STRATEGIES ADOPTED BY NAIROBI JAVA HOUSE TO GAIN COMPETITIVE ADVANTAGE

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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This work is dedicated to my dear husband Peterson and mum Virginiah for their everyday support, encouragement and prayer. They walked with me through this study and understood my busy schedule.

ABSTRACT

The hospitality industry has in the last couple of years seen a transformation and dramatic changes which are brought about by competition. The study looked and analyzed as study objective, the strategies the company has adopted to achieve competitive advantage over its rivals. On another objective, it ventured on the challenges the company encounters in application of the said strategies and how it counters the challenges. The design used was ideal for the research problem since it allowed for an expansive data collection and thorough analysis of the data collected. By using a case study, the researcher was able to probe, collect data and explain phenomenon more deeply and exhaustively. The study found out that the strategies that Nairobi Java House adopts to achieve competitive advantage include: differentiation; product development; product pricing; market development; market expansion; diversification; and cost leadership strategy. It also found out that to apply these strategies, the company goes through some challenges like prior strategic commitments that hamper company ability to compete, lack of staff training and growth, other competing restaurants opening up business close by, product inconsistency and supplier unreliability. The study made the conclusion that Nairobi Java House operates in a very competitive environment. However, the company has been able to compete and achieve competitive advantage from the strategies it employs. It concluded also that companies do not gain competitive advantage by employing one strategy but by using a number of them so as to compete with all the competitors. If the company is able to maintain the use of these strategies effectively, then it would keep its position as a market leader. The company has also been able to counter its challenges by using readily available resources. The study recommended that the company should focus on its expansion speed considering its level of popularity so as to maintain its competitive edge.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations are based in environment which is constantly changing and are expected to survive. All organizations are environment serving or dependant and thus as they operate in their different environments, they are faced with a lot of changes in the environment (Mintzberg, Quinn and Ghoshal, 2002). Organizations operate as open systems thus any changes in the environment have a direct effect on them. According to Porter (1990), organizations depend on the environment as a source of inputs in terms of resources and as an outlet for their outputs. In order to survive with their dependence characteristic in such evolving environment and be able to achieve their corporate goals, organizations must be ready to embrace change by way of adopting and employing strategies that will ensure they gain competitive advantage.

Bennet (1998), states that with the increased competition in today's business world, it becomes difficult for organizations to access the opportunities around it. This thus brings about the need for organization to exercise strategic management. Strategic management plays a crucial role in ensuring that all the organization's resources are deployed in an efficient manner in the face of a turbulent and changing environment. With this in mind, organizations aiming to survive in a turbulent environment must come up with strategy that guides their decisions. To survive in the market therefore organizations adopt various strategies in the face of competition and also to ensure success.

Thompson, Strickland, and Gamble (2007) states that some organizations strive to improve their performance and market standing by achieving lower costs than rivals, while other pursue product superiority or personalized customer service or development of competencies or capabilities that the rivals cannot match. This shows organization strategic behavior which brings about the organization's strategic approaches that sets it apart from rivals, builds customer loyalty and win a sustainable competitive advantage. Porter (1990) discussed the five force model in relation to competition and identified factors in the environment which influence the capability of an organization to position it to an advantage. He came up with the factors including threat of new entrants into a market, the bargaining power of both suppliers and buyers, threat of substitute goods and finally the competitive rivalry among market players.

Grant (1998) states that the emergence of game theory which discusses competition in a market came about as a criticism of Porter's five force model that failed to take full account of competitive interactions among organizations. According to game theory, strategic competition is the interaction amongst players such that the decision made by any one player is dependant on the actual and anticipated decisions of the other players. The main value of game theory in strategy is to emphasize the importance of thinking ahead, thinking of the alternatives, and anticipating the reactions of other players in your "game".

Nairobi Java House Limited is a restaurant situated in Nairobi and is dependant to its environment as well as serves the environment. The organization operates in a competitive environment which changes often, and thus expected to adopt appropriate strategy to enable it serve its environment in a value addition way as an outlet to outputs, and be competitive in a way to allow access of resources and opportunities in the environment. This will allow Nairobi Java House to achieve its corporate goals.

1.1.1 The Concept of Strategy

An organization's strategy must be appropriate for its resources, environment, and core objectives. The strategy an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. A strategy is essential for an organization because it gives an organization the focus and direction it must take in order to survive in the environment.

Johnson, Scholes, and Whittington, (2005) define strategy as "the direction and scope of an organization over long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations". Strategy therefore defines the purpose of an organization. It directly shows the resources that the organization needs to be able to perform its activities and ultimately meets its goals and thus the purpose of the organization.

Porter (1980) states that strategy adopted by an organization should result to competitive advantage. He argues that this is because the essence of formulating a strategy is to relate an organization to its environment. He further states that inherent in the notion of strategy are the search for the opportunity to identify bases of advantage. The aim is to identify if there are factors in the environment which influence the capability of an organization to position it to an advantage.

To employ strategy, an organization has to understand its environment and what exactly is the threat being faced. Strategy should not only help the organization meet its purpose but should also allow the organization to be competitive in its industry of operation. Therefore the organization must base the strategy it uses on business realities and the strategy must connect with the organization's goals, vision and purpose. An organization strategy therefore consists of the competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully, conduct operations and achieve the targeted levels of the organizational performance (Thompson et al., 2007)

1.1.2 The Concept of Competitive Advantage

Competition exists when different organizations seek commitment of time, energy and resources from the same target market. An organization therefore faces competition when its success is dependant on the behavior of the other market players who are trying to fulfill similar customer needs. Porter (1985) noted that an organization should understand the underlying sources of the competitive pressures in its industry in order to formulate appropriate strategies to respond to competition and similarly gain competitive advantage. Competitive advantage is therefore brought about by a business use of competitive strategies in its market to counter competitive pressures. He proceed to state that competitive advantage could be achieved through three generic strategies: overall cost leadership, differentiation and focus.

Competition provides the incentive for establishing advantage and is the means by which advantage is eroded. Understanding the characteristics of competition in an industry is fundamental to identifying the nature of opportunities for competitive advantage. Competitive advantage is therefore when two or more organizations compete within the same market, one organization possesses an edge over its rivals when it earns a persistently higher rate of profit (or has the potential to earn a persistently higher rate of profit), (Grant, 1998). It is therefore the ability of the organization to outperform rivals on the primary performance goal which is profitability.

1.1.3 The Hospitality Industry in Kenya

The hospitality industry consists of broad categories that include but are not limited to lodging, restaurants, events planning, and tourism all within the service industry. It is an industry that is highly pegged on the availability of both leisure time and disposable income. It therefore calls for and thrives with customer satisfaction. Organizations that offer both food and beverage and accommodation are known as hotels while those that offer food and beverage only are known as restaurants (Mbithi and Mainga, 2006).

The industry has seen a lot of changes in it course of existence. According to Deloitte (2010), one of the drivers of change is brand. The changes in customer lifestyle and demand on experiential stay means that brand choice as opposed to location choice is leading the way now and in the future. Brand is the external and internal representation of everything the organization stands for and includes the stakeholders' expectation of the brand.

There has been a transformation of the customers where today's customer has turned out to be a more demanding customer who is technologically connected. Deloitte (2010) noted that the current customers demand to be dealt with at their own terms. The customers do a lot of research on the web before they engage on a service or product. They are therefore informed and are increasingly having a multiple of touch points based on their desires. Consumers are using the web more to share information and there is a growing tendency to make purchase decisions, based on other people reviews of products.

Macharia (2012) notes that competition in the hospitality industry especially in Nairobi is increasing. He observes that as property developers hunt Nairobi surburbs in search of parcels of land on which to put massive residential estates, another clique of investors is seeking glory within the outer reaches of Nairobi. These investors/ developers have pumped money into the hospitality industry and are responsible for the reshaping of Nairobi's skyline over the last five years. Their major interest is in the industry and Macharia warns that Nairobi should brace for even more glitzy addresses over the next few years.

There is the existence of barriers to entry in the industry. This is especially encountered at the level of initial capital which is quite high and the expected licenses before start of business. The number of licenses to operate a restaurant in Kenya totals up to four that are issued by the council and are renewable every year and about three others that are issued by other bodies like the ministry of tourism and are all at a cost, (Mbithi et al., 2006). The initial capital includes the equipment needed, setting up the structures and brand, the licenses, labor cost and marketing costs.

The hospitality industry is anchored on some key success factors and economic factors that enhance its growth and survival of the organizations that are players in the industry. The industry thrives on the leisure activities of the patrons. It is an industry focused on the premise of customer satisfaction with the services and products they get. The exceptional service that the customers get is very important for the success of the business. Customer satisfaction through exceptional services and goods lead to customer loyalty which helps to ensure success (Kamau, 2010).

There is emerging market growth which come about with the new middle class income earners who have disposable income that they are keen and ready to spend in the industry (Deloitte, 2010). This new markets will spend on strong brands. Deloitte (2010) states that all operational and investment activities are built on the brand promise, particularly staff training, advertising, portfolio decisions and renovation which otherwise would culminate to the fall of the brand.

Deloitte (2010) continues to recognize consistency. as another key success factor. They state that consistency is paramount and that consistent product or service experience is central to the brand success and customer loyalty. However, they reckon that due to the numerous customer touch points in the industry, consistency is harder to achieve and those in the industry that achieve it are termed as successful.

1.1.4 Nairobi Java House Limited

Nairobi Java house is a restaurant chain of coffee houses based in Nairobi and dealing in the coffee brewing business and food and pastry as their core business. In the course of its years of existence Nairobi Java House has enjoyed 13 years of providing its clients with a good cup of coffee brewed at its best from its professional baristas and tasty meals coming from their kitchens. All this ends up with a memorable customer experience from the quality, friendly service that comes from their servers. It is purely based in Nairobi with recent prospect of venturing into other city of Kenya with Mombasa being the first outside Nairobi outlet. Having been established in Nairobi in 1999, Nairobi Java house is popularly known for its coffee besides all the other commodities it serves. The organization was established with the premise that Kenya had been ranked 6^{th} in Africa in volumes of coffee production, but best in quality of the product. However, the country has had no culture of local coffee consumption. It was started specifically to serve brewed coffee with the knowledge that in the 1990s, consumers would not get brewed coffee and had to take instant coffee (Nairobi Java House Limited, 2012).

Nairobi Java House is a family friendly restaurant in Nairobi known to be the home to Kenya's finest hand roasted coffee and freshly prepared home style food. It has expanded to its 13 restaurants across the city of Nairobi. Since inception in 1999, the organization has kept its promise to its customers to serve the best cup of coffee Kenya has to offer and generously serve food which is part of their brand promise. To ensure this, the organization has experts who sample hundreds of coffees before selecting the best bean to purchase. The organization serves tea which is sourced exclusively from Kenya's tea growing highlands of Mount Kenya which is only premium export quality grade. It has a unique Mexican menu by which food is made from freshly sourced finest local ingredients. The organization believes in quality and professionalism to ensure that all meals and drinks served reflect the promise the brand has given to its customers (Lagat A, 2011).

1.2 Research Problem

An organization must be ready to compete in the industry it is placed in and thus be ready to employ a business strategy that is appropriate for its resources, environment and core objectives. A strategy being the direction and scope of an organization should therefore be able to match skills and resources. For any business strategy to be capable of sustained success it must be grounded on competitive advantage which is gained when an organization gets to a point in the market where it has an edge in coping with competitive forces and attracting buyers. Competitive edge can be developed through ways like providing high quality product, providing excellent customer services superior to competitors, being the biggest and best known organization in the market, recognition as a low price seller, having the best geographical location, and having a product that does the best job in performing a particular function. Whichever position strategy pursued, the essential outcome to achieve competitive advantage is that a viable number of customers end up buying the organization's product because of the superior value they perceive it has (Johnson et al., 2005, Thompson et al., 1989).

Nairobi Java house having been based in Nairobi for the last 13 years has seen its successful days and the benefits of being a pioneer coffee house and restaurant. However, competition has set in for the last few years and the chain of coffee houses cum restaurants has been faced with the challenge to adopt competitive strategies for its survival in the market. It has seen the opening of new coffee houses and restaurants of its caliber and thus the encroachment of its market share by other players in the restaurant industry within the hospitality industry. With the challenge of the market share lessening, Nairobi Java House has been driven to adopt strategies that will ensure the organization gains competitive advantage over its rivals.

A number of studies have been done on strategy and its role in gaining competitive advantage. Owuor (2004) studied on the strategic alliances and competitive advantage in the case of major oil companies in Kenya. This was a study that concentrated on strategic alliances as a strategy, its area of application in the petroleum industry and how these alliances bring about competitive advantage and thus did not look at the different strategies that could bring about competitive advantage for an organization; Anot (2006) studied strategies employed by Kenya Tourism Board to establish a sustainable competitive advantage for Kenya as a tourist destination and came up with such strategies as; setting up a well established database and web based linkages to be able to provide information about tourists broadly, updating the computer system every second and disposal of computers after every three years to cut down on maintenance cost, and to increase government budgetary allocations. Gitonga (2003) did a study on the application of Porter's generic strategies framework in the hospitality establishments in Nairobi while Mittra (2001) studied on the strategic planning practices within hotels and restaurants in Nairobi.

Although research has been done on the restaurant industry and hospitality industry at large in Kenya, none seems focused on strategies that have been adopted by restaurants in Kenya to gain competitive advantage. It is evident from these studies that organizations in each respective industry adopt different strategies which are unique in each context to gain competitive advantage. What strategies has Nairobi Java House adopted to gain competitive advantage?

1.3 Research Objectives

The objectives of the study will be to:

i. Establish the strategies adopted by Nairobi Java House to gain competitive advantage.
ii. Determine the challenges encountered by Nairobi Java House in applying strategies to gain competitive advantage.

1.4 Value of the Study

The study will be valuable to different players who will find it of essence in their different capacity. The different management groups in the restaurant industry will gain the knowledge of the kind of strategies to implement in order to gain competitive advantage. It will also bring about a clear picture of the relationship between having competitive advantage over other players in the same industry and organizational success. Potential investors will get to learn on the best strategies to use and the challenges they are likely to face in the course of their investment in this industry.

The study will highlight and expand the body of knowledge in the aspect of the different strategies that can relate and are key to the industry. It will show how the different strategies can bring about competitive advantage and how the competitive advantage leads to an organization being successful. Scholars will be able to use this work to expand their knowledge in the industry and this will stimulate further research in the industry.

It will bring about the knowledge of how policy makers can enhance the industry to ensure more and better profits by having healthy competition among players. This will be through the set up policies that encourage players to join the industry by focusing on the overall profitability of the industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researches that have been carried out in the same field or that relate to this study. The chapter will cover and define strategy as a concept and its levels, competitive advantage as a concept, strategies used for competitive advantage which will focus on Porter's generic strategies, and the challenges that face an organization that attempts to implement these strategies.

2.2 The Concept of Strategy

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resource and competences with the aim of fulfilling stakeholder expectations (Johnson et al., 2005). Organizations apply strategy and make strategic decisions in the course of its operations in an industry with the aim of achieving advantage over the competitors.

Strategy has also been defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment. According to Pearce and Robinson (2006), a strategy is an organization's game plan and although that plan does not precisely detail all future deployments (of people, finances, and material), it does provide a framework for managerial decisions.

Strategy is the establishment of the long term goals and objectives of an organization including the process of taking actions and allocation of resources for achieving these goals (Chandler, 1962). Quinn (1980) identifies strategy as a plan that puts together an organization's major goals, policies and action sequences. He also argues that successful strategy cannot depend just on one organization's position in industry, capabilities, or activities. It depends on how others react to your moves, and how others think you will react to theirs.

Various perceptions and definitions of strategy exist but writers have not come up with an agreed, all embracing definition of strategy. Porter (1980), states that strategy is basically about competition and the means by which an organization tries to achieve or gain competitive advantage. Ansoff (1965) warned that strategy is an elusive and somewhat abstract concept that is still developing. Mintzberg et al. (1998) support this view by proposing five interrelated definitions of strategy. These are plan, ploy, pattern, position and perspective. Strategy as a plan is some consciously intended course of action which is created ahead of events. As a ploy, strategy is a maneuver to outwit an opponent; as a pattern, strategy concerns a consistent action of an organization over time after an event. When strategy is used for achieving or maintaining competitive advantage in the market place that cannot be challenged by competitors, then it may be viewed as a position. Alternatively, strategy may be seen as a perspective, a somewhat abstract concept that exists primarily in people's minds.

2.3 The Concept of Competitive Advantage

For any business strategy to be capable of sustained success it must be grounded on competitive advantage (Thompson et al., 1989). Competitive advantage is gained when an organization gets to a point in the market where it has an edge in coping with competitive forces and attracting buyers. Competitive advantage can be developed through ways like providing high quality product, providing excellent customer services superior to competitors/ rivals, recognition as a low price seller, having the best geographical location, and having a product that does the best job in performing a particular function. Thompson et al. (1989) states that whichever position strategy pursued, the essential outcome to achieve competitive advantage is that a viable number of customers end up buying the organization's product.

According to Porter (1985), competitive advantage is at the heart of an organization's performance in competitive markets. It grows out of value an organization is able to create for its buyers that exceeds the organization's cost of creating it. Grant (1998) notes that each organization possesses unique combination of resources and capabilities which are highly differentiated. The greater the heterogeneity of the organization's endowment of resources and capabilities, the greater the potential for competitive advantage.

According to Thompson et al. (1989) an organization has competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player in the market. Successfully implemented strategies will lift an organization to superior performance and give the organization competitive advantage that will outperform its rivals. Organizations must establish a sustainable competitive edge against other players.

Different authors have proposed models through which organizations can guard against competitors and establish a sustainable competitive advantage. The models include but are not limited to; the game theory (Shapiro, 1999), which focuses on analyzing competitor's possible move prior to deciding on the next action. According to Porter (1985), focus is to attain competitive advantage through cost leadership advantage or differentiation advantage.

Every organization possesses a variety of capabilities that enables it to perform activities necessary to provide its goods or services. While some organizations may perform the requisite activities in only an adequate manner, successful organizations presumably possess certain capabilities that allow them to perform key activities exceptionally well. These capabilities have been termed as distinctive competencies and generally refer to the unique skills and activities that an organization can do better than its competitors (Robinson et al., 1997). When competition intensifies, the possession of these competencies becomes increasingly important for the organization's continued success as these are the capabilities that support an organization's market position that is valuable and difficult to imitate and thus gaining competitive advantage.

2.4 Strategies for Competitive Advantage

Organizations choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. Organizations in all market types use a number of strategies to compete among themselves. Porter (1980) states that an organization can outperform its rivals either through low cost or differentiated products. The two strategies are not independent of each other but can be used simultaneously. With his analysis on competitive forces in an industry, Porter (1985) suggested three generic business competitive strategies that could be adopted in order to gain competitive advantage. These are the cost leadership strategy, the differentiation strategy and the focus strategy. Each of the three options is considered within the context of two aspects of the competitive environment: sources of competitive advantage and competitive scope of the market.

Porter (1980) describes cost leadership strategy as whereby an organization chooses to be a low cost leader in a market and gains competitive advantage from the ability to produce at the lowest cost than competitors in the industry and thus shaves and minimize costs off every element of the value chain. According to Robinson et al. (1997), to build a successful business on cost leadership, organizations should be able to provide its product or service at a cost below what its competitors can achieve. This strategy is usually associated with large scale businesses offering standard products with relatively little differentiation that are perfectly acceptable to the majority of customers. According to Thompson et al. (2007), for maximum, effectiveness, organizations employing a low cost provider strategy need to achieve their cost advantage in ways difficult for rivals to copy or match. If the rivals find it easy or inexpensive to imitate the leader's low cost methods, then the leader's advantage will be too short lived to yield a valuable edge in the market.

Porter (1980) describes differentiation strategy as the strategy that requires that the organization have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. According to Thompson et al. (2007), differentiation strategy is attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or by sellers with identical capabilities. A successful differentiation strategy allows the organization to provide a product or service of perceived higher value to buyers with a premium price charge above the usual cost. The strategy is associated with charging a premium price for the product often to reflect the higher production costs and extra value added features provided for the consumer.

Thompson et al. (2007) states that the focus strategy is also known as a niche strategy. Where an organization can afford neither a wide scope cost leadership nor a wide scope differentiation strategy, a niche strategy is most suitable. In this case, an organization focuses efforts, resources, and capabilities on a narrow, defined segment of a market. Competitive advantage is generated specifically for the niche either through cost leadership or differentiation. Cost focus is whereby an organization aims at being the lowest cost producer in that niche or segment. An organization thus aims at securing competitive advantage by serving buyers in the target market niche at a lower cost and lower prices than rivals. The differentiation focus is whereby an organization aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. An organization however using this strategy must ensure that customers really do have the different needs and wants and that existing competitors are not meeting those needs and wants thus have a valid basis for differentiation. According to Thompson et al. (2007), the strategy aims at securing a competitive advantage with a product offering carefully designed to appeal to the unique preferences and needs of a narrow, well defined group of buyers.

Pearce and Robinson (2006) brought forth the concept of grand strategies. They state that a grand strategy is a comprehensive general approach that guides an organization's major actions. Grand strategies, often called master or business strategies provide basic direction for strategic actions. They therefore outlined fifteen principal grand strategies which are: concentrated growth; market development; product development; innovation; horizontal integration; vertical integration; concentric diversification; conglomerate diversification; turnaround; divestiture; liquidation; bankruptcy; joint venture; strategic alliances, and consortia. All these strategies could lead an organization to acquire competitive advantage in its market of operation.

According to Pearce and Robinson (2006), market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Frequently, changes in media selection, promotional appeal, and distribution are used to initiate this approach. Product development on the other hand involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. This strategy often is adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation or brand name. The idea is to attract satisfied customers to new products as a result of their positive experience with the firm's initial offering.

Thompson et al (2008) state that horizontal integration strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain. Such acquisitions eliminate competitors and provide the acquiring organization with access to new markets. Vertical integration strategy is when an organization's grand strategy is to acquire organizations that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products). Concentric diversification involves the acquisition of businesses that are related to the acquiring organization in terms of technology, markets, or products. With this grand strategy, the selected new businesses possess a high degree of compatibility with the organization's current businesses. The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk. Thus, the acquiring organization searches for new businesses whose products, markets, distribution channels, technologies, and resource requirements are similar to but not identical with its own, whose acquisition results in synergies but not complete interdependence.

Turnaround strategy is involved when the strategic managers believe that a firm with declining profits can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. A divestiture strategy involves the sale of an organization or a major component of it. The reasons for divestiture vary. They often arise because of partial mismatches between the acquired organization and the parent corporation, occasioning a spin-off. A second reason is corporate financial needs in a bid to optimize the cost of capital (Hofer, 1980). Liquidation as a grand strategy is employed when an organization is sold in parts, only occasionally as a whole- but for its tangible asset value and not as a going concern. Joint ventures are commercial companies created and operated for the benefit of the co-owners. In recent years, it has become increasingly appealing for domestic organizations to join foreign firms by means of this form. The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners (Pearce and Robinson, 2006).

Additionally, Ansoff (1965) presented the Ansoff matrix which indicates the risk involved by engaging particular growth strategies for competitive advantage. In his matrix, he presents four strategies which include, market penetration, market expansion, product expansion and diversification. He explained that market penetration involves increasing the existing product market share in existing markets. He argued that when companies get involved market penetration focuses on changing incidental customers to regular ones and regular ones to loyal customers. Market expansion on the other hand involves the identification of new customers for existing products by luring customers away from competitors or introducing existing products in other markets or introducing new brand names in a market. Product expansion or development involves developing new products for existing customers while diversification involves new products to be produced for new markets.

2.5 Challenges of Applying Competitive Advantage Strategie

There are a number of challenges that come along in the application of competitive strategies by an organization. According to Hill and Jones (2001), an organization can be faced by inertia. In this argument, it is stated that an organization finds it difficult to change their strategies and structures in order to adapt to changing competitive conditions. A factor that causes this inertia is the role of an organization's capabilities. The organization's capabilities are argued as being a source of competitive advantage but their downside is that they are difficult to change since they are the way an organization makes decisions and manages its processes. It is evident that changing the established capabilities of an organization means changing its existing distribution of power and influence and those whose power and influence is bound to diminish resist such change.

Prior strategic commitment not only limits an organization to achieve competitive advantage, but also may cause competitive disadvantage. Hill and Jones (2001), argues that when an organization invest major resources that are specialized business, then a market shift will cause it to have challenges to apply competitive advantage strategies. Prior strategic commitments may therefore cause an organization to be locked in a shrinking business and shedding such resources would cause hardship to all organization's stakeholders.

Miller (1990) states that another challenge of implementing the competitive strategies by an organization is the Icarus paradox. The paradox states that ones greatest asset that causes success, could eventually cause failure. He argues that many organizations become so dazzled by their early success that they believe more of the same effort is the way to future success. As a result, an organization becomes so specialized and inner directed that it loses sight of market realities and the fundamental requirements for achieving competitive advantage.

Porter (1990) states that there could be challenges in applying competitive advantage strategies because of such attributes a company could have like factors endowments. He follows the basic economic theory in stressing that basic factors of production which include: land, labor, capital, raw materials), and advanced factors such as technological know like managerial sophistication and physical infrastructure, can determine how well an organization is able to apply competitive advantage strategies. Without ease of availability or reach of factors of production an organization can face major challenges in the application of competitive advantage strategies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter covers the research design, data collection method and data analysis.

3.2 Research Design

The study was carried out through a case study design. A case study is a powerful form of qualitative analysis where studies are done on institutions and from the study, data generalization and conclusions or implications are drawn. The unit of study could be an institution, family, district, community or a person. A case study also emphasizes depth rather than breadth, and is appropriate for a study that entails a descriptive nature (Kothari, 2004).

With the objectives in mind, interviews were conducted to 20 respondents which included the company's chief executive officer, six heads of departments, and thirteen branch managers. The heads of departments included the finance manager, the food and beverage manager, the human resource manager, the procurement manager, the roastery manager and the brand manager.

The method was appropriate since according to the nature of the research which was descriptive, it allowed an in-depth account which no other method would have allowed and also involves a careful and complete observation of the institution (Kothari, 2004). This method had an advantage of in-depth understanding of behavior patterns of the institution under study. This method had previously been used by Githinji (2010), Kairuthi (2010), and Awori (2011) among others.

3.3 Data Collection

The nature of the study was qualitative and were based on both primary and secondary data so as to achieve concrete information. The primary data was collected from top management including the Chief Executive Officer, the procurement manager, the food and beverage manager, the human resource manager, the roastery manager and the brand manager, as well as middle management of the restaurant in all the 13 outlets.

The study made use of an interview guide to collect the primary data which was administered through a personal interview to all the respondents. Probing was also used to exhaust the information being sought when administering the interview guide. The secondary data was gathered through the use of the organization's strategic plan and other available written material on the organization within the organization and the press.

3.4 Data Analysis

Given that the study collected data that were largely qualitative, content analysis was the most appropriate method of analysis. According to Nachmias and Nachmias (1976), content analysis is a method where the content of the message forms the basis for drawing inferences and conclusion about the content. Berelson (1971) defines content analysis as a research technique for the objective, systematic, and quantitative description of *manifest content of communications. Content analysis has the potential to generate* more detail from data. It measures the semantic content or the what aspect of a message, especially in response to open-ended questions.

Content analysis was used to analyze the in-depth qualitative data that was gathered through the use of interview guide to achieve the objectives of the study through description and classification of phenomena brought about by the study and the responses from the respondents. This entailed a thorough check of all the information from the respondents and systematically and objectively identified specific and common information that related with the occurring trends. It was used to describe the phenomena and how the concepts interconnect as indicated by the responses from the interview guide. The commonalities from the responses were analyzed along the study objectives presented. This was done to determine the frequency of specific responses or ideas from the respondents.

CHAPTER FOUR

DATA ANALYSIS, RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The study aimed at addressing the following research question mentioned elsewhere: What strategies has Nairobi Java House adopted to gain competitive advantage? The study employed a case study research design so as to have a clear in depth understanding of the objectives.

From the data collected, Nairobi Java House was seen to operate in a very competitive environment and thus having different players who are competing for the same resources and market. The study revealed that the company engages in a number of strategies to achieve competitive advantage in its environment. Some of these strategies include: differentiation, product development, and market development among others. The study also tackled the challenges faced in pursuit of these strategies by Nairobi Java House and the measures that the company has put in place to counter these challenges.

4.2 Nairobi Java House's Competitive Environment

There has been no great innovation in the restaurant industry in Kenya, but it is evident that there has been a transformation and change in the customer base, service levels and food quality. The customers found in the restaurant industry are the middle class earners, who are demanding for higher standards from the industry in terms of food and service for value for money. The customer expectations and demands have transformed the industry such that the industry players are called more to deal with customer needs as opposed to the customer taking what is offered to them. The industry has been transformed by more and more people turning to restaurants for different reasons which include but are not limited to: working away from home; fast lives that deny time for a home cooked meal; and increased disposable income which increase the spending power. These reasons have led to the transformation of the industry as having restaurants as a convenience to many as opposed to a reservation for the rich.

The industry has experienced competition in different levels for the different players. The restaurant industry is divided into four unspoken and undefined categories which serve different clientele and thus experiencing competition in the different levels. These are: fine dining which is considered high class with high prices; the fast food which caters for the middle class to upscale market; the casual dining which has price points that are achievable by the middle class; and the kiosk which caters for all. Competition in the different categories is of a different kind where the kiosks are found to be highly competitive and the customers look for daily survival while fast food restaurants usually is competitive on the convenience front and not necessary the quality of food and service. In fine dining, there is fierce competition as they all look to deliver world class experience while the casual dining which is where Nairobi Java House is categorized competes on different front which can earn an edge for any player. These include the ambience, food quality, great service, product consistency and affordable great experience. The restaurants in this category therefore compete on the platform of an experience package.

Nairobi Java House has competition from different other restaurants on different levels. The chain of restaurant considers Dormans Coffee House as a competitor where coffee beans and coffee drinks are concerned but not on other offers. It also considers as a major competitor to be Art Caffe since the chain of restaurant offers breakfast, lunch and dinner, coffee beans and drinks and ultimately an experience just as Nairobi Java House does. However, the prices at Art Caffe are higher than those at Nairobi Java House and thus an advantage for Nairobi Java House.

4.3 Strategies Adopted by Nairobi Java House to Achieve Competitive Advantage

Nairobi Java House has positioned itself for competitive advantage in different ways which include but are not limited to: how it brands itself, product pricing and product offering that fully caters for the target market and understanding the customer needs. The company has also considered itself as a fast growing company and thus in the plans to extend outside Nairobi, and ensuring that there is product consistency and usage of local suppliers for most of their products and raw materials. The company has also positioned itself well for competitive advantage by reaching the local companies to fabricate their imported machines and thus creating a good positive relationship that ultimately impact on their competitive edge. Nairobi Java house sources for the best raw materials there is in the market by ensuring good relationship with the suppliers by paying the much they owe in the agreed timelines. This has gained the company mileage with the suppliers of goods and thus is able to access even scarce products as a priority company, and even allows suppliers to trust and offer goods even on such terms as credits terms. The company for has adopted a number of strategies to achieve competitive advantage over its rivals. These strategies include: differentiation; product development; product pricing; market development; market expansion; diversification; and cost leadership strategy.

4.3.1 Differentiation Strategy

Nairobi Java House has recognized that branding is a key important aspect for any company. They have appreciated that branding is not the company logo or even the company products but that which creates a difference between you and others. Therefore, the company has branded itself as a package offered to their customers. Nairobi Java House prides in the way they have branded themselves recognizing that branding is really what your customers and others including competitors know about you.

Nairobi Java House prides itself on its product and not just the coffee as it is widely known for, but it chooses the best of coffee from the auctioneers to ensure their customers gets the best in terms of the products and buys the best local raw materials for all its Mexican menu dishes. This ensures that the customers get the best consistent products that is reliable and has value for their money. The company therefore offers a package which overall presents itself as a home away from home in the restaurant; a destination for a whole family meal; consistency and reliability of products; a meeting place, both for leisure and business.

Nairobi Java house has recognized that brand is about the people, how they feel and the value they derive or associate. The company has therefore invested a lot to get the package that they offer to their customers through great décor, to create a warm natural feeling from locally made art works which raises the ambience of each restaurant with or without an outside sitting with a terrace and/ or garden; locally available raw materials to create their products; competitive salaries for their staff members which translates to loyalty for there is no exploitation and that staff are passionate about their jobs and thus offer great service; invest in time to go to the coffee auctioneers and local farmers farms to choose the best coffee berries and raw materials for the best products; fair prices on products.

The company has gone ahead in terms of differentiation to recognizes that the clientele they attract are technologically connected and thus in almost 90% of their outlets, they have the WIFI internet connection at no extra cost. This ensures that a wide variety of customers who may be in need of internet connection are able to visit the restaurants, eat, feel at home and work all the same time. Additionally, with the difference in religion in the country, the company has appreciated the presence of the Muslim community amongst them and have therefore ear marked two restaurants as Halal. These are the two restaurants where they have noticed a high frequency in visits from the Muslim community.

Differentiation in terms of branding affects the competitive position of Nairobi Java House in that the customers are aware of the standards of food quality and customer service to expect. They are also aware of availability of such other benefits that come with the package like the wireless internet connection, the ambience in any of the outlets, the fair pricing on products and the family set up among others. This will be in comparison to the industry players who have for instance good food and poor service, good food and service and also serves alcohol therefore loosing the family set up, having no wireless internet connection and thus losing all the business oriented customers who would want to work in the premises.

4.3.2 Product Development Strategy

Nairobi Java House tries as much as possible to offer a health conscious menu and thus every six months, its menu is changed for improvement where some products are added and others removed while others are re-introduced from old times. The company always listens to its customers needs and thus offers products that are being sought for by their customers however keeping its Mexican type of menu.

For a healthy outlook, the company has continuously changed its offering like ensuring that all deep fried products are done so by using sunflower oil, offered fruit salad in its menu for those customer who would want to substitute french fries(fried potatoes), increased its green salads variety over time. This product development or changes are informed mainly by customer tastes changing, none selling products, need for improvement on some products by simple adjustment of recipe to a better product, new customers in the market requesting for a different product offering and positive or negative guest response to a product. To ensure they are aware of exactly which product to remove or retain in the menu, Nairobi Java House uses the popularity index whereby they get to gauge which product sells most and also the slowest product. They also use the guest comments review to see which products the guest seem to enjoy most to avoid removing such products from the menu and ultimately they always have a couple of new products in every menu/ product review.

4.3.3 Product Pricing Strategy

As a casual dining restaurant, Nairobi Java House keeps its prices affordable mainly to its target market which is the middle class. This ensures that any one from the middle class and above is capable of dining at Nairobi Java House. This is because the quality of food and service is world class and thus accommodating all. The company has ensured value for money for the package they offer especially through the extras that is offered.

According to the company Chief Executive Officer, when compared to industry standards in pricing, Nairobi Java House observes competitors prices so that they are able to set their prices at levels below those of the competitors, and also use the package they offer as a guideline, as well as raw materials, overhead costs, staff salaries and cost of goods sold. They ensure that no aspects of the package slacken and thus charge fairly on best quality in the industry, passion for what they sell and reasonable portioning. The industry competitors end up being higher in pricing by between five (5) to twenty (20) per cent.

4.3.4 Market Development Strategy

Nairobi Java House having been in business for thirteen (13) years in Nairobi targets the middle class. This is an emerging economic class in Kenya which is taking over the Kenyan economy and growing steadily by the day. This target market is one which is ready to spend and is constantly going to spend time and feed outside. The middle class is an economy influencer, however they have a challenging taste for the restaurant industry but if a company is able to meet their tastes, it never fails. They try out new things and thus can be a major success point for any restaurant business. The company therefore has always been ready to take care of this market and go as far as squeezing the margins a bit incase there is encroachment of market share by competitors.

In addition, the company having a middle class as its target market has ensured that the menu is capable of taking care of their customer in entirety and thus the aspect of new market development. The company's management has come up with a main menu that mostly takes care of their adult customers but has also with time developed a kid's menu which ensures that children are taken care of especially in the food portioning levels. This ensures that customers with children feel comfortable as their children are taken care of. This kid's menu is child friendly as children are offered coloring pens to color on the menu page the different provided animals or shapes and it also has different puzzles which keeps the children busy as they wait for their orders to be ready.

4.3.5 Market Expansion Strategy

The target market spends moderately but frequently and are therefore found visiting the malls in Nairobi every so often. This therefore attracts Nairobi Java House to put up a restaurant in most of the malls in Nairobi and thus coming up with new market areas. The company is also led to new markets by having affordable locations that are frequented by its target market and thus having business feasibility and location that is accessible in terms of good roads, ample parking and security.

Nairobi Java House was in the present year approached by Emerging Capital Partners for an investment into the business. This was a major opportunity for business growth and especially in terms of market expansion. From the business strategic plan, the investment by Emerging Capital Partners has boosted the company's expansion to having two new restaurants in every quarter a year. This growth process will see the company spread its business nationally and even regionally in a very short period.

4.3.6 Diversification Strategy

Nairobi Java House has diversified into other business presently and in the past. This include a bar business with the brand name Mercury Lounge, frozen yogurt shops branded Planet Yogurt and is planning to go into pizza business in the future. This diversification is brought about by customers reactions and different tastes.

Nairobi Java House is set on a family oriented premise and thus does not sell alcohol save for the Jomo Kenyatta International Airport outlet. This is for the sole purpose of being able to take care of all the clientele in a family set up. Due to more and more customer asking for the serving of alcohol, the company diversified to the Mercury Lounge as a different concept which did not succeed and the business was sold out.

The company has opened a new brand of frozen yogurt with which the target market is of a younger generation however in the middle class. This has successfully picked up and within a year and a half since inception, five (5) branches are running. The company's management is still looking into the possibility of opening pizza shops, the first being before the end of the first quarter of the year 2013.

4.3.7 Cost Leadership Strategy

A cost leadership strategy is used by the company since the company thrives in giving customers more value for their money by incorporating good-to-excellent product attributes at a lower cost than rivals. They target to have the lowest costs and prices compared to rivals offering products with comparable attributes.

The company goes further to offer best services and incorporates extras like the WIFI internet access, great décor to enhance the ambience and homely, family feeling and thus creating a value for money experience. A strategy works best in markets where buyer diversity makes product differentiation the norm and where many buyers are also sensitive to price.

According to the procurement manager, the company always sources for the best suppliers and those that they can negotiate prices especially of the raw materials. This ensures that the prices of the final products by the company is kept affordable for the target market and also below the competitors prices.

4.4 Ability to Access Factors of Production

In terms of accessing factors of production, Nairobi Java House seeks to be placed in buildings where they can modify the space to have the company look. This therefore means that they target malls and shopping centers a lot as they are coming up. It is usually hard to get a facility at the Nairobi Central Business District, however, there are offers everywhere else around the city. The management therefore is more or less just tasked with making the choice of taking up space or not. Most of the time, the management will assess the business feasibility in an area, survey the area and ultimately make the decision of whether or not to take up the offer. Due to the famous brand outlook, there are many skilled people who look to work for the company and thus in terms of labor, the company is well catered for and easily recruits skilled and unskilled staff to train internally.

The company has also been surviving by ensuring that the profits made by existing branches are well distributed and thus take care of capital as start up for other branches. In addition, the business got an investment offer in 2012 by an American Group by the name Emerging Capital Partners and this has been a major boost to the company. This has ensured that the company rate of growth has been boosted tremendously and the management is in plan to build at least two branches every quarter a year with the aim to go outside Nairobi. There first branches outside Nairobi for both Nairobi Java House and Planet Yogurt brands were at Nyali, Mombasa in September 2012.

4.5 Strategic Options Applied to Achieve Business Goals

The company has ensured that they are offering the best food and coffee at affordable prices. This has ensured that they have a lot of customers both first timers and repeat or regular customers who turn loyal and bring others. The company has also taken care of the staff needs by ensuring they offer competitive salaries with benefits and thus in turn the staff are ready to work without much of supervision and offer the best food, drinks and service to the customer which is the promise the company has for its clientele.

This works like a cycle where the company takes care of the staff, who in turn take care of what they present to the customer in terms of food, beverage and service. The customers turn from first time customers to regular to loyal customers and by the time they are loyal, they spend enough to ensure the business runs itself and take care of staff needs in terms of salaries and benefits. This cycle completes and thus opens a route for both the staff members and the customer to pass word to the next person which is the company's only way of making itself known.

The company has also ensured that staff believes in the company and the business goals to help achieve them. It has created a model where staff are allowed to grow through the ranks. According to the Chief Executive Officer, the company has levels of seniority which allows for a management structure where all supervisors directly supervise not more than four (4) people. This has provided for unlimited growth since the company is also growing and thus needing more supervisors and staff at all levels more often than not.

4.6 Challenges Faced in Pursuit of Competitive Strategies

The diversification into a bar business was a strategic commitment that hampered the ability of the company to compete. The company could not compete on this level and yet the management had already committed into the business and invested in it. The business did not grow to more than the one outlet, yet it would take a third of senior management time while it existed. It was then eight percent of the whole company investment and yet it was not making profit and thus was dragging the rest of the company backwards. This hampered the application of the diversification strategy.

Lack of staff training and growth is a challenge that hamper application of the strategies. Among the current staff, half of them are those that have been with the company for over five years. These have grown through the years and the system and thus by now have gotten to a point of no more growth. Training such staff becomes a difficult task since they are not necessarily open to change yet the company's management is constantly involved in product development. These staff members seem to be dragged along into the future by the company, yet their personal growth seems to have stopped and therefore affect their performance which ultimately affects the customers' experience. They seem not to be at a content and satisfied situation and thus do not fit in the company any more.

There is the challenge of having many restaurants opening around Nairobi Java House and targeting the same market. This sometimes happens whereby the new restaurants open so close to the company's outlet and charge lower prices. This leads to a split of the market share and most of the time a down trend on business as customers seem to always look for an almost same commodity but cheaper. As the company management is geared towards market development, the new restaurant poses the challenge of making this new market and the existing market smaller.

The company also faces the challenge of consistency of products across its outlet. Being a fast growing company, the company is having its branches reach towns outside Nairobi yet operating on the same menu commodities. This means that the expectation from the customers is same products in all outlets in terms of offering and similarity of prices and taste. This affects the brand positioning and the management has to ensure that the brand details are well adhered to avoid having difference across the different outlets.

The other challenge the company goes through is having suppliers whom they solely rely on and yet on some occasion do not deliver on time and quality goods. This means that business is affected if goods are late and if quality is bad, then it cannot meet the standards it has set for its clients. Over reliance of a supplier especially on machinery almost takes the business to a standstill. This mostly happens when a machine is being imported or at the point where a machine is being repaired or fabricated locally.

4.7 Measures to Counters the Challenges Faced

Nairobi Java House has put in place ways to manage and counter the challenges it goes through in the industry. For the strategic commitment that the company has made that failed, case in point the bar business, the management of Nairobi Java House has made hard decisions like selling off the business. This however has not discouraged venturing into other businesses of a different concept through the strategy of diversification and the company registering success and profits in this new and different concept business.

The company management has undertaken investment into training program and put aside a training budget for all staff but especially staff who performance was recorded in any performance review as poor. This ensures that all staff who are not growth oriented are given a knowledge challenge. This ensures that all the time, the company is able to implement product development strategy with ease by the fact that all staff are trainable and the implementation of a new product or process rolls out perfectly.

For those staff who have been in the company for more than five years and thus not reacting fast to change, the management has ensured that they train them how to be mentors to the newer staff especially on technical matters and thus the ability for all to keep company standards as much as there is a lot of changes. This ensures that the staff takes care of the brand as their own company. The management thus trusts the staff members as care takers of the brand as they believe that the staff is more the business owners more than the owners themselves. This belief in the staff team members empowers the staff, as management believes that empowerment is not just financial reward but ensuring responsibility and keeping the brand intact.

The challenge of new restaurants opening has been countered by having the staff of the company always ensuring that the customer is king. Market share encroachment means that there is less business and the outlet is not busy. According to the Group Service Manager, the staff ensures that since there is not so much work, then they give best service and food quality is high even where in the past the food quality and service could have been compromised. This ensures that the brand as it is known and up held by many is kept as such. This being the case, the customers who could have left to try other companies' brands ultimately come back.

With the growth level, Nairobi Java House is challenged in keeping the consistency of food, beverage and service in check across all the outlets. To counter this challenge, the company management has ensured that staff members are constantly trained, to ensure the service, food and beverage given to the customer is consistent and up to the company's standard. In addition, to ensure consistency of products, the company management has also come up with a central commissary area where all the product preparation is done and thus taken to the outlets with the same look and feel. All the outlets do is to finish the cooking process as everything comes from a central kitchen. This ensures that all suppliers deliver in one place and thus all products are the same across the outlets since the supplier of each product is one. The management has also ensured that they have created very amicable relationships with different suppliers. This ensures that if one supplier fails, then the company has a fall back plan. In terms of machinery imports, the management ensures that there is always an excess order by one to cater for the next time a machine will be ordered for and delay is experienced. This excess is always in store in Nairobi central store for a quick fix incase of delays.

4.8 Discussion of the Results

From the results of the study, it has been discovered that for Nairobi Java House has been employing a number of different strategies so as to achieve competitive advantage. These results have shown what has enhanced the positioning of the company as a market leader as referred to by many.

It was evident that Nairobi Java House has on occasion adopted Porter's cost leadership strategy as well as the differentiation strategy. According to Porter (1980) a company that uses cost leadership strategy ensures they produce at the lowest cost than competitors and minimizes costs of every element of the value chain. Nairobi Java House is seen to import machine but fabricate them from the country to ensure that the costs are not going overboard by having the import companies fabricate the machine since they already have a major cost on importation. The company sources for the best suppliers for best items and raw materials needed in a restaurant business. They have created a best relationship with these suppliers to ensure that the costs of those items are kept at minimal so that they are able to keep their prices of finished goods lower than those of the competitors. This ensures that as Porter cost leadership strategy is defined, the company is actually able to shave and minimize the costs off all elements of the value chain. The company however does not entirely rely on low cost leadership as a strategy since this would not work fully as they do not offer standard products which have little differentiation as what happens in large businesses as per Robinson et al (1997). The company therefore also employs differentiation as a strategy.

Differentiation as propagated by Porter (1985) is a strategy that requires an organization to have sustainable advantages that allow it to provide buyers or customers with something uniquely valuable to them. With differentiation, a company is able to provide a product or service of perceived higher value to buyers with a premium price. Nairobi Java House has managed to use this strategy as the needs and preferences of its customers are diverse and thus cannot be met by a standard product. This is seen by the way the company has not just provided its customers with their products but have gone ahead and created a home away from home environment in their restaurant through their décor that brings in the ambience and tranquility. With the product offering of Nairobi Java House, and the use of the cost leadership strategy, the company has been able to make use of the differentiation strategy also by the ability to charge a premium price to their customers. However, this premium price is not so much felt by the customers since their products are perceived to be of higher value and do not only entail the product, but a whole experience, which they have also tried as much as possible to keep their prices lower than those of their competitors. The company has ensured product consistency in all its outlet by sourcing from the same supplier and ensuring all staff are trained the same. The company has also ensured that almost all of their restaurants have WIFI connection for those customers who would want to access internet and thus bringing the office close to their customers. From the results, it has been noted that the company has used differentiation by going ahead to accommodate the different religions by ensuring that two of their restaurants are Halal so as to accommodate their customers from the Islam faith.

Nairobi Java House also engages Ansoff's product development strategy. Product development which is a strategy involving substantial modification of existing or creation of new but related products to be marketed to existing customers, through already established channel, is well articulated by the company's change of the menu every six months. According to the Food and Beverage Manager, the company engages in product development especially from the information they get from the customers on product change or modification desired. To meet this customer need, every time the menu is changed, new menu items are introduced and others are modified.

The company from the results of the study prices its products to an affordable level by its target market which is the middle class. The company management ensures they offer a package as opposed to a product that spells out value for money. In this case, as per Porter's cost leadership and differentiation strategies, the company ensures it offers the best products at premium prices in the industry. However, it also ensures that every value chain element has its costs minimized and thus it has the best low cost prices in the industry. To set their prices, they observe the cost of raw materials, overhead costs, staff salaries, cost of goods sold and most importantly the competitors' prices. The competitors prices ensures that they set their prices well enough to make a profit but below the rivals to achieve a competitive advantage through product pricing.

The company also makes use of Pearson and Robinson (2006) market development strategy. The strategy consists of marketing current products with possible cosmetic modifications to customers in related markets. It has been seen from the study that with the product offering the company has, in times of market encroachment by competitors, the company management is ready to squeeze the margins to be able to take care of its customers and keep them. This move usually earn the company more customers as the company highly depends on word of mouth advertisement and with such experiences, the existing customers end up bringing in others. The company therefore market the existing product very well to the existing customers who end up becoming a channel of advertising and distribution and thus market development.

The company also uses Ansoff's market expansion strategy whereby they are able to identify new customers and new locations to set up the business. The strategy by and large involves identification of new customers for existing products by luring them from competitors, or introducing existing products into other markets or introducing new brand names in a market. The company has been able to also introduce new brand names into the market which include Mercury Lounge and Planet Yogurt. The ability to expand the market has especially been enhanced by the presence of an investing company, which has enabled the company in 2012 to expand outside Nairobi. This trend is expected not only nationally but regionally too.

As per the grand strategies by Pearson and Robinson (2006), the company has been able to make use of the diversification strategy. In diversification, the company increases the strengths and opportunities and decrease the weaknesses and exposure to risks. The company usually searches for new businesses whose products, market, distribution channels among other considerations results in synergies but not complete interdependence. Through the customer comments that the management of Nairobi Java House gets, it has tried as much as possible to accommodate its customers. However, in the instances where this is not possible, the company management has employed the diversification strategy by having to open new business concept under new brand names which are not identical to it but serves its target market needs, increased the strengths and opportunities of the company and decreased the weaknesses and the exposure to risks. This has gained the company mileage in terms of competitive advantage.

Some of the challenges faced in applying the strategies were that strategic commitments that the company engaged in. Hills and Jones (2001) observed that major resources invested in a specialized business, then a market shift causes challenges in achieving competitive advantage. This has been seen in the case of Nairobi Java House diversifying to a bar business which did not succeed yet cost the company both time and money. Eight per cent of the whole company investment was in this bar business and due to its non-performance, top management time was spent on it trying to strategize for success.

The company is faced by the challenge of inconsistency of products across its outlets especially now that the expansion levels are high and menu item changes and development has increased frequency. From the results of the study, it is clear that the company believes in its brand and believes that the brand is driven by the staff. It has therefore been careful to ensure that a training program and budget are in place so that the issue of inconsistency is taken care of. The enhancement of knowledge of the staff gives the staff the courage to take care of the brand by the products or services they offer the customers. The company management has also ensured that all staff are competent in their area of operation in the technical aspect and that growth of individual staff is encouraged.

The company has the challenge of having new restaurants opening in their locations of operation. However, Nairobi Java House does not seem to have been faced by the challenge of inertia as Hills and Jones (2001) puts it and therefore is able to take care of this challenge. A company is seen to be faced by inertia as a challenge when it finds it difficult to change its strategies and structures in order to adapt to changing competitive conditions. According to the Chief Executive Officer, the company management seems to act with ease in changing the strategies and structures to accommodate new items in the menu, new business for the ability to adapt to changing competitive conditions. They are actually able to squeeze their margins to be able to accommodate their target market buying ability and afford to be below the competitor's prices even if their competitor's restaurants are close by.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the results of the research objectives outlined in chapter one of this study. The section covers the summary of the answers of the research question, conclusion of the study, the limitations of the study, the recommendation for policy and practice and the suggestions for further studies.

5.2 Summary of Findings

The first objective of this study was to establish the strategies adopted by Nairobi Java House to gain competitive advantage. The second objective was to determine the challenges encountered by Nairobi Java House in applying strategies to gain competitive advantage.

The study found that Nairobi Java House uses a combination of strategies which include differentiation, product development, market development, diversification, and best cost provider. The respondents indicated that the company uses its brand name and reach to position itself to achieve competitive advantage.

A few of the respondents indicated that there is for sure stiff competition and a majority indicated that there is competition however not as much and not unmanageable. Contributing factors were the presence of players who were serving all meals like Nairobi

Java House that is breakfast, lunch and dinner. However most respondents were of the opinion that it is not just the food and beverage you are served as a customer, but more the experience that goes with the service, ambience, tranquility and value for money that comes with it and create repeat customers which translate to customer loyalty and word of mouth advertisement.

With regard to the strategies adopted by the company to gain competitive advantage, the respondents mentioned that the company has branded itself in a unique way as compared to the competitors which has given it leverage. It was observed that the company relies heavily on word of mouth advertisement and therefore has no much of a choice but to offer the best. The company is known best for its quality coffee but has diversified into food and other beverage as well as desserts. The set up of their restaurants and décor is appealing, the ambience inviting and the tranquility capturing. According to Hurley Doddy, one of the co- Chief Executive Officers of Emerging Capital Partners, their company believes in the growing African consumer story. When he was receiving an award which they won during the private equity deal of the year at Africa Investor's Investment and Business Leader Awards 2012, Ms. Doddy mentioned that the team recognized the opportunity for investment through a top down industry analysis. He confirmed that before investing in Nairobi Java House, their meetings in the restaurants were met with an experience of a solid brand that really delivers on its promise of exceptional coffee and meals at affordable prices in a lively, warm environment.

It was also observed that the company is gearing to open other branches around the country and from the data collected, it was evident that in a few years to come the company will have gone to the Eastern Africa region. This was a major indication of the use of market expansion as a strategy. This was evident by the fact that in the 13 years of existence, the company has opened 14 branches in Nairobi and 1 branch in the Kenyan coast by the close of the study. Having noted that Emerging Capital Partners as investors have heavily invested in the company in 2012, it is a clear indication of full implementation of the market expansion strategy.

The company also uses diversification as a strategy to achieve competitive advantage. The customers in Nairobi Java House has seen the introduction of different products and have gone from selling coffee which was the original idea to food, other beverages and pastry products. They have on occasion introduced health products for the health conscious customers thus showing a clear product development strategy use. The company has also diversified the business to other business to take care of customers whose needs cannot be taken care of by the Nairobi Java House. This has been done through the introduction of new concepts like Mercury Lounge which was for alcohol consuming customers and Planet Yogurt which takes care of customers who enjoy frozen healthy yogurt.

Nairobi Java House seeks to provide to its customers an experience as the product of sale. The customers come to buy a product but the main agenda for the company is to ensure that they leave having had a great experience. From the respondents, it is evident that the company sets its prices having considered a number of matters which include the cost of raw materials, overhead costs the margins to create and most importantly their competitors pricing. This makes the management to ensure that at all times they keep the prices of the products at a lower level than the competitors. This brings about their using the cost leadership strategy.

The major challenges identified by the respondents in the application of the strategies adopted by Nairobi Java House include: lack of proper product development due to having staff who are untrained and have stagnated in growth; diversification into other businesses failure yet using a lot of senior management time; and the opening of other new restaurants close to its outlets and thus endangering market development and encroaching on the current market share.

The company is able to counter these challenges by ensuring that all staff members are reviewed on performance and the required necessary trainings conducted to ensure uniformity especially during product development. It has also ensured that it has maintained the great experience for customers and value for money aspect to allow for market development and especially to avoid market share encroachment by competitors. The company management has also ensured that before diversification, product development and market expansion are pursued as strategies; there is investment on checking the suitability and feasibility of a different business location, product or new market. This is done by using product popularity index report, new market thorough surveys and having a market survey on new business before the start of investment.

5.3 Conclusion

From the data collected, this research concludes that Nairobi Java House faces direct competition in its area of operation and general competition from the hospitality industry as a whole specifically restaurants.

The study was also able to conclude that for the company to achieve its competitive advantage, it uses a number of strategies. These strategies have led the company to a position of a market leader in the industry. They include: differentiation; diversification; cost leadership; product development; product pricing; market development and market expansion. This being the case, the study concluded that the company and any other company does not achieve competitive advantage over the competitors by the use of only one strategy but by employing a number of strategies that the particular company can exploit best.

The study also concluded that the strategies adopted by the company to achieve competitive advantage have been effective. If well monitored over the years and the ability of the company management to read their environment, then the company will be able to continually achieve competitive advantage and maintain its position as a market leader.

The study concludes that a company placed in the hospitality industry or any other industry should be ready to compete by ensuring they know their target market, and competitors. The company should by all means know their strengths and weaknesses to be able to take advantage of the opportunities in the industry and minimize on the risks and thus eventually be able to be competitive and to gain competitive advantage. The company should be able to place itself in a position of advantage by using the best strategies that would work in the industry it is placed in. To come up with the best strategies, the company must know its competitors strengths and weaknesses, their targets market, their product offering, their prices as compared to the company and strategize on how to make themselves better than the competitors and also improve on what they already have in the market. Similarly, a company must be alert to know and acknowledge the needs of their customers and also get to learn through market survey what those not in their market already, need. This will ensure that a company is able to engage in such strategies as product development, market development, market expansion and even diversification among others. A company should note that whichever strategy pursued, the most essential outcome to achieve competitive advantage, is that a considerable number of customers end up buying the company's products.

From the study it can be concluded that the generic strategies of differentiation and cost leadership as advanced by Porter (1985) have been used by Nairobi Java House as strategies of achieving competitive advantage. Additionally, from the data collected from the respondents, it is evident that market expansion and diversification as brought forth by Ansoff (1965) are strategies that have been adopted by the management of Nairobi Java House especially in the recent past, and this has seen the company's high level growth. Market development and product development which were strategies propagated by Pearce and Robinson (2006) have also been vastly mentioned as strategies that have propelled Nairobi Java House to achieve competitive advantage over their competitors.

The study also concluded that to apply the strategies for competitive advantage, the company is faced with a number of challenges. These challenges include; strategic commitment that hamper the ability of the company to compete, lack of staff training and growth, new competitive restaurants opening business and targeting the same market group, consistency of products and having reliable suppliers.

5.4 Recommendation for Policy and Practice

From the data gathered and analyzed, it is important for the company to maintain its standards and always be consistent around its branches to maintain its brand, counter competition and also maintain its competitive edge. Due to its level of popularity, to be able to take care of its customers comprehensively it would be important for the company to increase its speed of expansion. The company therefore needs to be keen on the application of the market expansion strategy.

The rapid growth and expansion of Nairobi Java House is a clear indication of growth of the industry and especially the coffee shops or restaurants. This shows potential for the sector's overall growth and thus a challenge to the policy makers to develop policies that will foster growth and healthy competition among the existing players and possible new comers.

The licensing bodies which include the City Council of Nairobi and the Ministry of Tourism should also be involved in ensuring that there are more measures for any player to start a restaurant business. This is to ensure that new restaurants business being set up, are up to standard in terms of product offering, hygiene and ability to compete.

5.5 Limitations of the Study

The study had the limitation of having to gather the information from one company and the respondents of one company and thus not making comparisons on a wider industry scale. This is because the study was focused on the strategies adopted by Nairobi Java House to achieve competitive advantage, yet the company is based in an environment which is very competitive due to other players' presence.

The study was carried out in Nairobi Java House and the results presented were solely for this particular company. This limits the generalization aspect for all the hospitality industry and even the restaurant sector alone. This is because from the respondents answers, it is clear that this was specifically responses that were relevant to Nairobi Java House and may not be the same for other restaurants or even for other companies in different sectors.

The use of a case study as the research design and thus using interview guide as tool for data collection posed a limitation in itself. This was because all the respondents targeted for the interviews were not available at the set time for interviews and also thereafter,

after the re-scheduling for the same. This meant that some respondents were not interviewed as it had been stated under data collection section in chapter three.

5.6 Suggestions for Further Research

The study focused on Nairobi Java House which is only a player in the coffee shops or restaurant business. However, with the evidence of competition, further studies should be done to attempt to bring forth a comparison between the different strategies adopted by other coffee restaurants or shops. This comparison of strategies will help to point out the most used strategies by such business in Nairobi and the positioning of other restaurants in the competitive environment.

Further research also should be done with survey as the research design method. This will allow for information to be collected from different respondents from different coffee shops and restaurants and thus will allow for generalization and comparison. The comparison will be made possible by the fact that there will be companies that are players being studied and also generalization will be possible as the data gathered will be from a wider scope.

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APPENDICES

Appendix I: Interview Guide

1. What do you think is a major transformation in the restaurant industry in Kenya especially in Nairobi?
2. What is your sense of competition in the industry?
3. Who are your major competitors in the industry?
4. How do you think Nairobi Java House has positioned itself in the face of competition?
5. How has Nairobi Java House branded itself in the market?
6. Does branding affect your competitive position in the market?
7. In regards to your products, do you change them to improve on current product or bring new ones?
8. What informs you to make these product moves?
9. What is your view on your current product prices as per industry standards?
10. What informs your product pricing? Is it more an effect of the cost of you raw materials or your brand name?
11. What is your target market and why is this target market your choice?
12. What guides Nairobi Java House to new markets?
13. Does Nairobi Java House involve other business partners in the same industry with similar products or any other industry with different products?
14. Has the company ever diversified into other business other than the current?
15. What strategic options are you applying to achieve your business goals with competition in the industry?
16. What challenges are you facing in your quest to achieve your business goals?
17. Are there some strategic commitments you have been involved in that have hampered your ability to compete? How do you counter these challenges?
18. What is your ability in accessing the factors of production for instance land, capital?

Appendix II: Introduction letter from the University of Nairobi

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 3rd Sept 2012

TO WHOM IT MAY CONCERN

The bearer of this letter CHRISTINE WANJIRU WAMBURA

Registration No D61/79021/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
03 SEP 2012
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix III: Self Introduction letter to Nairobi Java House

Christine Wanjiru Wambura,

P.O.Box 15234 – 00200,

Nairobi.

5th September 2012

Mr. Kevin Ashley,

Chief Executive Officer,

Nairobi Java House Limited,

P. O. Box 21533 – 00505,

Nairobi.

Dear Sir,

RE: PERMISSION TO COLLECT DATA IN YOUR ESTABLISHMENT

I am a University of Nairobi Masters of Business Administration (MBA) in the School of Business. I am conducting a research study as part of my course work assessment titled "Strategies adopted by Nairobi Java House to gain Competitive Advantage".

I wish to request that you allow me to conduct data in your company. The data gathered and results shall be used strictly for academic purposes. A copy of the final project shall be availed to you on request.

Yours sincerely,

Appendix IV: Nairobi Java House Organization Profile

NAIROBI JAVA HOUSE LTD: PROFILE

INTRODUCTION

Kenya is renowned as the East African powerhouse of the coffee world, especially in cup quality. Coffee has been one of Kenya's highest foreign exchange earners since its introduction in the late 19th Century, peaking in the late 20th Century. The Kenyan highlands offer perfect high altitude climates for coffee production, with 2 harvest seasons in a year. Kenya has been ranked 6th in Africa in volumes of coffee production, but best in quality of the product. That notwithstanding, the country has had no culture of local coffee consumption.

NAIROBI JAVA HOUSE IMPACT

Before Nairobi Java House came into existence 13 years ago, it was impossible to find a place in Kenya where one could have a decent cup of coffee. In the supermarkets, good coffee was retailing at exorbitant prices, and thus a very small proportion of the population was aware of great tasting Kenyan coffee. Nairobi Java House championed the idea of promoting the best quality of Kenyan coffee locally. Now, Nairobi Java House has gone into selling food.

MISSION

The management and staff of Nairobi Java House strive to achieve excellence by offering and serving our customers the finest Kenyan coffee and delicious food in a generous, timely and friendly manner.

VISION

To be internationally re-known as the market leader in Africa offering the best quality coffee and service.

PRINCIPLES – VALUES

1. Personal responsibilities /ownership
2. Confidence
3. Teamwork / Fairness
4. Focusing on customer
5. Competitiveness
6. Continuous growth/development
7. Enjoy whatever you do.
8. Social responsibility
9. Internal social responsibility
10. High quality standards of inputs ‘spend on the best to get the best.”

PRODUCT

Through thorough research and extensive sampling, Java House goes through numerous coffees to always get the best. We have invested in high quality personnel who ensure that what we purchase is only the top of the range coffees. Always use the highest quality of milk and water to prepare the coffee. Never reheat milk, for best taste and froth.

BRANDING

When Java began, we strived to re-invent coffee in the minds of consumers to set us apart as a high quality product, and not continue to offer what they were used to. The unique name, corporate colors, logo, ambience and culture of the Java coffee houses is both welcoming and unique, and this goes a long way to drawing and retaining customers (especially the middle class influencers). In 1999, 70% of our clients were expatriates. The current ratio is completely reversed, with 70% local patronage

HUMAN RESOURCES

Invest in high quality personnel to ensure good service, up selling of products through direct communication with the clients. Well trained and motivated staffs are a powerful tool in promoting coffee and food consumption ensuring high quality.

EDUCATION / TRAINING

Information is power. Continuous training to staff on the job adds to them knowledge and improves their efficiency. It is also important as it enables them pass on valuable information to customers. You could also inform customers on coffee and food through electronic media, print media, pamphlets, direct promotion etc.

CONSISTENCY

Regular quality checks are important in ensuring that the consistency of a product is maintained. You have to take coffee to know coffee. If your management is conversant with coffee, they will be able to carry out the quality checks for you. Our directors' input. thorough Research and Development, proper sampling, sourcing always from the best for both coffee and food raw materials.

A cappuccino today should taste the same in another branch and over the years as well. We dump a batch of brewed coffee 30 minutes after brew, to ensure that what we sell to the customer is as fresh as it can be.

POSITIVES

This is an important technique on promoting consumption. People all over the world look at consumables on the health facet. It has become multi dollar business to sell health products, because like they say, you are what you eat (or drink!) Customers need to know the benefits of coffee to their health, rather than always imagining the damage it can do.

GIVE CUSTOMERS CREDIT

Do not assume that customers do not know what you are selling to them. That has been the demise of many businesses in Africa. The truth is that they do know. Aim high , because the returns are there. Create a coffee culture better than world standards. Many well travelled customers have come to us and said that our cappuccinos are the best they have ever tasted anywhere in the world. We receive e-mails daily from people who visited, or got Java coffee from friends as presents and are wondering where they can purchase it in their countries. This is positive feedback, and we thrive on that. Java has set the target in this field for all new and old players to aim to. This should then filter down to overall high quality, which will lead to increased coffee consumption overall.