An Analysis of Challenges Facing Major Supermarkets that Emanate From the Changing Environment: A Case of Kenyan Large Cities.

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Abstract: The purpose of this study was to examine challenges facing major supermarkets; Nakumatt, Naivas, Tusky's and Uchumi that emanate from the changing environment. These included but were not limited to among others competition from new supermarkets, new entrants into the supermarkets sector like hawkers on the streets, small-micro traders operating in mini stalls, dukas and kiosks among other retail outlets; suppliers, customers, regulatory agencies and demographic, social and economic conditions in the largest cities in Kenya; Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. Competition is one of the environmental influences to a business. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to perceived and actual changes in the competitive environment. Primary data was collected using oral interview schedule and structured questionnaires targeting supermarket managers and Dukas operators within the supermarkets environment and from the review of existing literature. It was analysed with the aid of Statistical Package for Social Sciences to generate quantitative information. Out of the forty two respondents targeted to fill in the supermarkets managers’ questionnaire, 34 filled in and returned the questionnaire for analysis. This was a response rate of 81%. Nakumatt supermarket chain had the highest proportion of respondents at 26%, followed by Tusky’s at 24%, while Naivas and Uchumi took the 3rd and 4th position respectively with 17% and 14 % response rates. Out of the a hundred questionnaires administered to Duka owners, eighty six percent were completed and returned. A response rate of 86% was achieved. Out of the four supermarkets Head Quarters managers, three 75% out of the targeted four managers were interviewed. The response rate of the two data collection instruments was satisfactory. Mugenda, O., and Mugenda, A. (2003) advance that, 50% response rate is adequate, 60% of the response rate is good and a response rate of 70% is very good. The findings were presented using multiple response statistical method of data analysis. The study findings revealed that the greatest challenge noted by the respondents was competition 22 (30.6 %) which was followed by customers and social economic conditions11 (15.5) respectively. The other challenges were low profits and sales volume 9 (12.5%), followed by regulatory agencies like the government 8 (11.1%), political conditions 6 (8.3%) and suppliers 5(6.9%) in that order. Supermarkets Head Quarter managers (75%) also cited competition as the greatest challenge they face from the external environment during the interviews. Literature reviewed indicated that competition was the greatest challenge that supermarkets encountered within the retail sector. The government of Kenya and relevant stakeholders should implement existing interventions to cope with competition to the latter for a neutral playing ground for all retailers in the supermarkets sector.

Keyword: Challenges, Competition, Change, Environment, Supermarkets

INTRODUCTION

Business environment includes the firm itself and everything else that affects its success. The business environment consists of competitors among others, new supermarkets, new entrants into the supermarkets sector; suppliers; customers; regulatory agencies; technological, demographic, political, social and economic conditions (Barry, 2007). The business environment therefore consists of factors that are external which poses threats to a firm or those which provide opportunities for exploitation. In business all the activities are organized and also carried out by the people to satisfy the needs of the consumers. Business is therefore an activity carried out by the people for the people. This means that people occupy a central place around which all the activities revolve. This further means that business is people who are human; dynamic entity- who believe in change. Business poses a huge challenge for todays and especially tomorrow’s businessmen and managers who should be aware of specific changes to keep themselves abreast with the latest happenings in the field of business. Being abreast ensures businessmen and managers maintain their survival and sustainability in the market arena.

OBJECTIVE OF THE STUDY

The objective of this study was to:-
Examine challenges facing major supermarkets that emanate from the changing environment (competitors; suppliers; customers; regulatory agencies; and political, demographic, social and economic conditions) in the largest cities in Kenya.

BACKGROUND INFORMATION

Supermarkets have been defined by different authors in various ways. According to the dictionary of business and finance, a supermarket is defined as a large store selling a wide variety of consumer goods, particularly food and a small collection of household requirements. This research will adopt principles of marketing’s definition of supermarkets by Kotler and Armstrong (2008). They define a supermarket as a form of grocery self-service store that offers wide variety of food and household commodities prearranged into departments. It sells small quantities of goods and services to consumers for their personal and non-business use. It is relatively bigger than a traditional grocery store and offers relatively low cost, high volume, products and services. It is smaller though and more limited in its range of offers than a hypermarket. Supermarkets were seen as the preserve of the well to do high income earners in
developing countries in the past, with the rest of the population characterized by relatively low incomes frequenting the small scale vendors. Neven and Reardon (2003) argue that supermarkets are no longer the preserve of the high income consumers as they once were. They are rapidly expanding into smaller towns with smaller populations in Kenya and the world over among middle and low income earners.

Supermarkets are in competition with various competitors in their environment all the time. The stiff competition for scarce resources depends on the number of supermarkets in any given market arena, their size in terms of the variety of goods and services offered, population size and promotional activities by the various supermarkets such as aggressive advertising among other factors. Among the scarce resources are scarce goods and services, customers, suppliers, supplies and prime sites to locate the supermarkets. Supermarkets are seen as taking over market share in Kenya’s food system. With the expanding middle class, improved infrastructure and high urban populations among many factors, supermarkets are on an upward growth path.

Liberalization of the economy, ease of entry into markets, improved infrastructure and supportive policies, information technology and the media, change in consumer’s lifestyle and improved income, growth in industrial and manufacturing sectors and urban migration are some of the other factors that have made the environment conducive to the retail sector growth (Ghezan, 2002). Competition is high in a situation and context where the retail sector faces such high rates of growth. Different firms and their competitors attempt to outperform each other to get the best and more and secure and indefinite lease in the sector through whatever means. In Kenya today, supermarkets among other firms are investing significantly to stay relevant in the market arena.

According to the publication in Business and Management Review of 2012, there have been reports on supermarkets facing market threats in the recent times resulting into low returns and sometimes mergers, closures and buy out. This has been attributed to stiff competition in the retail sector of which supermarkets are part of, with each supermarkets chain among other competitors continually agitating for effectiveness and efficiency in achieving set objectives which are near similar in nature. This has made the supermarkets industry growth in Kenya more competitive for the scarce resources available to a high number of competing retailers.

Changes that accompany this growth have made the environment even more hostile to the firms and industries within. This hostility represents rivalry among firms both modern and traditional. In such a situation, firms compete in order to achieve their objectives by having an advantage over their rivals in every aspect and dimension of the competition. To achieve this, they have to adopt strategies to competently respond to competition within their industry. Thus, strategic responses are inevitable among firms as a resolute to counter the effects of change and competition in their environment (Porter, 1980).

CHANGING BUSINESS ENVIRONMENT

As a result of the changing business environment, businesses are challenged today to develop creative ways to make profits without unduly harming the existing environment. Considering the variety of these sources of change in the environment, global managers are challenged to keep themselves abreast and adjust as necessary. Gone are the days when business was heavily protected and subsidized, licenses, quotas and restrictions were the order of the day. Presently, competition is the name of modern business and businessmen stand on the brink of fear through elimination from the market. The elimination of deficiencies and incessant improvements in the quality are the order of the day. Through competition, the consumer benefits from the diverse openings of different competitors. Competition is not only from rival firms but also from the ever improving technology. For example, supermarkets have adopted interactive websites to market products and services to target consumers while type writers have been completely wiped out from the market by the introduction of computers. Traditional postage telegrams are at the verge of elimination by the increasing use of internet services. So, today’s business is witnessing the manifolds competition which was not prevalent in the past (Barry, 2007).

Among all the segments of environment, technological environment exerts considerable influence on business. Galbraith (2007) defines technology as a systematic application of scientific or other organized knowledge to practical tasks. During the last 150 years, technology has developed beyond anybody’s comprehension. Year 1983 was particularly considered by scientists as the year of scientific success. In this year scientists put a billion dollars technology into space, produced the world’s first test-tube triplets and obtained evidence of another solar system.

Economic environment refers to all those economic factors which have a bearing on the functioning of a business unit. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and it is not surprising because, as it is rightly said, business is one unit of the total economy (Porter, 2008).

According to Dolan and Humphrey (2001), the influence of political environment of business is enormous. The political system prevailing in a country decides, promotes, fosters, encourages, shelters, directs and controls the business activities of the countries. A political system which is stable, honest, efficient and dynamic and which ensures political participation of the people, and assures personal security to the citizens, is a primary factor for growth of any business. Two basic political philosophies are in existence all over the world, democracy and totalitarianism. In its pure sense, democracy refers to a political arrangement in which supreme power is vested in the people.

Democracy may manifest itself in any of two fundamental manners. If each individual is given the right to rule and vote on every matter, the result is pure democracy which is not, however, workable in a complex society with a large
constituency. Hence, the republican form of organization follows whereby the public, in a democratic manner, elect their representatives who rule. In totalitarianism, also called authoritarianism, individual freedom is completely subordinated to the power of authority of the state and concentrated in the hands of one person or in a small group which is not constitutionally accountable to the people. Societies ruled by a pressure clique - political, economy or military - or by a dictator plus most oligarchies and monarchies belong to this category.

**STUDY FINDINGS**

The study findings revealed that major supermarkets within the large cities in Kenya faced various challenges emanating from the environment. Multiple response statistical method of data analysis was employed to analyse study responses. The computed responses are summarized in Table 1.

Table A.1: Challenges facing Supermarkets due to Environmental Change

<table>
<thead>
<tr>
<th>Supermarkets Frequencies</th>
<th>Responses</th>
<th>N</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition from new supermarkets, Dukas, street hawkers, mini stalls</td>
<td>22</td>
<td>30.6</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>11</td>
<td>15.3</td>
<td></td>
</tr>
<tr>
<td>Socio-Economic conditions</td>
<td>11</td>
<td>15.3</td>
<td></td>
</tr>
<tr>
<td>Low Profits and Sales volume</td>
<td>9</td>
<td>12.5</td>
<td></td>
</tr>
<tr>
<td>Regulatory Agencies like the government</td>
<td>8</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Political conditions</td>
<td>6</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>5</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data (2015). NB: Multiple responses from each respondent was allowed

Table A.1: indicates that the greatest challenge noted by the respondents was competition 22 (30.6%) which was followed by customers and social economic conditions11 (15.3) respectively. The other challenges were low profits and sales volume 9 (12.5%), followed by regulatory agencies like the government 8 (11.1%), political conditions 6 (8.3%) and suppliers 5(6.9%) in that order. Supermarkets HQ managers (75%) also cited competition as the greatest challenge they face from the external environment during the interviews.

Bore (2007) advances that; industry growth in Kenya has made the environment conducive to competition. These changes have made the environment hostile to the firms and industries within as it represents rivalry among firms. Supermarkets have lost loyal customers to their competitors, they struggle to get competent suppliers of required goods and services and the supplies are also shared among a large number of supermarkets. This is because the scarce available resources are not adequate for all of them. As a result and due to unfair competition, only the larger supermarkets most often stay in the market. The supermarkets market share is thus threatened. Before supermarkets grew to big numbers (10-15 years ago), the scarce resources were not as constrained as presently. To counter the competition, supermarkets have had to adopt strategies to respond competitively. The existence of the competition in this sector has also forced some supermarkets to close up, merge up branches that otherwise existed on their own or be bought out by larger more able supermarkets.

**SUMMARY OF FINDINGS**

Some challenges cited by the respondents were found to be similar to those cited in the literature review in this study while a few had slight differences. For example, compared with other East African countries; Uganda and Tanzania, Kenya is the only industry that does not have a single foreign investor. Shoprite and pick “N” pay both from South Africa are already in Uganda. Tesco a British based supermarket never materialized on its rollout programme in the Kenyan market. Analysts have observed that consolidation of retail market in Kenya is the main challenge that has discouraged new players from rolling out their businesses in the Kenyan market. However, the high cost of doing business, punitive tax regimes, red tape and bureaucratic practices before a firm can roll out its business are further to blame for uncompetitive market.

On the other hand, in relation to competition which is the major challenge from the environment cited in this study, Lagat (2011) found out that, competition rated highly among environmental forces on the retail industry after challenges of inadequate financing to take up investments that can enhance growth. Competition was also cited among major threats that affect supermarkets from the external environment in the same study findings. These findings had necessitated the supermarkets to establish strategic responses to competition in Kenya.

The findings of this research study and Lagat (2011) findings in the literature review among other near similar findings in other research studies agree that the supermarkets sector competition rates highly as a major challenge from the environment among other factors. The author had employed a survey design in his research study on Strategic Responses to Changes in external Environment by Supermarkets in Kenya with a sample size of 22 mainstream supermarkets in Nairobi. Gacheri (2010) also cites competition as a challenge which influences business enterprises as it exerts pressure on them which in turn forces them to take action for survival in the market arena. Competition has been brought about by the dynamism of the changing environment the author concludes. To cope up with the competition, the businesses formulate successful strategies that facilitate practical responses to apparent and genuine changes in the competitive environment.

Mwangi (2010) in a study on the fast food industry in Nairobi Central Business District also cites competition as an environmental change that has brought about various challenges. The author describes in his study how fast food outlets had tried to outdo each other by way of differentiation in connection to the foods they served without any positive outcome. The fast food outlets resorted to continuously monitor and adapt to the environmental changes and employ competitive strategies that would counter the stiff competition. As a result of this the author observed firms have to continuously employ various strategies to survive in the industry. The success of every organization is determined by its responsiveness to the environment. Organizations have to adequately and promptly respond to challenges of competition in the
environment for the organization to be successful (Waweru, 2009).

Other Literature that conforms to the same school of thought are Njuguna (2012) who posits that environmental changes have had a great impact on all the industries among them supermarkets. The changes have been either favourable or unfavourable to the market sector in which case the industries have had to lay response strategies to cope. Muli (2010) also contends and further confirms that customers are shared by a higher number of the supermarkets. The effect of customer scarcity cause high expenditures in relation to the retail promotion programmes and advertising as each supermarket attempts to outperform the other for a larger customer base. The days when firms simply waited for customers to beat a path to their businesses are long gone. The fact that there is a strain on expected customer turn out to the supermarkets has translated to low sales volumes and therefore low profit margins (Bore 2007).

CONCLUSION

The government of Kenya and relevant stakeholders should implement existing interventions to cope with competition to the latter. They should also create adequate awareness of their existence to the retailers and the general publics. This would ensure fair competition of the supermarkets retailers among other retailers. The government intervention currently in existence is embedded in the Kenya Trade Policy which is guided by market driven principles of liberalization under the umbrella of the World Trade Organization (WTO) and the regional economic integration. These have resulted in the establishment of the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Inter-governmental Authority on Development (IGAD). Liberalization has seen tariff levels greatly reduced as well as price controls and licensing requirement. As a result, there has been significant growth in the market arena.

Trade facilitates growth and development of a country as it creates markets through which goods and services can reach the intended markets. To this end, trade plays an important role in poverty eradication as it gives opportunities for job creation in the informal, retail and wholesale sectors. The SMEs are also able to access favourable prices in various markets and this ensures equitable distribution of incomes. The Trade policy is expected to enhance the service sector for further diversification of businesses and discovery of opportunities in emerging markets.

Majority of supermarkets in this study are privately owned. In the recent past, the government endorsed the creation of the Privatization Programme which draws from the Privatization Act, 2015. The programmes which came into existence in 2008 outlines business entities awaiting privatization among them manufacturing, financial and infrastructure, tourism and agriculture all of which have a bearing in the retail sector. The Private Programme initiative is managed by a privatization commission whose mandate is to draw up business proposals for privatization. This process is followed by a call for bids from where a list of prequalified bidders is made. To meet the criteria for consideration, expertise, access to finance and commitment to invest are necessary. The bids are then opened in the presence of the bidders or their appointees and the successful bidder awarded opportunity to privatize accordingly. This process ensures that only qualified business entities qualify for privatization.

Kenya has maintained a diversified economy since its independence in 1963 in which the private sector often plays a strong role. The situation has all along created tension among private and other entrepreneurs that has seen government consistently intervened in the economy. To this end, the retail sector experienced high levels of dormancy in the eighties, nineties and the early 2000s. The initiative by government to promote the private sector to propel growth and its promotion of Foreign Direct Investment (FDI) has seen the country’s GDP grow. The Kenyan government has also created the Business Reform Regulatory Unit (BRRU) in the Ministry of Finance whose mandate is to liaise with regulators to make the process of acquiring a business license easy and to make sure that they are in conformity with the International regulatory practices and standards.

REFERENCES


