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Strategies Adopted By Brewing Companies in Kenya in Achieving Competitive Advantage: A Case of East African Breweries Limited

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Abstract: *This paper is organized in such a way that, a brief overview and definition of strategies within companies, as well as literature review on strategies for achieving competitive advantage are presented. The main objective of the paper is to outline and discuss the strategies adopted by East African Breweries limited in achieving sustainable competitiveness in Kenya through a theoretical viewpoint. Therefore, in order to understand the determinants for strategy setting, secondary information was collected, and the data was compared and analyzed. Finally, the research propositions and conclusion were submitted.*

Keywords: Strategies and competitive advantage. **EABL**: East African Breweries Limited

1.1 Introduction

Organizations are currently being faced with significant difficulties due to changing business environment, that result to declining performance, productivity and growth (Ngothi, 2015). Intense competition in global and local markets requires firms to constantly improve in their competitiveness (Ngothi, 2015). In today's turbulent business environment, dynamic capabilities, flexibility, agility, speed, and adaptability are becoming more important sources of competitiveness (Barney, 2001; Sushil, 2000). According to D'Cruz & Rugman (1992) competitiveness is the ability of a firm to design, produce and/or market products superior to those offered by its competitors, considering the price and non-price qualities. Saji (2002) modified this definition by defining the term 'international competitiveness' as the ability of companies, industries, and nations to continuously generate while remaining exposed to international competition, technological capabilities and relatively high factor income. Business strategy is all about competitive advantage. Businesses need strategies in order to ensure that resources are allocated in the most effective way in order to remain competitive in the market (Zekari & Nedelea, 2011).

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals (Zekari & Nedelea, 2011). The main objective of a business strategy is to achieve a sustainable competitive advantage. According to Porter (1987), a firm can gain competitive advantage if it is able to create value for its buyers. The market in which the East African Breweries Limited (EABL) operates is a highly competitive environment and thus there are many challenges affecting its level of competitiveness (Ngothi, 2015). However, it has managed to stay successful and competitive by implementing various strategies (Ngothi, 2015). In a process that sometimes takes decades to reach fruition, EABL has established itself as a market leader in a number of countries in the beer industry (Ngothi,2015). Sustained competitiveness involves a combination of processes and assets, where processes transform assets to achieve economic returns from sales to customers while assets are inherited as natural resources or created infrastructure (Zekari & Nedelea, 2011). East African Breweries Limited (EABL) has continued to carry out outstandingly profitable operations in the region.

1.11 East African Breweries Limited

East African Breweries Limited, commonly referred to as EABL, is a Kenya-based holding company, which manufactures branded alcoholic and non-alcoholic beverages. It was founded as a private company Kenya breweries Limited, in 1922 by two white settlers George and Charles Hurst (EABL, 2018). It was registered as a public company in 1934 and acquired Tanganyika breweries in 1935 necessitating the name change to East African Breweries Limited in 1936 (EABL, 2018). It acquired financial holding in Ugandan Breweries in 1959 giving it a controlling hand in the brewing hand in the East Africa market.

EABL is East Africa's leading branded alcohol beverage business with an outstanding collection of brands that range from beer, spirits and adult non-alcoholic drinks (EABL, 2018). While still the dominant producer in Kenya, East African Breweries Limited (EABL, a subsidiary of Diageo) has seen competition intensify in recent years from small local brewers and imports of international brands such as Heineken and SABMiller. That said, East African Breweries Limited still controls around 80% of the Kenyan beer market, and continues to expand into the rest of East Africa. With breweries, distilleries, support industries and a distribution network across the region, the group's diversity is an important factor in delivering the highest quality brands to East African consumers and long-term value to East African investors.

1.12 Keroche Breweries

The Sh5.5 billion Keroche breweries expansion was set to heighten competition in the beer market with East Africa Breweries Limited likely to be the biggest loser. Keroche's new brewing plant is projected to increase production tenfold putting the Naivasha-based firm in a position to fight for at least 20 per cent of the local beer market. "We have invested Sh5 billion and expect a production capacity of 600,000 bottles a day ... we have positioned ourselves strategically to expand the local market share and also to venture into the East African market," Keroche breweries CEO Tabitha Karanja. (Okoth, 2015)

1.13 Intensified Competition

According to Wafula (2018) the portfolio of drinks in local pubs in Kenya has significantly changed, unlike five years ago when it would be littered with beers after beers, today there is a mix of drinks, some imported, some local. The flavors have also changed and taste buds enjoy the variety of drinks now available at the counter. SABMiller's subsidiary, South African Breweries, runs seven breweries and 40 depots in South Africa with an annual brewing capacity of 3.1 billion liters has found its way to the Kenyan market. Its full brand portfolio includes 10 beers and five flavored alcoholic beverages (Okoth, 2015). Kenya has also seen the entry of three other foreign liquor brands in quick succession in the last six months, all eyeing the pie that EABL has been enjoying for decades. Danish brewer, Carlsberg Group, recently signed a distribution deal with Centum for its premium beer, which targets the middle class. The firm could establish a plant locally later in the year. Carlsberg, ranked the world's fourth largest brewer, made about Sh697.78 billion net sales in the nine months to September 2014, from its portfolio of 500 brands (Okoth, 2015). Centum imported the first consignment of Carlsberg beer in September 2014, and has quietly established a countrywide distribution network. And in March 2015, American Budweiser, one of the world's biggest selling beers, entered the market.

It will be distributed by Viva Global (Ngothi, 2015). Beer company Heineken recently unveiled Desperados, a Tequila-flavored beer, in Kenya. First launched in France in 1995, Desperados is now available in 66 countries with France, Germany and the UK being the top markets. It is expected to compete in the premium lager market with Tusker Malt and Summit Malt. The new brands are set to tilt the local beer market that has been in favor of EABL (Ngothi, 2015). The brewer, however, says entry of new firms does not threaten its market share. (Okoth, 2015).

1.2 Statement of the Problem

Enhancing a sustainable competitive advantage is not automatic especially in this very unpredictable and dynamic environment. Challenges from both the external and internal environment need to be managed effectively so as to keep the organization growing. Sustained competitive advantage exists when competitors are unable to duplicate the benefits of the strategy over time. The firms are at a constant watch at what their competitors are doing and thereby making it very difficult to shoot up in such an industry. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost or deliver benefits that exceed those of competing products. Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Although EABL clearly dominates in the local market, competition in Kenya's beer industry has increased in recent years, as both microbrewers and macro brewers attempt to take advantage of naturally expanding markets. Towards the end of 2012, Keroche Breweries stated that it plans to raise its share of the beer market in Kenya to 20% from around 3% currently in two years. That said, East African Breweries Limited still controls around 80% of the Kenyan beer market, and continues to expand into the rest of East Africa. The main objective of this paper is to outline and discuss the relevant possible strategies adopted by EABL in order to achieve a competitive advantage in the market. This was done by analyzing relevant literature and theories developed by famous strategists.

1.3 Research Objective

The objective of the study was to outline and discuss strategies adopted by East African Breweries in achieving competitive advantage.

1.4 Research Question

What are the strategies adopted by East African Breweries in achieving competitive advantage?

2.1 Methodology

This paper concentrates on secondary sources of research, regarding the approaches on strategies for achieving competitive advantage and strategies adopted by East African Breweries in achieving its competitive advantage. The readings chosen for this paper were sourced from leading authors in the field, as well as textbooks and electronic academic sources. Therefore, in order to understand the determinants for strategy setting, secondary information was collected, and the data was compared and analyzed. Finally, the research propositions and conclusion were submitted.

3.1 Theoretical Framework

The theoretical foundation for this study anchored on the Dynamic Capability Theory.

3.2 Dynamic Capability Theory

In organizational theory, dynamic capability is the capability of an organization to adapt adequately to changes that can have an impact on its functioning. Teece et al. (1997), defines dynamic capability as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. He added that the term dynamic refers to the capacity to renew competences so as to achieve congruence with the changing business environment. Capabilities and capacities lead to superior sustained performances because they are specific to each organization, valuable to the clients, non-substitutable and hard to imitate.

The basis of gaining a sustainable competitive edge is on competencies and capabilities critical to market success and satisfying customers (Porter 1985). Dynamic Capability Theory provides top management with options on how they can change their existing models to adapt to dynamic changes in the environment. The term capability emphasizes the key role of strategic management in appropriately adapting and integrating both the internal and external organizational skills.

3.3 Strategies and Competitive Advantage

Many studies of strategies and a lot of literature have been carried out that outline the importance of strategies in managing the businesses successfully. Competitive advantage is a key concept in strategic management, because it is a competitive strategy that is designed to be exploited by a company. However, the position of superiority affects the company as a search arena of competitive advantage (Ibrahim & Primiana, 2015). According to the perspective of business management, competitor is a company that is able to meet the needs of the same customers. The perspective of strategic group, competitor is a collection of companies that compete in an industry that has in common strategies and resources (Ibrahim & Primiana, 2015). Strategic dimension to distinguish between strategic groups include: price, quality, degree of vertical integration, geographic scope, depth of product line, the level of diversification, R & D expenditure, market share, profits, and product characteristics (Ibrahim & Primiana, 2015).

Competitive advantage according to Porter (1986) is the ability of a company to achieve economic benefits in respect of the profits that can be achieved by a competitor in the market in the same industry. Companies that have a competitive advantage have always had the ability to understand the changes in the structure of the market and is able to choose an effective marketing strategy. Studies conducted further stipulates Porter generic strategies which are classified into three categories, namely cost leadership, differentiation, and cost focus. Selection of each company to the generic strategies above will depend on the analysis of the business environment to determine the opportunities and threats. The purpose of the strategy for managing costs is for the organization to have lower costs than his competitor. So, in this strategy with great importance is the work efficiency (Porter,1987). This strategy is successful when the business company has a bigger participation in the market. This strategy is very attractive for companies, which is obvious if we take into consideration the fact that the low costs offer the company better opportunities to make profit and to be very resistant in case it enters in a war of prices with a competitor (Porter, 1987). The companies that usually practice this strategy produce products with a low level of diversification knowing that low prices will attract potential consumers. Finding the way of how to produce with lower costs may be the most important question for the company managers.

Some of the ways to lower producing costs are the investments, actually the implementation of new producing technologies, product design in the way that it enables producing with lower costs, reducing costs for distributing products and finding cheaper inputs. The purpose of the differentiation strategy is to create a product or a service, which will differ from the products or services that are provided by the competitors (Zekiri & Nedelea, 2011). This strategy can be attained in different ways. For example, Sony always claims the high quality of its TV sets. We should not leave aside the psychological factors as well. For example, one who wears a GUCI makes an impression of a wealthy person with a good taste and who pays attention to quality. On the other hand, there are many companies that run their business successfully by pointing out the need for security, respectively by using the fear that people experience by the physical insecurity (Zekiri & Nedelea, 2011). Therefore, there are unlimited possibilities for product differentiation. A company that wants to implement this strategy should first of all have research and development skills, close relations with distributors, creative staff, high image and marketing skills (Ibrahim & Primiana, 2015). This strategy implies the invention of a unique product, which will be accepted by a group of customers, who will be willing to pay even high prices for it. Generally, the differentiation strategy can be applied in several ways: by providing better products and services, by providing better after sale services, as well as by a better image of the company (Zekiri & Nedelea, 2011).

The competitive skill of the companies that apply this strategy of differentiation, depends on the ability of the competitors in issuing or providing a better product in the market. Besides, these companies sometimes can take a lead as a result of the fact that no other company offers the same product, enabling them to control the market (Ibrahim & Primiana, 2015). We should never forget the fact that there are moments when the customers simply change their preferences. Therefore, during the implementation of this strategy, the companies should be extremely careful (Zekiri & Nedelea, 2011).

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Ansoff, I. (1987). Corporate Strategy. New York: McGraw-Hill. pp. 110

Figure 1: Matrix of Ansoff on Strategies for Competitive Advantage

The market penetration strategy is a strategy in which the business tries to increase the product sales or service sales in the existing market. The market penetration strategy aims to increase the sales of the business without becoming part of a new market. So, the corporation will try to pull out part of its consumers or part of its customers (Zekiri & Nedelea, 2011). Normally, to achieve this aim the company can have to choose among some different options including, new spending for the product promotion and for the quality increase of the product. The market developing strategy is a strategy by which a corporation is looking for new consumers for the already existing products. Diversification strategy means a situation in which Business Corporation starts to produce new products in new markets. When diversification strategy is mentioned, we should automatically make a difference among concentric diversification, conglomerate diversification and horizontal diversification. Concentric diversification has to do with the company entrance in an activity which is connected to its primary activity. This strategy is usually implemented in the cases where unlike the good position of the company in the market the industry itself is unattractive and so does not make enough amount of profit.

For this reason, the company decides that it should enter in a new activity which is also connected to the primary activity but still has a higher rate and offers bigger chances to make profit. This kind of strategy should be implemented in the case when the company operates in an industry which has low rate, when the present products are undergoing a turn down, when the corporation has financial property as well as human recourses, especially when having a management staff that have abilities to switch the company into a new business and so on. Conglomerate diversification has to do with turning the company into new businesses which are not directly linked with the primer activity of the company. This strategy is usually implemented by the companies which have an average or margined position in an industry which is thought to be an unattractive one. As a result, the company can choose to enter even in completely new and different industries. (David, 1997). Horizontal diversification is being used in the case when present buyers are being offered new products and services. It is thought that this kind of strategy is the least risky one when comparing to the conglomerate strategy because in this case the company has information on consumers, their wants, needs and their preferences.

3.4 EABL Strategies and Competitive Advantage

The changes in the consumer needs and preferences is causing breweries sleepless nights and now have to find ways of staying ahead in the market (Wafula, 2018). Strategic competiveness is a tactical achievement that takes a lot of planning to pull through. Companies are spending a lot of money in this turbulent and dynamic environment in which almost all the players are aware of the underlying danger of this form of competiveness (Aguko, 2014). Sustainable strategic competiveness for a firm can be achieved by the creation of a unique value proposition which is a clear statement that describes the benefit a firm has to offer, how they solve customer's needs and what distinguishes the organization from the competition (Porter, 1996).

According to Aguko (2014) who examined the value chain analysis and organizational performance of beer manufacturing companies in Kenya, found that the main factors that influence the value chain in the beer manufacturing industry in Kenya were: timely delivery of products and services, waste reduction, well managed procurement costs, use of modern information technology, effective human resources management, efficient firm infrastructure and continuous improvement. (Mugwe, 2012) who did a study

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on the competitive strategies adopted by beer brewing firms' in Kenya found that heavy distributional costs, increasing advertising cost, many brands in the market, heavy costs of production, low market penetration, old machinery of production, low profits, fear of change, fact that their brands are unknown, lowering of prices by other firms, heavy legislation, low market share, low sales were challenges that beer companies were facing in marketing their products. According to (Ngothi, 2015) in this very dynamic environment, EABL faces stiff competition from its various competitors and amidst this competition it had managed to stay successful.

According to Wafula (2018) the company has managed to keep off the competition by applying various competitive strategies in its operations that have played a very big role in its success. The study has also established that EABL focused on both existing and future customers through product differentiation and innovation to meet new trends. It used various strategies, resource and capabilities to become the leading beer distributor in Kenya. According to Wafula, 2018 EABL has introduced at least five new drinks as it fights to keep up with changing tastes of the Kenyan consumers. The firm, which is also pumping billions of shillings in its research and innovation unit, says its upcoming beers and spirits will target both the high end and the low end segments of the market, which is now flooding with imports. According to (Njoki, 2015) East African Breweries Limited (EABL) has continued to carry out outstandingly profitable operations in the region. Proficiency and excellent customer service is proof of their commitment to be the market leader. These attributes have placed them at the forefront in the beer industry, and positioned them to continue increasing the scope of their customer solutions and services. The performance of East African Breweries in summary form is presented in the Figure 2 below.

Year	**2015**	**2016**	**2017**
Profits	Ksh. 9.5 billion	Ksh. 10.3 billion	Ksh. 8.5 billion
Market Share	About 75%	About 78%	About 80%
Dividends per Share	Ksh. 4.5	Ksh. 5.5	Ksh. 5.5

Source: EABL annual report 2016 & 2017.

Figure 2: EABL performance in summary.

From Figure 2 above and graph 1 below EABL annual year profits for the year ending June 2016 grew by 8.4% that is from shillings 9.5 billons to shillings 10.3 billion, while its annual year profits for the year ending June 2017 shrunk by 17.5% that is from shillings 10.3 billion to shillings 8.5 billion. This is attributed to the fact that 2017 was an election period, and in Kenya during election period the economic trends are always characterized by downward movement due to high tensions of clashes erupting. EABL profit margin went down due to high cost of maintaining the market during this election period.

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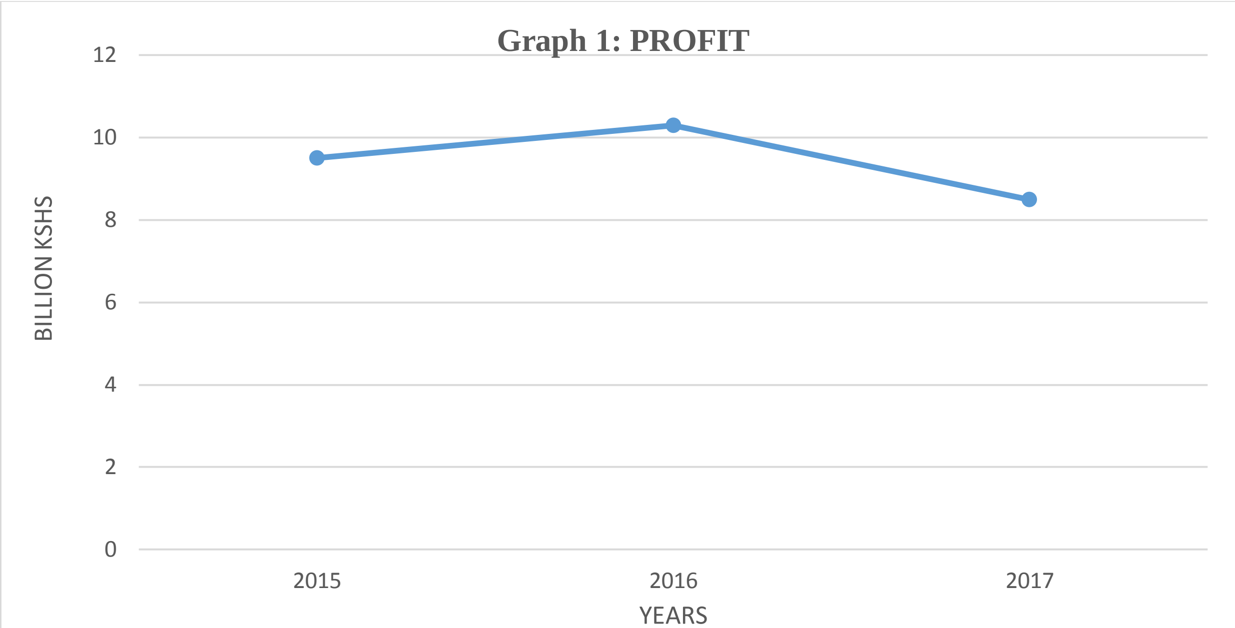
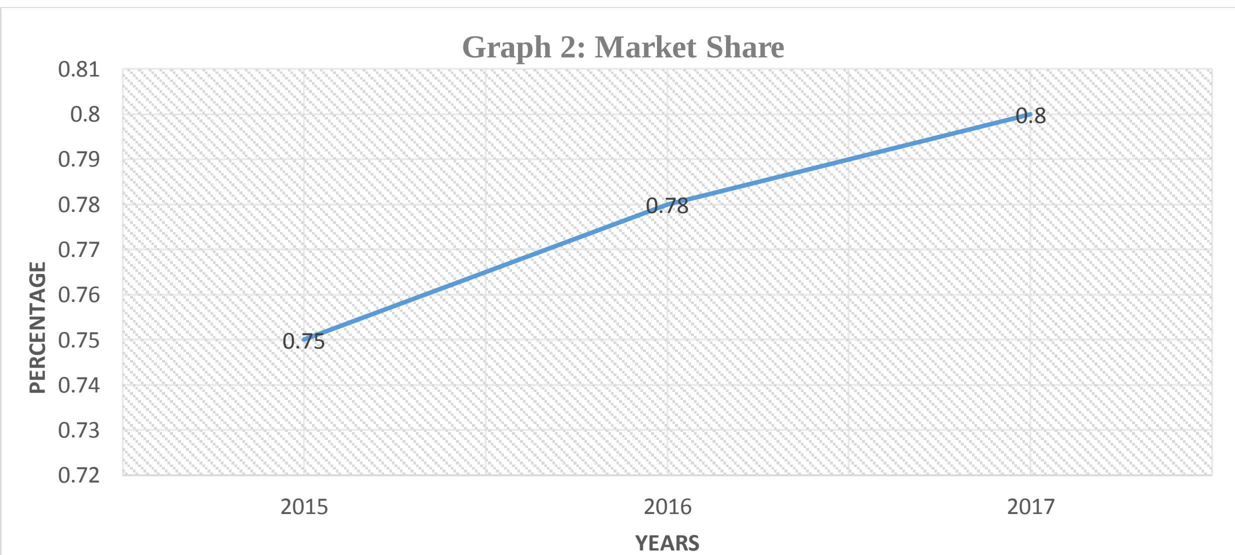
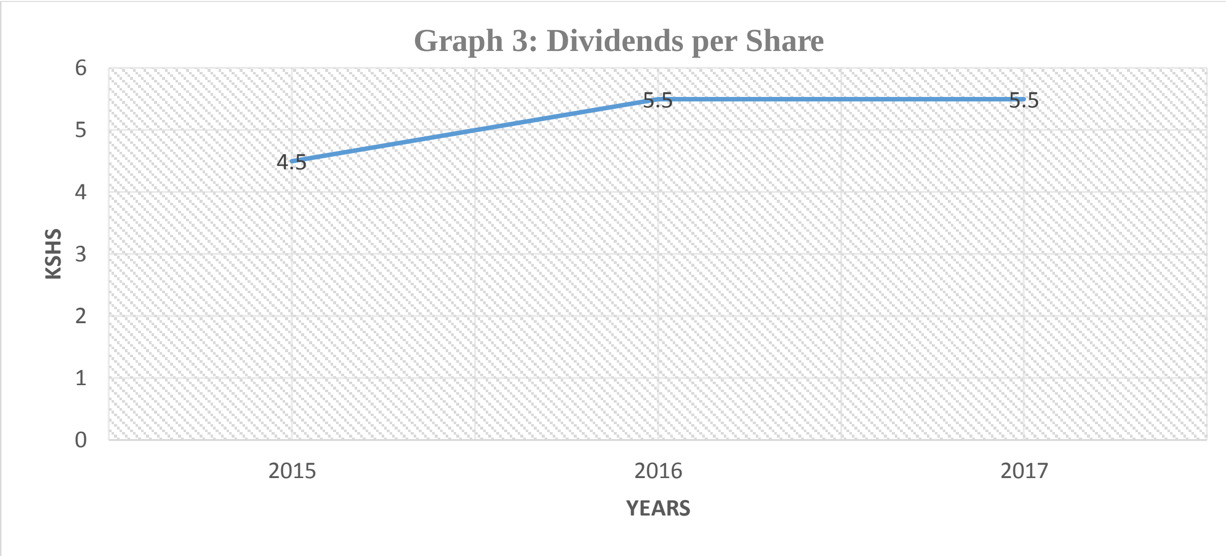


The market share grew by 3% from 2015 to 2016 and 2% from 2016 to 2017 financial year. It is evident that despite the profit declines due to harsh economic conditions during election period the EABL performed much better compared to its competitors in the market, thus being able to increase its market share.



It can also be noted from the table and graph 3 that the declared dividends increased by sh. 1 from financial year 2015 to 2016, in 2017 they maintained a constant dividend payout of sh. 5.5 per share (EABL, 2017).



One of its worst hit product is the senator keg, which targets the low segment part of the market, whose sales contracted by 22% after it increased its prices from sh. 25 to sh. 30 for 300ml mug (Wafula, 2018). The firm, which has been struggling with flat growth in the beer market, says it will also continue experimenting on other flavored drinks following the success of Kenya Cane, which now comes laced with various fruit flavors to lock in the millennials who are keen on tastier brands. The change has seen EABL's spirits segment grow by 21% in the last five years, and is expected to grow in double digits for the rest of the decade (Wafula, 2018). But it is the beer market that is attracting most of its attention, given that it accounts for the lion's share to its revenues. The firm says it will increase activity in the draft and craft beer segments as part of its innovations to stay ahead in the changing trends (Wafula, 2018).

3.5 Conclusion

The successful creation of a strategy is critical to company's future, because strategies must be designed to generate sustainable competitive advantages in order to have market share. From the review it can be seen that the adoption of competitive strategies has played a great role in ensuring growth and continuous sustainable competitiveness at East African Breweries Limited. It can also be seen that differentiation and aggressive marketing are the most widely practiced strategies for competitiveness at the East African Breweries limited in Kenya.

There is a good understanding of the theoretical foundation of the strategies that has enabled the company to implement the strategies and excel in its objectives. The review also notes that a firm's competitive advantage is not sourced from adoption of one strategy but a combination of many strategies. EABL has adopted certain strategies to a greater extent than the others. Strategies such as innovation, customer relations, differentiation, and diversification strategies have been adopted with equal importance. EABL also collects views from all stakeholders, and embed the strategies to staff through departmental heads to ensure that these strategies are sustainable in the long run. In the case of EABL, one way in which it has been able to achieve sustainable competitiveness is taking time to study the market and understand consumer needs and wants as well as how best to satisfy them before launching a product that will meet the identified demand.

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