A Review On The Relationship Between Strategic Responses And Competition By The Postal Corporation Of Kenya

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Abstract: Globalization has changed the way corporations carry out their businesses. With changes in technology and the availability of information to consumers, corporations have had to adopt strategies that enhance their competitiveness and encourage growth of business. The Postal Corporation of Kenya has not been left behind by the influence of globalization and changes in technology. The Corporation has seen a decrease in the volume of mail and parcels that it handles. With the changes in technology, the Postal Corporation of Kenya has faced a series of challenges and has been driven to re-invent to stay afloat in the service industry. However, the Corporation's poor performance may be attributed to strategic responses to competition in the industry. Some of its competitors are service providers such as Wells Fargo, DHL, G4S courier services, Overseas courier, Easy Coach, and Guardian Coach. This paper seeks to assess some of the ways the corporation could re-invent itself to improve its competitive position. It seeks to provide alternative strategic responses to counter competition. The paper focuses mainly on diversification combined with Porter's generic strategies of low-cost leadership, differentiation, and focus. A company may attain above average industry returns if it combines diversification with the generic strategies.

Index Terms: Postal Corporation of Kenya, Competitive advantage, Generic strategies, strategic response

1 Introduction

The global business environment is rapidly changing with an increase in demand for service delivery necessitating continuous change. World markets have been globalized due to competition and changing trade relations. Effects of policies and government frameworks have created a new dynamic business environment for all organizations. This has led to creation of a market structure shaped by interdependence, liberalization, and technological advancements. Considering this highly competitive market structure, corporations must quickly grasp opportunities, respond to threats by outmaneuvering their competitors to survive and achieve their organizational goals. Strategy is, therefore, expected to offer direction and scope for an organization over the long term in such a demanding environment by providing advantage for the firm through its resources (Thompson, 2016). The business environment is dynamic and as such organizations need to respond to the changes (KIPPRA, 2010). Strategic management and planning have evolved in response to increased challenges caused by high levels of turbulence in the business environment. Consequently, strategy aids organizations to adapt to changes by creating and designing appropriate strategic responses to counter competition and improve overall performance of the organization (Pearce & Robinson, 2013). Strategic planning increases effectiveness of meeting an organization's goals and objectives to a great extent (Mitaki & Gitonga, 2018). State corporations in Kenya, including Postal Corporation of Kenya (PCK) have experienced changes since 2003. These corporations provide Kenyans with essential services at affordable costs. Until recently, the post office was the major means through which people communicated.

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Communication could be in form of mail and parcels not only within national borders but also across the globe. PCK is the institution mandated to offer postal services in Kenya. PCK, also known as Posta Kenya, was initially part of the Kenya Post and Telecommunications Corporation (KPTC), which was a government institution that provided telecommunication and postal services in the country. It was later split into three in 1999 giving rise to Posta Kenya, Communications Commission of Kenya (CCK) and Telkom Kenya. Years after the split, Posta was not performing up to standard. With the changes in technology, PCK has faced a series of challenges and has been driven to re-invent to stay afloat in the service industry. However, the Corporation's poor performance could be attributed to strategic responses to competition in the industry. Some of its competitors are service providers such as Wells Fargo, DHL, G4S courier services, Overseas courier, Easy Coach, and Guardian Coach. The Postal Corporation of Kenya has adopted diversification, automation, strategic alliances, innovation, human resources capacity development, use of outlets to provide logistical solutions, and marketing for survival and growth (Kambara, 2013). This review seeks to address strategic responses by the corporation in response to specific competitive forces experienced within the industry. The review also proposes a hybrid of strategies the corporation can adopt to counter competition.

2 Literature Review

Threat of Established Rivals and Competitive Strategy

Low-cost leadership, differentiation, and focus strategies enhance market penetration for general insurance companies. It is important for firms in insurance industry to consider adopting these three generic strategies to penetrate the market and compete with the already established rivals in the industry (Njihia, 2013). On his study to examine the critical external environmental challenges affecting the operations of Citibank Limited and the strategies employed by the bank to respond to the challenges in the external environment, Gitau (2009) found that Citibank had faced challenges emanating from competition from firms within the banking and non-banking industry, global economic crisis, political instability, and low technological advancements. The bank responded by using strong financial strategies, innovative and inventive strategies, technology strategies, research and development ventures, as well as introduced a wide range of products so as to serve customers conveniently, and investments in a talented workforce.

Threat of New Entrants and Competitive Strategy

Entry of new competitors could be a serious threat for business if the new entrants have a strong financial backing and support from the government (Porter, 2008). Indiatsy et al. (2014) observe that threat of new entrants applies to the banking industry in Kenya due to the presence of various microfinance organizations, youth funds, women funds and Savings and Credit Societies (SACCOs) performing similar roles and offering such products and services at lower rates. Mathooko and Ogutu, (2015) observe that Porter's five competitive forces framework influences the choice of response strategies adopted by Kenyan public universities. The influence of the choice of response strategies by Porter's framework was independent of the age and category of the universities. Pressure from stakeholders, changes in government policies and regulations, reforms in higher education, unethical response strategies by some universities and university location also influenced the choice of response strategies.

For companies with business-to-consumer (B2C) e-commerce in China, new entrants would not only lead to new producing ability and new resource, but also occupy the market share, which belongs to other existing companies and therefore, entry barrier is the key factor to analyzing the threat of new entrants. Even though the threat of new entrants existed, such as the communities and web portals, the studied companies did not complain much about it, hence indicating that threat of new entrants is a function of the height of entry barriers. For other companies, despite the financial strength, product category, logistics systems, technology or talent advantages at their disposal, it was hard for them to catch up or replace in a short time (Lu et al.,2013).

Threat of Substitutes and Competitive Strategy

According to Chege and Bula (2015) the main challenges facing Kenya Cooperative Creameries (KCC) are the threat of new entrants, threat of substitute products, and the bargaining power of customers. These threats led to reduced sales, lowering of prices to maintain customers, and procurement of milk at a lower price. Hitt et al. (2013) conducted a study on strategic leadership in global business organizations. They hold that a winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. The study found that a competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage) or deliver benefits that exceed those of competing products (differentiation advantage).

Buyer Power, SupplierPower, and Competitive Strategy

A review of recent studies shows that Indiatsy et al. (2014) conducted a study to establish the application of Porter's Five Forces Model on organization performance. On the buyer power, the study found that the bargaining power of buyers within the banking industry is critical in terms of understanding the bank's buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales. Indiatsy et al highlighted that the bargaining power of sellers in a banking industry was a factor to watch as increase in the cost of their services leads to an increase in the cost of services offered by Cooperative Bank of Kenya. They concluded that the quality of the bank's services such as assured security and clean working environment determines employee motivation and satisfaction.

Strategic Responses

A review of studies on strategic responses by organizations shows that they do not all respond in a similar way. Kandie (2001) observes that although Telkom Kenya has responded to its competitive environment, financial constraints and lack of managerial empowerment considerably limited the organization's ability to counter competition. Several studies have been carried out in Kenya to address the aspect of Kenyan organizations' strategic responses to the changing environment. For example, Jubilee Insurance adopted various measures to curb environmental changes due to competition. This was through expansion to new regions, investing in modern information technology systems to speed up claims made by clients, reduction of operation costs and premium rates, hiring and maintaining experienced and qualified staff through training and development, enhancing risk management strategies, developing new products, and enhancement of proper code of conduct to improve the firm's image (Komira, 2011). Likewise, Kariithi and Ragui (2018) report that there is a significant relationship between employee training, leadership and communication and the performance of the Huduma centres. Unless top management review employee training policies, engage leaders with relevant knowledge and experience, and embrace the best practices of communication by adopting decentralized structures, achieving high performance will be a slow task.

According to Sterling (2003), strategies may at times fail due to market conditions they were intended to exploit. Many markets are experiencing rapid changes that do not last long. Technology has often challenged the old rules and assumptions and creates uncertainty for establishment. An example is the unanticipated changes upsetting a strategy in the failure of several telecommunication start-ups in the 1990s. Many of them failed because they were pursuing a fundamentally wrong business assumption where they thought there would be heightened demand for fiber optic capacity driven by the growth and use of the internet.

Generic strategies have enhanced the competitiveness of organizations and increased their presence in the market (Mwenemeru & Kihara, 2018). Some firms have adopted a combination of different strategies to remain competitive. Although the concept of strategy is new to a few industries, firms have urged their managers to be better implementers of strategy. Strategy is about out-performing the competitors but at the same time can be foiled by a highly effective response from a key rival in the industry. Narayanan and Fahey (2013) argue that it is critical strategic decisions that require attention to global macro-environmental forces which some firms conveniently ignore at their own risk. In their study on the television manufacturing industry, they observed that the now uncommon Admuiral Company turned a blind eye to the responses and actions of emerging rivals at a time when competition was gearing up due to maturing of the product life cycle of the televisions. Sterling (2003) recommended that to effectively anticipate competitor's reactions to a strategy, an organization needs a solid competitive intelligence capability. This does not require one to conduct corporate espionage to access competitor's secrets but rather it requires the organizations to understand their competitors' market positions, their relative competitive advantage and disadvantage, historical behavior vis-à-vis competitive strategy, and the general disposition of their respective management teams.

Many contextual variables may shape strategic response decisions. According to Akhter and Barcellos (2013), several market-related and economic factors have pushed forward the growing involvement of multinational firms in emerging economies. Reduced tariff barriers, high growth rates, favorable trade and investment policies, and increasing purchasing power of consumers have transformed emerging economies into attractive destinations for products and services from developed as well as emerging economies. The growing attractiveness of domestic markets has not only attracted resource seeking but also market seeking multinationals. The entry of multinationals of various sizes and origins has bolstered the integration of emerging economies into the global economy and changed the competitive environment internally.

Customer needs, customer expectations, and customer behavior are constantly changing, thereby driving companies to give special attention to their markets and the business environment, which they should monitor continuously. Silva, Moutinho, Coelho and Marques, (2009) urged managers to give more attention to cross-functional coordination to improve market intelligence dissemination and responsiveness and, thus, performance. Managers need to keep up with customers' needs and changes in technology (Kiboi, Perks & Smith, 2018). Organizations often respond differently to the same environmental changes because of differences in the managers' ability to recognize and understand external strategic issues and factors. Few firms can successfully monitor all important external factors (Hunger & Wheelen, 2007). According to Thompson et al., (2008), to respond to changes in the external environment, firms in most industries must craft strategies that are responsive to environmental regulations, growing use of the internet and broadband technology, and energy prices. However, the factors and forces in a company's macro-environment having the biggest strategy shaping impact typically pertain to the company's immediate industry and competitive environment, actions of rival firms, buyer behavior, and suppliers' considerations. Companies in all types of industries have adopted strategic alliances and partnerships to complement their own strategic initiatives and strengthen their competitiveness in domestic and international markets.

Offensive strategic responses have been employed by most companies to improve their market position. Offensive strategies are important when a firm has no choice other than to whittle away at a strong rival's competitive advantage and gain profitable market share. Thompson *et al.* (2008) noted that a blue ocean strategy seeks to gain dramatic and durable competitive advantage by abandoning efforts to outperform competitors and instead inventing a new industry or distinctive market segment. Consequently, Butler et al. (2010) advises that to survive in a fast-paced environment, firms must embed flexibility into their strategic actions. Turbulent environments call for organizations to be able to detect and create new opportunities and then select those that are worthy of actual resource allocation to be exploited for the firm's benefit.

More than three decades ago, Porter (2008) suggested some driving forces which could help to analyze the attractiveness of any industry or sector as well as its competitive positioning. Whether the business is service oriented or deals with physical goods, there are always competitive forces in any perfectly competitive business environment. Porter's five forces framework analyzes the level of competition within an industry with a view of assisting in business strategy development (Porter, 2008). These five forces are factors that are close to a firm and influence its ability to be profitable. Porter's five forces framework consists of three horizontal forces namely rivalry within the industry, threat of new entrants, and threat of substitutes, and two horizontal forces namely supplier power and buyer power (Porter, Argyres & McGahan, 2002). A firm needs to consider the competitive forces in the industry to formulate strategies that are competitive. PCK needs to analyze competitive forces in the industry and adopt strategies that will propel the corporation to be competitive. Organizations should look at their competitors and analyze the industry forces and formulate strategies to compete strategically and increase profitability.

Porter's Generic Strategies

A firm can possess one of the two basic types of competitive advantage namely low-cost or differentiation. These two basic types of competitive advantage coupled with the nature and scope of activities, results in three generic strategies that include cost leadership, differentiation and focus strategies. With these generic strategies, a firm can easily achieve above average performance in the industry and enjoy higher profits compared to its competitors. Porter argues that for a company to obtain a sustainable competitive advantage, they should follow one of these three strategies (Tanwar, 2013). Porter (1985) suggests that an organization cannot implement or adopt more than one of these three generic strategies since they are mutually limited or at least non-complementary. Rarely do companies adopt more than one strategy simultaneously because of high cost involved. He argued that a firm that will implement these strategies will earn returns above that of average industry returns.

3 Discussion

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, an organization finds its industry niche and learns about its customers. The three basic business strategies include differentiation, cost leadership and focus. A company performs best by choosing one strategy on which to concentrate Porter (1985). However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Hlavacka et al., 2001). Whatever strategy a business chooses, it must fit with the company's vision, goals, and objectives to gain a competitive advantage. It is very difficult for most organizations to ignore cost no matter how different their product offering is. Similarly, most companies will not admit that their product is essentially the same as that of competitors. It is important for the analysts therefore to bear in mind that generic strategies should be considered as a part of a broader strategic analysis. The generic strategies provide a good starting point for exploring the concepts of cost leadership and differentiation. Perhaps a major limitation of the generic strategies is that they may not provide relevant strategic routes in the case of fast-growing markets. The competitive environment is continually changing, and such changes have led to increased competition forcing many firms to respond by adopting strategies to ensure they achieve sustainable competitive advantage that leads to long-term success of firms.

Postal Corporation of Kenya has large physical presence and infrastructure and as such must focus on efficiency to make a footprint in the market. Its core business has been Postapay, mail services and courier services. The corporation's agency docks post office has been refurbished and opened for use in the facilitation of clearing and forwarding business launched by Postal Corporation of Kenya across the country. This is part of the corporation's efforts to increase its revenues through diversification. The corporation has also partnered with the Kenya Railways for clearing and forwarding of cargo that requires urgent transportation. It has also partnered with the National Oil Corporation to assist in the clearing of its goods and services at the port. The corporation has ventured into remote areas where banks do not feel the need to establish branches. As such, it is easier for people to do business and make payments to suppliers. Money orders was the most conversant way of sending and receiving money before the advent of mobile money services and the sprouting of banks. Posta still offers this service and facilitates payment of school fees by money orders in places where there are no banks. Posta is also set out to open a wallet for banking, payment of utility bills and withdrawal of money from the banks. It has partnered with banks such as Absa Bank, National Bank, Co-operative Bank, KCB and Diamond Trust Bank. The corporation has focused on reaching areas that are out of reach by the banks and providing banking services to them through focus strategy.

Consumers have become increasingly comfortable with purchasing goods online from emerging e-Commerce platforms. Postal Corporation of Kenya has partnered with Jumia online shopping which enables online shoppers on the platform to collect the goods they purchased on Jumia from a post office nearest to them. The delivery charges are fair compared to other parcel service providers in the country. There is also flexibility in the payments as the customers can make payments through Postapay when collecting their goods. From the foregoing, we can conclude that the PCK has adopted a low-cost leadership strategy by providing services at affordable prices to customers. It costs less to send mail and parcels via the post office as opposed to using other letter delivery and courier services such as Easy Coach, G4S courier, and Overseas courier. Low-cost leadership protects a firm against competition from rivals because the lower costs allow the firm to earn returns even if its competitors eroded their profits through intense rivalry. It also protects a firm against powerful buyers who can exert power to drive down prices to the level of the next most efficient service provider. Availability of infrastructure such as post offices allows PCK to lower its prices as it has resources that are well distributed. This protects the corporation from buyer power and rivalry from competitors in the industry. This will in turn increase the entry barriers for new entrants and lower vulnerability to substitute products. By adopting a cost leadership strategy, PCK could beef up its diversification strategies and enter new markets with new products having established itself as a low-cost leader in the service industry.

Differentiation provides protection against competitors as brand loyalty lowers sensitivity of customers to price and raises customer switching costs. Margins are raised and this avoids the need for low-cost leadership. Entry barriers are established due to brand loyalty and uniqueness of services. Higher margins enable a firm to deal with the bargaining power of suppliers due to prestige associated with differentiated services. It reduces bargaining power of buyers as they lack similar alternatives therefore lowering price sensitivity. Differentiation enhances customer loyalty as well as reduces threat from substitute products. Consider PCK delivering mail and parcels to customers' doorsteps and saving them the trip of going to the post office. This would be the first service of its kind in the country. Mailboxes could be established for personalized delivery of mails and parcels. Perhaps customers will not mind paying for a premium service to have their mail delivered to their doorstep or send mail from their doorstep. Focus strategy requires a firm to adopt either low-cost position with a strategic target market or high differentiation or a combination of the two. These positions provide advantages or defense against each of the five competitive forces. A successful focus strategy depends on an industry segment large enough to have good growth potential. Medium and large firms use focus strategy in conjunction with differentiation or cost leadership strategies.

4 Proposed Model

The corporation has diversified through providing various products in the market. These are mail services, courier services, clearing and forwarding, and financial services. Despite having used the diversification strategy, the corporation needs to come up with ways of increasing their market share of these products. This will ensure that each of the products makes a significant contribution to the portfolio of the corporation. Each of its products can be made unique through differentiation and value addition.

This paper proposes the combination of differentiation and low-cost strategies with the already existing diversification strategy. Each of the products the corporation offers in the market can be made unique or concentrated on meeting a particular market niche besides being a lower cost corporation in its service delivery. This will result in a hybrid strategy between diversification, differentiation and low-cost leadership strategies. The hybrid strategies can be summarized as presented in Figure 1.

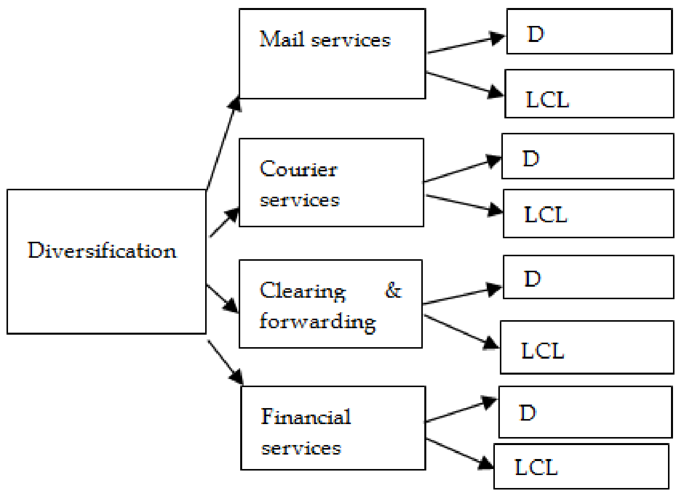

Fig. 1. Proposed Hybrid Strategies.

Key: D = Differentiation; LCL = Low-cost leadership

Diversification strategy is effective in improving a company's business through engaging in various products and services that contribute to the overall performance of the organization. Diversification may be concentric (related) where the firm has a strong competitive position, but industry attractiveness is low. The point of commonality may be the similar technology, customer usage, managerial skills, or product similarity. It may also be conglomerate (unrelated) where the industry is unattractive, and the firm lacks outstanding abilities or skills that it could transfer easily to related products or services in other industries.

In cost leadership, a firm sets out to become the low-cost producer in its industry. Cost advantage may be gained from economies of scale, proprietary technology, and preferential access to raw materials. The two main ways of achieving a cost leadership strategy are by either increasing profits through costs reduction while charging industry-average prices or by increasing market share through charging lower prices, while still making a reasonable profit on each sale because of reduced costs. PCK offers services at low and affordable prices but still earn profits from its service delivery. Posta Kenya has a wide network coverage not only within national borders but also worldwide with the support of the government. Customers can now track their packages and parcels due to the tracking technology they have adopted. Cost leadership requires tactics which include aggressive formulation of efficient scale facilities, reduction of cost, tight cost and overhead control, avoiding marginal customer accounts and cost minimization in all activities in the organization's value chain such as R & D, service, sales force, and advertising.

Differentiation is making new products or services different from and more attractive than those of competitors. How a firm does this depends on the exact nature of the industry and the products and services themselves, but will typically involve features, functionality, durability, support and brand image that customers value (Porter, 2000). Differentiation provides protection against rivalry within the industry as brand loyalty lowers customer sensitivity to pricing and customer switching costs. For organizations to pursue a differentiation strategy, they need to carry out good research and have development and innovation capacity. They also need to have the ability to deliver high-quality products or services and ensure effective sales and marketing. The market can then better understand the benefits derived from different products. Consider the mail delivery system where mail is delivered to your mailbox outside your house. This saves the customer the hustle of driving to the post office to send or collect their mail.

Focus strategy entails the concentration on niche markets. By understanding the dynamics of such markets and the unique needs of customers within it, a firm can develop uniquely low-cost or well-specified products for the market. Because such a firm will serve its customers in this market uniquely well, the firm tends to build a strong brand loyalty amongst its customers. This makes their market segment less attractive to competitors (Porter, 2000). Focus strategy directs attention towards narrow product lines, buyer segments, or target geographic markets and they must attain advantages either through differentiation or cost leadership (Dess & Davis, 2014). Consider the case of NHIF which offers medical insurance covers. Its main targets are middle to low-income earners and it offers medical insurance at low-costs which are affordable to this market segment as compared to the medical insurance covers taken by the high end income earners and by big organizations for their employees. Unlike other insurance providers, NHIF focuses on medical insurance covers that are affordable to people across the country.

With these generic strategies, a firm can easily achieve above average performance in the industry and enjoy higher profits compared to its competitors. Porter argues that for a company to obtain a sustainable competitive advantage, it should follow one of these three generic strategies (Tanwar, 2013).

5 Conclusion

Competition is a force that PCK needs to counter to improve its performance in the service industry. The corporation needs strategies that are focused on customer satisfaction and sensitivity. Intensity of competition among established firms in the service industry is based on technology, innovations, brand and exit barriers. The Postal Corporation of Kenya needs to adopt these elements and incorporate them into their strategies to remain competitive and attain sustainable competitive advantage.

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