

**AN ASSESSMENT OF VALUE CHAIN APPLICATION FOR VALUE  
CREATION IN E- RETAIL BASED BUSINESS**

**BY**

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**UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA**

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**AN ASSESSMENT OF VALUE CHAIN APPLICATION FOR VALUE  
CREATION IN E-RETAIL BASED BUSINESS**

**BY**

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**A Research Project Report Submitted to the School of Business in  
Partial Fulfilment of the Requirement for the Degree of Masters in  
Business Administration (MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA**

**SPRING 2017**

## STUDENT'S DECLARATION

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

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**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Dean, Chandaria School of Business**

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## **DEDICATION**

My special dedication to my lovely mother who is my pillar, and source of great inspiration.

To my supervisor Professor Paul Katuse, for the professional guidance which sailed me through the completion of this project.

## **ACKNOWLEDGEMENT**

First, and foremost I would like to thank the Almighty God for granting me strength, knowledge and peace.

My sincere gratitude and appreciation to my supervisor, Professor Paul Katuse for his valuable guidance, patience support and availability. Special thanks and appreciation to my family for their moral and financial support. My son Lema and daughter Naisula, and to my lovely husband Sitei you were my motivation to pursue my masters, your belief in me and the constant encouragement has finally paid off. Thank you I can't thank you enough may the Lord bless you richly.

## ABSTRACT

This project sought to assess the application of value chain for value creation in e-business based firms specifically e-retail business. The study was guided by the following specific objectives: To establish the extent to which primary activities are applied to create value by e- retail business, to assess the extent that support activities are used to create value by e- retail business, to examine the challenges associated with value chain activities for value creation and finally, investigate the strategies used to create value by e- retail business.

A descriptive research design was used for the study in particular reference to e-business in Nairobi Westlands. The study was undertaken using a sample of 136 in Nairobi e-retail business. The target population comprised of the senior, middle, and operational managers. Stratified random sampling technique was used to select the sample that was investigated for the purposes of this study. The population was stratified into low/operational-level, mid-level and senior-level management.

The sample size was computed using Yamane's (1967) formula. A qualitative approach was adopted to collect data using questionnaires that the researcher emailed and hand delivered. The obtained data was then interpreted with the use of the Statistical Package for Social Sciences (SPSS). Additionally, the study used both descriptive and inferential statistics to run the analysis of the data. The results and findings of the study were then represented in the form of tables, graphs and charts.

The study found out that primary and support value chain activities were critical in creating value of the products/services offered to the customers. Similarly, support activities such as human resource, procurement, information technology and service functions were equally important in creating value for the customers. The processes of creating value through value chain faced several challenges such as high costs, complexity, some of the managers did not have the right training and skills set. Thus it is suggested that e-retail businesses adopt some of the generic strategies such as cost leadership and differentiation as a way of creating more value for their offerings.

The study concluded that value chain activities could be used to create value for the customers. Thus application of the primary and support activities among the e-retail businesses creates value to the customers which in turn creates more market for the e-

retail businesses. The study also noted that the process of value chain is complex, costly, requires resources and competent managers. Thus it could discourage the value creation process of the e-retail businesses. The study recommended that e-retail businesses invest on efficiency provision to ensure that their activities are done to produce maximum output at the least cost possible. Also the study recommended that e-retail businesses differentiate their products to ensure their minimize competition and also retain customers.



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## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Study

Strategic management is the art of mobilizing resources and the science of formulating, implementing and evaluating decisions that enables an organization to realize its objective Clegg (2011). Firm attempts to carry out an internal analysis to be able to pinpoint its strategic competitive advantage before it implement any decisions Yabs (2010). According to (Volberda et al., 2011) understanding how to exploit competitive advantage is important for firms seeking to earn above-average returns since a firm without a competitive advantage or is not competing in an attractive industry earn at best average returns.

A firm is said to have a competitive advantage when it implements a strategy that competitors are unable to imitate or find it too costly to imitate Ireland (2013). It can also be mean the ability of a firm to outperform its rivals in a given industry (Volberda et al., 2011). Competitive advantage for a firm means more than just matching or doing more than what competitors can do rather it is discovering what customers want and then profitably satisfying, and even exceeding, their expectations.

The heart and soul of any strategy are the actions and moves in the market place that managers are taking to improve the firm's financial performance, strengthen its long term competitive position, and gain competitive edge over rivals. Competing in the marketplace with a competitive advantage tends to be more profitable than competing with no advantage and a company is almost certain to earn higher profits significantly when it has competitive edge (Thompson, 2010).

For a firm to survive and prosper in any given industry, it must supply that which customers want and also survive competition. According to Coulter (2010) a firm's overall competitive advantage derives from the difference between the value it offers to customers and its cost of creating that customer value. A firm can derive its competitive advantage through analysis of its core capabilities which includes value chain analysis (Milan, 2013).

The value chain analysis is a strategic tool to measure the importance of the customer's perceived value. Value chain activities allows firms to determine the strategic advantages of their activities and value-creating processes in the marketplace; hence value chain analysis becomes essential for assessing competitive advantage (Harmon, 2010). Value chain is a way of organizing the activities that each strategic business unit undertakes to design, produce, promote, market, deliver and support the product or service it sells (Schneider, 2009).

According to (Ireland, 2015);(Harmon, 2010);(Mintzberg, 2004). Porter portrays value chain activities as internal processes a firm performs to design, produce, market, deliver and support its product, he further suggests that a firm value chain and the way it performs each individual activities reflects its history, its strategic approaches to implementing its strategies and the fundamental economics of the activities themselves. The theory of value chain was developed by Michael Porter (1985) to describe how customer value accumulates along a chain of activities that result to end products or services. According to Yabs (2010) value chain approach divides the function of the firm into primary activities and support activities which in turn are divided into several other activities.

According to (Dess, 2010);(Pearce, 2009) Primary activities mainly involve transforming inputs into outputs, delivery of the output and after sales-support. Generally primary activities are also the line activities of the firm and they include: Inbound, logistics (receiving, storing etc.), Operation (transformation), outbound logistics (order processing, physical distribution), Marketing logistics and sales and Service (installation, repair etc.) and Support activities which exist to support primary activities and they include procurement, technology development, human resources management and provision of the firm's infrastructure including finance, accounting, general management and so on (Hill, 2013);(Schneider, 2009).

Additionally, Hough (2011) states that, understanding the value-chain enables decision makers to better understand and control the primary cost drivers and differentiate their services by capitalizing on their uniqueness drivers. Porter further states that a firm achieves its profit margins based on how the value chain is managed although some scholars criticize this model such as Merchant (2012) argues that Porters model does not

take into account the fact that differentiation and high profits can be achieved with modern technology even with minimal resources it is still relevant to today's business.

In today's changing business environment, there is an increased focus on delivering value to the customer at the cheapest possible costs. According to (Ireland et al., 2015) creating value for customers by completing activities that are part of the value chain often requires firms to build effective alliances with supplier and developing strong positive relationships with customers. The wide spread electronic linking of individual and businesses around the world has created an economic environment in which time and space are no longer limiting factors .as information is accessible than before traditional intermediaries are being replaced by new business intermediaries and buyers are becoming more powerful (Bremmen, 2014);(Napier, 2006).

Furthermore, Bremmen (2014) states that digital revolution has seen the setting up of online retail outlets from Amazon, EBay, Alibaba, and many others include upcoming African online retail such as Jumia, Kilimall, Olx, Pigieme, and so on. The world has literally moved to shop online enabling customers to enjoy the convenience of deliveries being made at their doorsteps Bremmen (2014). Retailers have also realised that sooner or later their physical stores will become irrelevant and customers will no longer walk in and out of their stores as they prefer to shop from home using the mobile applications installed in their Smartphone's and tablets (Admin, 2014).

Today Kenyan firms are realizing the tremendous opportunities courtesy of internet; these opportunities can lower potential risks and investment associated with building bricks-and-mortar stores. Value chain model application is vital for the success of e-business just like the offline stores as bringing a product from conception to end user the process is simplified by not involving many middlemen (Bremmen, 2014);(Teece, 2009). Offering different products online from different manufacturers, requires an effective and efficient value chain process to make these products available to the end user, thus the need for value chain activities application to create value in e-business (Friedman, 2006).

According to the report released by CNBS-Africa (2014) it indicated that e-business could account for 10 per cent of retail sales in Africa's largest economies by 2025. As technology continues to evolve in most African countries, the levels of online shopping will increase as well Bremmen (2014). This only means that many African businesses

will start to skip the traditional 'bricks and mortar' formal retail environment, and instead move straight into online shopping space due to the rise in mobile and internet services within Africa Bremmen (2014). Jumia, Olx and Kilimall e- retail business model are virtual merchant as they solely operate over the web. They can also be referred to as a mark-up based model type of business as their sources of revenue are derived through mark-up (Admin, 2014).

The e-business firms use online channels to exchange real products for real money. Online based businesses such as Jumia, Olx, and Kilimall buys and, resells goods made by other firms rather than manufacturing or assembling the goods themselves and sells them directly over the internet Admin (2014). E-business can be done by companies selling their products/services purely over the internet or some may sell using both internet and standard-bricks. According to Afuah (2003) this model has been used traditionally by wholesalers and retailers which is why some scholars such as Rappa referred to it as merchant model. Products can be sold by list prices or through auctions.

On the other hand, Teece (2009) asserts that value chain differs immensely across industries and firms. However, all firm must use value chain analysis to develop and manage a core competence that can be further converted into distinctive competence this is called competitive advantage Porters (2001). More firms can use value chain to gain and sustain competitive advantage by being efficient and effective along various parts of the value chain (Clegg, 2011).

Getting and keeping competitive advantage is essential for long term success of a firm. A firm may pursue competitive advantage which may lead to a success Dess (2010). To achieve competitive advantage a firm has to strive by continually adapting to changes in external trends and internal capabilities, competencies and resources by formulating effectively, implementing and evaluating strategies that capitalizes upon these factors (Hill, 2013).

An increasing number of companies are gaining competitive advantage by using the internet for directing, selling, and communication, with suppliers, customers' clients, and competitors who may be dispersed globally. E-business enable firms to sell products, advertise, purchase, supplies, bypass intermediaries track inventory, eliminate paperwork and share information (Hill, 2013);(Coulter,2010).



## **1.2 Statement of the Problem**

The e-business is still a growing and dynamic phenomenon in Africa and therefore there is a noticeable existence of limited academic research done on this field. The introduction of internet personal computers, smart phones and tablets has transformed the business environment globally Bremmen (2014). Today technology is enabling consumers and business alike to conduct transactions online with just a tap of a finger or a click of a mouse and the opportunities for shopping or purchasing both tangible products and services online are overwhelming (Friedman, 2006).

Technology has not only transformed the habits of consumers but ways of doing business as well including both value consuming side and value creating side as well. Therefore, there is need for more exploration to be done in this field especially in Kenyan market (Riaga, 2013).

According to (Fearne, 2012);(Hertzog, 2014);(Bhatnagar, 2009) a lot of research has been conducted in the field of value chain application and value chain analysis in the brick-mortar-type of business for value creation, (Ensign, 2001);(IMA, 1996). However little research has concentrated on value chain application to create value in e-business since this phenomenon is still new in African and more so in Kenyan economy. Therefore, this study is more of gap spotting than problem identification. In the words of David (2009) researchers and practitioners' alike desire to better understand in depth the nature and role of competitive advantage in various industries including value chain activities.

## **1.3 General Objective**

The General objective of this study was to assess the extent to which value chain model can be applied in e-retail business for value creation.

## **1.4 Specific Objectives**

1.4.1 To establish the extent to which primary activities are applied to create value by e-retail business

1.4.2. To assess the extent that support activities are used to create value by e- retail business

1.4.3. To examine the challenges associated with value chain activities for value creation

1.4.4. To investigate the strategies used to create value by e- retail business.

### **1.5 Significance of the Study**

This study is of significance and interest to various stakeholders. The study primarily affects the following;

#### **1.5.1 The Existing e- Retail Management**

Critical to a firm' growth and prosperity is gaining and retaining competitive advantage. If a company can gain a strategic advantage, then it can control its own destiny, and, to an extent it can gain a competitive advantage difficult for competitors to duplicate and stay in control for longer period.

This study is addressed to e-business retails and more specifically to all e-retail firms carrying out all their business activities purely online such as Jumia, Kilimall, Olx, Pigieme, Kenya Buzz, etc. management who head efforts in the application of value chain activities in their business operations.

#### **1.5.2 Potential upcoming e-Retail business**

This research will benefit both existing and upcoming e-businesses that wish to contact their transaction online. In addition, the study will benefit the potential businesses that are operating using convectional ways as they will have a solid basis to build up on when venturing into new avenues of doing business since, the framework, tools and technique presented in this study may apply to firms that use both e-business and brick and mortar as well.

#### **1.5.3 Academicians and Researchers.**

Academicians and researchers will benefit from the findings of this study in that the findings will further build onto the existing field of knowledge and offer insight on this topic. The study will also serve as a reference material for further studies on value chain application in other areas in the e-retail business or other related disciplines.

## **1.6 Scope of the Study**

The study was conducted in Nairobi specifically in Westlands, where some of the e-retail targeted has been operational for a period not more than eight years. The respondents were both senior and middle level managers of the e-retail businesses and other persons actively running the e-retail. They were expected to participate in filling in the questionnaires that was administered to them by the researcher using both emails and physical administration. The Data for this study was collected between Januarys to March 2017.

The limitation of this study was uncooperative respondents as the management from various organizations were not willing to disclose their value chain management processes or other confidential information that was needed to correlate with the study. To counter this, participants' management was assured of confidentiality of the information that was provided. To incentivize, the researcher also promised them a copy of the findings once the study was completed.

## **1.7 Definition of Terms**

### **1.7.1 Value Chain**

Value chain is a sequential process of value creating activities. This approach is useful for understanding the building blocks of competitive advantage (Dess, 2010).

### **1.7.2 Value Creation**

The customers 'perception of all the benefits of s product weighed against all the cost of acquiring and consuming the product is its value Etzel, et.al.(2007) Firms create value by innovatively bundling and leveraging their resources and capabilities (Hitt, 2009).

### **1.7.3 Value**

In competitive terms value is the amount that buyers are willing to pay for what a firm's offers them. A firm is said its profitable when the value it receives exceeds the total cost involved for consumers that exceeds the costs of production is a key concept used to analyze a firms competitive position (Hill, 2012).

### **1.7.4 E-Business**

The organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs through the facilities available on the internet (Pride, 2008).

### **1.7.5 E-Retail**

Companies that maintain online stores at which their customers can view merchandise and make purchases it's an example of business to consumer model (Napier, 2006).

### **1.7.6 Competitive advantage**

A firm has a competitive advantage when it implements a strategy that creates superior value for customers and that its competitors are unable to duplicate or find too costly to imitate. A firm can be confident that its strategy has resulted in one or more useful a competitive advantage only after competitors' efforts to duplicate its strategy have failed or ceased (Ireland, 2015).

## **1.8 Chapter Summary**

Chapter one commences by giving an overview of the value chain application not only in Kenya but the world as a whole. The chapter laid down a foundation for the research proposal by establishing that there is a research gap in value chain application for value creation in e-business based companies within Nairobi. This chapter covered the background of the study, statement of the problem, purpose of the study, research questions that were investigated on, significance of the study and the scope as well as the definition of terms.

This chapter presented the topic with the background of the study, statement of the problem, objectives of the study, and significant of the study.

Chapter two covered the review of current relevant literature on value chain application with the emphasis on Porter's value chain analysis model and his two generics competitive strategies and challenges associated with value chain application. The chapter reviewed papers both theoretical and empirical related to value chain and the grand strategies.

Chapter three explains the research methodology and procedures the researcher adapted to conduct the research in order to answer the research objectives raised in the first chapter. The chapter was organized in the following structure: the research design, population, sample, sampling procedure, and data collection tools and lastly the chapter summary.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the available literature relating to the specific objectives of the research highlighted in the previous chapter. The structure of this review is tailored to identify existing literature that has focussed on the objectives of this study. The chapter has been divided into four sections each focussing on the four research objectives. The last section gives the chapter summary.

An appreciation of previous work relevant to this study was beneficial in providing direction in the construction of data collection instrument, particularly in guarding against the risk of overload at the primary data collection stages of the research.

#### **2.2 Primary Activities Application for Value Creation**

Primary activities also known as Line functions are those activities involved in the physical creation of product, marketing and transfer to the end user. It basically involves transforming inputs into outputs and delivering them to the customer (Boddy, 2008).

Moreover Capon (2008) explains that primary activities are directly concerned with the manufacturing of a product or creation of a service and the delivery of both to customers' and in contrast support functions help in improving the efficiency and for effectiveness of the primary activities. Additionally this activity entails design, creation and delivery of the product, its marketing and its support and after-sale service. The primary activities are divided into five functions inbound logistics, operations, outbound logistics, marketing and sales, service in the core value chain creating directly value (Hill et al., 2012).

##### **2.2.1 Inbound logistics Function**

According to (Ireland et al., 2013);(Boddy, 2008) inbound logistics involve receiving suppliers (material handling), stock control, storing them and making them available for operations and production process. According to Capon (2008) inbound logistics are basically concerned with managing incoming materials and components, in other words inbound logistics are about ensuring incoming materials and components are delivered on

time, and undamaged, are easily accessible and link to production requirements, and feed into any JIT (Just-In-Time) stock control systems that the firm's operates. Therefore supplier relationship is a key factor in creation of value through procurement, storing, and distributing materials within the firm.

When expressed this way, Capon (2008) noted that most people may think that inbound logistics applies only to manufacturing firms however it also applies to service offering organizations which purchase goods and consumables to use in delivering services to customers. Inbound logistics for services firms may include how customers are dealt with when they arrive to experience the service offered and also how they are asked to queue on arrival. (Hill et al., 2012) noted that this function controls the transmission of physical materials through the value chain, right from procurement, through production and into distribution. The efficiency in which this function is carried out can significantly reduce the cost/ or lower cost therefore creating value (Hough, 2011).

### **2.2.2 Operations Function**

It includes all activities associated with transforming inputs into final products such as machinery packaging, assembly, testing printing and facility operations. A firm may use creatively environmentally friendly products as a way to employ operations to achieve competitive advantage. Operations may also involve activities such as efficient plant operations to minimize cost. Operation may involve use of appropriate level of automation in manufacturing, quality production control systems to reduce costs and enhance quality (Coulter, 2010);(Dess, 2010).

Operation involves deployment of different value creation activities an organization undertakes. Operational function can create value when these activities are used to transform inputs into outputs that are to be sold to customers Pearce (2009). Operations are concerned with creating products/services of an appropriate quality for the type of competitive strategy being pursued (Capon, 2008).Transforming inputs into the final product or service for instance machinery or packing (Boddy, 2008).

Likewise (Hill et al., 2012) states that the way to increase the firm profitability is through creating more value. The amount of value a firm creates is measured by the difference between its cost of production and the value that customers perceive in its products.

Generally the more value customers place on a firm's products the higher price the firm can charge for those products.

Additionally, operations of the firm can be thought of as a value chain composed of a series of distinct value creation activities including marketing and sales, production, material management, research and development (R&D), human resource management, information systems and the firm infrastructure. This value creating activities operations can be categorized as primary and support activities. A firm has to implement its strategy efficiently to position itself on efficiency frontier, it must manage these activities effectively and in a way that is consistent with its strategy (Hill et al., 2012).

Production as part of operation is concerned with the creation of a good or service for physical production. It means manufacturing of physical products while for service, production typically occurs when the service is delivered to the customer. Through production activities a firm creates value by performing its operations activities efficiently to lower costs, and by performing these activities in such a manner that a higher quality product is produced which results in higher value (Hill et al., 2012).

Also (Hill et al., 2012) says that Research and development (R&D) is concerned with the design of products and production processes. By using superior product design R&D can increase the functionality of product which makes them more attractive to consumers' i.e. raising value. In addition R&D may result in more efficient production processes, thereby cutting production costs such as lowering the production cost. Therefore R&D function can create value in both ways (Boddy, 2008).

### **2.2.3 Outbound logistics Function**

Outbound logistics involves taking delivery of the firm's final products storing them, and distributing them to the final user. It can also be viewed as activities that involves moving product to the customer such as collecting, storing and distributing and bringing customer to the venue if it's some services offering. (Boddy, 2008);(Dess, 2011) states that outbound logistics are those activities associated with collecting, storing and distributing these activities include finished goods, warehousing, material handling, delivery vehicle operations, order processing and scheduling .



These activities are about rapid accurate delivery of the product or service to the customer. For manufacturing firms this is concerned with managing the distribution system to ensure the right goods are in the right place at the right time for the customers. For retail firms outbound logistics may be concerned with location, opening hours and queuing systems (Capon, 2008).

#### **2.2.4 Marketing and Sales Function**

These activities are associated with purchases of products and services by end users and the inducements used to get them to make purchase. Boddy (2008) marketing and sales activities include advertising promotion, sales force, quoting channel selection, channel relations and pricing. (Dess, 2011);Coulter, 2010) asserts that it is not always enough to have a great product rather the main key is to convince the firm's channel partners that the best interest of the firm is not only to carry the firm's product offering but also to market it in a way that is consistent with the firm's strategy.

According to Capon (2008) this function of value chain is about promotion and advertising being closely tied into well-defined market segments and having a well-trained and knowledgeable sales force. This applies equally to products and services and is about informing and attracting customers. Decisions have to be made concerning the advertising media to be used such as press, magazine, television, radio or internet. Along the advertising decisions, the promotional activity for a product has to be decided

A combination of advertising and promotional activities is required to create and support a successful product. This combination of activities needs to create an awareness and interest in the product and acceptance of it by the targeted market Capon (2008).These are the processes which organizations are using to persuading clients to purchase from their organizations instead of other competitors. The benefits offered by firms', and how well they communicate with their resources, are the sources of value.

The marketing and sales activities are used to make consumers aware of the firm's product offering. It aims at assisting customers. Boddy (2008) asserts that marketing and sales involved finding out the potential customer requirement/needs and inform them of the product and services that can be offered.

According to (Hill et al., 2012) these functions of a firm can create value in various ways. The marketing function can create the value that customers perceive in a firm's product through brand positioning and advertising. Therefore if these activities create a favourable impression of the firm's product in the mind of a customer, the firm increases the price that can be charged for the product or service. Additionally marketing and sales function can also create value by discovering consumer unmet needs and communicating them back to the firm's research and development (R&D) function which then can design products that better match the specified needs (Capon, 2008).

### **2.2.5 Service Function**

The service function includes all actions associated with providing service to enhance or maintain the product value such as installation, repairs, training parts supply and product adjustment Dess (2010). According to Boddy (2008) service activity can be referred to as any requirement for installation advice before delivery and after sales service after the transactions are completed. It can also involve maintaining or enhancing the product by installation training repairs.

The main role of the firm's service activity is to provide after-sale service and support as well. The service function can create a perception of superior value in the minds of consumers through solving customer's problems and supporting them after they have purchased the firm's products (Hill et al., 2012). Services are supposed to be considered as an important aspect of primary activities, these are acting as catalyst, since they boost up the sales and also contribute significantly in achieving the market share. These are the activities related to maintaining the value of the firm's product or service to firm's customers, once it's been purchased (Bartol,1998);(Ireland et al., 2015).

### **2.3 Support Activities Application for Value Creation.**

Support activities of the value chain provided inputs that allow the primary activities to occur. According to (Hill et al., 2012) support activities can be as important if not more important than the primary activities of the firm in terms of competitive advantage attainment. Additionally all of these value chain activities are vital to the ability of the firm to create value that exceeds the cost of producing and delivering products and services to a customer (Bartol, 1998).

According to Porter to support the primary activities there will be an organization infrastructure that performs a number of support functions. These are classified as follows procurement, technology development, human resource, management, firm infrastructure supporting the value creation in the core value chain (Hill et al., 2012).this activities assist a firm as a whole by providing infrastructure or inputs that allow primary activities to take place on an on-going basis or to occur on daily basis (Etzel et al, 2007).

### **2.3.1 Human Resource Function**

This includes human resource activities such as the recruitment, training, rewards and personnel management of the people working for the organization Boddy (2008). Likewise Capon (2008) adds that a human resource activity is concerned with recruiting, managing, training, developing and rewarding personnel to enable the firm to achieve a competitive advantage. In addition the kind of structure the firm adopts will determine how the human resource activities will be performed.

A firm with decentralized and flexible structure will seek to recruit staffs that are able to work effectively with teams or on their own Yabs (2010). People are a significant source of value, so businesses can create a clear competitive advantage with good human resources practices. This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers (Hough, 2011).

This function can help firms create more value in several ways; it ensures that a firm has the right mix of skilled people to effectively perform its value creation activities. This function also ensures that staff personnel are adequately trained, motivated and also compensated to perform their value creation tasks (Hill et al., 2012).

Human resource coordinated process can enhance productivity and strategic flexibility which in turn create value and enable an organization to carry out its value chain strategies. For a firm to transform its input into more valuable output, it has to rely on the coordinated process which involves alignment of value chain activities that fits within the human resource functional areas (Etzel et al., 2007).

### **2.3.2 Procurement Function**

This function involves acquiring materials and other resources Boddy (2008), while Capon (2008) asserts that procurement is a process of acquiring and purchasing goods and materials of appropriate quality for all areas of the business. This includes finding of vendors and negotiating best prices with them. The organization does to get the resources it needs to operate. According to (Etzel et al., 2007) this function involves finding suppliers of the raw materials needed as inputs to the operations of the firm. It is responsible for negotiating quality supplies at an acceptable price and with reliable delivery.

Additionally, to Odom (2012) explains that Procurement practices are used in the logistics activities to support operational needs of the firm by focusing on how purchasing is done, how the product is received from suppliers, building relationships with vendors and managing the procurement process by identifying opportunities and managing internal operations. Currently much emphasis has been place on procurement activities as means of reducing costs during purchasing which leads to the best costs and value to its customers.

The success of the procurement function contributes to competitive advantage and eventually value is created as it is here that money is spent and significant costs incurred Odom (2012). Thus examining suppliers, their power, and the service they offer along with alternative supply sources and substitute products is vital for gaining the best deal on quality or cost as needed. A crucial consideration should be given to a main or key supplier going out of the business as he jeopardizes organization's ability to serve or supply its customers in turn (Capon, 2008).

The process of procurement of production materials and semi-finished products belongs to the process supply chain logistics, which is essential to ensure the production schedule. It is necessary to ensure that production material was supplied at the right time, at the right place and in the right quality. Purchasing and supply mainly related with the determining and ensuring needs and material resources for the effective operation of the production process (Stúr, 2013).

In most firms there is a separate department responsible for purchasing goods and materials that are used in the firms operation. The function of this department is to obtain

the lowest prices and highest quality of goods for the firms' activities it's only responsible for purchasing and not for the subsequent goods production (Lynch, 2009).

### **2.3.3 Technology Development Function**

According to (Pearce, 2013);(Boddy, 2008)technology development function includes the firm needs to update its production processes, training its staff and to manage its innovation to ensure that its products or its overall range of goods and services remain competitive. These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation (Boddy, 2008).

This function includes electronic systems for managing inventory, tracking sales, pricing products, selling products, and dealing with customer's service inquiries etc. (Hill et al., 2012) states that the information systems when coupled with communications features of the internet can alter the efficiency and effectiveness in which the firm manages its other value creation activities.

According to (Capon, 2008);(Thompson, 2010) a firm can use information systems to attain its competitive advantage over its rivals. For instance when a firm's customer places an order for desired firm products over the firm's website the information is immediately transmitted through the internet to the firm's suppliers who in turn configure their production schedules to produce and ship that product so that it arrives at the firms warehouse then transferred to the final user at the right time. Hill (2012) states that the use of information systems therefore can create value by helping firms reduce the amount of inventories held at their factories or warehouses which is a major source of cost savings. Firms can significantly reduce cost by combining logistics systems and information systems in their operations.

### **2.3.4 Firm Infrastructure Function**

These are a company's support systems, and the functions that allow it to maintain daily operations Dess (2010). The firm infrastructure activities that include; accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage (Hill et al., 2012). It can also be viewed as the

overall management of the organization that consists of both planning and accountancy. Boddy (2008) adds that firms' infrastructure consists of organizational structure, together with planning, financial and quality systems.

Likewise Hill (2012) states that this support activity is the firm's infrastructure or the context within which all the other value creation activities occurs. This function includes; the firms structure, control systems, and the firms culture. The top management should also be considered as part of the organization's infrastructure because they can exert considerable influence in shaping the organizations structure control systems and culture. Through strong leadership the top management can consciously shape the firm infrastructure and by so doing influence the performance of the firm's value creation activities (Hill et al., 2012).

According to Capon (2008) at the corporate level directors need to select the best structure for a firm effectiveness. In a firm operating in a turbulent environment will require decentralized and flexible structure if it is to develop an agile value chain which provides continual strategic fit between the firm and its environment. Organizations needs to also consider the diversity which can arise from products or services or geographic market .the firm can integrate its systems to enable the structure work efficiently hence achieving competitive advantage and value creation (Hill, 2012).

## **2.4 Challenges Associated with Value Chain activities for Value Creation**

The alignment of value chain activities for value creation has undeniable benefits. Most notable is the ability to reduce costs, which can have a significant impact on the viability of any business but when closely aligned value chain can be a complex, challenging process. Milan (2013), States that the value chain process is very robust and offers tangible, financial, and people-based benefits. Gooch (2010) States that the process eliminates unnecessary weight, and reduces unnecessary costs and more importantly it allows people to understand products, processes for continuous improvement.

### **2.4.1 Value Chain is a Complex model as it's difficult to achieve functions synergy**

According to (Hertzog, 2014);(Ball, 2010) a value chain is not just a linear flow of physical activities but it also includes all the information that flows within an organization, and between the firm and its suppliers, distributors, its existing and potential

customers. In planning and scheduling each of the firms' interconnected value chain activities effectively, it requires the synchronization and optimization of many moving parts that all interact dynamically, constantly complicated by daily variations, changes and disruptions (Ball, 2010).

Similarly Ball (2010) asserts planning and scheduling are all about making key business decisions to achieve customer satisfaction and business performance outcomes. All operational activities occur because of a business decision: a maintenance activity is planned, scheduled and executed by a series of decisions (Donovan, 2015).

Value chains today have a huge impact on organizations' operations, existence and the way they compete. According to Gooch (2010) without access to the necessary resources, developing a closely-aligned value chain can be a costly endeavour. Ball (2010) adds that particularly because of the changing individuals' behaviour and attitudes especially towards business practices, company policies, company values, production processes and relationships between partners it is a difficult and challenging process.

According to Haberberg (2008) the issues arising from analysis business value chain activities involves looking closely whether the firm is able to compete efficiently and effectively in its chosen market segment. Some of the issues include ways the organization can deal with poorly functioning value chain elements, or particularly effective ones. Hastings (2016) says that a firm has to consider issues such as whether it is located in the best place bearing in mind, the characteristics of its products and service, the location of suppliers and customers and whether proximity to them will lead to cost reduction or better supplies.

Additionally Haberberg (2008) states other issues related to value chain includes the manner in which the firm is going to respond to the availability of new suppliers, the firm challenge on its capabilities and resources or time and competences and resources to develop everything in-house compared to its rivals, or the decision to employ a different strategy as oppose to its competitors in order to survive or prosper.

According to Bordes (2009) the value chain can be a complex model to install in the company in the short run. For instance if the company is focused on the analysis of costs by activities should be analyse firms' cost structure, and this normally involves a lengthy and costly process Bordes (2009). Critics of the value chain pointed out that porters'

value chain analysis was difficult in identifying the discrete building blocks. In addition Hill (2012) asserts that without defining these building blocks carefully it is impossible to compare and contrast them with those of rivals or competitor and thereby seek ways of gaining competitive advantage.

On the other hand Ensign (2001) note that, every firm performs a variety of activities in transforming raw materials and primary goods into final products. The value chain analysis is a complex activity since it involves firm infrastructure activity which entails organizing production of firms' products. Human resources function such as selecting and training individuals to perform the operation process. Use technology development activity to improve firms' processes while employing procurement function to make key decisions on how many raw materials to purchase for the firms manufacturing process, and other operation activities, whereas Outbound Logistics involves moving firms' products to the end user and finally, engaging in marketing and sales activity to inform, persuade and remind customers of the firms products and also offer after sales services to the customers who purchased the firms' product which is a service activity (Essays, 2013);(Sheehan & Gamble, 2010).

In addition for an organization to increase product differentiation on employing differentiation strategy the firm will be forced to engage many resources and much time for the research. Keivanpour (2015) states that Porters' value chain model focuses primarily on the analysis of the tangible products meaning that this model does not specify anything for the services or intangible assets and the firm is always depends on the customer for its products. The customer decides whether or not to buy the product, if the firm is ready and willing to pay a higher price for that differentiation (Sheehan & Gamble, 2010).

The framework assumes that it is possible to achieve a clear separation of firms' operations into different primary and support activities Ruimei (2016). This may not be the case in reality bearing in mind the ever increasing level of complexity and difficulty of business operations in different industries. Furthermore application of the value chain model in practice can be excessively a time-consuming process, since it requires a comprehensive analysis of all business operations Ruimei (2016). Also sometimes it is difficult to find all the required information in order to conduct value chain analysis in an appropriate manner (Ruimei, 2016);(Essays, 2013).



#### **2.4.2 Value chain suits manufacturing environment more than service industry**

The main challenge that is associated with value chain concept is that it is more suited to a manufacturing environment than service and therefore it can be difficult to apply to a service provider or a service industry. The Value Chain Analysis was developed to analyse physical assets in product environments (Philip, 2013); (Fu, 2006) other authors amended the model to accommodate intangible assets and service firms. Additionally, Porter value chain model was intended as a quantitative analysis however, this is time consuming since it often requires incredibly the accounting system to allocate costs to individual activities (Fearne,2012).

In addition, when a company is conducting its value activities to generate a profit margin, it normally incurs different types of costs such as production costs. (Hill & Jones 2011) define these cost as those incurred during the physical or other primary processes necessary to create and distribute the goods or services being produced and relate to the primary activities and coordination costs include the relevant costs of the information processing necessary to coordinate the work of people and machines that perform the primary process (Clegg, 2011).

Furthermore, Spitzbeck, (2012) value chain is associated with the cost of coordination and flexibility cost as tangible interrelationships and interlinks offer direct opportunities to create a synergy among business units. For instance, if multiple business units require a particular raw material, the procurement of that material can be shared among the business units, thus this sharing of the procurement activity may result in cost reduction Netmba, (2010). Such interrelationships may exist concurrently in multiple value chain activities Balls (2010), says that unfortunately, the firms' attempts to achieve synergy from the interrelationships amongst different business units frequently fall short of expectations due to unanticipated drawbacks. The cost of coordination, the cost of reduced flexibility, and company' practicalities should be critically analysed when devising a strategy to garner the benefits of the synergies.

According to Balls (2010), implementation and interpretation of value chain analysis has a number of shortcomings. First, the internal data on costs, revenues and assets used for value chain analysis are derived from one period's financial information. For long-term strategy decision-making, changes in cost structures, market prices and capital investments from

one period to the next may alter the implications of value chain analysis. Hence, firms must ensure that the value chain analysis is valid for future periods. Otherwise, the value chain analysis must be repeated under new conditions. According to Figueiredo (2016) Identifying stages in an industry's value chain is limited by the ability to locate at least one firm that participates in a specific stage.

Additionally finding the costs, revenues and assets for each value chain activity sometimes presents serious difficulties. There is much experimentation underway that may provide better approaches Bhatnagar (2009). Having at least one firm operate in each value chain activity helps to identify external prices for goods and services transferred between value chains. Intermediate products / services with no external or competitive market information, transfer prices must be estimated on the basis of the best information available. Isolating cost drivers for each value-creating activity, identifying value chain linkages across, and computing supplier and customer profit margins present serious challenges (Niemela, 2013).

#### **2.4.3 Value chain is a costly process as it requires firms' resources and expertise analysis**

The use of full cost assumes that the full capacity of the value chain activity's facilities is used to get the costs Ball (2010). Plant manufacturing personnel and vendors of equipment are both great sources for capacity information additionally, they can be helpful in estimating the current or replacement cost of the assets Ball (2010);Taylor (2005) Independent companies, for valuation services for assets despite the calculation difficulties, experience indicates that performing value chain analysis can yield firms invaluable information for their competitive situation, cost structure, and linkages with suppliers and customers (Haberberg & Rieple, 2008).

Valuechain analysis offers firms' management immense opportunities to integrate strategic planning with other firms 'functions so as guide the firm growth and survival Hill (2012). This change in focus for management is necessary to maintain its critical role as the information profession. The most significant challenge for senior, middle and operational management is to recognize that the traditional, functional, internally oriented information system is inadequate or tire firm engaged in global competition(Coulter 2010);(Gooch 2010) Another challenge for value chain application is to bring the importance of customer

value to the forefront of management strategic thinking. For many managers and firms, this requires a great deal of education and awareness. Organizations' managers responsible for value chain management must take the initiative to get the value chain message to the major players of the firm (Ireland, 2015);(Clegg, 2011).

According to Milan (2013) although value chain analysis requires expertise in internal operations and information, it demands a great deal of external information as well. The firms' management must seek relevant financial and non-financial information from sources outside the company. Clegg (2011) adds that the managers responsible must integrate the firms' databases and potential sources of timely information on competitive forces confronting the business. This therefore, calls for innovation and creativity gathering and analysing information for management decisions (Gooch, 2010).

Designing internal and external information systems to assist managers in planning, monitoring and improving value-creating processes is another challenge facing firms' Information technology is improving daily but existing information systems are slow to change therefore the management must solicit support from all senior managers for allocating sources to develop and improve value chain-oriented information systems (Prajogo, 2010);(Barber, 2008).

According to Fearne (2012) value chain analysis requires the cooperation of all managers involved in value chain processes, such as engineers, designers, production managers, marketing managers and distribution managers. (Ball, 2010);(Lynch, 2009) states that leadership from the chief executive manager is vital to successful cooperation of manager. Moreover for the value chain analysis to succeed middle managers involved must ensure that the general manager is committed to value chain analysis and the firms' changes is necessary for its successful implementation (Coulter, 2010).

According to Auka (2014) Porter's value chain model emphasizes on manufacturing firms therefore it may not appear to be in appropriate for many business companies. Auka (2014) went on to say every organization has a range of primary and support value-creating activities to which value chain analysis applies nonetheless. If strategy is seen in the pursuit of competitive advantages the link between the formulation of service strategy and operational service delivery is vital (Prajogo, 2010).

Moreover Sheehan & Gamble (2010) asserts that the value proposition of the an enterprise is determined by a meta-level management process, which plans, coordinates and reviews the value creation process of the entire firm to achieve strategic and operational synergy. A function of this management process is to ensure that strategic synergy is maintained between the members of the organization by ensuring that the individual capabilities and competencies of each business unit is aligned with the value proposition of the extended enterprise. In achieving this strategic synergy, the value proposition of each business unit is likely to be different and difficult to implement (Phusavat, 2010).

Some of the future challenges associated with value chains are related to new demands from society, emerging market strategies, resource scarcity, risk proliferation and other issues Prajogo (2010). Anticipating and addressing these future challenges is crucial if companies are to survive and compete effectively (Sheehan & Gamble, 2010).

## **2.5 The Strategies Applied to Create Value.**

Michael Porter argues that the two basic strategies for creating value and attaining a competitive advantage are; low cost strategy and differentiation strategy Porter (2001). He terms the strategies as Generic strategies because they are applicable to a variety of situations; Bartol (1998) Porters suggest that superior profitability goes to those firms that can create superior values. He further elaborates that the way to create superior value is by driving down the cost structure of the business (Hill et al., 2012).

Porter's generic strategy model remains one of the most notable in the strategic management literature. An organization can maximize performance either by striving to be the low cost leader or by differentiating its line of products from those of its competitors; both of these two approaches can be accompanied by a focus of a firm efforts on a given segment of the market Boddy (2008). Any organization that fails to make a strategic decision to opt for one of these strategies is in danger of being "stuck in the middle". The organization in failing to decide, tries both to be the cost leader and differentiator and achieves neither, and in the process confuses consumers (Clegg, 2011).

To reach competitive advantage Porter formulates the two generic strategies for the value chain these are cost leadership and differentiation. These cross-value chain strategies

established a principle that competitive advantage can be reached only by managing the entire value chain activities as a whole including all involved functions Porter (1985). Value creation could be achieved by considering the resources and capabilities to attain differentiation or cost advantage which finally will be strategic element for value impartment, this model suggest that value can be created through incorporation of different strategies such as cost leadership and differentiation strategies (Ireland, 2013).

### **2.5.1 Cost Leadership Strategy**

This strategy focuses primarily on reducing production costs therefore called low-cost strategy Dess (2010). Porter argues that a firm has high profit when it creates more value for its customers and does so at a lower cost Ireland, (2013). A firm can create more value by either lowering its production costs or by making its products more attractively through superior design styling, functionality, and features reliability and so on (Ireland et al.,2015).

According to Griffin, (2010) this strategy calls a firm to focus on achieving highly efficient operating procedures so that that their costs are lowered than its rivals. A firm with a lowest cost has a clear and possible sustainable competitive advantage. This therefore allows the firm to sell its products at lower prices thus creating value to the customers (Fearne, 2012).

In reality low cost leaders achieve their position by sharing costs off every activity of the value chain as this strategy comes from attention to details (Haberberg & Rieple, 2008). According to Pearce (2009) the profit advantage gained from low cost strategy is obtained from the assertion that low cost should be able to sell their product in the market at an average price and if the products are not perceived as comparable or their performance is not acceptable to customers, then a firm using this strategy will be forced to discount prices in order to gain sales. However it should be note that low cost strategy does not usually imply a low cost price a firm could charge average prices and reinvest the extra profits obtained (Lynch,2009);(Gooch, 2010).

According to Clegg (2011) cost leadership strategy is based upon a business organizing and managing its value creating activities so as to be the lowest cost manufacturer of product within an industry. A successful cost leadership strategy is likely to rest upon a number of organizational characteristics. Attainment of a position of cost leadership

depends upon the planning of value chain activities. Most firms pursuing a low-cost strategy will typically employ one or more of the following factors to create their low-cost positions; accurate demand forecasting combined with high capacity utilization, economies of scale, technological advantages, outsourcing, or learning/experience effects (Ovidiu, 2010).

Low cost strategy emphasizes firm's efficiency so that the overall cost of providing products or services are lower than those of the rivals (Ball, 2010);(Bartol, 1998). A firm must pay careful attention to minimize necessary costs in all business aspects this includes; developing efficiency methods of production, keeping tight controls on overhead and administrative costs, seeking savings by procuring supplies at lower prices, and finally monitoring costs in other areas such as promotion, distribution, and services (Chen, 2016).

Low cost strategy enables a firm to charge low prices and therefore gains a competitive edge over its competitors. A firm can also lead above average profits as a result of higher profits margins and /or large sales volumes Gooch (2010). A firm could not only use cost leadership to achieve competitive advantage in a particular market or industry, it can also improve their product or services by offering value added products or service with the support of value leadership strategy to gain customer satisfaction Clegg, (2011). Even in a highly competitive situation, value added product or service will require a higher cost from the customers but still attain higher margins (Boddy, 2008).

The value added by customized products or services provide the customers with a unique or superior experience through the product/service features, quality, or after sale support Pearce (2009). The companies could also attain a benefit with this value added strategy, as the unique experience produced by this strategy could keep their customers from switching to other competitors Dess (2010). It is a common phenomenon that the prices a firm charge actually determine the level of satisfaction among its customers, than any other measure. The notion of creating value can provide another insight to the sources of customer satisfaction through cost leadership (Spulber, 2009).

In pursuing a cost based advantage, no firm can obviously ignore such product attributes as quality, service, and reliability Dess (2010). If it does, its offering may become so unacceptable that consumers will refuse to buy it or will buy it only if the price is reduced

to a level below what is needed to sustain profitability. A firm pursuing a cost based advantage must therefore strive to achieve some degree of quality parity or proximity with other firms that have defined the standards of product quality valued by customers (Clegg, 2011).

Low cost firms are often able to keep potential competitors out of the industry through their price cutting power, which can generate substantial obstacles to firms contemplating entry into the industry (Ball, 2010);(Pearce & Robinson, 2009). In other words, low cost leadership strategies, when effectively implemented and understood by potential entrants, constitute a very effective barrier to entry that governs industry rivalry. Low cost firms also have the advantage of being able to sustain price increases passed on by their suppliers (Coulter, 2010).

According to Hertog (2014) by operating at more cost efficient levels of production, low cost firms can more easily absorb increases in the prices of components or ingredients used in their products. Low cost firms also have the advantage of being able to sustain price increases passed on by their suppliers Boddy (2008). Cost leadership as a generic strategy does not imply that the company will market the lowest price product or service in the industry because quite often the lowest price products are perceived as inferior and as such appeal to only a proportion of the market (Thompson, 2010).

However, it should be noted that at equivalent or lower prices than its rivals, a cost leader's low cost position translates into higher returns Philip (2013). Porter, (1985) contends that cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales force, advertising among others.

In addition, (Ireland et al., 2013);(Bartol, 1998) asserts that even though the low cost strategy can aid an organization in creating more value by lowering its production costs this strategy is not without risks. For a firm to be effective, the low cost strategy usually requires a firm to be the cost leader, not just one of the several. The risks that come with it can be two or more business firms may be vying for the cost leadership engages in rivalry that might drive profits down to extremely low levels. (Pearce & Robinson, 2009);(Hill, 2012) Thus a firm must have a cost advantage that is not easily duplicated or

imitated and also stay abreast of new technologies that can alter the cost curve. Additionally firms must consider innovating products or services that are important to customers otherwise competitors using a differentiation strategy may lure the customers away with significant products or service improvement (Haberberg & Rieple, 2008).

### **2.5.2 Differentiation Strategy**

According to Bartol (1998) differentiation strategy involves attempting to develop products that are viewed as unique in the industry. This strategy is based upon persuading customers that a product is superior in some way to that offered by competitors. In differentiation strategies, the emphasis is on creating value through uniqueness, as opposed to lowest cost uniqueness can be achieved through service innovations, superior service, creative advertising, better supplier relationships leading to better services, or in an almost unlimited number of ways (Ovidiu, 2010).

A successful differentiation strategy allows firms to charge premium profits leading to above average profits. According to (Ireland et al., 2015) differentiations tend to have different forms such as brand image or design, technology, customer service, quality, features, and selections. With differentiation perception of product or service uniqueness are more important than the costs. However a firm cannot still afford to ignore costs Lynch (2009). A firm following differentiation strategy can create value through offering better levels of services to customers, better performance, and more luxurious materials. Lynch (2009) goes on to say that some customers will pay more for a differentiated product that is targeted towards them.

It is worth noting that the key to success in following this strategy is that customers must be willing to pay more for the uniqueness of the product or service than the firm paid to create it. Firms following a differentiation strategy can charge a higher price for their products. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product (Ovidiu, 2010).

Differentiation strategy focuses mainly on increasing the effectiveness of a product. A firm focuses on this strategy primarily when it wants to differentiate itself from its rivals (Yabs, 2010).



According to Porter (1985) a firm can create value by making its products more attractive through superior design, styling functionality, features, reliability, after-sales services and so on so that customers place a greater value on it as value increases and subsequently will be willing to pay a higher price as price increases. Differentiation strategy is another way of creating superior profitability and thereby creating superior value thus can be done by differentiating the firm's product in some way that consumers can value it more and be willing and prepared to pay a premium price (Hill et al., 2012).

Porter argues that superior value creation relative to competitors, (rivals) does not necessarily require a firm to have the lowest cost structure in a given industry or to create the most valuable product in the eyes of the consumers. However, it does require that the gap between value and cost of production be greater than the gap attained by rivals (competitors) (Hill et al., 2012);(Clegg, 2011).

According to Spitzack (2012) differentiation strategies are based on providing buyers with something that is different or unique, that makes the company's product or service distinct from that of its rivals. The key assumption behind a differentiation strategy is that customers are willing to pay a higher price for a product that is distinct (or at least perceived as such) in some important way. (Thompson & Martin, 2010) Superior value is created because the product is of higher quality, is technically superior in some way, comes with superior service, or has a special appeal in some perceived way.

Furthermore, Philip (2013) states that in effect differentiation builds competitive advantage by making customers more loyal and less price sensitive to a given firm's product. Additionally, consumers are less likely to search for other alternative products once they are satisfied. Bartol (1998) adds that differentiation may be achieved in a number of ways. Such as the product may incorporate a more innovative design, may be produced using advanced materials or quality processes, or may be sold and serviced in some special way. Often, customers will pay a higher price if the product or service offers a distinctive or special value or feel to it Dess (2010). Differentiation strategies offer high profitability when the price premium exceeds the costs of distinguishing the product or service (Philip, 2013).

Firms practicing differentiation seek to design and produce highly distinctive or unique product or service attributes that create high value for their customers. (Ireland, 2015)

says that within the firm, differentiation based sources of competitive advantage in value adding activities can be built through a number of methods. In almost all differentiation strategies, attention to product quality and service represent the dominant routes for firms to build competitive advantage.

The objective of a product differentiation strategy is to develop a position that potential customers will see as unique Bhatnagar (2009). If the target market of a business views the product as different from the competitors, the firm will have more flexibility in developing its marketing mix. Clegg (2011) states that, a successful differentiation strategy will move the product from competing primarily on price to competing on non-price factors such as product characteristics, distribution strategy or promotional variables. Hough (2011) argues that differentiation is an effective marketing strategy with an effect of enhancing customer satisfaction.

According to Porter, (1985) differentiation may generate superior performance for the reason that it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a low cost position. (Haberberg & Rieple, 2008) argues that the resulting customer satisfaction and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are there by reducing price sensitivity (Pearce & Robinson, 2009).

Finally, the firm that has differentiated itself to achieve customer satisfaction should be better positioned compared to substitutes of its competitors Porter (2001) differentiation creates value by enabling a firm to charge a premium price that is greater than the extra cost incurred by differentiation. A firm should concentrate on the improvement of service quality and customer involvement in order to satisfy their customers which would ultimately help the firm to retain its customers and improve performance (Gooch, 2010);(Milan, 2013).

The major advantage behind differentiation is that customers of differentiated products are less sensitive to prices Boddy (2008). In practical this attitude means that firms may be able to pass along price increases to their customers. Buyer loyalty means that successful firms may see a substantial increase in repeat purchases for the firm's

products. Differentiation strategy however, has some vulnerability associated with it. Such as if prices are too high, customers may choose alternatives that are less costly, even though they forgo some desirable features Bartol (1998);Boddy (2008). Additionally customer's needs and tastes can change therefore business firms that are using this strategy must carefully assess customers' shifting requirements. According to (Bartol, 1998);(Hough, 2011) differentiation strategy works best when the differentiation factor is important to the customers and difficult for competitors to imitate.

## **2.6 Chapter Summary**

The chapter highlighted the works of various scholars regarding the value chain application for value creation particularly the value chain activities appropriate for value creation, its' challenges and the alternative strategies that e- retail businesses can employ for their value creation activities.

The following chapter gives an insight into the various methodologies that was used to carry out the research on the stated problem beforehand. Chapter four presents the results and findings in charts, figures and graphs. Chapter five compared the literature studied with the results and came up with the discussions, conclusions and recommendations of the study.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter focuses on the research methodology that was adopted in assessing the value chain application for value creation in e-retail businesses. This section was organized in the following structure: the research design, the population and sampling design, sampling frame; sampling technique; sample size showing the distribution of the population; data collection methods; research procedures and the data analysis methods that will be used in the study and lastly the chapter summary.

#### **3.2 Research Design**

This study adopted a descriptive research design. Quinlan (2011) asserts that the main objective of a descriptive study is to present an accurate profile of persons, events, or situations. According to O’Gorman & Mancintosh (2014); Ngonjo & Sindani (2013) a descriptive research is concerned with the ‘who, when, where, what and how’ of a particular observed phenomenon. It attempts to describe the main characteristics or functions of the phenomenon. It is a framework that guides the collection and analysis of data. Cooper & Schindler (2014) describe the research design as a plan and structure of investigation formed to provide answers to research questions.

Additionally, Sloman (2010); Sekaran & Bougie (2013) holds that descriptive research is particularly advantageous because it involves direct observation of a phenomenon in a natural environment thus providing a means to gather baseline data around the phenomenon for future analysis. A descriptive research design was appropriate for such a study because, according to Ngonjo & Sindani (2013), it enables us to generalize the findings of the study to a larger population. Therefore, this design was adopted because it is the most convenient method in acquiring original data to describe a large population. The dependent variable was the value chain and independent variables in this study were obtained from the research specific objectives.

### 3.3 Population and Sampling Design

#### 3.3.1 Population

Cooper & Schindler, (2014) define a population as the total collection of elements that are to be investigated and to which we wish to generalize the results of the study. A research population represents the elements from whom the information required to answer the specific objectives obtained, and could include people, events, objects, households, firms, services, or other items of interest Saunders et al.(2016);Cooper & Schindler (2014).

The study will target a total population of 210 small and medium enterprises e-business based firms and concentrate on the firms' Senior, middle and operation managers in Nairobi County. The Table 3.1 below represent the population distribution.

**Table 3. 1 Population Distribution**

Strata	Target Population	% Distribution
Senior Management	50	24%
Middle Management	71	34%
Operational Management	89	42%
Total	210	100

**Source;** KPMG (2015).

#### 3.3.2 Sampling Design

##### 3.3.2.1 Sampling Frame

According to Cooper & Schindler (2014), a sampling frame is the working population or the list containing the population element of the study. A sampling frame is the complete list of all the cases in the population from which a probability sample is drawn (Saunders et al, 2016).

Furthermore Sekaran & Bougie (2013) asserts that sampling frame is a physical representation of all the elements in the population from which the sample is drawn. Sample selection from a defined target population requires the researcher to construct an

accurate sampling frame which ensures that the study will target the right population for investigation. In this study the sampling frame is the list of operation, middle and top managers in e-retail businesses in Nairobi. The list was obtained from KPMG database 2015.

### **3.3.2.2 Sampling Technique**

Stratified random sampling technique was used to select the sample that was investigated for the purpose of this study. Sekeran & Bougie (2013) contents that stratified random sampling involve a process of stratification or segregation, followed by random selection of subjects from each stratum. Stratification is considered to be an efficient sampling design which will be able to provide sufficient information with a selected sample size and the sample is selected without bias to ensure accurate information is obtained.

According to Saunders et al. (2016) stratified random sampling technique is best used when the population is heterogeneous. In this study, the stratification variable chosen was the level of management. Therefore the researcher stratified the study population into operational-level, mid-level and senior-level management. The motivation for stratifying this population is because each level of management may have different points of view in relation to the research specific objectives and it was therefore crucial to obtain and understand each of these perspectives. Additionally, each strata is homogeneous internally but heterogeneous with the other strata.

### **3.3.2.3 Sample Size**

According to Crossman (2012); Collis & Hussey (2009), a sample size is an unbiased subset that represents the population and is related to the size of the population under consideration. Saunders et al. (2016) argue that in the stratified random sample, the population is separated into non overlapping subgroups that cover the entire population.

An 80% response rate was expected which according to Sekaran & Bougie, (2013) is the acceptable rate for mail electronic questionnaires. A 95% confidence level is the conventionally accepted level for most business research Sekaran and Bougie (2013) and therefore it will be adopted for this study.

The sample size used for this study will be arrived at based on Yamane's (1967) formula below:

$$n = \frac{N}{1 + (e)^2}$$

Where, n = the sample size,

*N = the population size, and*

*e = the margin of error or the level of precision*

Therefore by using the formula above with a margin of error of 5 percent at a 95 percent confidence level, the calculation from a total population of 210 management staff yielded a sample size of 136. Table 3.2 below provides an explanation on how the sample of the respondents was arrived at.

**Table 3. 2 Sample Size Distribution**

Strata	Population	% Distribution	Sample Size
Senior Management	50	24%	22
Middle level Management	71	34%	48
Operation Management	89	42%	72
Total	210	100%	136

### **3.4 Data Collection Methods**

The primary data was collected using a structured questionnaire that was administered both physically and online via the Internet. According to Sekaran & Bougie, (2013) questionnaires represent a quick and cost-effective way of collecting information from a large, educated sample since it's easy and less expensive to administer. Use of a questionnaire for this study was therefore justified given the relatively large sample size. Additionally, the target respondents are uniquely qualified to provide the information required for the study through this research instrument. Finally, the use of questionnaire

was considered to be the most appropriate so that consistency was maintained in all the respondents.

The questionnaire was designed in consideration of the literature review in the area of study and the questions was structured; the questions was the same for all the respondents. There was both open ended and closed ended questions also the secondary data was used to supplement the primary data collected. Each of the respondents received the same set of questions just the traditional print questionnaires. The first part of the questionnaire covered the demographic information of the respondents while the subsequent parts focused on examining the four specific objectives and lastly the respondents' general viewpoint on value chain application in e-retail business.

### **3.5 Research Procedures**

A pre-test questionnaire was send via mail electronic questionnaires after sending a prior email to the respondents to inform of the intentions of the study, to 10 individuals such as owners or employees of the e-retail based enterprises from the sample size, so as to gauge the suitability of the questionnaire and ensured that no irrelevant question was presented in the questionnaire and hence assessed the content validity in addressing the research objectives.

Additionally this exercise was very useful in determining the appropriateness and understand ability of the questions, the amount of time it would take respondents to fill the questionnaire as well as the respondents' willingness and ability to answer the questions. The feedback that was received from the pre-test exercise confirmed adjustments and improvements to the questionnaire. The final questionnaire was then administered to the respondents online via the Internet.

An email communication was sent out to the respondents containing a cover letter and a link to the online questionnaire. The cover letter pointed out the purpose of the research, emphasizes the value of the research findings to the identified e-retail businesses and assured the respondents that all information that was provided was solely for academic purposes and that it was to be treated with strict confidentiality. Adequate time was given to the respondents to respond to the questionnaire, and finally, subsequent email reminders were sent to prompt those who were not able to complete the questionnaire on time.



### **3.6 Data Analysis Methods**

The data that was collected was edited first, and cleaned for completeness and consistency before being subjected to analysis. This study employed the Statistical Package for Social Sciences (SPSS) software to analyse the data by means of both descriptive and inferential statistics. Descriptive statistics including mean and standard deviations was used to analyse the quantitative data and capture the characteristics of the variables under study. Inferential statistics such as correlation specifically through ANOVA was used to test whether there existed differences among different e-retail businesses in the perceived application of value chain processes to create value. The findings was communicated using tables and figures to ease the data interpretation.

### **3.7 Chapter Summary**

This chapter describes the research methodology that was used to carrying out the study. It comprehensively covers the research design, the population of interest, sampling design including the sample size determination and distribution, the data collection methods, research procedures and the data analysis methods that will be use. The study adopted a descriptive research design targeting the operational, middle level, and senior management of e-retail businesses in Nairobi who bare the responsibilities of value chain application for value creation in their respective businesses. A sample of 136 respondents was selected through stratified random sampling technique. Data was collected through online questionnaires and analysed using SPSS.

The following chapters provide a detail analysis of the results and findings of this study, and summarise the logical conclusions and recommendations resulting from the same.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter is an implementation of the said procedures in chapter three on data analysis. This chapter discusses the response rate of the data collection to ascertain the level of reliability of the findings and representativeness of the data. This section is followed by the background information which highlights the characteristics of the retail business and the respondents who took part in the study. This is followed by a discussion of the study objectives using ANOVA tests and correlation test. The last section provides a summary of the chapter.

##### 4.1.1 Response rate

The researcher administered a total of 136 questionnaires to the e-retail businesses. Out of the 136 questionnaires, a total of 80 questionnaires were filled and collected and used for analysis representing 58.8%. The rest were not used in the analysis because they were not responded to accounting to a 41.2%. Thus the response rate of the study was 58.8% which according to Mugenda and Mugenda (2003) is adequate for a study.

**Table 4. 1 Response rate**

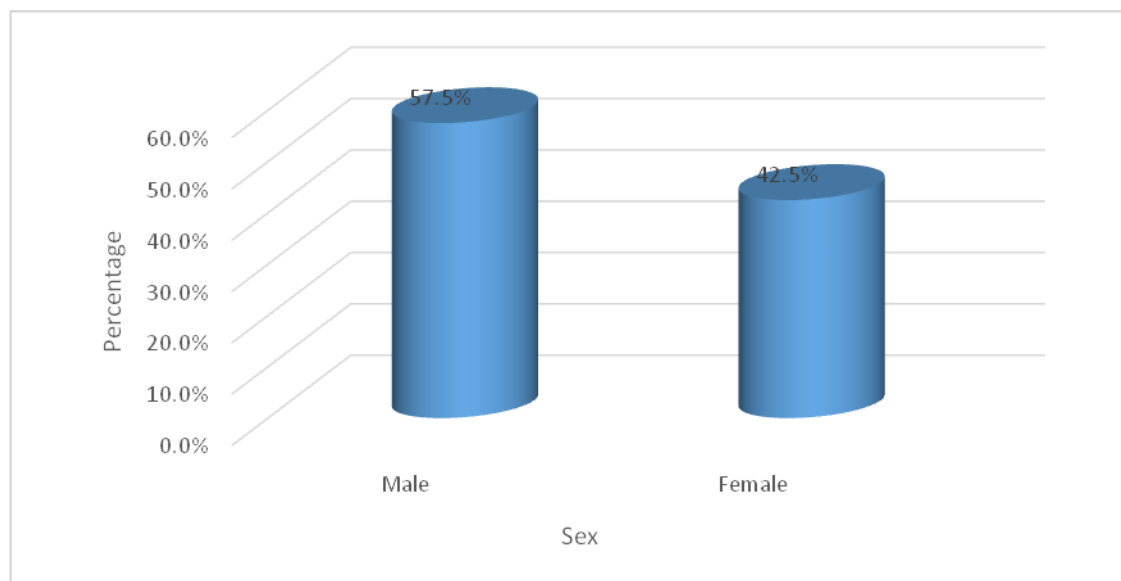
Questionnaires	Number	Percentage
Filled and collected	80	58.8%
Un-Collected/unfilled	56	41.2%
Total Administered	136	100

#### 4.2 Background information

This section provides a discussion of the background information to bring the reader into perspective with the study background and the type of respondents.

#### 4.2.1 Gender of the respondents

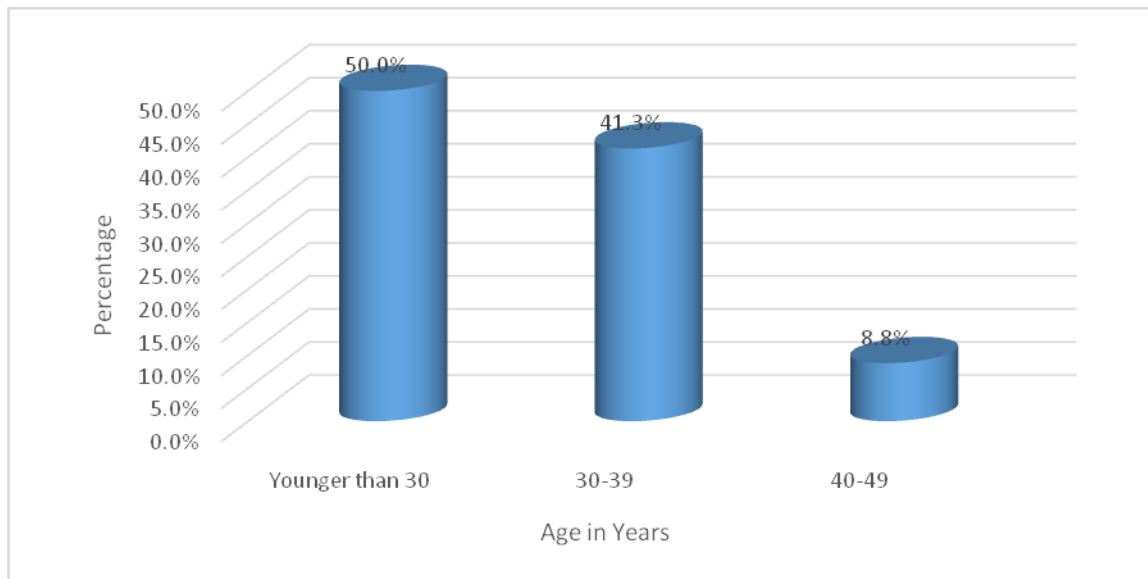
Gender aspect is becoming increasingly important in daily lives. There is a shift towards gender balance considerations in all undertakings. The study targeted managers of e-retail business of which 57.5% were male and 42.5% were female. From the figure, although the male respondents were more than female respondents, both were adequately represented. This implies that information collected had views of both male and female managers and was not significantly skewed towards male population.



**Figure 4. 1 Gender of the respondents**

#### 4.2.2 Age of the respondents

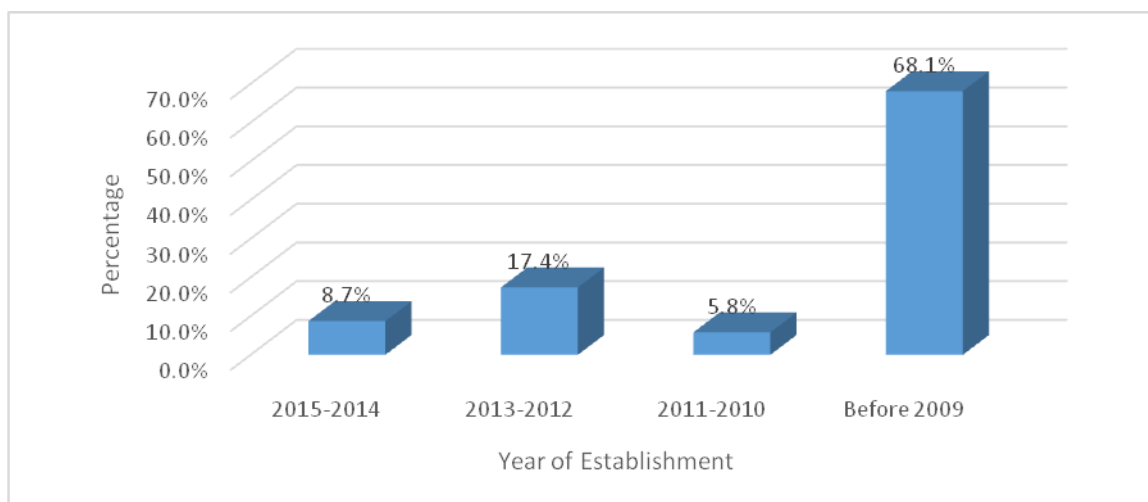
The age of a person is an indicator of several things. Age can be used to determine the maturity of a person or experience of a person. In this study, 50% of the respondents were younger than 30 years, followed by 41.3% who were aged between 30-39 years and lastly 8.8% who were between 40-49 years. This shows that most of the respondents were young people. This may imply that most of the e-retail businesses are managed by young people. This may be attributed to the fact that young are more digital-oriented compared to the old. The proportion of managers aged between 40-49 years was only 8.8% which shows that e-retail business was rarely operated by aged people.



**Figure 4. 2 Age of the respondents**

#### 4.2.3 Year of establishment

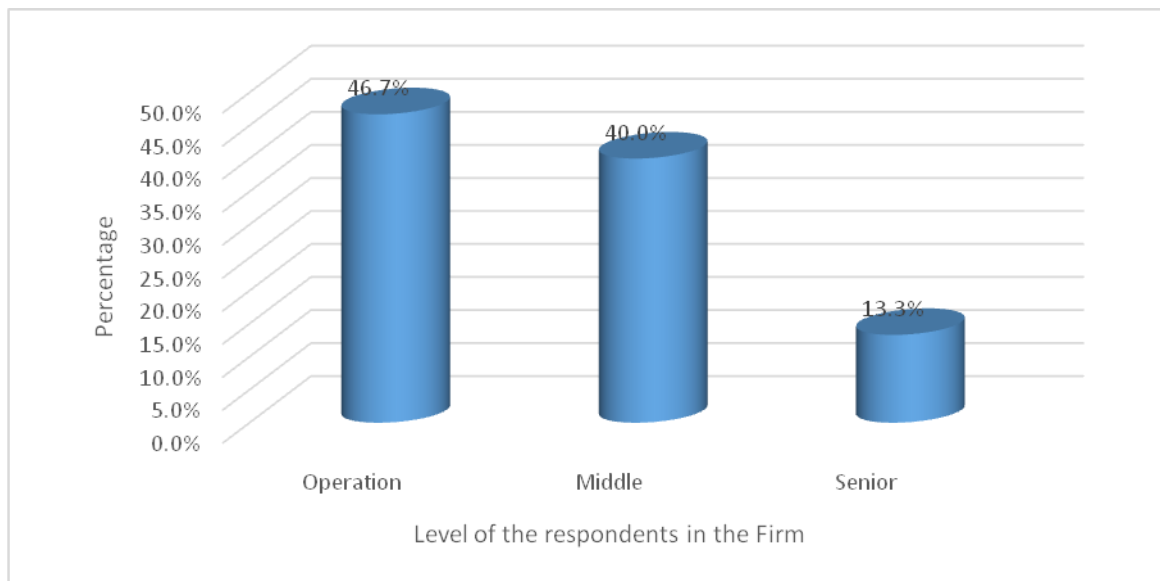
The year of establishment is useful in determining the relative experience of a firm. Old firms have experience and have positioned themselves well in the market. Such firms may have competitive edge in the market over the new ones since they are already well known although it depends on the performance of such firms since they were established. In this study, 68.1% of the respondents' businesses were established before 2009. This is followed by those established in year 2012-2013 (17.4%). The results shows that majority of the businesses were established long before year 2009. However, it should be noted that some of the businesses were originally not e-retail businesses but were later changed into e-retail businesses.



### Figure 4. 3 Year of establishment

#### 4.2.4 Level in the firm

The level of a person in a business or a company is useful in data collection. A CEO would more likely give strategic approach of an organization while the functional managers are more likely to give details on the operational information. The research targeted senior, middle and operational managers. According to the findings, most of the respondents were operational managers (46.7%) followed by middle level managers (40%) and lastly senior managers (13.3%). This is a true reflection of the numbers of the senior managers to the middle and lastly operational in a normal organizational structure. The high number of operational managers was an advantage as it gave an opportunity to many operational managers to respondents to issues related with their daily work activities.

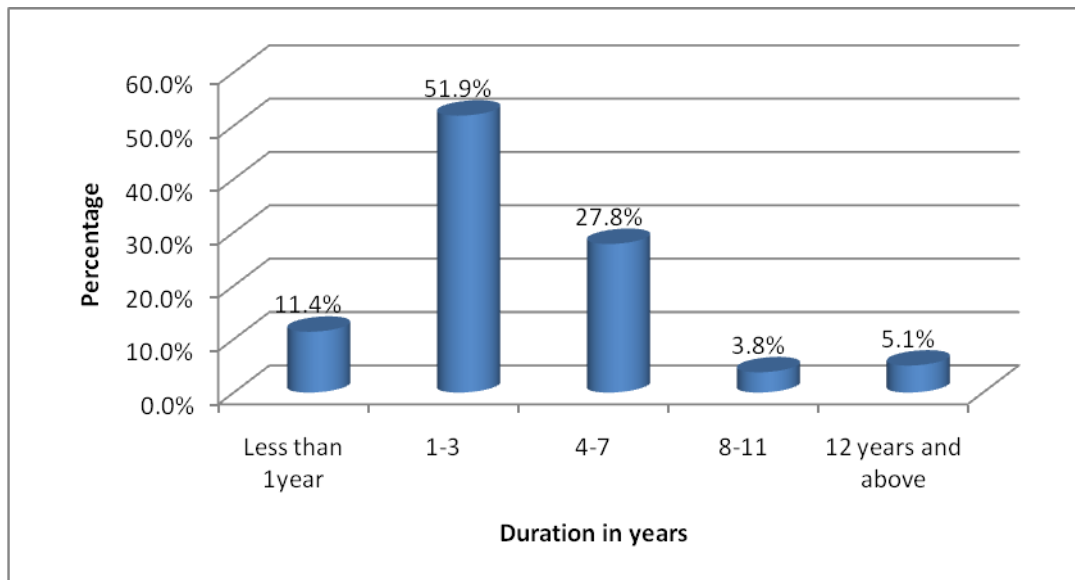


### Figure 4. 4 Level in the firm

#### 4.2.5 Experience with the firm

The researcher collected information on the number of years the respondent's had worked with their current firms. The study shows that 51.9% of the respondents had worked with their current companies for 1-3 years, 27.8% had worked with their current companies for a period between 4-7 years and thirdly 11.4% had worked with their current companies for less than one year. The least number of respondents (3.8%) had worked with their

current companies for 8-11 years. This could possibly imply that the e-retail business face high turnover rate.



**Figure 4. 5 Experience with the firm**

### **4.3 Extent to which primary activities are applied to create value by e- retail**

#### **4.3.1 Descriptive statistics**

This section discusses the findings on the extent to which online e-retail businesses apply primary activities to create value in their businesses. The data was collected in a 5-point likert scale as indicated at the bottom of the table. The data was analysed using descriptive statistics which include median, mode, skewness and interquartile range. The median was used to calculate the central value (average) or the likeliest rating of an indicator. The mode was used to show the most frequencies of the indicators and skewness the extent of dispersion of the data. Lastly, the study used interquartile range to determine the extent of variability of the responses. Small values of the interquartile range indicated less variability and consensus of the responses on a particular indicator while a large value indicates high variability and high consensus.

From the results, most of the respondents (46.2%) felt that primary activities were important in creating value chain for the e-retail businesses to a great extent (mode=4, median=4). The distribution was skewed negatively showing that a substantial number of most of the respondents (43.6%) felt it was important in creating value to a very great

extent. Majority of the respondents (60.3%) indicated that primary activities helped firms to identify their competitive advantages to a great extent. The mode and the median were 4 (Great extent) while the skewness was -1.2 implying that most of the respondents felt that such activities helped to identify competitive advantages to a very great extent. The average rating of the extent to which primary activities helped businesses to create value was 4 representing a great extent. This was also supported by majority of the respondents (53.8%) who indicated that primary activities adds value to the final products of the business. The results further shows that, 42.9% of the respondents rated that inbound logistics were used by certain businesses to create value to a great extent. This was followed by 20.8% of the respondents who rated that inbound logistics were used by e-retail businesses to create value. The median was 4 indicating that on average such inbound logistics created value for the businesses to a great extent.

Several primary activities in value chain were pursued by different e-retail businesses. Firstly, most of the respondents (44.7%) indicated that their businesses to a very great extent tried to create value for their businesses by performing its operations efficiently. The median was 4 indicating that on average the e-retail businesses pursued efficiency in value chain to create value for their businesses. Majority of the respondents (52.6%) indicated that indicated that outbound activities created value for their businesses by managing their distribution system. The median was 4 indicating that on average outbound activities help to manage distribution which create value for their businesses.

The respondents generally (52.6%) indicated that marketing and sales function created value for their businesses to a very great extent especially. The median value was 4 and the IQR was 1 implying that there was consensus among respondents on the variable. The distribution was not normally distributed (Skewness=-1.3). Further, the marketing and sales function created value by discovering customer needs and communicating with R&D to a great extent according to most of the respondents 44.9%.

Approximately, 44.2% of the respondents indicated that the service function enhanced value in their firms by solving customer problems and also by extending some support services after the purchase of the products. The median was 4 showing that the most of the businesses service function create value to a great extent. This was also shown by the skewness which was -1.2 further showing that most of the high values were more on the right side. Thus after-sales-support services were valued by the e-retail business as a way

of creating value for their firms. Lastly, 47.4% of the respondents indicated that managers could analyse primary activities separately to identify the specific activities that add value to their businesses.

**Table 4. 2 Extent to which primary activities are applied to create value**

Primary Activities	1	2	3	4	5	Median	Mode	Skewness	IQR
Primary activities application is important for value creation	2.6		7.7	46.2	43.6	4	4	-1.7	1
Primary activities allow firms to better identify their competitive advantage	1.3	1.3	10.3	60.3	26.9	4	4	-1.2	1
Primary activities application enable firm to add value to its final product	1.3	2.6	5.1	53.8	37.2	4	4	-1.5	1
Firms create value through inbound logistics	10.4	7.8	18.2	42.9	20.8	4	4	-0.8	1
Firms create value by performing its operations activities efficiently	0	1.3	14.5	39.5	44.7	4	5	-0.7	1
Outbound create value by managing the distribution system	2.6	0	14.1	52.6	30.8	4	4	-1.3	1
Marketing and sales function create value that customers perceive in a firm's product	1.3	1.3	9	52.6	35.9	4	4	-1.3	1
Marketing and sales function create value by discovering customer needs and communicating back to the firms R&D function	1.3	2.6	10.3	41	44.9	4	5	-1.3	1
Service function superior value in the midst of consumers through solving customer's problems and supporting them after purchase of products	2.6	2.6	15.6	44.2	35.1	4	4	-1.2	1
Manager's ability to identify activities adding value by analyzing the separate primary activities in the value chain	1.3	1.3	13.2	47.4	36.8	4	4	-1.1	1

**KEY: 1=No extent , 2=Low extent, 3=Moderate extent, 4=Great extent , 5=Very great extent**

### 4.3.2 ANOVA test

The study did an ANOVA test to determine whether new and old e-retail firms had significant differences on how they applied their primary activities to create value chain. From the results, the F statistic was given  $F(3,63)=0.593$ ,  $p=0.622$ . Thus there was no significant difference on how recently established e-retail businesses and the old e-retail businesses applied the primary activities to create value for their businesses.



**Table 4. 3 ANOVA test-How different firms apply primary Value chain activities in creating value**

**ANOVA**

Primary

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.717	3	.239	.593	.622
Within Groups	25.394	63	.403		
Total	26.112	66			

#### **4.4 Extent to which support activities are used to create value by e- retail business**

##### **4.4.1 Descriptive statistics**

This section discusses how e-retail business use support activities to create value for their businesses. The data was collected on a 5-point likert scale and was analysed through descriptive statistics such as median, mode, skewness and interquartile range. From the findings, most of the respondents (47%) of the respondents agreed that application of support activities helped their businesses to a great extent in attaining competitive advantage for their business. The mode and median was 4 indicating that on average the respondents felt that support activities helped e-retail businesses to gain competitive advantage to a great extent. The interquartile range was less than 1.0 showing less variation and consensus. The support activities according to 43% of the respondents were vital to a very great extent in creating value for the businesses. The mode was 5 indicating that most of the respondents felt it was vital to a very great extent. However, the median was 4 implying that on average the respondents felt that support activities were vital in creating value to a great extent.

According to 51% of the respondents, people are very significant to a business while creating value. The mode and median was 5 implying that in general the respondents rated the importance of people in creating value to very great extent. Also, the respondents on average agreed that having the right mix of skilled people was important to effectively carry out value creation activities (median=5).Also a big percentage of 66% indicated that having adequately trained, motivated and well compensated staff was important in creating value for the businesses. In general, the results shows that

respondents feel that having the right mix of skills set, well trained, motivated and well compensated staff was very important in creating value for the e-retail businesses.

The results shows that most of the respondents (48%) held that procurement function facilitated value creation process to a great extent by ensuring materials were availed at the right time, place and of the right quality. There was also a general consensus that use of IT systems created value for the e-retail businesses to a great extent (median=4). Approximately, 49% of the respondents held the view that support service function could create perception of superior value in the minds of the consumers. The median was 4 indicating that on average, the respondents felt service function could create value in the minds of the consumers to a great extent. The results shows that support activities such as human resource, procurement, information technology and service functions were very significant in value creation.

Majority of the respondents (54%) stated that having strong leadership could influence the performance of the value creation activities to a very great extent. The median was 5 indicating that strong leadership could influence the performance of value creation activities to a very great extent. As a way of creating value, majority of the respondents (54%) were of the view that senior managers were obliged to develop agile value chains to have a strategic fit between their firms and the environment. The median value was 5 which implies that the general perception was that senior managers had a duty to ensure that the firm and the environment were strategically linking well.

**Table 4. 4 Descriptive statistics –Support activities as a way of creating value**

<b>Support Activities</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Median</b>	<b>Mode</b>	<b>Skewness</b>	<b>IQR</b>
Application of support activities is important in attainment of firm's competitive advantage	0	1	12	47	40	4	4	-0.7	1
Support activities are vital to the ability of the firm to create value	0	1	13	42	43	4	5	-0.7	1
People are a significant source of value	0	1	8	40	51	5	5	-1.0	1
It is vital for firms to ensure that they have the right mix of skilled people to effectively perform its value creation activities	0	3	3	34	61	5	5	-1.7	1
For value creation have staff personnel that are adequately trained ,motivated and compensated	0	1	7	26	66	5	5	-1.6	1
Procurement function is necessary to ensure that production material was supplied at the right time, place and quality	0	5	7	48	40	4	4	-1.1	1
Application of information systems creates value	0	7	10	47	36	4	4	-0.9	1
Service function can create a perception of superior value in the minds of consumers	0	3	9	40	49	4	5	-1.0	1
Strong leadership can influence the performance of the firms value creation activities	0		8	39	54	5	5	-0.8	1
Senior managers must develop agile value chain which links the firm and the environment	0	1	6	39	54	5	5	-1.1	1

**KEY: 1=No extent, 2=Low extent, 3=Moderate extent, 4=Great extent, 5=Very great extent**

#### **4.4.2 ANOVA test**

Table 4.5 shows ANOVA test on the application of support activities to create value across e-retail businesses established under different years. The ANOVA test was run to test whether there were any significant statistical differences among business formed in years and with different experiences. The Fisher distribution  $F(3,63)=1.584$ ,  $p=0.202$  was found to be insignificant ( $p>0.05$ ) meaning that there was no significant differences on how different e-retail businesses applied support activities. Thus all the business whether old or new pursued use of support activities to create value at almost equal extents.

**Table 4. 5 ANOVA- Support activities**

**ANOVA**

support

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.400	3	.467	1.584	.202
Within Groups	18.563	63	.295		
Total	19.963	66			

**4.5 Challenges associated with value chain activities for value creation**

To understand better the operational environment of the e-retail businesses, the researcher collected information on the challenges facing e-retail businesses in their quest to create value for their customers. The data was collected and analysed through descriptive and ANOVA test.

**4.5.1 Descriptive statistics**

Several challenges facing e-retail businesses were stated by the respondents at the time of the study. Firstly, majority of the respondents (53%) had the opinion that value chain was a complex process involving information flows within an organization, with the suppliers, distributors and existing customers and potential ones. Most of the respondents (42%) also highlighted that the value chain process was complex as it entailed organizing, production of products with limited resources with a cost minimization motive in mind. The median was 4 meaning that in general, the respondents felt that value chain model was further complicated by the activities such as maximization of output with respect to a given set of resources.

Approximately, most of the respondents (35%) cited complication challenges associated with the installation of the value chain in the short run. The median was 4 implying that on average, the complication challenges affected value creation in the short run to a very great extent. The e-retailers also faced challenges associated with the coordination and flexibility costs to a great extent (Median =4). A substantial proportion of respondents (32%) held that it was difficult for a value chain to be applied in service industry as opposed to a manufacturing industry. In the view of most respondents (39%), the value chain process was costly to the businesses since it required both complex analysis and

time. This view had a median value of 4 implying that money and time costs associated with the value chain support processes affected the value creation processes to a great extent.

The study also noted that on average the respondents (Median=4) felt that long term decisions, changes in costs structures, market prices and capital investments from one period to another to a great extent altered the implications of value chain analysis. A substantial number (44%) of the respondents indicated that efforts to bring out the importance of customer value to the management strategic thinking required education and awareness which had some costs implications. The median value was 4 implying that the cost implications affected the value creation to a great extent.

From the results also 46% of the e-retail businesses also faced a challenge in designing internal and external information systems meant to assist them in planning, monitoring and improving value-creating processes. This challenge affected their ability to create value to a great extent (Median=4). Lastly, 49% of the respondents indicated that value chain processes involved managers and experts such as engineers, designers, production managers among others whose commitment levels differ and leading to reduced chances of success.

**Table 4. 6 Descriptive statistics- challenges**

<b>Challenges</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Median</b>	<b>Mode</b>	<b>Skewness</b>	<b>IQR</b>
Value chain is a complex process	0	5	16	53	26	4	4	-0.6	1
Value chain is a complex activity	0	6	19	32	42	4	5	-0.7	2
Value chain is complicated to install in the short run	4	13	27	35	21	4	4	-0.4	1
Value chain is associated with coordination cost and flexibility cost	3	7	20	45	25	4	4	-0.8	2
Value chain is more suitable in a manufacturing environment and difficult in the service industry	8	14	18	32	28	4	4	-0.6	2
Application of value chain is excessively time consuming	4	8	22	39	28	4	4	-0.8	2
Long term decision making strategies may alter the implications of value chain analysis	0	4	21	42	33	4	4	-0.5	1
Value chain requires a great deal of education and awareness which can be costly	0	8	15	44	33	4	4	-0.7	1
Value chain requires managers to design internal and external information system which could be a challenge	0	4	13	37	46	4	5	-0.9	1
Value chain requires cooperation of all managers involved in the process and may fail if they do not show commitment	3	3	13	33	49	4	5	-1.4	1

**KEY: 1=No extent, 2=Low extent, 3=Moderate extent, 4=Great extent, 5=Very great extent**

#### **4.5.2 ANOVA Test-Age of the e-retail businesses and challenges facing them**

The researcher did an ANOVA test to establish whether there were any significant differences on challenges facing the e-retail businesses based on the age of the businesses. The F statistic was given as  $F(3,63)=3.221$ ,  $p=0.028$  showing that there existed some significant statistical differences among the e-retail businesses based on their ages. As a result a post hoc analysis was done to establish the differences.

**Table 4. 7 ANOVA Test- Challenges facing e-retail business**

**ANOVA**

challenges

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	4.770	3	1.590	3.221	.028
Within Groups	31.096	63	.494		
Total	35.866	66			

### 4.5.3 Post Hoc Analysis

The post hoc analysis was done to establish further how the extent to which such business experienced challenges in their pursuit of value creation. The result shows that the challenges affected all the business in the market regardless of the year of establishment. However, the challenges were more severe to the business established in 2013-2012 compared to those established before 2009. This shows that those business which had been established before 2009 faced the challenges but were not hit hard like those which were established recently. This could perhaps be associated with the fact that old businesses had experience and learned ways of avoiding, minimizing or addressing some of the challenges compared to the new ones.

**Table 4. 8 Post Hoc Analysis-Challenges facing e-retail businesses and ages**

(I) Year of establishment	(J) Year of establishment	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
2015-2014	2013-2012	-.41667	.35128	.240	-1.1186	.2853
	2011-2010	.20833	.45350	.648	-.6979	1.1146
	Before 2009	.28333	.30534	.357	-.3268	.8935
2013-2012	2015-2014	.41667	.35128	.240	-.2853	1.1186
	2011-2010	.62500	.40562	.128	-.1856	1.4356
	Before 2009	.70000*	.22826	.003	.2439	1.1561
2011-2010	2015-2014	-.20833	.45350	.648	-1.1146	.6979
	2013-2012	-.62500	.40562	.128	-1.4356	.1856
	Before 2009	.07500	.36656	.839	-.6575	.8075
Before 2009	2015-2014	-.28333	.30534	.357	-.8935	.3268
	2013-2012	-.70000*	.22826	.003	-1.1561	-.2439
	2011-2010	-.07500	.36656	.839	-.8075	.6575

\*. The mean difference is significant at the 0.05 level.

## **4.6 Strategies used to create value by e- retail business.**

### **4.6.1 Descriptive statistics**

Given the challenges discovered and discussed in section 4.5.1. The study collected information on the strategies which the firms were using to come up with the challenges. From the results, majority of the respondents (60%) indicated that creating value for customers at low cost increases profits of the business. Also most of the respondents 35% indicated that having lowest cost created sustainable competitive advantage to a very great extent. The results indicate that on average, the respondents (managers of e-retail businesses) understood that creating value for the customers was key to attaining high profits and that minimising cost was a source of creating competitive advantage against their rivals.

However, most of the respondents (42%) asserted that though cost strategy was key in attaining competitive advantage and profits, attaining cost leadership position depended to a great extent upon the planning of the value chain activities. Further 44% held the view that low cost strategies could be used as entry barriers to other potential business thus keeping the competition low. The median was 4 implying that the respondents in general believed that low cost leadership could be used as entry barrier to a great extent.

The respondents (47%) also pursued value additions by customising their products to provide customers with a unique and superior experience (Median=4). Some of the e-retail businesses believed that differentiation strategy could create value by providing high quality services. The results shows that a substantial number of respondents (35%) held the view that differentiation appealed to sophisticated customers especially those who were interested in a unique or quality products. The values of median and mode were both 4 and the interquartile range was 1 indicating that likeliest view was that differentiation appealed to sophisticated customers to a great extent.

In supporting the use of differentiation strategies, the respondents (50%) stated that it was useful in creating value by making products and services more attractive. A proportion of 46% indicated that customers would pay higher price for a product or service which offered distinctive or special value. This according to most of the respondents (39%), was possible since it enabled a firm to charge a premium price that was greater than the extra cost incurred in differentiating the products. The results show that respondents value and



understood the usefulness of use of differentiation strategy in creating value for their customers.

**Table 4. 9 Descriptive statistics –Strategies used in value creation processes**

Strategies	1	2	3	4	5	Median	Mode	Skewness	IQR
A firm has high profit when it creates more value for its customers and does so at lower cost	0	5	6	28	60	5	5	-1.5	1
A firm with lowest cost has a clear and possible sustainable competitive advantage	4	10	19	32	35	4	5	-0.8	2
Attainment of a position of cost leadership depends upon the planning of value chain activities	1		17	42	40	4	4	-1.0	1
Low cost leadership strategies ,when effectively implemented and understood can be used as an entry barrier industry rivalry	1	1	17	44	36	4	4	-1.0	1
Value added by customized products provide the customers a unique experience	0	1	15	47	37	4	4	-0.5	1
A firm following differentiation strategy can create value through offering better levels of services to customers	1	3	10	46	40	4	4	-1.3	1
Differentiation strategy appeals to sophisticated or knowledgeable consumer interested in a unique or quality product	4	10	17	35	35	4	4	-0.8	2
Firm can create value by making products more attractive	0	3	9	39	50	4.5	5	-1.1	1
Often customers will pay a higher price if the product or service offers a distinctive or special value	1	3	14	36	46	4	5	-1.2	1
Differentiation creates value by enabling a firm to charge a premium price that is greater than the extra cost incurred by differentiation	1	6	17	39	37	4	4	-0.9	1

**KEY: 1=No extent , 2=Low extent, 3=Moderate extent, 4=Great extent , 5=Very great extent**

#### 4.6.2 ANOVA Test

ANOVA test was done to determine if there existed any significant differences on the perception of the respondents on the use of generic strategies to create value for their customers in their businesses. The results shows a F statistics of the test as  $F(3,63) =$

3.501,  $p=0.02$ . This implied that there existed significant differences among the businesses on how they perceived the use and usefulness of generic strategies in value creation.

**Table 4. 10 ANOVA- Perceived usefulness of strategies by different businesses**

ANOVA					
Strategies					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.726	3	1.242	3.501	.020
Within Groups	22.349	63	.355		
Total	26.075	66			

#### 4.6.3 Post Hoc Analysis

A post hoc analysis was done to establish the actual differences among the different businesses segregated on the basis of their year of establishments. The results shows that recently established businesses perceived the use of the two generic strategies (cost leadership and differentiation) as being more useful increasing value than those business which had been established by the year 2009. This may imply that old businesses pursued the third generic strategy of focusing on a niche market either to reduce competition or to increase specialization.

**Table 4. 11 Post Hoc analysis-Strategies and Year of establishment**

(I) Year of establishment	of (J) Year of establishment	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
2015-2014	2013-2012	.04167	.29780	.889	-.5534	.6368
	2011-2010	.08333	.38446	.829	-.6849	.8516
	Before 2009	.53889*	.25886	.041	.0216	1.0562
2013-2012	2015-2014	-.04167	.29780	.889	-.6368	.5534
	2011-2010	.04167	.34387	.904	-.6455	.7288
	Before 2009	.49722*	.19351	.013	.1105	.8839
2011-2010	2015-2014	-.08333	.38446	.829	-.8516	.6849
	2013-2012	-.04167	.34387	.904	-.7288	.6455
	Before 2009	.45556	.31075	.148	-.1654	1.0765
Before 2009	2015-2014	-.53889*	.25886	.041	-1.0562	-.0216
	2013-2012	-.49722*	.19351	.013	-.8839	-.1105
	2011-2010	-.45556	.31075	.148	-1.0765	.1654

\*. The mean difference is significant at the 0.05 level.

## **4.7 Chapter Summary**

This chapter has presented the results of the analysis tests carried out on the data and a brief description and interpretation of the findings. The main findings from the analysis were that primary and support value chain activities were critical in creating value to the customers. However, value chain activities faced some challenges such as high cost, time consumption and demand of high skill set among other challenges. A review of the perceived usefulness of generic strategies in creating value indicated that such strategies were useful especially to the newly established businesses. Chapter five will provide more discussions and conclusions of the study.

## **CHAPTER FIVE**

### **DISCUSSION, CONCLUSION AND RECOMMENDATIONS OF THE STUDY**

#### **5.1 Introduction**

This chapter is a continuation of chapter four on data analysis and interpretation. The chapter provides a summary of the findings, discussion of the findings and recommendations of the study. The discussions sections provides the findings of the study and a cross examination with the previous studies to generate more understanding of the findings.

#### **5.2 Summary of the study**

The study sought to examine the application of the value chain activities on the value creation. To achieve this, the researcher studied the perceived application of the primary and support activities in creating value. Challenges affecting value creation and strategies were also studied and conclusions made.

The major findings of the study were useful in achieving the objectives of the study on the application of the value chain process in creating value for the e-retail businesses. The findings on primary value chain activities revealed that all the primary value chain activities were useful in creating value for the offerings. The study found that inbound, operational, outbound, sales and marketing and after sales function could be used successfully to create value among the e-retail businesses. This was because each of the activity was useful in value addition and creation.

The findings on the second research objective provided knowledge and information on the usefulness of each of the support activities. The study found that each of the activity could be used to create a value for the business. Similarly, support activities such as procurement, human resource, information technology and systems and customer service function could as well create value to the products and services offered to the customers. All the support activities had a significant role to play and could be used to create more value for the customers.

Thirdly, the study found that the process of value chain faced several challenges such as cost of implementation, training related costs, employee welfare and compensation,

complexity, lack of knowledge and different levels of commitment among the stakeholders. All these challenges interfered with the normal working environment for as well as reducing the capacity of such businesses to efficiently apply value creation process to add value to their offering.

Lastly, the study made several recommendations to overcome the challenges identified. These strategies were preventive and others were to reduce the harm of the challenges. It is thus recommended that cost leadership strategies, cost minimization, differentiation and focus strategies were ideal in creating value for the customers.

### **5.3 Discussions of the findings**

#### **5.3.1 Perceived usefulness of primary value chain activities on value creating among e-retail businesses**

The study collected data on the perception of the managers of the e-retail businesses in creating value for their customers through primary value chain activities. Firstly, primary activities were found to be very key in creating value of the product offerings according to most of the respondents. Such activities are useful in creating competitive advantage and also in adding value to the final and finalised products from the businesses.

These findings resonate with views of Hill et al. (2012) that line function activities were core value in value chain processes and were directly involved in creating value for the offerings. This shows the importance of the primary activities in creating value. Capon (2008) also explained that primary activities were directly concerned with the manufacturing of a product or creation of a service and the delivery of both to the customers. From the data analysis several findings emerged.

The study found that inbound logistics activities in value chain process were which involved receiving goods from suppliers and providing storage were critical in creating value in e-retail businesses. The study findings agree with Capon (2008) who explained that inbound logistics were also found in service industry and could include how customers were dealt with when they arrive to experience the service offered and also how they are asked to queue on arrival. The efficiency in which this function is carried out can significantly reduce the cost/ or lower cost therefore creating value Hough (2011).

Findings on operations were similarly positively correlated. The study found that creating value among the e-retail businesses was associated with the operational activities. The respondents indicated that when such operational activities are carried out efficiently, the cost of production reduces and the businesses are able to produce quality product. Hill et al. (2012) argued that firms could increase their profitability by creating more value which could be measured by the difference between cost of production and the value that customers perceived in the products. Thus a business could create value by performing its operational activities efficiently to lower costs, and by performing these activities in such a manner that a higher quality product is produced which results in higher value (Hill et al., 2012).

The outbound logistic activities in value chain were also critical in creating value to the offerings. This could be achieved by ensuring that distribution system is well coordinated to ensure that the right goods are in the right place for the especially for the e-retail businesses whose timeliness of delivery is an important aspect of their businesses. According to Capon (2008), retail firms' outbound logistics may be concerned with location, opening hours and queuing systems which when well managed could leave customers satisfied and creating value based on speed and timeliness of service.

The findings on marketing and sales indicated that the function was equally important. This according to the managers of e-retail business sampled could create value through brand positioning which create a positive image in the minds of the customers. Also marketing and sales function helped largely in identifying the unmet needs of the customers, such information was useful to the business as they could tap, provide or design tailor made products to meet such a market need thus creating value for the customers.

The findings tallies with the views of Hill et al. (2012) that primary activities create a favourable impression of the firm's product in the mind of a customer and increases the price that can be charged for the product or service. In addition, the findings support the assertion of Capon (2008) that value could be created by designing products that meet specified needs of the customers in the market. It is clear that marketing and sales activities are both important and critical in value creation.

The study found that service function could be used to create value through better customer services, after sales services and follow up. Also paying attention to customers' problems and solving them in a timely manner could be useful tips of creating value to the offering. This was probably due the satisfaction which customers derived from the services which was of value to them.

Ireland et al. (2015) held that service activities could maintain the value of the firm's product or services to firm's customers, once it's been purchased. This implies that service function related activities are important in influencing customers to make repeat purchases as well as attracting new ones through good mouthing.

The inferential tests found no statistical differences among the e-retail business on how the primary logistics related activities could be used to create value to their offerings. Thus regardless of the type of the e-retail businesses, the value and the extent to which primary activities was important in creating value was the same across all the e-retail business.

### **5.3.2 Perceived usefulness of support value chain activities on value additions related activities**

The second objective of the study was the determination of how the different support activities could be used to create value among the e-retail businesses. The study found that managers of the e-retail business recognised that applying support activities was important to their business in gaining competitive advantage. This could be achieved when such activities were undertaken at low costs enabling the business to create value to the products and services and meet the extra cost of creating that value. Similar views were held by Bartol (1998) that support activities were vital to the ability of the firm to create value that exceeds the cost of producing and delivering products and services to a customer.

The study found that human resource function was a key component of value chain in the e-retail businesses. Managers of the e-retail businesses indicated that people were a significant source of value to their business which when well utilised could be a source of competitive advantage. The results further shows that e-retail business could create value by having in place the right mix of skilled people to effectively manage support activities. More importantly, the human resource function could be more useful in creating value for

the customers when the staff personnel are well trained, motivated and well compensated. The results crystalize on Etzel et al. (2007) views firms could transform its input into more valuable output, through coordinated process which involves alignment of value chain activities that fits within the human resource functional areas.

The results also show procurement function can be used to create value in e-retail businesses. According to the results, procurement function ensures that materials are supplied at the right time, at the right place and are of the right quality. Similar views were shared by Odom (2012) who held that the success of the procurement function contributed to competitive advantage and eventually value was created.

The study also found that application of the information systems could create value among the e-retail businesses. This could be done either through reduction of the inventories held at warehouses, or enhanced communication between clients and the businesses (Hill et al, 2012); (Boddy, 2008) also argued that Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.

The structural support function also can be harnessed to create value among the e-retail businesses through solving customers' problems and supporting them after sales. Other support activities which could be used to create value include top management support and commitment. Through strong leadership the top management can consciously shape the firm infrastructure and by so doing influence the performance of the firm's value creation activities Hill et al. (2012). Also more importantly, is the development of a good value chain which provides a strategic fit between the firm and the environment. According to Hill (2012) this support activity was the firm's infrastructure or the context within which all the other value creation activities occurs. According to Hill (2012), the firm should integrate its systems to enable the structure to work efficiently hence achieving competitive advantage and value creation.

The ANOVA test found that there was no significance difference on how the use and application of support value chain activities could create value among different types of e-retail business. This shows that all the respondents from all the e-retail businesses viewed the importance of the support function with the same lens and importance.



### **5.3.3 Challenges facing e-retail business in creating value for their offerings**

The third objective of the study was to identify the possible challenges facing the e-retail business in their efforts to create value for their products. Given that value chain process was found to be very robust and offered tangible, financial, and people-based benefits. However, the process has its own share of challenges. The study found that value chain was a complex process within the e-retail business involving information transfer within a business and outside a business with suppliers, distributors and customers. The activities are somewhat complex as they entail organizing production of firm products with limited resources, and installation related challenges.

Same sentiments were echoed by Ball (2010) who asserted that value chain required synchronization and optimization of many moving parts that all interact dynamically. Thus it was not as easy as a sequence of activities but much more than that including a complex process within the e-retail business involving

The respondents stated that it was challenging to invest heavily in value chain since the associated costs of coordination were quite substantial. Some also cited that value chain was more suited to be applied effectively in a manufacturing environment than in a service industry thus implementing it was a bit complex for the service industry or online businesses.

Gooch (2010) stated that without access to the necessary resources, developing a closely-aligned value chain can be a costly endeavour. Therefore availability of resources is a key factor affecting value creation through value chain processes as they help to meet the heavy costs associated with the value creation process.

Some respondents held the view that value chain model setting was excessively time consuming which if the time was used in other uses it could generate revenue for the businesses. According to most of the respondents, value chain activities structured to last for long could be affected by the periodic changes in cost structures, prices in the market and investments in capital.

The findings are in line with the Balls (2010) that the internal data on costs, revenues and assets used for value chain analysis are derived from one period's financial information

and was challenging to plan value chain activities on a long term basis. Hence, firms must ensure that the value chain analysis is valid for future periods.

Another challenges associated with the value chain application among the e-retail businesses was the lack of the managerial strategic thinking abilities. This was a major challenge since without competent managers and key lead persons, the value chain processes and value chain could be crippled. This could be enhanced through training and exposure but the costs of the trainings and benchmarking were very high.

Clegg (2011) held same line of thinking that Organizations' managers responsible for value chain management must take the initiative to get the value chain message to the major players of the firm through awareness and training so as to bring the importance of customer value to the forefront of management strategic thinking.

Lastly, the respondents (e-retailers) highlighted that value chain required managers to design internal and external information system. Establishing a new quality and strong information system posed a challenge to e-retail businesses. Also implementation of value chain required the inputs from personnel in different departments such as marketing, production, designers and distribution whose commitment to the value chain processes was not guaranteed. Lack of cooperation from any of the key stakeholders or any department was disastrous to the value creation processes.

The results are in line with Lynch (2009) views who stated that leadership from the chief executive manager as well as the cooperation of other managers was vital to the success of value chain processes and value creation. It shows that equal high level commitment from all the stakeholders was important to the success of value creation.

ANOVA test done found that there existed differences on the challenges facing different e-retail business. The study found that the challenges discussed above were more severe among the business which were established in 2013-2012 compared to those which were established before 2009. This was possibly due to the fact older businesses had learnt the industry well and developed ways of coping with the market conditions better than the new businesses.

#### **5.3.4 Perceived usefulness of generic strategies on e-retail business in creating value for their offerings**

The study sought to determine whether generic strategies would be useful in creating value for the customers dealing with e-retail businesses. The respondents stated that making profits was key as it enabled businesses to create value for their products and services. Porter (2001) opined that there were two main basic strategies for creating value and attaining competitive advantage. He further argued that profitability goes to those firms that can create superior values.

According to the results, the respondents agreed to a great extent that firms could pursue cost minimization and cost leadership strategies were critical in creating value for e-retail businesses. The respondents held the view that cost minimization strategy could be a source of competitive advantage. Also cost leadership could be used to create barriers to entry in an industry thus keeping the competition low and the businesses profitable.

According to Porter (2001) a firm has high profit when it creates more value for its customers and does so at a lower cost. However, cost leadership was depended on the planning of the value chain activities. According to Griffin, (2010) this strategy calls a firm to focus on achieving highly efficient operating procedures so that that their costs are lowered than its rivals.

The study found that low cost firms were often able to keep potential competitors out of the industry through their price cutting power, which could generate substantial obstacles to firms contemplating entry into the industry. Ball (2010). Bartol (1998) asserted that the low cost strategy can aid an organization in creating more value by lowering its production costs. However, firms should invest heavily on value creation and not cost leadership to generate value. Thus firms must consider innovating products or services that are important to customers otherwise competitors using a differentiation strategy may lure the customers away with significant products or service improvement (Haberberg & Rieple, 2008).

The other generic strategy examined was differentiation strategy. This strategy places emphasis on creating value through uniqueness, as opposed to lowest cost uniqueness can be achieved through service innovations, superior service, creative advertising, better

supplier relationships leading to better services, or in an almost unlimited number of ways (Ovidiu, 2010).

From the findings, the respondents indicated that differentiating products provided customers with unique experience which created value to their customers. This agrees with the views of Lynch (2009) that differentiation strategy can create value through offering better levels of services to customers, better performance, and more luxurious materials.

The respondents indicated that by differentiation appealed to sophisticated or knowledgeable customers and could be done in a number of ways such as having superior design, styling, functionality, reliability, features, after sales services among others. Ireland et al. (2015) argued that a firm could create more value by either lowering its production costs or by making its products more attractively through superior design and functionality.

The respondents held that customers would be willing to pay high prices if the product or service offered distinctive or special value. Similar views were shared by Lynch (2009) who asserted that some customers would pay more for a differentiated product that is targeted towards them. The strategy could work well to cover extra cost incurred to create value. This was possible since differentiation helped businesses to charge a premium higher than the extra costs for the differentiation.

ANOVA test showed that there were significant differences among e-retail businesses on their perception about use of generic strategies. The study shows that new business placed more emphasis on cost leadership and differentiation strategies to create value in their businesses compared to old businesses.

## **5.4 Conclusions of the study**

### **5.4.1 Perceived usefulness of primary value chain activities on value additions related activities**

The study concludes that primary value chain activities are important sources of creating value for the customers among e-retail businesses. The activities such as inbound, operations, outbound, sales and marketing and service functions guided the businesses to

make orders timely, provide good storage and deliver them to their customers as per their requests.

#### **5.4.2 Perceived usefulness of support value chain activities on value additions related activities**

The study notes that support activities were not the main value chain activities but their role contributed to the overall goal of the businesses and also helped in running of the primary activities. The support activities such as human resource, procurement, information technology and service function were all very critical in creating value for the product offerings.

#### **5.4.3 Challenges facing e-retail business in creating value for their offerings**

The application of value chain model in value creation among the e-retail businesses faced various challenges such as complexity of application, high cost of implementation, lack of training and high cost of training and exposure and sometimes lack of coordination among the managers.

#### **5.4.4 Perceived usefulness of generic strategies on e-retail business in creating value for their offerings**

The study concludes that use of generic strategies can be very useful in creating value among the e-retail businesses. The use of cost leadership and differentiation were all useful among the e-retail businesses in creating value in their products and services. Such strategies, enable businesses to attain competitive advantage, cover extra cost, charge better premiums and even better profitability margins.

### **5.5 Recommendations of the study**

#### **5.5.1 Recommendations on practice**

##### **5.5.1.1 Perceived usefulness of primary value chain activities on value additions related activities**

The study found that operational activities processes could be used as a value creation model if the operations were carried out efficiently to minimise cost. It is highly

recommended that e-retail businesses invest on efficiency to bring the cost of operation down and expand their margins.

#### **5.5.1.2 Perceived usefulness of support value chain activities on value additions related activities**

The study found that human resource function which falls as a support activity was very critical in creating value. To increase value creation, the study recommends that e-retail businesses invest in human resource alongside other support activities. This should be in terms of training, motivating and remunerating them well.

#### **5.5.1.3 Challenges facing e-retail business in creating value for their offerings**

There were several challenges affecting e-retail businesses efforts to create value for their products. The major challenges included cost implications, lack of strategic thinking skills and varying commitment levels among the top management personnel. To ease the severity of the challenges facing the e-retail businesses, it is recommended that e-retail businesses invest in value creation activities and develop framework for handling the challenges.

#### **5.5.1.4 Perceived usefulness of generic strategies on e-retail business in creating value for their offerings**

The study found that new e-retail businesses placed a lot of emphasis on cost leadership and differentiation strategies as ways of creating value for their customers. However, old e-retail business felt otherwise. It is recommended that all the firms pursue cost leadership, differentiation and focus strategies to maintain high competitive edge and high profits margin for their businesses.

### **5.5.2 Recommendations for further areas of research**

This study collected data on e-retail businesses only. However due to the differences in contexts and operating environment the results could be different in other industries. It is thus recommended that similar studies be done in other areas and industries to establish how the value chain activities shaped value creation.

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## **APPENDIX 1: RESEARCH QUESTIONNAIRE**

### **A LETTER OF INTRODUCTION**

**UNITED STATES INTERNATIONAL UNIVERSITY- AFRICA**

**P.O BOX 14364-00800**

**NAIROBI**

Dear respondent,

I am graduate student at United States International University. I am carrying out this study as partial fulfilment of the Masters of Business Administration (MBA) degree program at the United States International University.

The primary objective of this study is to examine the importance of value chain application for value creation. The results of this study will be beneficial to the firm as it will enlighten management on the importance of the value chain application for e-retail firms and the challenges associated with value chain application for value creation in the e-retail business, as well as providing a sound strategies that will inform future value chain application efforts.

As an integral member of e-Retail management team entrusted with strategy implementation responsibilities, you are kindly invited to complete the attached questionnaire (it will take *approximately 12-16 minutes* of your time) to obtain your perception of the challenges and factors that are critical to value chain application for value creation. The success of this study depends largely on gathering your complete and honest views and it will be appreciated if you would complete the questionnaire between now and **FRIDAY 17TH March 2017**.

All information provided by you will be used solely for academic research purposes and will be treated confidentially. Under NO circumstances will this information be made public or used for any other purpose other than the research. In addition, a copy of the research findings will be made available to you upon request and at no cost whatsoever.

## APPENDICES

### Appendix. I Study Questionnaire

#### PART A: DEMOGRAPHICS

The following information is collected for demographic purposes only and *WILL NOT* be used to identify any respondents. Your responses will be treated as *CONFIDENTIAL* and will only be used to compare groups of respondents.

A1. Please select your gender    Male    { }            Female    { }

A2. Please indicate your age range?

Younger than 30 years    { }

30 – 39 years            { }

40 – 49 years            { }

50 – 59 years            { }

60 years or older        { }

A3. Please indicate your company's name \_\_\_\_\_

A4. What year was your company established? 2015-2014 { } 2013-2012 { } 2011-2010 { } Before 2009 { }

A5. What is your level in the firm?    Operation { }    Middle { }    Senior { }

A6. How long have you been working with the firm?



- Less than 1 year        { }
- 1-3 years                { }
- 4-7years                { }
- 8-11 years               { }
- 12years and above     { }

A7. How would you describe the value chain application in your firm?

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**PART B: PRIMARY ACTIVITIES APPLICATION FOR VALUE CREATION**

This section deals with *YOUR PERCEPTION* on application of Primary activities to create value in your e-retail business.

**Kindly indicate to what extent you agree or disagree with each of the following statements by using the following scale:**

**SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree**

<b>Statements</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
1.primary activities application is important for value creation					
2.primary activities allows firms to better identify their competitive advantage					
3.primary activities application enable firm to add value to its final product					

<p>4.firm create value through inbound logistics by receiving goods from firms' suppliers then store until they are needed online</p>					
<p>5. Firm creates value by performing its operations activities efficiently to lower costs, and produce higher quality product which results in higher value.</p>					
<p>6. Outbound logistics create value by managing the distribution system to ensure the right goods are in the right place at the right time for the customers.</p>					
<p>7. The marketing and sales function can create the value that customers perceive in a firm's product through brand positioning and advertising.</p>					
<p>8. marketing and sales function create value by discovering consumer unmet needs and communicating them back to the firms'(R&amp;D) function which then design products that better match the specified needs.</p>					
<p>9. The service function superior value in the minds of consumers through solving customer's problems and supporting them after they have purchased the firm' products</p>					
<p>10. By analyzing the separate primary activities in the value chain managers are able to identify which activities are adding value or which one are not.</p>					

**PART C: SUPPORT ACTIVITIES APPLICATION FOR VALUE CREATION**

This section deals with *YOUR PERCEPTION* on application of Support activities to create value in your e-retail business.

**Please rate the extent to which you feel each of the following statements applies to your firm using the following scale:**

**N = Never; R = Rarely; S = Sometimes; U = Usually; A = Always**

Statements	N	R	S	U	A
1. Application of support activities is important just as primary activities in attainment of firms' competitive advantage					
2. Support activities are vital to the ability of the firm to create value that exceeds the cost of producing and delivering products and services to a customer.					
3. People are a significant source of value, so businesses create a clear competitive advantage with good human resources practices					
4. It is vital for firms to ensure that a firm has the right mix of skilled people to effectively perform its value creation activities					
5. The firm must ensure that staff personnel are adequately trained, motivated and also compensated to perform their value creation tasks					
6. Procurement function is necessary to ensure that production material was supplied at the right time, at					

the right place and in the right quality.					
7. Application of information systems creates value by helping firms reduce the amount of inventories held at warehouses which is a major source of cost savings					
8. The service function can create a perception of superior value in the minds of consumers through solving customer's problems and supporting them after they have purchased the firm's products.					
9. Through strong leadership the top management can consciously shape the firm infrastructure and thus influence the performance of the firm's value creation activities					
10. The Senior managers must develop an agile value chain which provides continual strategic fit between the firm and its environment.					

**PART D: CHALLENGES ASSOCIATED WITH VALUE CHAIN APPLICATION**

This section deals with *YOUR PERCEPTION* on the challenges associated with value chain application in your e-Retail.

**Kindly indicate to what extent you agree that your firm experience challenges when applying value chain concept.**

**N = Never; R = Rarely; S = Sometimes; U = Usually; A = Always**

Statements	N	R	S	U	A
1. value chain is a complex process as it involves all the					

information that flows within an organization, and between the firm and its suppliers, distributors, its existing and potential customers					
2. The value chain is a complex activity since it involves firm infrastructure activity which entails organizing production of firms' products and without access to the necessary resources, developing a closely-aligned value chain can be a costly endeavour					
3. The value chain is a complicated model to install in the company in the short term					
4. value chain is associated with the cost of coordination and flexibility cost					
5. Value chain is more suited to a manufacturing environment and can be difficult to apply to a service provider or a service industry					
6. Application of the value chain model in practice can be excessively a time-consuming process, since it requires a comprehensive analysis of all business operations.					
7. For long-term strategy decision-making, changes in cost structures, market prices and capital investments from one period to the next may alter the implications of value chain analysis.					
8. Since value chain application is to bring the importance of customer value to the forefront of management strategic thinking it requires a great deal of education and awareness which can be costly.					

9. Value chain requires managers to design internal and external information systems to assist them in planning, monitoring and improving value-creating processes which could be a challenge.					
10. Value chain requires the cooperation of all managers involved in value chain processes, such as engineers, designers, production managers, marketing managers and distribution managers which may fail managers have no commitment.					

**PART E: THE STRATEGIES APPLIED TO CREATE VALUE.**

This section deals with *YOUR PERCEPTION* on application of generic strategies to create value in your e-retail business.

**Kindly indicate to what extent you agree or disagree with each of the following statements by using the following scale:**

**SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree**

Statement	SD	D	N	A	SA
1. a firm has high profit when it creates more value for its customers and does so at a lower cost					
2. A firm with a lowest cost has a clear and possible sustainable competitive advantage					
3. Attainment of a position of cost leadership depends upon the planning of value chain activities					
4. Low cost leadership strategies, when effectively implemented and understood can be used as an entry					

barrier industry rivalry.					
5. The value added by customized products provide the customers with a unique or superior experience through the product/service features, quality, or after sale support.					
6. A firm following differentiation strategy can create value through offering better levels of services to customers.					
7. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product					
8. firm can create value by making its products more attractive through superior design, styling functionality, features, reliability, after-sales services etc.					
9. Often, customers will pay a higher price if the product or service offers a distinctive or special value					
10. Differentiation creates value by enabling a firm to charge a premium price that is greater than the extra cost incurred by differentiation					

**Thank you very much for taking the time to complete this questionnaire and for your contribution to this study.**

## Appendix 11: Schedule of Activities

<b>Activity</b>	<b>Time Period</b>
Library Research	Week 3&4
Typing & Compiling	Week 5,6&8
Binding & Field Research	Week 9&10
Analyzing the Data and Writing the Report	Week 11&12
Submission for Review	Week 13
Final Report Presentation	Week 14
<b>TOTAL PERIOD</b>	<b>12 WEEKS</b>



### Appendix III: Research Budget

Activity	Amount(Kshs)
Miscellaneous expenses (pens, foolscaps, and envelopes)	1,300
Preparation of data collection tools; Printing of questionnaires	4,000
Report Writing	2,700
Publication	7,000
<b>TOTAL</b>	<b>KShs. 15,000</b>