INFLUENCE OF INDUSTRY FORCES ON THE COMPETITIVE ADVANTAGE OF PAY-TV SERVICE PROVIDERS IN KENYA: THE CASE STUDY OF NAIROBI COUNTY.

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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SUMMER 2019
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 Nairobi for academic credit.

Signed: _______________ Date: _______________
Innocent Kairu Kayonde (ID 651281)

This project has been presented for examination with my approval as the appointed supervisor

Signed: _______________ Date: _______________
Dr. Joyce Ndegwa

Signed: _______________ Date: _______________
Dean, Chandaria School of Business
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ABSTRACT

This study was conducted to determine the influence of Porter’s forces on the competitive advantage of pay-tv services providers in Nairobi County. This study focused on the following research questions; the extent to which threats of new entrants influence competitive advantage of pay-tv service providers, extent to which industry rivalry influences competitive advantage of pay-tv service providers and last but not least extent to which threats of substitute products influence the competitive advantage of pay-tv service providers.

With a major focus on three of the five Porter’s forces, the sample size of the study included 108 respondents made up of managers in pay-tv service companies in Nairobi County. The study used a descriptive survey design and population stratified sampling in selecting its sample. Primary data was collected with the aid of a closed ended questionnaire as the main instrument of data collection and the data obtained from the respondents was analyzed with the use of Statistical Package for Social Sciences software version 24. The study used inferential statics to perform regression analysis and correlation analysis of the data. Descriptive statistics in the form of frequencies, mean and standard deviation were used to analyze the study variables and present the findings.

The findings of this study indicate that threats of new entrants is a critical factor for consideration in the pay-tv industry. The threats of new entrants had a positive relationship with competitive advantage, having an R- square value of 0.175, which indicates that threats of new entrants account for 17.5% variability in competitive advantage of pay-tv firms.

The findings show that industry rivalry has a great influence of the competitive advantage of pay-tv firms. Industry rivalry had a positive correlation with competitive advantage bearing an R- square value of 0.615, which means that industry rivalry accounts for 61.5% variability in competitive advantage.

The findings also revealed that availability of substitutes influences competitive advantage of pay-tv firms. It showed that there is a statistically significant relationship between availability of substitutes and competitive advantage, with an R-square value 0.246 which means that substitutes account for 24.6% variability in competitive advantage.
The study concludes that threats of new entrants has been central towards enhancing competitive advantage among pay-tv service firms. The study shows that threats of new entrants increases competition among competing firms since new entrants get into the market with new products forcing other players to keep up with competition. The study concludes that threats of new entrants intensifies product development among competing firms in order to gain a sustainable competitive advantage. The study concludes that there is a significant relationship between industry rivalry and competitive advantage. The study concludes that industry rivalry is significant for innovation and creativity in organizations as companies strive to create a market position for their brands. This study also concludes that availability of substitute products augments product differentiation for companies to address the needs and wants of their consumers effectively. The study concludes that substitutes intensify building of consumer switching costs for companies to avoid the use of substitute products offered by other companies.

This study recommends that pay-tv service companies should pay close attention to the new entrants for them to have a quick response on the threat they pose which can have a negative implication on competitive advantage. The study recommends that the pay-tv firms should invest in in innovations like live streaming in apps for them to have a competitive advantage that cannot be imitated easily by new players in the market. The study recommends that pay-tv service companies should examine what competition is doing as a way to influence decision-making that is focused on building competitive advantage. This will give the firm an opportunity to address the key sentiments that give their competitors leverage over their products. The study recommends that the companies in the pay-tv industry should compete on the dimensions set by the industry trends for them to gain competitive advantage in the market. The study also recommends that the companies should invest in research and development in order to come up with products that will limit consumer switching to competitor brands.
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DEDICATION

To my supportive family who kept me going especially during the rough patches.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

An industry is made up of different market participants that include suppliers of needed materials and services, competing firms that produce final goods and services and consumers who seek satisfaction of their needs. Porter’s five forces model is an industry analysis tool developed in 1980 by renowned Harvard Business School professor Michael E. Porter, used to assess the competitiveness of firms operating in an industry by looking at five key forces that have been identified as important in determining the attractiveness of an industry, where attractiveness in this case refers to the profitability of the industry. The five forces as listed by Porter include; the threat posed by new entrants, the bargaining power possessed by buyers, the bargaining power possessed by sellers, the threat posed by substitute products and the rivalry amongst existing firms in the industry (Porter, 2008), the interaction of these forces determines the profit potential of an industry or its segment (Spanos & Lioukas, 2001).

Knowledge and awareness of Porter’s five forces and their influence in an industry enables companies to understand the structure of the industry they operate in and thereby stake out a position that is more profitable and less vulnerable to attack (Porter, 2008). An industry analysis involves an in-depth assessment of the environment a firm operates in, which provides vital information that enables a firm’s strategists to understand the economic forces that are at play in their industry and thereby formulate strategies to protect the firm from undesirable situations in the industry and also formulate strategies that can enable the firm exploit profitable opportunities that the industry environment presents (Masanell, 2014).

Bargaining power of buyers or customers looks at the power wielded by final consumers in the industry. Buyers are deemed powerful when they can exert pressure on the prices and quality of a firm’s products and services. Powerful buyers tend to influence a firm’s profitability by demanding for lower prices, better quality as well as variety of products and services (Eskandari, Miri, Gholami, & Sajadi, 2015). The factors that affect the bargaining power possessed by buyers include; concentration of customers or monopsony
power, switching costs, undifferentiated industry products and threat of backward integration (Magretta, 2012).

Bargaining power of supplier looks at the power wielded by suppliers in the industry. Powerful suppliers can easily raise prices of their materials which leads to a downstream transfer of the costs to the consumers. Powerful suppliers also tend to influence the quantity they are willing to supply their materials which affects the production of final products and consumer demand. (Masanell, 2014). The factors that influence the bargaining power possessed by suppliers include; supplier concentration, industry switching costs, differentiated products, presence of substitutes, threat of forward integration and level of dependence in the industry (Magretta, 2012).

Threat of substitutes looks at the influence on profits of products which tend to satisfy similar needs and could replace each other. Where a substitute is offered at lower price without compromising the quality, its demand tends to rise at the expense of the other substitute (Eskandari et al., 2015). A good example is Coinstar Redbox, a movie rental convenience kiosk that offered movies at just $1, this made it a real threat to cinemas that charged way higher prices for the movies as well as Hollywood that was selling movie DVDs at almost forty times the price charged by Coinstar Redbox. Elements that influence the threat of substitutes include; closeness of the substitutes and price and performance ratio of substitute (Magretta, 2012).

Threat of new entrants looks at the way other firms may decide to enter into an industry. An attractive industry has a high profit potential which creates an incentive for new firms to enter the industry, thereby increasing competition and reducing the prices as well as profits. The ease with which interested firms may enter an industry depends on the existence of barriers to entry, where the entry barriers have been set up high, new entrants are deterred from venturing into such industries (Masanell, 2014). Elements that influence the barriers to entry include; supply side economies of scale, demand-side benefits of scale (network effects), customer switching costs, capital requirements, access to distribution channels (supplier networks), government policy, anticipated response of industry incumbents and barriers to exit (Magretta, 2012).

Intensity of rivalry among existing competitors looks the fierceness of competition among rival firms in the industry. The intensity of rivalry among firm in an industry depends on the competitive structure of the industry, its demand conditions, switching costs, and the
level of exit barriers for the industry (Hill & Jones, 2012), the competitive structure can be viewed in terms of the number and size of competitor firms and industry growth rate.

Each of the Porter five forces may have a more prominent role in an industry based on the characteristics of that particular industry, however, the collective strength that the five forces possess determines the ultimate profit potential of the industry. A highly profitable industry is one where the forces are considered collectively weak and therefore leave a gap in value creation, which then offers a great opportunity for another firm to tap into and offer superior value (Porter, 1979).

According to Porter (2008), a firm occupies a strategic position in the industry if it has a competitive advantage that enables it to gain superior performance. In 1985, Porter formulated three generic strategies that include; differentiation, cost leadership and focus. These strategies are used as the foundation for establishing a firm’s competitiveness, and can help a firm to cope with the five competitive forces in the industry and do better than other organizations in the industry (Tanwar, 2013). Through the cost leadership strategy a firm seeks to gain competitive advantage through becoming the lowest cost producer in comparison to its competitors, which enables the firm to charge lower prices for its products. In using the differentiation strategy a firm seeks to gain competitive advantage through distinguishing its products offerings from those other competitors, which then gives it room to charge a premium price (Altuntaş, Semerciöz, Mert & Pehlivand, 2014).

Focus strategy picks on the aforementioned two strategies and looks at them from the perspective of competitive scope thus resulting in two variations to it, cost focus and a focused differentiation strategies. The cost focus is a low cost strategy that aims at meeting the needs of only a specific niche of consumers or geographic market, it seeks cost advantages in that narrow segment of the market by serving their needs more efficiently. Focused differentiation on the other hand, aims to serve the needs of a particular group of consumers, geographic market or product line segment. These particular buyers have unusual needs that the firm is seeking to meet effectively that other competitors (West, Ford & Ibrahim, 2015).

Selection of the most appropriate strategy the firm should adopt hinges on the resources and capabilities the firm possesses and the level of competition in the market. As noted by West et al. (2015), to pursue cost leadership, the firm needs access to capital as well as have tight measures of cost control and on the other hand if differentiation is to be pursued,
then the firm needs to build its creative capacity through having a strong coordination between research and development function and marketing function.

Across the world, the pay-tv industry is experiencing a period of change and disruption, with service providers in many markets facing a perfect storm of slowing growth, intensifying competition and business model disruption (Nagra Kudelski Group, MTM, 2017). Despite the challenges faced, consumption of pay-tv services continues to grow in many countries, and global pay-tv subscribers are forecast to hit the 1.09 billion mark by 2022 (Murray, 2017). For the first time the global television revenues exceeded £300 billion, driven by growth in pay-tv subscriptions and advertising, pay-tv is still the largest component, making up just over half of total revenue at £154 billion (Ofcom, 2017). Globally, China Radio & TV is the largest pay-tv operator as a result of government policy to consolidate cable TV, accumulating 227 million subscribers, however, in terms of revenues it is AT&T from the US that tops the list in pay-tv subscription revenue (Murray, 2017).

The pay-tv market in developed and developing countries is characterized by contrasting growth trends. Subscribers in the US, the UK, and Germany are shifting toward Over-the-Top (OTT) services, whereas those in India, Brazil, and Mexico are subscribing to pay-tv hence resulting in growth in those countries (Grand View Research, 2017). In the US the decline in pay-tv is attributable to the rise of alternatives services such as Amazon Prime, Hulu and Netflix which offer OTT services that are more affordable to the consumers. Netflix’s US subscriptions has surpassed that of pay-tv subscribers (Morris, 2017) indicating that consumer tastes and preferences are shifting.

In the United Kingdom, digital terrestrial TV was introduced in the year 1998 (Zengeni & Robb, 2015). A switchover migration from analogue to digital television was then regulated to permit for more TV channels that stimulates competition, expands choices while at the same time provides a more efficient use of the frequency spectrum (Aggarwal, Arthofer, Lind, Rose, Rosenzweig & Stephan, 2016).

In the United Kingdom, pay-tv services were introduced as a means of transmitting terrestrial broadcasting services to many households in remote mountainous areas in which people cannot be able to obtain such services directly (Cave, 2005). In addition, the pay-tv businesses in the United Kingdom requires intensive initial investments for the companies to start providing the services to the public. These industry features have made it difficult for potential players to enter into the market voluntarily and it is understood that now
business entry is through issuing a terrestrial monopoly cable TV license in each area (Tjondronegoro, 2013).

Despite the changes in the cable TV business competition with other media has intensified having resulted from both the internal changes of the Cable TV industry and the external changes of the industry. The internal changes of the industry include digitalization of broadcasts, increase in multi-channel services and enhancements of receiving terminals while the external changes include the dissemination of internet and broadband services that enhanced various ways of delivering video content (Hazlett & Mülle, 2016).

In Taiwan, the pay-tv service plays a significant role in the media environment of the Taiwanese society (Cheng, 2013). Before a law on Cable TV was passed in Taiwan, the industry seemed to be a vibrant informal sector which was highly differentiated while at the same time acted as a democratic alternative for the formal media. The 1993 Cable TV Law which was passed in Taiwan designed a competitive market in which five licenses were issued in each area and it was regarded as a victory for democracy by the opposition leaders in the country (Trappey & Amy, 2014). In less than a decade, the industry has witnessed drastic merger movements that have led to a monopolistic kind of a structure making the abuse of monopolistic power pervasive in the industry. Ironically, a big part of the Taiwan’s infrastructure and the new information economy has emerged as a potential threat in the competitive market (Lee & Pecht, 2015).

In 2015, African households with TVs were 114 million and they are expected to rise up to 159 million by 2021, pay-tv subscribers are expected to increase from 16 million in 2015 to 30 million by 2021 (Tirvengadum, 2016), this is still low in consideration of Africa’s population of 1.2 billion people (UN, 2017). South African pay-tv company Multichoice, a wholly owned subsidiary of Naspers Limited has been the major player in the Sub-Saharan Africa pay-tv market since its launch in 1995 (Tirvengadum, 2016). Multichoice has market power in the subscription broadcasting market and can outbid any competitor for the content rights, due to its willingness to pay for exclusive rights for premium content exceeding that of its rivals, (OECD Global Forum on Competition, 2013), this means that it has a significant competitive advantage over its rivals.

The pay-tv market has been evolving in the African continent being characterized by new entrants as well as expansion of the existing pay-tv service providers such as Zuku from Kenya which has continued to expand its market operations across the African continent.
Zuku has set up operations in Malawi and the company has also offered rights to Zambia’s media to broadcast its content in the Zambian market (Sandi, 2014). Zuku pay-tv has differentiated itself from Multichoice that commands a bigger market share in the industry by providing a combination of a strong Asian package and African soap-operas while at the same time lowering prices of its bouquets.

StartSat a Chinese firm with its subsidiary being Star Times has also made inroads into the pay-tv market in the African continent. Star Times acquired infrastructure which enabled its smooth transition during the migration from analogue to digital terrestrial TV which brought further benefits since it freed up more spectrum of them to broadcast in a number of SADC member countries by relying on the countries such as US and UK who have successfully transitioned to the digital migration (Aswani, 2017). The firm entered in Malawi in 2015, and has also set up operations in the Kenyan market, its arrival coupled with the entry of Zuku has brought increased competition into the pay-tv industry meaning that Multichoice from South Africa no longer was monopoly in most African countries, making the industry competitive (Sandi, 2014).

In Sub-Saharan Africa, pay-tv revenues for the year 2016 stood at $4.4 billion and are projected to rise by almost 50% to $6.59 billion between 2016 and 2022 (Nebie, 2017). Sub-Saharan Africa overtook Middle East & North Africa region in 2016 and is projected to overtake Eastern Europe in 2021 (Murray, 2017). The key players for the Sub-Saharan African region are Naspers with approximately 56%, Canal+ with approximately 15%, Star Times with approximately 9%, Zap with approximately 6%, Zuku with approximately 2%, Azam TV with approximately 2% and other operators taking the remaining 10% (Nebie, 2017). The arrival of online streaming services (over-the-top platforms) such as Netflix on the continent has had a huge impact on the revenue streams of pay-tv operators, with Multichoice feeling the pinch the most after losing more than 100,000 premium subscribers in 2017, (Olingo, 2018) which is a reduction in its market share.

Kenya currently has 62 television and 139 radio stations (Communications Authority of Kenya, 2015), this is attributable to the 2015 digital migration that made it much easier to set up and transmit television signal. Kenya currently has over 3,094,893 set top boxes on digital terrestrial television (DTT) platform, of these,416,984 are free to air (FTA) set top boxes and 2,677,909 pay-tv set top boxes (Media Council of Kenya, 2016). There are several pay-tv companies, which include Azam TV, Star Times, Kwese TV, GOTV, DSTV
and Zuku. GOTV is the most popular pay-tv owned by 41 percent of Kenyans followed by Star Times at 24 percent (Wainaina, 2016), due to their low subscription fees that are considered affordable by many Kenyans. The companies’ services are classified as terrestrial, cable and satellite, with the latter being the most expensive. As of September 2017, terrestrial subscription broadcasting services had the highest subscriber base with 3,526,885 subscribers, followed by satellite at 990,832, and cable at 127,797 subscribers, this was attributable to the affordability of terrestrial subscription broadcasting services whose prices range from Ksh.200 to Ksh.1,499, compared to cable subscription services whose prices range from Ksh.1,000 to Ksh. 2,000 and satellite subscription services whose prices range from Ksh. 399 to Ksh.8,180 (Communications Authority of Kenya, 2017). Many low-income earners have embraced terrestrial subscription, as the numbers of pay-tv subscribers continue to grow after Kenya shifted to digital broadcasting.

With the number of internet users in Kenya at 35.5 million, a penetration level of 82.6 percent (Communications Authority of Kenya, 2015), the entry of Netflix and Showmax in to the Kenyan market and creation of Viusasa, all of which are over the top service providers has further made competition in the pay-to-view market tighter. Pay-tv subscription in Kenya is projected to grow at 9% compound annual growth rate between 2015 and 2019, households with pay-tv are projected to be 964,000 in 2020, however, due to a high population growth in Kenya, pay-tv penetration is expected to fall to 16.3% at that time, compared with 19.1% in 2015 (PricewaterhouseCoopers, 2016). The continuous changes in the pay-tv market are expected to have an effect on the industry structure, market share of competitors and their ability to competitively remain in the industry, this study therefore seeks to determine the influence that Porter’s 5 forces have on the competitive advantage of firms operating in the pay-tv industry in Kenya.

1.2 Statement of the Problem

Traditionally, watching television required one to have a television and the programming was based on a predetermined broadcast schedule that was transmitted by a select few companies (Kovacs, 2015). Times have changed and the television industry has undergone numerous advancements over the past decades, which have been driven by changing consumer demands, new service providers and growth of the internet.

Globally consumers have gone from having limited viewing options to now having a wide variety to choose from in terms of content and service providers (Sandi, 2014). This has
contributed to growth in global demand for pay-tv services in many countries, with pay-tv subscribers forecast to hit the 1.09 billion mark by 2022 (Murray, 2017). However, despite the growth, there is a rise in challenges that impact the industry as depicted in technologically advanced markets like the United States, United Kingdom and Germany where traditional television viewing has begun to erode and online video consumption is increasing (Nielsen & Sambrook, 2016). The challenges have taken toll on some firms to the extent that they have shutdown, as was the case of Hong Kong’s Television Broadcast Limited which quit the pay-tv sector following years incurring losses, this has left a NowTV and i-Cable as the only pay-tv service providers (Newman, Fletcher, Kalogeropoulos, Levy & Nielsen, 2017).

In the African continent the challenges are no different, consumers now want more quality content at a subsidized cost (Orhan, 2017), as the number of service providers expands. Consumers have joined hands and led social media campaigns to ensure subscription prices are not increased by big service providers like Multichoice (Zengeni & Robb, 2015). In an era characterized by disruptive innovations, increased internet penetration across Africa has attracted and spurred the growth of streaming services like Netflix. The industry is also said to have significant barriers to entry in the form of access to broadcasting rights of premium sports content which are controlled by the dominant player, Multichoice (Gedye, 2018).

In Kenya, the pay-tv market has grown tremendously over the last couple of years, the number of companies that make up this market has increased, from just having DSTV as the dominant player, to now having other operators like GOTV, Star Times Media, Zuku TV, Bamba TV, Azam TV and Kwese TV. However, the sector has seen the shutdown of other players like Smart TV and GTV in 2012 and 2009 respectively after running into financial headwinds and failing to gain market share (Mwaniki, 2016). For the first time in the last three years, cable TV subscriptions have declined by 16.3 percent from 95,493 in 2016 to 79,938 in 2017. This decline is partly attributed to availability of other digital platforms such as online streaming and use of digital terrestrial services that may not require monthly subscriptions payments (Kenya National Bureau of Statistics, 2018).

Rising cost and competition amidst tough economic conditions, has led to pay-tv industry players to constantly re-strategize to ensure continued survival and profitability. This survival depends on their ability to develop new business models to enable them to adapt
to the ever changing environment (Deloitte & Touche, 2014). If organizations simply concentrate on competing head-to-head with competitive rivals this leads to competitive convergence where all ‘players’ find the environment tough and threatening, therefore managers have to seek out opportunities in the business environment (Kim & Mauborgne, 2015). The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive (Porter, 2008). Therefore competitive advantage is more likely to be created and sustained by an organization if it has distinctive or unique capabilities that competitors cannot easily imitate (Johnson, Scholes & Whittington, 2013).

There are research studies that have been carried out in the television broadcast industry in Kenya. The survey carried out by Nyamweya (2016) which examined the segmentation practices that are used by television stations to categorize consumers in the Kenyan media market. There is the study done by Kiraith (2014) that examined the competitive intelligence strategies adopted by the media companies in Kenya which particularly focused on Nation Media Group. The study undertaken by Okara (2013) that looked at the strategic responses television broadcasting stations in Kenya adopted to counter competition in the market. The is also a study done by Edna (2013) that examined the competitive strategies employed by Multichoice Kenya Limited, where it was noted that Multichoice uses different strategies to ensure that it is able to compete effectively in turbulent times. Furthermore, there is a study that was undertaken by Njoki (2012) that examined the effect political conditions and regulatory framework had on Kenya Television Network where it was noted that the broadcaster had not responded well to changes in those factors. Ngugi (2011) also conducted in the broadcast industry that looked at the strategic capabilities used by British Broadcasting Corporation to gain competitive advantage. There is also a study that was done by Sereti (2010) that looked at the competitive strategies adopted by Kenya Broadcasting Corporation in response to environmental challenges.

Today, consumer preference for pay-tv services is increasing and the rise of new alternative ways of accessing content through media like Netflix that has been spurred by internet penetration which indicates that there is a shift in the structure of the broadcast industry. Notably, majority of the studies highlighted have focused on free-to-air television broadcast market while this study focused on the pay-tv market. Research work done in the past has not focused specifically on the environmental factors of the pay-tv industry, this study aims to address that by looking at the industry using Porter’s five forces model.
1.3 Purpose of the Study

The purpose of the study is to determine the influence of Industry forces on building competitive advantage of Pay-Tv services providers in Kenya.

1.4 Research Questions

This study was guided by the following research questions;

1.4.1 What is the effect of threat of new entrants on competitive advantage of pay-tv service providers in Kenya?

1.4.2 What is the effect of industry rivalry on competitive advantage of pay-tv service providers in Kenya?

1.4.3 What is the effect of substitute products on competitive advantage of pay-tv service providers in Kenya?

1.5 Significance of the Study

The study analyzed the effect of three industry forces; threat of new entrants, industry rivalry and threat of substitute products on the competitive advantage of pay-tv firms. The findings of study are useful to the following stakeholders;

1.5.1 Pay-Tv Service Providers

Members of the management team of pay-tv service providers are able to gain an understanding of how their firm and the industry they operate in has been influenced by Industry forces, and with the information gained they are able to make informed decisions and plan for the future.

1.5.2 Broadcast Policy Makers

Through the findings highlighted in this study, policy makers are able to a supportive regulatory framework that enhances the industry performance, and also formulate policies that foster competitiveness and innovation among the pay-tv service providers.

1.5.3 Researchers and Academicians

Through the insights of this study the existing breadth of knowledge relating to development of the pay-tv industry is further enhanced and can be based upon, furthermore, the areas not covered by this study offer potential areas for future research to be conducted.
1.6 Scope of the Study

This study focused on the pay-tv service industry in Kenya and how industry forces have influenced the competitive advantage of the service providers. The geographical scope of the study was limited to duty stations of pay-tv service providers and customers in Nairobi County over a study period of four months from December 2018 to March 2019. The pay-tv service providers selected were DSTV, GoTV, StarTimes and Zuku, their customers were also targeted as respondents in providing the researcher with relevant information pertaining to the research questions.

The study focused specifically on three of the five Porter’s forces, with exclusion of the bargaining power of suppliers due to identified challenges in accessing relevant information. The study used respondents from only Nairobi County out of the available forty seven counties in Kenya. To mitigate delimitations shown, the researcher followed up on the respondents to ensure that the response rate was not less than 90% in order for the data collected to be representative.

1.7 Definition of Terms

Key terms and phrases used in the study are defined below;

1.7.1 Threat Posed by New Entrants

This refers to new companies posing a threat to the current market share structure and profits belonging to the existing companies. The threat of new entrants depends on the economies of scale, differentiation, switching costs for consumers, access to distribution channels, legal and regulatory barriers and expected retaliation from existing companies (Bian, 2015).

1.7.2 Threat Posed by Substitute Products

Substitute products are products that satisfy similar needs and can replace each other. The demand of one product affects the other i.e. where we have substitutes, as the quantity demanded of one falls, the demand for the other one rises. Substitution leads to a decrease in quantity demanded of a particular category of products as the consumers decide to go for the alternatives (Johnson, Scholes & Whittington, 2013).
1.7.3 Bargaining Power Possessed by Buyers

The bargaining power of buyers is their ability to influence prices and quality of products and services which affects the industry structure. Bargaining power of buyers is determined by number and concentration of buyers, the sensitivity of buyers to price, differentiation, switching costs for consumers and availability of information about products and services (Edna, 2013).

1.7.4 Bargaining Power Possessed by Sellers/Suppliers

Bargaining power of sellers or suppliers refers to the individuals or organizations that through their control of key resources (raw materials, inputs) they gain the ability to influence the price and quantity at which their products are sold. They have more bargaining power if their product or service is an essential component of the end product (Porter, 2008).

1.7.5 Industry Rivalry

This relates to the intensity of competition in the industry which affects level of its profitability. The more competitive is the industry, the more difficult for firms to maintain and increase their market share. It depends on the industry’s growth rate, number and diversity of competitors, differentiation of rival products and services and switching costs (Dobbs, 2014).

1.7.6 Digital Terrestrial TV

This is a digital television technology used to provide a greater number of channels and/or better quality of picture and sound using aerial broadcasts to a conventional antenna or aerial instead of a satellite dish or cable connection. It is received via a digital set-top box, or integrated receiving device, that decodes the signal received via a standard aerial antenna (Tecnicontrol, 2018).

1.8 Chapter Summary

This chapter has provided background information on the influence of Porter’s five forces on competitive advantage of firms in the pay-tv industry. The research problem that the researcher addressed, the purpose of the research, research questions and that provided guidance to the researcher, significance of the study to different stakeholders and scope of the research have also been addressed in this particular chapter. Chapter two presents the
literature review, chapter three contains the research methodology on how the research was conducted, while chapter four has the results and findings of the study and finally chapter five presents summary, discussion, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter focuses on literature review that is guided by the research questions formed in the previous chapter. The first section of this chapter presents literature on the effect of threats of new entrants on competitive advantage, followed by the effect of industry rivalry on competitive advantage, effect of substitutes on competitive advantage and the effect of consumer bargaining power. There is a chapter summary at the end to highlight the elements covered on the literature review.

2.2 The Effect of Industry Rivalry on Competitive Advantage of Pay-tv Service Providers

Industry rivalry is a concept that has remained used in marketing to speculate or determine the intensity of competition in an industry (Dobbs, 2014). Industry rivalry is one of the remarkable Porter’s five forces that was published by the great scholar Michael Porter.

This key concept has been defined by other scholars as being the degree that firms exert pressure on each other and thus limit each other’s profit potential within an industry (Samuel & Chimeziem, 2017). Where rivalry in the industry is fierce then clearly firms are trying to outcompete each in order to increase their market share and earn more profit, from that perspective, such actions contribute to a decrease in the profit potential for all companies in the industry. Upon analysing the five forces, it is evident that the rivalry intensity among firms is a fundamental concept that shapes the competitive structure of in an industry (Hill & Jones, 2012)

According to Hopkins (2016) rivalry intensity in an industry has an effect on the competitive atmosphere which influences the profitability of existing firms. For example, where the intensity of rivalry is high it simply indicates that firms are aggressively pricing their products in pursuit of each other’s share of market and profit. Consequently, such actions have the potential of affecting all competitors in the industry. On the other hand, where the intensity of rivalry is high among the firms, it can contribute to the industry becoming more competitive even though the potential for profitability has been reduced. Similarly, where the intensity of rivalry is said to be low, the potential to earn profits is
high for firms that exist in such an industry bearing in mind that the level of competitiveness is low among the firms (Kitchen, 2014).

According to Guao, Wang and Zhu (2016) rivalry among firms in an industry often involves competition for position in the market through utilising different strategies that include competition based on pricing, advertising and introduction of new products. Furthermore, they state that this kind of rivalry becomes more intense when a firm notices an increase in competitive pressure from its peers or it notices an opportunity that may enable it to improve its position in the market. Where the industry is characterised by numerous firms, one firm’s tactics tend to have a noticeable effect on competition and therefore other firms tend to counter such tactics with retaliation. In such circumstances, the firms are mutually dependent those counter reactions harm profitability for the firms and the industry.

Notably, certain forms of competition such as those based on price are greatly unstable and they impact the profitability of the industry negatively over time. On the other hand, competitive strategies that involve advertising campaigns can positively contribute to the industry because they bring about differentiated products as well as increase the levels of demand (Samuel & Chimeziem, 2017). In the business environment, the ideology of factors that influence the pressures that customers and clients experience in their day-to-day activity may remain expressed in diverse ways, for instance, an industry’s competitive pressure can be depicted using diverse tactics. Some of the tactics that can build the competitive pressure of the industry contribute to rivalry includes competition based on price, advertising wars, and new products (Kitchen, 2014).

2.2.1 Innovation

Competition in an industry often exerts a lot of pressure and as a result firms pursue innovation, so that they can be able to gain a competitive advantage through differentiating themselves from the other firms and thus increase consumer demand levels and grow their market share (Cave, 2005).

As a result, it facilitates the company to go an extra mile by digging their mind on the concept of innovation of the new products and services that are very different from their fellow competitors in the market. This becomes an advantage to consumers because they have room for extra choices and improved quality of products (Kimani, 2014). Again, they also benefit the companies since they tend to offer the variety of goods thus gaining greater
competitive advantages in the market platforms. Free-to-air TV broadcasting has the qualities of a public good, in that it is non-excludable where anyone with a TV receiver can access it and non-rivalries. As the history of the soap opera illustrates, private TV networks originally developed programs as a means to package advertising. Another fundamental change affecting traditional broadcasting is due to the migration of networks to Internet Protocol (IP) packet switching data transmission (Cheng, 2013).

As a result, due to the increasing competition and technological advancement, the broadcasting and pay-TVs have been forced to embrace changes pertaining to new innovation that has placed them in their current competition platforms (Enli & Syvertsen, 2016). Combined with significant broadband penetration and increases in computing power that have significantly increased bandwidth and the proliferation of digital devices this has enabled different devices and applications to use the same networks, and facilitated the ability of the communication industry to offer new and bundled services. This allows consumers to receive and decode video services across a variety of fixed and mobile devices, including computers, game terminals phones and tablets (Samuel & Chimeziem, 2017). In this environment, asymmetric regulation across services can have the effect of creating a competitive advantage for incumbents and potentially limiting the opportunities available for consumers. The invention DSTV, Zuku and Star Times as forms of pay-TVs subscriptions are the living examples of innovation that has been carried out in the broadcast disciplines. DSTV is considered Africa’s premier digital satellite offering and has the widest footprint in the region, and is also the most expensive in its package pricing. In addition to the aforementioned three, new entrants such as Bamba TV that is owned by Radio Africa Group and Africa Digital Network, which is a consortium of Nation Media Group, Royal Media Services and The Standard Group (Deloitte & Touche, 2014).

2.2.2 Rivalry Intensity

According to Gauo, Wang and Zhu (2016) Porter’s five forces deal with firms competing within the industry and the extent to which they exert pressure on each other. Empirical studies prove that this type of pressure that remains offered by industry rivalry can limit the profit potential of these firms. In industries where there is ferocious competitive rivalry to contend with, there are efforts to gain the most profit and market share from each other. This battle can end up decreasing the potential for profit for all of the firms. Circumstances of aggressive or high levels of rivalry feature a lot dynamism, which critically influences
an industry’s competitive environment. The level of competitiveness in the industry has a direct effect on a company’s profit expectations (Bian, 2015). In regard to that level of rivalry, scholars are convinced that markets having high levels of competition among firms may become detrimental to all the firms involved due to worsening profit margins and decreased ability to choose price points, thus contributing to failure of the firm or loss of market share to the emerging firms. Markets that have high competition discourage new firms from entering them because the barriers to such entry are considered to be high. Given that the potential for generating profits is low, there is less incentive to enter the market. On the contrary, where the level of competition is low, it makes the market more attractive for new entrants (Santos & Ozcan, 2015).

Rivalry among firms grows when a firm feels threatened by its competitors or if identifies a great opportunity through which it can expand its market share. Whatever the reason, the set-up of new firms on the existing marketing platforms has a direct impact on the already existing competitors, therefore, they will eventually retaliate to competitive activity. This can easily become a regular cycle and end up hurting the whole industry (Berman, Battino & Feldman, 2013). If competition becomes centered on price and it remains so for long it will affect the profit margins. Advertising battles may also contribute to the industry’s increased demand for profits (Dobbs, 2014).

Rajasekar and Alraee (2013) argue that the intensity of the rivalry between competitors in an industry depends on, the structure of competition, which include, the rivalry is more intense where there are many small equally sized competitors and rivalry is less when an industry has a clear market leader. Additionally, the structure of industry cost, for instance, industries with high fixed costs encourage competitors to fill unused capacity by price-cutting. Moreover, degree of differentiation in industries where products and commodities have greater rivalry; switching costs rivalry is reduced where buyers have high switching costs that is there is a significant cost associated with the decision to buy a product form an alternative suppliers; strategic objectives when competitors are pursuing aggressive growth strategies, rivalry is more intense (Rajasekar & Alraee, 2013). Where competitors are enjoying profits in a mature industry, the degree of rivalry is less; exit barrier- when barriers to leaving an industry are high, then competitors tend to exhibit greater rivalry (Sharma & Gadenne, 2013).
Cherono and Mwere (2018) assert that satellite service providers have a major advantage over the cable companies when it comes to providing services to people living in remote areas that cannot obtain any cable service, but even though that satellite and telco companies can have larger coverage areas or that satellite providers can offer to programme. In 2013 cable providers dominated the Pay TV market with 53% share of the subscribers, whereas the satellite and telco companies had the remaining 34% and 11% of subscribers respectively (Edna, 2013). It is clear that the intensity of industry rivalry plays a vital role on the effect of creating competitive advantages for the pay-TVs service. When there is fierce industry rivalry, there is high competition, which leads to the development of the mechanism which helps the company to outdo the fellow competitions. For instance, price-cutting is an excellent, methodology that can remain deployed to create competitive advantages of the pay-TVs service in the diverse marketing platforms (Kariuki, 2015).

2.3 The Effect of Substitutes on Competitive Advantage of Pay-Tv Service Providers

A substitute product or service refers to one that offers similar satisfaction to another even though they appear different (Wan, Lähtinen & Toppinen, 2015). A study on the relationship between substitute products and competitive advantage of large multinational firms in Kenyan beverage industry showed that the existence of substitute products and services as a threat affects the profitability of an industry since consumers can opt for the substitute as better alternative to the firm’s product or services, which ends up constraining the firm’s capacity to raise prices (Njambi, Lewa & Katuse, 2016). Price is deemed elastic as any slight increase without any addition in value being delivered to the customer and they can easily shift to the other firms that offer similar products or services but with better value proposition to the customer (Dobbs, 2014).

2.3.1 Availability of Close Substitutes

The availability of close substitutes poses a great threat to a firm’s products or services because they offer almost identical satisfaction and therefore could easily attract existing customer, which leads to a reduction in the firm’s market share and profits. If there is absence of close substitutes, then the threat posed to a firm’s products or services, is low (Guao et al., 2016). Therefore, goods and services with close substitutes tend to have more elastic demand because it is easier for consumers to switch from that good and service to others. For instance, butter and margarine are easily substitutable. Therefore, markerters have to remain contious about the concept of pricing of their products so that the
substitutes don’t get the opportunity to overcome the existing products (Bian, 2015). A small increase in the price of butter, assuming the price of margarine is held fixed, causes the quantity of butter sold to fall by a large amount. By contrast, because eggs are a food without a close substitute, the demand for eggs is less elastic than the demand for butter.

Substitutes limit the possible returns that an industry can generate by setting price limits that could be charged, their existence raises competition in the market as firms try to get a share of profits from their product or services. For example, if the price of coffee increases significantly, then customers might switch to tea or other beverages to satisfy their needs, which affects the profits that were previously enjoyed by a firm (Magretta, 2012). Substitute services for pay-tv include those offered by over-the-top service providers like Netflix, Amazon Prime, Hulu and Showmax. These substitutes aim at offering a better value to the consumer through convenience and cost reduction, which affects the prices that can be charged by pay-tv providers (Wing et al., 2016).

These are innovations that disrupt the accustomed way of doing things and therefore pose a threat to the industry structure. Disruptive innovation can be categorised into business-model innovation and radical innovations. Business-model innovation occurs when the way an existing product or service is provided to the consumers is redefined, and radical innovations occurs when new products or services are launched that cause a disruption to the current value propositions, consumer behavior and undermine the existing structure of the industry (Kim & Mauborgne, 2015).

Business-model innovation usually leads to expansion of market size by either attracting new consumers of the product or by encouraging the current consumers to increase their spending on the product or service (Hoque & Chia, 2012). As it common with successful disruptors, the growth of business-model innovations tends to eat on the market share of established firms in the industry who in turn give them due attention and find ways of responding to their lost market share. In growing numbers, consumers are replacing their traditional cable and satellite TV packages with those that more customized to their tastes and preferences, and often with less expensive mixes of programming, bundled together from a collection of online and on-demand services (Cave, 2005). The convenience brought about by this over-the-top (OTT) video has created a major shift in how content is produced, delivered, and consumed. The television industry would face massive disruption from new
competitors as technology advanced, and it brought better electronics including tablets and smartphones, all of which offer convenience to the consumers (Grand View Research, 2017).

Pay-tv and over-the-top service providers both compete for consumers and in one way are interdependent on each other. The best content in terms of programs is what often attracts customers, and the interdependence of these companies relates to content that those that have ownership rights can offer to to their competitors to be aired as reruns, which offers them an extra source of revenue (Auletta, 2014). Cave (2005) noted that growth of the pay-tv in America seemed to have stagnated over the years, yet the over-the-top (OTT) has experienced growth, a potential reason for the decline in both subscriptions and penetration rate of the pay-tv industry is that American consumers have started cutting their expensive pay-tv services and either substituting them with much cheaper Over-The-Top services, like Netflix and Amazon Prime, or spending their time and money on other substitute solutions.

The threat posed by online streaming services to broadcast television is based on the impact that the technology has had in the broadcast television industry (Bian, 2015). The growth of over-the-top video industry has forced traditional TV broadcasters, especially free-to-air television to reconsider their current operating business models (Wing et al., 2016), this has contributed them starting to stream their content online through the Youtube platform. Netflix has been recognised as a pioneer of online television after close to six years of hardwork in the industry.

The migration of transmission signals from analogue to digital has influenced the operational outcomes of pay-tv and consequently increased the penetration rate of pay-tv subscribers in Nairobi County. This digital migration led to increased awareness of pay-tv services and positioned it positively in consumers’ minds to be of better quality in comparison to free-to-air television hence the increase in penetration (Kariuki, 2015). A station like NTV owned by Nation Media Group, that airs on both terrestrial free-to-air channel and on digital platform owned by signal distributors such as DSTV enable it to overcome challenges that face free-to-air platform like strict government regulations as was evidenced by the media blackout during that was experienced across the country when NASA organized a swearing in ceremony for its leader (Cherono & Mwere, 2018).
On the other hand, if a good has no close substitutes, its demand is likely to be somewhat less price elastic (Shin, 2017). For instance, in the case of gasoline substitution, there exist very few close substitute of the same thus leads to less price elastic. The price elasticity of demand for gasoline in the intermediate term of, say, three to nine months is generally estimated to be about $-0.5$. Since the absolute value of price elasticity is less than 1, it is price inelastic. We would expect, though, that the demand for a particular brand of gasoline to be much more price elastic than the demand for gasoline in general.

### 2.3.2 Product Differentiation

Differentiation can be defined as the creation of distinguishing qualities that make a product stand out from available options (Pearce & Robinson, 2014), in this case it relates to the features or performance attributes of the substitute product or services, which makes them preferable among others in the market. When the functions, performance or features of the substitute goods and services are equivalent or better than those belonging to a firm, then the threat they pose is quite significant (Dobbs, 2014). For example, Microsoft has enjoyed great market success through its Windows operating system due to its easy to use interface, a feature which has enabled it to stay competitive relative to its close substitutes such as Linux and Mac OS.

Due to the rapid development of technology and the disruptions it brings about, this research on pay-tv companies enables them be able to evaluate the available opportunities available, the threats from present and potential competitors, the availability of substitute products in the industry, and the level of bargaining power that customers and suppliers have in in the industry (Cave, 2005). Porter’s five forces model is critical in analyzing the level of industry competition, and therefore create room for suggestions on possible reactions to competition. Notably, the stronger a competitive force is, the greater the threat it represents and vice-versa, the weaker the competitive force, the greater the opportunity it presents. The strengths and/or the weakness of the forces together determine overall industry attractiveness (Rothaermel, 2015).

### 2.3.3 Consumer Switching Costs

When it is easy for a customer to switch to a substitute product at minimal cost, the switching costs are said to be low and therefore mean that the substitute products pose a great threat (Ram & Wu, 2016). A substitute product or service that is of good quality and
has a low price tag, reduces the switching costs for the buyer which in turn increases the level of competition brought by the substitute. In the contemporary society, successful companies typically try to employ strategies that incur high switching costs on the part of consumers to dissuade them from switching to a competitor's product, brand or services (Hopkins, 2016). Switching costs tends to be the building blocks of competitive advantage and pricing power of companies. Firms strive to make switching costs as high as possible for their customers, which lets them lock customers in their products and raise prices every year without worrying that their customers will find better alternatives with similar characteristics or at similar price points (Francis & Maclintosh, 2014).

One of the latest developments affecting the television broadcasting industry is the so-called Over-the-top television or services (OTT). As it has been already explained, this essentially refers to the delivery of video bit-streams over broadband transmission networks rather than via traditional cable, satellite and other traditional broadcast means, in addition to other services typically provided via the Internet (Crawford & Yurukoglu, 2014). However, the relevance of OTT TV or IPTV should not be discussed merely from the perspective of delivering digital television over the Internet. It is argued that OTT TV is likely to lead to the reinvention of the way in which we experience television. In that regard, entry of new entrants in the markets influences the option of the customers switching costs. Since most of the pay-TVs services are very expensive to set up, most of the clients find it difficult to switch their needs to the new services that tend to substitute the existing markets (Sharma & Gadenne, 2013).

Switching costs are one of the seven remarkable business replica workings you can use to design superior business models. Importantly, switching costs help lower customer acquisition costs and thrive on recurring revenues from customers. They can also protect you from your competition (Dobbs, 2014). There are plenty of ways to embed them in your business model. If you look closely at companies like Adobe, Salesforce, Google, or Rolls Royce, you'll see that their dominance is no mere coincidence. Customers stay because they are locked into their ecosystems through high switching costs (Hopkins, 2016).

2.4 The Effect of New Entrants on Competitive Advantage of Pay-Tv services

The threat posed by new competitors in an industry is affected by barriers to entry that exist in the industry. According to Masanell (2014), where the barriers to entry are low and there are excessive profits in the industry being enjoyed by existing firms, then new competitors
are attracted which leads to increased competition. Therefore, the threat posed by new entrants largely depends on the reactions of existing firms in the industry and the existing entry barriers, which may be viewed as economies of scale, product differentiation, huge capital requirements to invest, access to distribution channels, cost difficulties and government regulations and policies (Porter, 2008).

According to Francis and MacIntosh (2014), barriers to entry into the cable television industry or pay-tv market create substantial protection to the incumbent operators and these barriers are commonly segment-specific. The major barriers to entry are categorized into four groups, which include regulatory approval of license (licensure), firm’s resource limitations, contractual relationships, and financial factors. The gradual convergence of television and communications technologies has led to telecommunication companies entering into video markets. Their entry is based on using Internet Protocol (IP) technologies rather than conventional dedicated coaxial cable or satellite broadcast technologies, and are therefore called IP television (IPTV) providers (Aggarwal, et al., 2016).

In an era characterized by disruptions, digital intermediaries or digital disruptive intermediaries have risen, these refer to third parties that enter the industry and provide services in a manner that challenges the current business models being used and they bring about disruptive change in the way that value is created and distributed in the industry (Sonnenfeld & Spence, 2015). Netflix can be termed as one of the most disruptive intermediaries in the television scene with its business model of distributing professionally produced viewing content to subscribers at a cost that is lower than that paid for pay-tv subscription (Berman, Battino & Feldman, 2013). The disruption of existing business models through online streaming services by the new entrants has led to a trend termed ‘cord cutting’ among viewers especially of the younger generation, which is basically leaving cable and satellite pay-tv services in favor of online streaming services. The culture of cord cutting has contributed to a decrease in subscription fees for pay-tv and advertising revenue received hence making them a threat in the industry (Mueser & Vlachos , 2018).

According to Todd and Melancon (2018) the arrival of digital intermediaries has accelerated the economic and technological pressures that the television industry faces, they have led to increased fragmentation of audiences through making viewing more focused on individual needs and given them given the freedom of choice on what to watch,
at what time and using which platform, which has contributed to the uptake since the viewers are set free from fixed program schedules. Pay-tv’s medium-to-long-term substitution threat is over-the-top (OTT) video that offers customers convenient accessibility to videos that they want to watch using internet based sources. The increasing penetration of internet across the globe and more so here in Kenya, has increased the prospects of over-the-top (OTT) video among customers (Deloitte & Touche, 2014).

Companies that have focused on offering pay-tv services face a significant risk because their source of revenue is being eaten away by the arrival of new technology that offers enhanced substitute (Bian, 2015). The study by Samuel and Chimeziem (2017) identified DSTV, Zuku and Star Times as the three major pay-tv operators in East Africa. DSTV is considered Africa’s premier digital satellite offering and has the widest footprint in the region, and is also the most expensive in its package pricing. In addition to the aforementioned three, new entrants such as Bamba TV that is owned by Radio Africa Group and Africa Digital Network, which is a consortium of Nation Media Group, Royal Media Services and The Standard Group. An industry characterized by increased competition makes it unattractive because of the reduction in available profits for firms (Berman, Battino & Feldman, 2013). According to Porter (2008), the firms that fail to respond effectively to increased competition in the industry are less likely to succeed in the business.

2.4.1 Protection of Market Share

Research shows that the concept of the new entrants in the market seems to offer the new capability for the organization to expand and the desire to share markets. Principally when new entrants are branching out from other markets, they can influence existing cash flows and capabilities to shake up the competition (Bian, 2015). The threat of entry, as a result, puts a restriction on the profit probable of an industry. When the threat is high, incumbents must grip down their prices or enhance investment to discourage new competitors. The concept of the new entrants in the market seems to offer the new capability for the organization to expand and the desire to share markets. Principally when new entrants are branching out from other markets, they can influence existing cash flows and capabilities to shake up the competition (Dobbs, 2014). The threat of entry, as a result, puts a restriction on the profit probable of an industry. When the threat is high, incumbents must grip down their prices or enhance investment to discourage new competitors (Abdiaziz, 2014).
The provision of TV broadcasting services requires that new entrants obtain access to transmission (telecommunications) services as well as access to content. Once, the new entrants have gained the new market, it tends to protect the existing market spheres (Kimani, 2014). Kim and Mauborgne (2015) indicates that, in the era of analogue broadcasting, legacy television regulatory models have typically considered transmission capacity to constitute a major barrier to entry since given the capacity constraints of the radio spectrum it remains believed that the number of television channels would remain limited. Therefore, entry of new entrants in the market platforms tends to play a significant role in scanning and protecting the new market shares. Moreover, if just one or a small number of broadcasters controlled the already limited transmission capacity, one could rationally expect that competition would not flourish. As a result, protecting the existing market spheres that they already exist in the market platforms (Santos & Ozcan, 2015).

According to Edna (2013) despite a presence of greater platform competition and apparently sufficient transmission capacity to satisfy both current and future needs in the line of the market sharing, competition concerns have not ceased to exist. Their source has simply shifted to other related areas. Some of the transmission assets, for example, such as terrestrial transmission sites, are simply too expensive to be duplicated. In fact, since some of the broadcasting enterprises are very expensive to set up, it leads to the protection of the market shares among the already existing markets as speculated by the concept of oligopoly marketing structures. Regulatory authorities concerned on potential exploitation of control over such assets may choose to regulate conditions under which access to them is to remain granted. Okara (2013) reveals that, when a dominant firm controls such assets, there is a risk that such a firm may unilaterally engage in anti-competitive behaviour.

The Astra/Abertis case from the Spanish competition authority, concerning abuse of dominant position, clearly illustrates that access to transmission facilities may still raise serious competition concerns. The success of entry into television broadcasting is moreover determined by the ability of new broadcasters to gain access to the content that consumers demand, and to differentiate their offering from that of incumbent broadcasters (Aggarwal, et al., 2016). Whereas technological convergence and digitization, in particular, have gradually resolved the problem of the spectrum and channel scarcity, convergence has not, as a matter of fact, had any direct impact on the provision of content. As there are, only a few blockbusters and a limited number of premium sports events every year, content has
consequently become scarcer and has effectively become a new bottleneck in the broadcasting market (Chen, 2016).

2.4.2 Supply-Side Economies of Scale

Dobbs (2014) proved that entry of new entrants in the market platforms plays a significant role in influencing the concept of supply-side economies of scales. According to the studies that have been carried out in the same concept shows that economies of scale seem to occur when an industry makes a larger volume that tends to take pleasure in the lower costs per unit since they can stretch fixed costs over more units in return (Mwaniki, 2016). Importantly, supply-side scale economies discourage entry by forcing the hopeful entrant either to come into the industry on a large scale, which needs extricating well-established rivals or to concede a cost disadvantage. For almost all value chain, the ideologies of scale economies are highly available. But this concept seems to differ depending on the type of organizations (Kimani, 2014).

While the pay-tv market does not seem to exhibit natural monopoly features that are accessible to premium content is generally considered to be of essential importance for the functioning of pay-tv markets. Such a view remains expressed around the world by competition authorities as well as market players (Cave, 2005). For instance, the European Commission in its decision concerning merger transaction between Newscorp and Telepiù expressly stated that access to premium contents, mainly recent films and football events but also other sports events, is vital to the successful operation of a pay-tv. However, as the Ministry of Economic Development and the Ministry of Culture and Heritage of New Zealand point out in the report issued jointly on competition issues in television broadcasting shows that any broadcaster that can lock up long-term rights to all or most premium content potentially has the capacity to dominate the retail market and exercise market power (Aggarwal, et al., 2016). Therefore, by considering the above concept is clear that entry of new entrants in the markets tends to influence the ideology of supply-side economies of scale. Barriers to accessing content and related competition concerns can arise from various sources, such as for example the integration of content owners and transmission providers, or existing contractual arrangements. As a result, this concept tends to discourage the entry of new entrants in the markets, which in turn leads to the creation of a favourable market for the pay- TVs (Crawford & Yurukoglu, 2014).
2.5 Chapter Summary

Literature review has been the focus of this chapter and it has presented a literature review on the threat of new entrants on competitive advantage, followed by the effect of industry rivalry on competitive advantage and finally the effect of substitute products on competitive advantage of pay-tv service providers in Kenya. The third chapter contains the research methodology on how the research was conducted.
3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was used in conducting the research. This chapter examines the research design that provided guidance to the researcher in executing this study, choosing population and sampling design, methods utilized in data collection, research procedures followed and data analysis techniques that were employed in during analysis of collected data.

3.2 Research Design

Research design is a framework that integrates various elements of the research process for it to effectively respond to the research questions (Cooper & Schindler, 2014). According to Sreepaksh, Mohapatra and Anusree (2014) a research design refers to an arrangement of research that is utilized in answering the exploration speculations under the study while at the same time addressing the structure of the investigation and the arrangement of examination used in acquiring experimental proof on the relations among study variables. This study used a descriptive survey design, which refers to the scientific method used in describing the attributes of a population or a phenomenon with an attempt of addressing the research questions (Easterby-Smith & Paul, 2015). The study used descriptive survey design since it enables the researcher to describe the attributes of the target respondents and the nature of the relationship that exist among the study variables (Saunders, Thornhill & Lewis, 2016).

3.3 Population and Sampling Design

3.3.1 Population

Population is a specific group of objects or items about which data is gathered (Saunders, Thornhill & Lewis, 2016). According to Cooper and Schindler (2014) population refers to a group of individuals or elements on which the sample to be studied is drawn from. For this study, the population consists of 149 respondents made up of managers sourced from four pay-tv service providers in Nairobi County.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Sampling frame refers to the proper and complete list of all the elements of a population which facilitate the development of sample population (Cooper & Schindler, 2014). In this study the sampling frame was obtained from the Sales and Marketing office of the pay-tv service providers in Nairobi County.

3.3.2.2 Sampling Technique

Sampling technique refers to the procedure that is used by the researcher to gather individuals, or elements to be studied (Cooper & Schindler, 2014). The sampling techniques that can be used are of two types; probability sampling and non-probability sampling. Probability sampling involves selection of sample size that uses random sampling and allows all the elements in a population to have equal chances of being selected while non-probability sampling does not involve random sampling. (Easterby-Smith & Paul, 2015) This study used probability sampling to ensure that all potential respondents had an equal chance of being selected and the sample is the representative of the entire population. Stratified sampling being a type of probability sampling was adopted to divide the target population into relevant strata from which a sample was be drawn.

3.3.2.3 Sample Size

Sample size refers to the group of participants, cases or events consisting of a portion of the target population that has been carefully selected to represent that population (Cooper & Schindler, 2014). This study used Yamane’s formula to determine its suitable sample size assuming that the confidence level is 95%.

\[ n = \frac{N}{(1 + Ne^2)} \]

Where, 
\[ n = \text{sample size} \quad N = \text{target population} \quad e = \text{alpha level 0.05} \]

\[ n = \frac{149}{(1 + 149(0.05))^2} \]

\[ n = 108 \]
Table 3.1: Sample Size Distribution Table

<table>
<thead>
<tr>
<th>Company</th>
<th>Population</th>
<th>Sample Size</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MultiChoice</td>
<td>57</td>
<td>40</td>
<td>37%</td>
</tr>
<tr>
<td>Star Times</td>
<td>31</td>
<td>21</td>
<td>19%</td>
</tr>
<tr>
<td>Zuku TV</td>
<td>39</td>
<td>29</td>
<td>27%</td>
</tr>
<tr>
<td>Azam TV</td>
<td>22</td>
<td>18</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
<td><strong>108</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Pay-Tv Head Office 2018*

3.4 Data Collection Methods

Data collection is the systematic approach of collecting and measuring data from different sources to obtain a complete and accurate information to answer the research questions (Easterby-Smith & Paul, 2015). Data collection can be done in various ways such as interviews, questionnaire, focus groups, experiments and observation. For this particular study a closed ended questionnaire was used as a data collection method for primary data. A questionnaire is ideal for gathering information as it enables one to collect most information within a short period of time, hence, making it suitable for this study. The questionnaire was divided into four sections: Section I contained general information on the respondents, followed by section II which had questions on the effect of threats of new entrants on competitive advantage, section III which had questions on the effect of rivalry on competitive advantage and the last part section IV which had questions on the effect of substitutes on competitive advantage.

3.5 Research Procedures

Research procedures represent the step by step activities undertaken by a researcher conducting a study (Cooper & Schindler, 2014). In this study, the researcher requested for and obtained approval from the supervisor then drafted a letter to the Human Resource Managers of the pay-tv service providers to gain permission to conduct the study. After approval had been received from Human Resource Managers a pilot test was conducted using 10% of the respondents who did not participate in the final data collection, this was done to test the validity and reliability of the questionnaire. All necessary amendments that were identified were corrected before administering the questionnaire to the target respondents. The next step was visiting the offices of the pay-tv service providers with the help of a research assistant to administer the questionnaires. Target respondents were given a week to respond to the questionnaires after which the research assistant collected and
availed them to the researcher for data analysis. Data was analyzed only after carefully checking if there was any missing information on the questionnaire and it was then presented in figures and tables.

3.6 Data Analysis Methods

Data analysis is the process through which inspection, transforming and modelling of data collected with the aim of discovering relevant information and conclusions to support decision-making (Cooper & Schindler, 2014). Data obtained from the questionnaires was numbered and then coded into the Statistical Package for Social Sciences software version 24. Descriptive statistics in the form of mean and standard deviation were used in this study to analyze frequencies and percentages while the inferential statistics used were correlation and regression analysis, which sought to show the relationship that exists among the study variables after which the findings were then presented using tables and figures.

3.7 Chapter Summary

This chapter has explained the research methodology of this study through presenting the adopted research design, selected population and sampling design as well as the methods of data collection used. The guiding research procedures and data analysis methods have also been presented in this chapter. The fourth chapter contains the results and findings of this study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings obtained from the respondents involved in the study. The chapter presents the demographics of the respondents followed by the findings on the effect of threat of new entrants on competitive advantage, the effect of industry rivalry on competitive advantage and the effect of substitute products on competitive advantage.

4.2 Demographic Information

The demographic information section covers the response rate of the study, respondents’ gender, age, work experience, level of education and work department.

4.2.1 Response Rate

The study sought to establish the response rate obtained from the respondents. Out of the 108 questionnaires that were issued to the respondents, only 73 of them were dully filled accounting for 68% of the response while the remaining 35 questionnaires accounted for 32%. According to Cooper and Schindler (2014) a response rate of 60% and above is sufficient for data analysis. Therefore, making the response rate of 68% viable for carrying out the analysis for this particular study. The findings are presented in Table 4.1.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>73</td>
<td>68%</td>
</tr>
<tr>
<td>Non-Response</td>
<td>35</td>
<td>32%</td>
</tr>
<tr>
<td>Total</td>
<td>108</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.2 Gender of the Respondents

The study sought to establish gender of the respondents. 32% of the respondents were female and 68% were male as indicated in Figure 4.1. It implies that there is a diverse gender distribution as well as equality in the companies and the pay-tv industry.
4.2.3 Age of the Respondents

The study established age distribution of the respondents; 13% of the respondents had the age of 48 years and above, 20% aged between the age of 41-47 years, 21% aged between 34-40 years, 32% aged between 26-33 years while 14% had the age between 18-25 years as shown in Figure 4.2. It implies that the respondents are mature and distributed well age wise, and they are very capable of interpreting the information sought in this study.

Figure 4.2: Age of the Respondents
4.2.4 Work Experience

The study sought to establish work experience; 11% of the respondents had a working experience of 0-1 year with the organization, followed by 28% with working experience between 2-4 years, 35% had a working experience of between 5-7 years, 19% between 8-10 years and 7% above 10 years as shown in Figure 4.3. It implies that the majority of the respondents had gained sufficient knowledge about the industry through their working experience which would greatly contribute to the study.

![Figure 4.3: Work Experience](image)

4.2.5 Education Level

The study established the education level of the respondents; 5% had a doctorate degree, 10% had a diploma, 53% had a bachelor’s degree and 32% had a master’s degree as shown in Figure 4.4. It implies that majority of the respondents had good understanding and interpretation of the information needed in this study as well as the ability to respond to the questionnaire in the most appropriate manner.
4.2.6 Work Department

In establishing work department of the managers involved in this study, the findings showed that 11% worked in the technical department, 12% in finance, 33% in sales and marketing, 32% in customer care department, and 12% in administration. It implies that there was a good combination of work departments with the right knowledge to respond to the study questions as shown in Figure 4.5.

Figure 4.4: Respondents’ Education Level

Figure 4.5: Work Department
4.3 The Effect of New Entrants on Competitive Advantage

The first research question of this study sought to establish the effect of new entrants on competitive advantage.

4.3.1 Descriptive Statistics of Threats of New Entrants and Competitive Advantage

Based on a Likert-scale, the respondents indicated the extent to which they agreed or disagreed in line with various aspects of threats of new entrants and competitive advantage. The range on the five point Likert scale ranges from 1 which stands for strongly disagree and 5 indicating strongly agree. Analysis of data was based on mean and standard deviations to represent the range of response dispersion as shown in Table 4.1.

Table 4.1: Descriptive Statistics of Threats of New Entrants and Competitive Advantage

<table>
<thead>
<tr>
<th>Threats of New Entrants and Competitive Advantage</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are new entrants coming into our industry.</td>
<td>73</td>
<td>4.37</td>
<td>.697</td>
</tr>
<tr>
<td>The company is investing heavily in product development to compete with new entrants into our industry.</td>
<td>73</td>
<td>4.41</td>
<td>.620</td>
</tr>
<tr>
<td>The new entrants into the industry pose a threat to our market share.</td>
<td>73</td>
<td>4.27</td>
<td>.507</td>
</tr>
<tr>
<td>Threat of new entrants has forced the organization to set higher barriers of entry into the industry.</td>
<td>73</td>
<td>4.30</td>
<td>.462</td>
</tr>
<tr>
<td>New entrants have strongly affected our pricing methods.</td>
<td>73</td>
<td>4.22</td>
<td>.629</td>
</tr>
<tr>
<td>The industry is characterized by flexible licensing regulations and laws.</td>
<td>73</td>
<td>4.41</td>
<td>.495</td>
</tr>
<tr>
<td>The company is investing heavily on its products and services as opposed to the new entrants to foster brand loyalty.</td>
<td>73</td>
<td>4.40</td>
<td>.493</td>
</tr>
<tr>
<td>Profitability is affected by new entrants into our industry.</td>
<td>73</td>
<td>4.38</td>
<td>.490</td>
</tr>
<tr>
<td>The new entrants have enhanced the decisions towards building a competitive advantage.</td>
<td>73</td>
<td>4.51</td>
<td>.503</td>
</tr>
</tbody>
</table>
The threat of new entrants influences our growth prospects.

The company has strategies in place to address the threats of new entrants.

Threats of new entrants dictate our market-penetration decision making.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The threat of new entrants influences our growth prospects</td>
<td>4.56</td>
<td>.500</td>
</tr>
<tr>
<td>The company has strategies in place to address the threats of new entrants.</td>
<td>4.36</td>
<td>.632</td>
</tr>
<tr>
<td>Threats of new entrants dictate our market-penetration decision making.</td>
<td>4.53</td>
<td>.502</td>
</tr>
</tbody>
</table>

From Table 4.1, it is clear that new entrants have an effect of competitive advantage. The findings revealed that the respondents agreed that there are new entrants coming into the industry with a mean of 4.37 and standard deviation of 0.697. The respondents of this study also agreed that their companies are investing heavily in product development to compete with new entrants into the industry, mean = 4.41 and standard deviation = 0.620, the respondents were in agreement that the new entrants into the industry pose a threat to their company’s market share, mean = 4.27 and standard deviation = 0.507. The respondents agreed that the threat of new entrants has forced the organization to set higher barriers of entry into the industry, mean = 4.30 and standard deviation = 0.462.

The respondents agreed that the threat of new entrants has strongly affected the organization’s pricing methods, mean = 4.22 and standard deviation = 0.629. The respondents agreed that the industry is characterized by flexible licensing regulations and laws, mean = 4.41 and standard deviation = 0.495. The respondents agreed that the company is investing heavily on its products and services as opposed to the new entrants to foster brand loyalty, mean = 4.40 and standard deviation = 0.493. The findings of this study revealed that the respondents agreed that profitability is affected by new entrants into the industry, mean = 4.38 and standard deviation = 0.490.

The findings of this study revealed that the respondents agreed that the new entrants have enhanced the organization’s decisions towards building a competitive advantage, mean = 4.51 and standard deviation = 0.503. The respondents were also in agreement that the threat of new entrants influences growth prospects to attain a competitive edge, mean = 4.56 and standard deviation = 0.500. The respondents agreed that the company has strategies in place to address the threats of new entrants, mean = 4.36 and standard deviation = 0.632. The respondents agreed that threats of new entrants dictate market-penetration decision making, mean = 4.53 and standard deviation = 0.502.
Based on the responses provided it is clear that the entry of new firms into the industry has an effect on the existing firms’ operations and strategy. The threat posed by new entrants in the pay-tv industry has led to increased investments in product development so as to lure new customers and also maintain the loyalty of the current customers, all aimed at ensuring that the firm does not cede market share to its competitors.

4.3.2 Regression Analysis for Threats of New Entrants on Competitive Advantage

A regression analysis was performed to determine the underlying relationship between the threat of new entrants which is the independent variable and competitive advantage which is the dependent variable under investigation.

Table 4.2: Model Summary between Threats of New Entrants and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.418&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.175</td>
<td>.163</td>
<td>.12479</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Threats of New Entrants

Table 4.2 represents a regression model summary between threats of new entrants and competitive advantage. The findings revealed an R-square value of 0.175, this means that threats of new entrants account for 17.5% in competitive advantage with 82.5% variability attributed to other factors not covered in the study.

Table 4.3: Analysis of Variance for Threats of New Entrants and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.234</td>
<td>1</td>
<td>.234</td>
<td>15.040</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1.106</td>
<td>71</td>
<td>.016</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.340</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Competitive Advantage  
<sup>b</sup> Predictors: (Constant), Threats of New Entrants

The Analysis of Variance shown in Table 4.3 indicates that the F-test value was 15.040 and a p-value of 0.000. This shows that; F (1, 71) = 15.040, p = 0.000 (p < 0.05), this means that the relationship between threats of new entrants (independent variable) and competitive advantage is statistically significant.
advantage (dependent variable) is significant because the p-value of 0.000 is less than the study’s significance level of 0.05 at 95% confidence level.

Table 4.4: Coefficient Table for Threats of New Entrants and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.632</td>
<td>.209</td>
</tr>
<tr>
<td>Threats of New Entrants</td>
<td>.184</td>
<td>.048</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Competitive Advantage

The findings in Table 4.4 shows a beta coefficient value for the variables being investigated as, constant ($\beta_0$) = 3.632 and beta for threats of new entrants ($\beta_1$) = 0.184. The p-value for threats of new entrants was recorded as 0.000 (P=0.000, p < 0.01). The regression equation was computed as follows:

\[
\text{Competitive Advantage (Y)} = 3.632 + 0.184 \times X_1
\]

Therefore, the findings mean that for every change in a unit of threats of new entrants there will be a 0.184 unit change in competitive advantage.

4.4 The Effect of Industry Rivalry on Competitive Advantage

The study sought to determine the effect of industry rivalry on competitive advantage.

4.4.1 Descriptive Statistics for Industry Rivalry on Competitive Advantage

Based on a Likert- scale, the respondents indicated the extent to which they agreed or disagreed in line with various aspects of industry rivalry and competitive advantage. The range on the five point Likert scale ranges from 1 which stands for strongly disagree and 5 indicating strongly agree. Analysis of data was based on mean and standard deviations to represent the range of response dispersion as shown in Table 4.5.
Table 4.5: Descriptive Statistics for Industry Rivalry on Competitive Advantage

<table>
<thead>
<tr>
<th>Threats of New Entrants</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company uses product differentiation to gain competitive advantage from the market.</td>
<td>73</td>
<td>4.37</td>
<td>.613</td>
</tr>
<tr>
<td>Intensity of rivalry in our industry leads to stiff competition.</td>
<td>73</td>
<td>4.22</td>
<td>.583</td>
</tr>
<tr>
<td>Our competitive advantage cannot be easily replicated by our rivals.</td>
<td>73</td>
<td>4.33</td>
<td>.473</td>
</tr>
<tr>
<td>Intensity of rivalry has influenced the company to develop strategies to gain competitive advantage.</td>
<td>73</td>
<td>4.44</td>
<td>.577</td>
</tr>
<tr>
<td>The company has invested in research and development to gain competitive edge in the pay-tv service industry.</td>
<td>73</td>
<td>4.42</td>
<td>.705</td>
</tr>
<tr>
<td>The company has embraced innovation and creativity to actively compete in the industry.</td>
<td>73</td>
<td>4.32</td>
<td>.468</td>
</tr>
<tr>
<td>We offer competitive prices to our customers in order to compete effectively.</td>
<td>73</td>
<td>4.60</td>
<td>.493</td>
</tr>
<tr>
<td>The company competes on various dimensions with an attempt of gaining competitive advantage.</td>
<td>73</td>
<td>4.51</td>
<td>.503</td>
</tr>
<tr>
<td>Intensity of rivalry enhances our competitive advantage strategy.</td>
<td>73</td>
<td>4.37</td>
<td>.486</td>
</tr>
<tr>
<td>Industry rivalry among our competitors shapes the industry trends pertaining to competitive advantage.</td>
<td>73</td>
<td>4.56</td>
<td>.500</td>
</tr>
<tr>
<td>The company formulates its competitive advantage strategies in line with rivalry intensity.</td>
<td>73</td>
<td>4.45</td>
<td>.765</td>
</tr>
<tr>
<td>The company undertakes innovation of products and services to address rivalry intensity.</td>
<td>73</td>
<td>4.29</td>
<td>.456</td>
</tr>
<tr>
<td>Intensity of rivalry influences our market positioning strategies.</td>
<td>73</td>
<td>4.49</td>
<td>.503</td>
</tr>
<tr>
<td>Intensity of rivalry enhances innovation and creativity in the company</td>
<td>73</td>
<td>4.55</td>
<td>.646</td>
</tr>
</tbody>
</table>

Based on the descriptive statistics shown on Table 4.5 industry rivalry has an effect on competitive advantage of the firm and it plays a key role when creating strategic plans for the entity. The findings show that the respondents agreed that product differentiation can be used to gain competitive advantage from the market, mean = 4.37 and standard deviation
= 0.613. The respondents agreed that intensity of rivalry in the industry leads to stiff competition, mean = 4.22 and standard deviation = 0.583. The respondents agreed that their company’s competitive advantage cannot be easily replicated by rivals, mean = 4.33 and standard deviation = 0.473. The respondents agreed that intensity of rivalry has influenced the company to develop strategies to gain competitive advantage, mean = 4.44 and standard deviation = 0.577. The respondents agreed that the company’s investments in research and development can enable it to gain competitive edge in the pay-tv service industry, mean = 4.42 and standard deviation = 0.705.

The findings of the study also revealed that the respondents agreed that embracing innovation and creativity by the company enable it to actively compete in the industry, mean = 4.32 and standard deviation = 0.468. The respondents agreed that the company offers competitive prices to its customers in order to compete effectively, mean = 4.60 and standard deviation = 0.493. The respondents were in agreement that their company competes on various dimensions with an attempt of gaining competitive advantage, mean = 4.51 and standard deviation = 0.503. The respondents agreed that intensity of rivalry in the industry enhances the company’s competitive advantage strategy, mean = 4.37 and standard deviation = 0.486.

The respondents agreed that industry rivalry among competitors shapes the industry trends pertaining to competitive advantage, mean = 4.56 and standard deviation = 0.500. The respondents agreed that the company formulates its competitive advantage strategies in line with rivalry intensity, mean = 4.45 and standard deviation = 0.765. The respondents agreed that innovation of products and services is undertaken so as to address rivalry intensity, mean = 4.29 and standard deviation = 0.456. The respondents agreed that intensity of rivalry influences market positioning strategies, mean = 4.49 and standard deviation = 0.503. The respondents agreed that intensity of rivalry enhances innovation and creativity in the company, mean = 4.55 and standard deviation = 0.646.

4.4.2 Regression Analysis for Industry Rivalry on Competitive Advantage

A regression analysis was performed to determine the underlying relationship between the independent and dependent variables under investigation.
Table 4.6: Model Summary for Industry Rivalry on Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.784\textsuperscript{a}</td>
<td>.615</td>
<td>.609</td>
<td>.08525</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Predictors: (Constant), Industry Rivalry

Table 4.6 represents a regression model summary between industry rivalry and competitive advantage. The findings revealed an R-square value of 0.615, this means that industry rivalry accounts for 61.5% in competitive advantage with 38.5% variability attributed to other factors not covered in this study.

Table 4.7: Analysis of Variance between Industry Rivalry and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.824</td>
<td>1</td>
<td>.824</td>
<td>113.374</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>.516</td>
<td>71</td>
<td>.007</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1.340</td>
<td>72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Competitive Advantage
\textsuperscript{b} Predictors: (Constant), Industry Rivalry

The Analysis of Variance shown in Table 4.7 indicates F-test value of 113.374 and a p-value of 0.000. This indicates that; F (1, 71) = 113.374, p = 0.000 (p < 0.05), and therefore there is a statistically significant relationship between industry rivalry (independent variable) and competitive advantage (dependent variable). The relationship between industry rivalry and competitive advantage is significant because the p-value of 0.000 is less than the study’s significance level of 0.05 at 95% confidence level.

Table 4.8: Coefficients Table for Industry Rivalry and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.491</td>
<td>.183</td>
<td>13.589</td>
</tr>
<tr>
<td></td>
<td>Industry Rivalry</td>
<td>.441</td>
<td>.041</td>
<td>.784</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Competitive Advantage
The findings in Table 4.8 show a beta coefficient value for the variables under investigation as, constant \((\beta_0) = 2.491\) and beta for industry rivalry \((\beta_1) = 0.441\). The p-value for industry rivalry was recorded as 0.000 \((P= \text{0.000, } p < 0.01)\. The regression equation was computed as follows:

\[
\text{Competitive Advantage (Y)} = 2.491 + 0.441 X_1
\]

Therefore, the findings mean that for every change in a unit of industry rivalry there will be a 0.441 change in competitive advantage.

### 4.5 The Effect of Substitutes on Competitive Advantage

The study sought to determine the effect of substitutes on competitive advantage.

#### 4.5.1 Descriptive Statistics for Substitutes and Competitive Advantage

Based on a Likert-scale, the respondents indicated the extent to which they agreed or disagreed in line with various aspects of availability of substitutes and competitive advantage. The range on the five point Likert scale ranges from 1 which stands for strongly disagree and 5 indicating strongly agree. Analysis of data was based on mean and standard deviations to represent the range of dispersion as shown in Table 4.9.

**Table 4. 9: Descriptive Statistics for Substitutes and Competitive Advantage**

<table>
<thead>
<tr>
<th>Availability of Substitutes</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is availability of substitute products in the industry.</td>
<td>73</td>
<td>4.42</td>
<td>.498</td>
</tr>
<tr>
<td>Substitute products affects our competitive advantage.</td>
<td>73</td>
<td>4.41</td>
<td>.495</td>
</tr>
<tr>
<td>Services are highly differentiated to effectively compete with substitute products.</td>
<td>73</td>
<td>4.52</td>
<td>.503</td>
</tr>
<tr>
<td>Substitute products have enhanced our strategic decision making in response to competition.</td>
<td>73</td>
<td>4.37</td>
<td>.486</td>
</tr>
<tr>
<td>Availability of substitute products has affected our competitiveness in the market.</td>
<td>73</td>
<td>4.38</td>
<td>.543</td>
</tr>
<tr>
<td>Our products have higher consumer switching costs compared with substitute products.</td>
<td>73</td>
<td>4.32</td>
<td>.468</td>
</tr>
<tr>
<td>Substitute products have enhanced our competitive strategies.</td>
<td>73</td>
<td>4.55</td>
<td>.501</td>
</tr>
</tbody>
</table>
Substitute products have a better competitive advantage in our industry. 73 4.36 .695
Our company has invested in substitute products to cope up with competition. 73 4.66 .478
Availability of substitute products influences product development in the company. 73 4.44 .764
Availability of substitute products influences our pricing strategy. 73 4.26 .602
Availability of substitute products has enhanced our market strategies. 73 4.22 .559
Product differentiation strategies enables the company to deal with substitutes. 73 4.22 .712
Consumer switching costs is a priority in regards to the decision associating substitute products. 73 4.25 .641

The descriptive statistics presented on Table 4.9 above show that availability of substitutes has an effect on competitive advantage and therefore important consideration is given to it by the firms during decision making and strategy formulation. The findings revealed that the respondents agreed that there is availability of substitute products in the industry, mean = 4.42 and standard deviation = 0.498. The respondents agreed that substitute products affect competitive advantage, mean = 4.41 and standard deviation = 0.495. The respondents also agreed that services are highly differentiated to effectively compete with substitute products, mean = 4.52 and standard deviation = 0.503. The respondents agreed that substitute products have enhanced strategic decision making in response to competition, mean = 4.37 and standard deviation = 0.486. The respondents agreed that availability of substitute products has affected competitiveness in the market, mean = 4.38 and standard deviation = 0.543.

The respondents agreed that their products have higher consumer switching costs compared with substitute products, mean = 4.32 and standard deviation = 0.468. The respondents agreed that substitute products have enhanced the company’s competitive strategies, mean = 4.55 and standard deviation = 0.501. The respondents agreed that substitute products have a better competitive advantage in the industry, mean = 4.36 and standard deviation = 0.695.
The respondents agreed that their company has invested in substitute products to cope up with competition, mean = 4.66 and standard deviation = 0.478.

The findings of the study revealed that the respondents agreed that availability of substitute products influences product development in the company, mean = 4.44 and standard deviation = 0.764. The respondents agreed that availability of substitute products influences the company’s pricing strategy, mean = 4.26 and standard deviation = 0.602. The respondents agreed that availability of substitute products has enhanced market strategies, mean = 4.22 and standard deviation = 0.559. The respondents agreed that product differentiation strategies enable the company to deal with substitutes, mean = 4.22 and standard deviation = 0.712. The respondents agreed that consumer switching costs is a priority consideration in regards to decisions associating substitute products, mean = 4.25 and standard deviation = 0.641.

4.5.2 Regression Test for Substitutes and Competitive Advantage

A regression analysis was performed to determine the underlying relationship between the independent and dependent variables under investigation.

Table 4.10: Model Summary for Substitutes and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.496&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.246</td>
<td>.235</td>
<td>.11931</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Substitutes

Table 4.10 represents a regression model summary between substitutes and competitive advantage. The findings revealed an R-square value of 0.246, this means that substitutes account for 24.6% in competitive advantage with 75.4% variability attributed to other factors not covered in the study.

Table 4.11: Analysis of Variance between Substitutes and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.329</td>
<td>1</td>
<td>.329</td>
<td>23.136 .000&lt;sup&gt;p&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1.011</td>
<td>71</td>
<td>.014</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1.340</td>
<td>72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Competitive Advantage
b. Predictors: (Constant), Substitutes
The Analysis of Variance presented in Table 4.11 shows F-test value of 23.136 and p-value of 0.000. This indicates that; F (1, 71) = 23.136, p = 0.000 (p < 0.05), this implies that the relationship between substitutes (independent variable) and competitive advantage (dependent variable) is statistically significant. The relationship between substitutes and competitive advantage is significant because the p-value of 0.000 is less than the study’s significance level of 0.05 at 95% confidence level.

Table 4.12: Coefficients Table for Substitutes and Competitive Advantage

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant) 3.008</td>
<td>.298</td>
<td>10.095</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Substitutes .327</td>
<td>.068</td>
<td>.496</td>
<td>4.810</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Competitive Advantage

The findings in Table 4.12 shows a beta coefficient value for the variables under investigation as, constant ($\beta_0$) = 3.008 and beta for substitutes ($\beta_1$) = 0.327. The p-value for substitutes was recorded as 0.000 (P= 0.000, p < 0.01. The regression equation was computed as follows:

Competitive Advantage ($Y$) = 3.008 + 0.327 $X_1$

Therefore, the findings mean that for every change in a unit of substitutes there will be a 0.327 change in competitive advantage.

4.6 Chapter Summary

The chapter presented the results and findings of the study. It is evident that there exists a statistically significant relationship between threats of new entrants and competitive advantage. The findings also indicate a significant relationship between substitute products and competitive advantage. Finally the study findings indicate that there exists a statistical significant relationship between industry rivalry and competitive advantage. The next chapter presents the discussion, conclusion and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, discussion, conclusion and recommendations of the study based on the findings obtained from the respondents. The study’s research objectives formed the basis for discussion and conclusion, and the recommendations made were based on the findings and conclusion of this study.

5.2 Summary

The purpose of this study was to determine the influence of industry forces on the competitive advantage of pay-tv services providers in Kenya. The study was guided by the following research questions; what is the effect of new entrants on competitive advantage of pay-tv service providers in Kenya, what is the effect of industry rivalry on competitive advantage of pay-tv service providers in Kenya and finally what is the effect of substitute products on competitive advantage of pay-tv service providers in Kenya.

The study used a descriptive survey design and population stratified sampling in selecting its sample. With a major focus on three of the five Porter’s forces, the sample size of the study included 149 respondents made up of managers in pay-tv service companies in Nairobi County. Primary data was collected with the aid of a closed ended questionnaire as the main instrument of data collection and the data obtained from the respondents was analyzed with the use of Statistical Package for Social Sciences software version 24. The study used inferential statics to perform regression analysis and correlation analysis of the data. Descriptive statistics in the form of frequencies, mean and standard deviation were used to analyze the study variables and present the findings.

The study sought to determine the effect of new entrants on competitive advantage. The findings indicate that threats of new entrants had a positive relationship with competitive advantage, R-square value of 17.5%.

The study also sought to determine the effect of industry rivalry on competitive advantage. The findings show that industry rivalry had a positive correlation with competitive advantage, R- square value of 61.5%.
The study also sought to determine the effect of substitute products on competitive advantage. The findings showed that there exists a statistical significant relationship between availability of substitutes and competitive advantage, R-square value of 24.6%.

5.3 Discussion

5.3.1 Threats of New Entrants and Competitive Advantage

The study found out that there is a statistically significant relationship between threats of new entrants and competitive advantage. These findings agree with Todd and Melancon (2018) who argue that the arrival of digital intermediaries has accelerated the economic and technological pressures that the television industry faces, they have led to increased fragmentation of audiences through making viewing more focused on individual needs and given them the freedom of choice on what to watch, at what time and using which platform, which has contributed to the uptake since the viewers are set free from fixed program schedules. Pay-tv’s medium-to-long-term substitution threat is over-the-top video that offers customers convenient accessibility to videos that they want to watch using internet based sources. The increasing penetration of internet across the globe and more so here in Kenya, has increased the prospects of over-the-top (OTT) video among customers (Deloitte & Touche, 2014).

According to Bian (2015) Companies that have focused on offering pay-tv services face a significant risk because their source of revenue is being eaten away by the arrival of new technology that offers enhanced substitute. The study by Samuel (2017) identified DSTV, Zuku and Star Times as the three major pay-tv operators in East Africa. DSTV is considered Africa’s premier digital satellite offering and has the widest footprint in the region, and is also the most expensive in its package pricing. In addition to the aforementioned three, new entrants such as Bamba TV that is owned by Radio Africa Group and Africa Digital Network, which is a consortium of Nation Media Group, Royal Media Services and The Standard Group. An industry characterized by increased competition makes it unattractive because of the reduction in available profits for firms (Berman, Battino & Feldman, 2013).

The findings of this study also indicate that threats of new entrants has a significant relationship with market share. According to Bian (2015) research shows that the concept of the new entrants in the market seems to offer the new capability for the organization to expand and the desire to share markets. Principally when new entrants are branching out
from other markets, they can influence existing cash flows and capabilities to shake up the competition. Abdiaziz (2014) suggests that the threat of entry, as a result, puts a restriction on the profit probable of an industry. When the threat is high, incumbents must grip down their prices or enhance investment to discourage new competitors. The concept of the new entrants in the market seems to offer new capability for the organization to expand and the desire to share markets. Principally when new entrants are branching out from other markets, they can influence existing cash flows and capabilities to shake up the competition. Dobbs (2014) the threat of new entrants puts a restriction on the industry’s profitability and therefore existing firms must carefully watch their prices in order to keep new competitors at bay.

The findings have also shown that threats of new entrants influences competition in the market. These findings are in line with Edna (2013) who argues that despite a presence of greater platform competition and apparently sufficient transmission capacity to satisfy both current and future needs in the line of the market sharing, competition concerns have not ceased to exist, their source has simply shifted to other related areas. Some of the transmission assets, for example, such as terrestrial transmission sites, are simply too expensive to be duplicated. In fact, since some of the broadcasting enterprises are very expensive to set up, it leads to the protection of the market shares among the already existing markets as speculated by the concept of oligopoly market structures. Regulatory authorities concerned on potential exploitation of control over such assets may choose to regulate conditions under which access to them is to remain granted (Bian, 2015).

5.3.2 The Effect of Industry Rivalry on Competitive Advantage

This study sought to determine the effect of industry rivalry on competitive advantage. The findings established a positive correlation between industry rivalry and competitive advantage. The findings correspond to the findings of Hopkins (2016) arguing that intensity of rivalry in an industry affects the competitive environment and influences the ability for existing firms to achieve profitability. For instance, high intensity of rivalry simply means that competitors are aggressively targeting each other’s markets and aggressively pricing products. Therefore, this ideology tends to represent potential costs to all competitors within the industry. On the other hand, high intensity of competitive rivalry can make an industry more competitive and decrease profit potential for the existing firms. In lieu of
that matter, low intensity of competitive rivalry makes an industry less competitive and increases profit potential for the existing firms (Chen, 2016).

According to Guao et al. (2016) industry rivalry frequently takes the form of jockeying for the position using various tactics, which includes price competition, advertising battles, and product introductions. Further, they argue that this rivalry tends to increase intensity when companies either feel competitive pressure or see an opportunity to improve their position. In numerous firms, one company’s competitive moves will have a noticeable impact on the competition, which will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry (Sharma & Gadenne, 2013).

The findings of this study indicate that industry rivalry enhances product differentiation which relates to the features or performance attributes of the substitute product or services, which makes them more preferable among others in the market. Dobbs (2014) argues that when the functions, performance or features of the substitute goods and services are equivalent or better than those belonging to a firm, then the threat they pose is quite significant. For example, Microsoft has enjoyed great market success through its Windows operating system due to its easy to use interface, a feature which has enabled it to stay competitive relative to its close substitutes such as Linux and Mac OS. According to Cave (2005) the rapid development of technology and the disruptions it brings about, this research on pay-tv companies enables them be able to evaluate the available opportunities available, the threats from present and potential competitors, the availability of substitute products in the industry, and the level of bargaining power that customers and suppliers have in in the industry. Rothaermel (2015) argues that Porter’s five forces model is critical in analyzing the level of industry competition, and therefore creates room for suggestions on possible reactions to competition. Notably, the stronger a competitive force is, the greater the threat it represents and vice-versa, the weaker the competitive force, the greater the opportunity it presents. The strengths and/or the weakness of the forces together determine overall industry attractiveness.

The findings of this study indicate that industry rivalry enhances innovation and creativity in the organization. These findings agree with Cave (2005) who argues that due to the pressures that an industry faces because of competition, companies often seek to innovate in order to differentiate themselves from others and gain more consumers as well as market
share. As a result, it facilitates the company to go an extra mile by digging their mind on the concept of innovation of the new products and services that are very different from their fellow competitors in the market. According to Kimani (2014) this benefits consumers by providing more choices and better quality of goods and services. Again, they also benefit the companies since they tend to offer a variety of goods thus gaining greater competitive advantages in the market platforms. In extreme cases, these innovations may lead to changes in society and lifestyles. Free-to-air TV broadcasting has the qualities of a public good, in that it is non-excludable where anyone with a TV receiver can access it. As the history of the soap opera illustrates, private TV networks originally developed programs as a means to package advertising. Another fundamental change affecting traditional broadcasting is due to the migration of networks to Internet Protocol (IP) packet switching data transmission (Cheng, 2013).

5.3.3 The Effect of Substitutes on Competitive Advantage

This study sought to determine the effect of substitute products on competitive advantage. The findings indicate that there exists a significant relationship between substitutes and competitive advantage. These findings agree with Njambi et al. (2016) who carried out a study on the relationship between substitute products and the competitive advantage of large multinational firms in the Kenyan beverage industry which showed that the existence of substitute products and services as a threat affects the profitability of an industry since consumers can opt for the substitute as better alternative to the firm’s product or services, which ends up constraining the firm’s capacity to raise prices.

The findings of this study indicates that substitutes influence consumer switching costs. These findings corresponds to Ram and Wu (2016) who indicate that it is easy for a customer to switch to a substitute product at minimal cost, the switching costs are said to be low and therefore mean that the substitute products pose a great threat. According to Hopkins (2016) a substitute product or service that is of good quality and has a low price tag, reduces the switching costs for the buyer which in turn increases the level of competition brought by the substitute. In contemporary society, successful companies typically try to employ strategies that incur high switching costs on the part of consumers to dissuade them from switching to a competitor's product, brand or services. Switching costs tends to be the building blocks of competitive advantage and pricing power of companies. Firms strive to make switching costs as high as possible for their customers,
which lets them lock customers in their products and raise prices every year without worrying that their customers will find better alternatives with similar characteristics or at similar price points (Francis & Maclintosh, 2014).

Switching costs are one of the remarkable business replica workings you can use to design superior business models. Importantly, switching costs help lower customer acquisition costs and thrive on recurring revenues from customers. They can also protect you from your competition (Sharma & Gadenne, 2013). There are plenty of ways to embed them in your business model. If you look closely at companies like Adobe, Salesforce, Google, or Rolls Royce, you'll see that their dominance is no mere coincidence. Customers stay because they are locked into their ecosystems through high switching costs.

The findings of this study also indicate that the presence of substitute products enhances innovative products in organizations. These are innovations that disrupt the accustomed way of doing things and therefore pose a threat to the industry structure. The findings are in line with Kim and Mauborgne (2015) who indicate disruptive innovation can be categorised into business-model innovation and radical innovations. Business-model innovation occurs when the way an existing product or service is provided to the consumers is redefined, and radical innovations occur when new products or services are launched that cause a disruption to the current value propositions, consumer behavior and undermine the existing structure of the industry. Hoque and Chia (2012) argue that business-model innovation usually leads to expansion of market size by either attracting new consumers of the product or by encouraging the current consumers to increase their spending on the product or service. As it common with successful disruptors, the growth of business-model innovations tends to eat on the market share of established firms in the industry who in turn give them due attention and find ways of responding to their lost market share. In growing numbers, consumers are replacing their traditional cable and satellite TV packages with those that more customized to their tastes and preferences, and often with less expensive mixes of programming, bundled together from a collection of online and on-demand services (Cave, 2005).
5.4 Conclusions

5.4.1 Threats of New Entrants and Competitive Advantage

The study concludes that threats of new entrants has been central towards enhancing competitive advantage among pay-tv service firms. The study shows that threats of new entrants increases competition among competing firms since new entrants get into the market with new products forcing other players to keep up with competition. The study concludes that threats of new entrants intensifies product development among competing firms in order to gain a sustainable competitive advantage. The study also concludes that threats of new entrants enhances decision-making towards building competitive advantage of the firm.

5.4.2 The Effect of Industry Rivalry on Competitive Advantage

The study concludes that there is a significant relationship between industry rivalry and competitive advantage. The study concludes that industry rivalry is significant for innovation and creativity in organizations as companies strive to create a market position for their brands. The study concludes that industry rivalry enhances market positioning strategies for companies competing in the pay-tv industry as they find the best ways to position their products and services in the market. The study also concludes that industry rivalry enhances market trends that shape competition in the pay-tv service industry.

5.4.3 The Effect of Substitutes on Competitive Advantage

The study concludes that there is a significant relationship between substitute products and competitive advantage. The study concludes that availability of substitute products augments product differentiation for companies to address the needs and wants of their consumers effectively. The study concludes that substitutes intensify building of consumer switching costs for companies to avoid the use of substitute products offered by other companies.
5.5 Recommendations

5.5.1 Recommendations for Practice

5.5.1.1 Threats of New Entrants and Competitive Advantage

Since, the study has established a significant relationship between threats of new entrants and competitive advantage. Therefore, this study recommends that pay-tv service companies should pay close attention to the new entrants for them to have a quick response on the threat they pose which can have a negative implication on competitive advantage. The study recommends that the pay-tv firms should invest in innovations like live streaming via apps for them to have a competitive advantage that cannot be imitated easily by new players in the market.

5.5.1.2 The Effect of Industry Rivalry on Competitive Advantage

The study recommends that pay-tv service companies should examine what competition is doing as a way to influence decision-making that is focused on building competitive advantage. This will give the firm an opportunity to address the key sentiments that give their competitors leverage over their products. The study recommends that the companies in the pay-tv industry should compete on the dimensions set by the industry trends for them to gain competitive advantage in the market. The study recommends that the firms should also formulate their market positioning strategy in respect to the competition in the industry they operate in.

5.5.1.3 The Effect of Substitutes on Competitive Advantage

Since, the study has established a significant relationship between substitutes and competitive advantage. Therefore, the study recommends that the companies should invest in research and development in order to come up with products that will limit consumer switching to competitor brands. The study recommends that the firms should build high consumer switching costs on their brands and service to avoid the threat of substitute products that have a negative implication on the firm’s competitive advantage in the long run.
5.5.2 Recommendations for Further Research

This study investigated the influence of industry forces on the competitive advantage of pay-tv service providers in Kenya. The study was focused on pay-tv service providers and three of the five Porter’s forces, therefore, future studies can widen the scope by investigating the influence of the remaining two Porter’s forces; bargaining power that consumers possess and bargaining power that suppliers possess in the pay-tv industry. Studies can also be done on the influence of industry forces on competitive advantage of commercial banks, manufacturing firms, construction firms, telecommunication firms and the hotel industry.
REFERENCES


APPENDIX I: RESEARCH INTRODUCTION LETTER

TO WHOM IT MAY CONCERN.

1st February, 2019

Dear Sir/Madam,

REF: PERMISSION TO CONDUCT RESEARCH – INNOCENT KAIRU KAYONDE
STUDENT ID. NO. 651281

The bearer of this letter is a student of United States International University (USIU) -Africa pursuing a Master of Business Administration.

As part of the program, the student is required to undertake a dissertation on “Influence of Industry Forces on the Competitive Advantage of Pay-TV Service Providers in Kenya” which requires him to collect data.

Please note that information provided will be treated with utmost confidentiality and will only be used for academic purposes.

Kindly assist the student get the appropriate data and should you have any queries contact the undersigned.

Yours Sincerely,

[Signature]

Prof. Amos Njuguna,
Dean – School of Graduate Studies, Research and Extension
Tel: 730 116 442
Email: amnjuguna@usiu.ac.ke
APPENDIX II: RESEARCH QUESTIONNAIRE

SECTION I: GENERAL INFORMATION

1. Kindly indicate your gender.
   - Male [ ]
   - Female [ ]

2. Kindly indicate your age range
   - 18-25 Years [ ]
   - 26-33 Years [ ]
   - 34-40 Years [ ]
   - 41-47 Years [ ]
   - 48 Years and Above [ ]

3. Kindly indicate the number of years you have worked at your organization
   - 0-1 Years [ ]
   - 2-4 Years [ ]
   - 5-7 Years [ ]
   - 8-10 Years [ ]
   - Above 10 years [ ]

4. What is your level of education?
   - Certificate [ ]
   - Diploma [ ]
   - Bachelor’s Degree [ ]
   - Master’s Degree [ ]
   - Doctorate Degree [ ]

5. Kindly indicate the department of your job.
   - Sales & Marketing [ ]
   - Finance [ ]
   - Administration [ ]
   - Customer Care [ ]
   - Technical Operations [ ]

   Any other department not listed above ____________________________
SECTION II: The Effect of Threats of New Entrants on Competitive Advantage

This section contains questions on the effect of threats of new entrants on competitive advantage. With the use of a Likert Scale with measurements of 1 to 5 whereby 1- strongly disagree, 2- disagree, 3- neutral, 4- agree and 5- strongly agree. Kindly (√) appropriately in the table below.

<table>
<thead>
<tr>
<th>No</th>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>There are new entrants coming into your industry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2</td>
<td>The company is investing heavily in product development to compete with new entrants into your industry.</td>
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<td>3</td>
<td>The new entrants into the industry pose a serious threat of your market share.</td>
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<td>4</td>
<td>Threat of new entrants has forced the organization to set higher barriers of entry into the industry.</td>
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<tr>
<td>5</td>
<td>Your company formulates strategies on how to compete with threats of new entrants.</td>
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<td>6</td>
<td>New entrants have strongly affected your pricing methods in order to be in line with the prices of new entrants.</td>
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<tr>
<td>7</td>
<td>There are low entry barriers into the pay-tv service industry.</td>
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<tr>
<td>8</td>
<td>The industry is characterized by flexible licensing regulations and laws.</td>
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<tr>
<td>9</td>
<td>The company investing heavily on its products and services as opposed to the new entrants to foster brand loyalty.</td>
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<td>10</td>
<td>The return on investment and profitability is affected by new entrants into your industry.</td>
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<tr>
<td>11</td>
<td>The new entrants have enhanced the decisions towards building a competitive advantage.</td>
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<tr>
<td>12</td>
<td>The threat of new entrants influence your growth prospects.</td>
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<tr>
<td>13</td>
<td>The company has strategies in place to address the threats of new entrants.</td>
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<tr>
<td>14</td>
<td>Threats of new entrants dictates your market-penetration decision making.</td>
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<tr>
<td>15</td>
<td>Threats of new entrants has enhanced development of new products and services.</td>
<td></td>
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</tbody>
</table>
SECTION III: The Effect of Industry Rivalry on Competitive Advantage of Pay-Tv Services

This section contains questions on the effect of industry rivalry on competitive advantage. With the use of a Likert Scale with measurements of 1 to 5 whereby 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree. Kindly (√) appropriately in the table below.

<table>
<thead>
<tr>
<th>No</th>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The company uses product differentiation to gain competitive advantage from your market.</td>
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<tr>
<td>2.</td>
<td>Intensity of rivalry in your industry leads to stiff competition among competitors.</td>
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<tr>
<td>3.</td>
<td>Your competitive advantage cannot be easily replicated by your rivals.</td>
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<tr>
<td>4.</td>
<td>Intensity rivalry among competitors has influenced the company to develop strategies to gain competitive advantage.</td>
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<tr>
<td>5.</td>
<td>The company has invested in research and development to gain competitive edge in the pay-tv service industry.</td>
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<tr>
<td>6.</td>
<td>The company has embraced innovation and creatively to actively compete in the industry.</td>
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<tr>
<td>7.</td>
<td>You offer competitive prices to your customers in order to compete effectively.</td>
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<tr>
<td>8.</td>
<td>The company competes on various competition dimensions with an attempt of gaining competitive advantage.</td>
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<tr>
<td>9.</td>
<td>Intensity of rivalry enhances your competitive advantages strategy.</td>
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<td>10.</td>
<td>Industry rivalry among your competitors shapes the industry trends pertaining competitive advantage.</td>
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<td>11.</td>
<td>The company formulates its competitive advantage strategies in line with rivalry intensity.</td>
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<td>12.</td>
<td>The company undertakes the innovation of products and services to address rivalry intensity.</td>
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<td>13.</td>
<td>Intensity of rivalry influences your market positioning strategies.</td>
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<td>14.</td>
<td>Intensity of rivalry enhances innovation and creativity in the company.</td>
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<td>15.</td>
<td>Intensity of rivalry is crucial for your competitive strategies.</td>
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</tbody>
</table>
SECTION IV: The Effect of Threat of Substitute Products on Competitive Advantage

This section contains questions on the effect of threat of substitute products on competitive advantage. With the use of a Likert Scale with measurements of 1 to 5 whereby 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree. Kindly (√) appropriately in the table below.

<table>
<thead>
<tr>
<th>No</th>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>There is availability of substitute products in the industry.</td>
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<td>2.</td>
<td>Substitute products affects your competitive advantage.</td>
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<td>3.</td>
<td>Services are highly differentiated to effectively compete with substitute products.</td>
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<td>4.</td>
<td>Substitute products has enhanced your strategic decision making in response to competition.</td>
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<td>5.</td>
<td>Availability of substitute products has affected your competitiveness in the market.</td>
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<td>6.</td>
<td>Your products have higher consumer switching costs to compete with substitute products.</td>
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<td>7.</td>
<td>Substitute products has enhanced your competitive strategies.</td>
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<td>8.</td>
<td>Availability of substitute products have a better competitive advantage in your industry.</td>
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<td>9.</td>
<td>Your company has invested in substitute products to cope up with competition.</td>
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<td>10.</td>
<td>Availability of substitute products influences product development in the company.</td>
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<td>11.</td>
<td>Availability of substitute products influence your pricing strategy.</td>
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<td>12.</td>
<td>The company has created high consumer switching costs to control the availability of substitutes.</td>
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<td>13.</td>
<td>Availability of substitute products has enhanced your market strategies.</td>
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<td>14.</td>
<td>Product differentiation strategies enables the company to deal with substitutes.</td>
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<td>15.</td>
<td>Consumer switching costs is a priority in regards to the decision associating substitute products.</td>
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</table>

Thank you very much for your time.