>
<td>There are clear leaders in the market</td>
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<tr>
<td>The market is growing fast</td>
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<tr>
<td>We offer low fixed costs</td>
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<tr>
<td>We store their products to sell at the best times</td>
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<tr>
<td>Their products are unique</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>It is easy for competitors to abandon their product</td>
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</tr>
</tbody>
</table>

**Bargaining power of consumers**

12. In your view does the bargaining power of consumers affect the competitiveness of your organization?

Yes [ ] No [ ]

13. If Yes, how?

----------------------------------------------------------------------------------
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----------------------------------------------------------------------------------
14. To what extent do you agree with the following statements in relation to the bargaining power of consumers?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have enough customers such that losing one is not critical to their success</td>
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<tr>
<td>Their products represent a small expense for their customers</td>
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</tr>
<tr>
<td>Customers are well informed about their product and market</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Their products are unique</td>
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<td></td>
</tr>
<tr>
<td>It would be difficult for buyers to integrate backward in the supply chain, purchase from suppliers providing the products we provide, and compete directly with us</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>It is difficult for customers to switch from their products to their competitors’ products</td>
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</tbody>
</table>

**Threat of substitutes**

15. Are there any threats of substitute in the supermarket industry?

   Yes [ ] No [ ]

16. If yes, which one?

   ............................................................................................................................................................................................................................................
   ............................................................................................................................................................................................................................................
   ............................................................................................................................................................................................................................................
   ............................................................................................................................................................................................................................................
17. To what extent do you agree with the following statements in relation to the threat of substitute?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Their products compare favorably to possible substitutes</td>
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<td></td>
</tr>
<tr>
<td>It is costly for their customers to switch to another product</td>
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</tr>
<tr>
<td>Their customers are loyal to existing products</td>
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</tr>
</tbody>
</table>

**Threat of new entrants**

18. Have there been new entrants in the industry in the last two years?
   - Yes [  ]
   - No  [  ]

19. If yes, which one?
   ..........................................................................................................................
   ..........................................................................................................................
   ..........................................................................................................................

20. Are there any government policies regulating entry into the supermarket industry?
   - Yes [  ]
   - No  [  ]

21. If yes, name them
   ..........................................................................................................................
   ..........................................................................................................................
   ..........................................................................................................................
<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are loyal to their brand</td>
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<tr>
<td>There are high start-up costs for their business</td>
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<tr>
<td>Assets needed to run their business are unique</td>
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<tr>
<td>There is a process or procedure critical to their business</td>
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</tr>
<tr>
<td>A new competitor will have difficulties in acquiring/obtaining customers</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>A new competitor will have difficulties acquiring/obtaining needed inputs to compete</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>efficiently</td>
<td></td>
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</tbody>
</table>