

# Effects of Distribution Strategy on MSP Intermediary Organisations' Performance in Nairobi County, Kenya

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## ABSTRACT

This study sought to determine the effect of the Distribution Strategy on the performance of MSP intermediary organisations. It is imperative to note that there has been a high recognition of the role played by the telecommunication sector towards Kenya's economic growth and has multiplier effects on other aspects. This has underscored its importance in the country's development agenda. However, it still remains validly appreciated that there exist intermediary organisations in the same fast-growing telecommunication sector whose contribution in this acclaimed progress is little appreciated. Thus, the MSP intermediary organisations must implement the appropriate distribution strategies that will enable them deliver their own objectives and those of their parent organisations. The study employed a descripto-explanatory cross-sectional survey research design and collected primary data from 219 respondents from a target population of 397. This study established that choice of distribution strategy contributed significantly to the MSP Intermediary organisations' performance. The study recommends that the sales manager need to lobby its management to invest in more people and an ICT system that will enable tracing, tracking and trending of performance of each salesperson and route to ensure adequate coverage of the territory. In addition, sales managers need to lobby the management to approve a performance compensation plan and bonus/incentive scheme that will motivate the salesperson to ensure efficient routing of the customers thus improved performance of the MSP intermediary organisation.

**Keywords:** Mobile Service Providers, Intermediary Organisations Performance, Distribution Strategy, Theory of Channel Power and Conflict

## INTRODUCTION

### An Overview of the Mobile Service Provider Intermediary Sector in Kenya

The telecommunications industry has experienced tremendous growth in the last several years to become one of the fastest growing sectors in Kenya. The sector enjoys a penetration growth rate of over 50 percent, which is projected to increase to 70 percent (Communications Commission of Kenya (CCK), 2011). A major contribution attributed to the MSPs, with which they are almost synonymous, is the mobile money transfer platform that has revolutionised conventional banking and access to financial services. Kenya had 26.4 million mobile phone subscribers by September 2011 up from 25.3 million recorded at the end of June the same year, representing an increase of 4.8% (CCK, 2012). In addition, the total teledensity for July to September 2011 increased to 68.1% from 65.15%.

It is worth noting that this growth was possible through the use of intermediaries to reach consumers of telecommunication products in the country with the

market leader (Safaricom) boasting of approximately 661 intermediaries for consumer products while Airtel Kenya had 70 intermediary firms; Orange Telkom and Essar had 330 and 111 intermediaries respectively. Yet it remains unclear if the growth experienced in the telecommunication sector is also reflected in the performance of intermediary business. This is against an observation that mobile service providers are constantly investing and changing their distribution strategy and execution which in turn impacts the sales growth and performance of MSP intermediary firms. Interestingly though is the question of whether the MSP intermediaries are developing implementation distribution choices that maximize their performance and capture the core aspects of sales growth, and if so what effects the distribution strategy choice would have on their performance (Mugambi, K'Obonyo & Kibera, 2011).

## THEORETICAL REVIEW LITERATURE

### Theoretical Review

The question of what influences a firm's performance has received a considerable amount of attention in literature

with various theories attempting to explain the dynamics upon which the ultimate performance of a firm depends on. Of these many theories, it is the theory of Channel Power and Conflict that better captures distribution aspects and their effects on performance. The theory explains the existence of a relationship between power and conflict with the impact of one channel member's power on the amount of intra-channel conflict present being of particular interest. According to Gaski (1984), the nature and sources of power possessed by a channel entity may affect the presence and level of conflict.

Gaski (1984) further argues that channel conflict results from the perception on the part of a channel member that attainment of its goals is being impeded by another resulting in stress or tension. Conflict also originates from the inevitable conflict of interest embedded in the very act of exchange. Thus, it can be construed within the MSP context that manufacturers (who are the Mobile Service Providers) desire to achieve their goals of distribution coverage and profitability, while intermediary organisations (the subject of our interest) desire to maximise on their profits through use of multichannel distribution strategies. Mugambi, K'Obonyo and Kibera (2011) opine that ultimately, performance usually reflects the viewpoint of the power holder; this as already alluded to has had the MSPs such as Safaricom performing greatly due to their power while the intermediaries perform poorly. This study thus undertook an investigation into these distribution strategy effects from the position of an intermediary in the dynamic telecommunications industry and sees what effect they have on the performance of the MSP intermediaries.

### **Distribution Strategy**

A distribution system is a network of organisations linking a supplier to various customer segments (Stern & El-Ansary, 1982; Rangan & Jaikumar, 1991). Designing a distribution system requires both strategic and tactical decisions (Rangan & Jaikumar, 1991; Lilien & Kotler, 1983). The first decision category determines the number of levels between supplier and customer (e.g. company warehouse, wholesaler, retailer, etc.). Tactical decisions, on the other hand, determine for a given number of levels the intensity of the selected structure (e.g., number of intermediaries) and policies regarding channel management (such as trade discounts). Ideally, MSP intermediary organisations would like to adopt channel strategies that serve their large customers as well as catering uniquely for the needs of smaller customers,

often due to service levels and steep distances (Rangan & Jaikumar, 1991).

Interestingly, Ruskin-Brown (2006) observes that no matter how good the rest of the mix, all effort will be wasted if the customer cannot find a place to buy the product from - be it a company that stocks the product or one that can order for it and supply to them customer - because nothing will be sold. Unlike the other four elements of the marketing mix, distribution decisions often involve the management of external companies and require inter-organisational skills in addition to intra-organisational skills. Ruskin-Brown (2006) affirms that the 'route to market' element of the marketing mix has the two main components of distribution channels: first is a set of structures which help move the product from the point of production to the point of sale, and second is channel management or the management processes which handle the relationships between channel members.

Louis (2009) asserts that the marketer must consider many factors when choosing the appropriate level of distribution coverage. In the context of the MSP intermediary organisations, it would be of immense importance as it would be to all marketers, to understand that distribution creates costs to the organisation and thus an impact on the overall performance. Some of these expenses can be passed along to customers but some cannot (for instance the need for additional sales people to handle more distributors). Thus, the process of determining the right level of distribution coverage often comes down to analysis of the benefits (for instance more sales) versus the cost associated with these benefits. Various authors such as Coleman (2005), Kintu (2007), Wilson (2008), and McKenna (2009) all recognise the existence of three main levels of distribution coverage strategy namely intensive mass coverage, selective, and exclusive. This study adopted the three levels of distribution strategy in attempting to understand its effects on the MSP intermediary organisations' performance.

### **The Concept of Intermediary Firm Performance**

The concept of a firm's performance is an aggregate phenomenon. According to Itami & Roehl (1987) the multidimensional aspect of the concept of organisational performance is linked to several factors including the effects of structure, motivation, and group dynamics. The authors also associate organisational performance with such factors as job enrichment, decision making, leadership, goal setting, and planning.

Kaplan & Norton (1996) note that business enterprises must keep track of their financial and non-financial measures of performance such as market share, speed of response, and product quality; pay attention to externally focused measures such as customer satisfaction and brand preference; and take into account forward-looking measures such as employee satisfaction, retention, and succession planning. Wiele, Boselie & Hesselink (2002) on the other hand, have demonstrated that business performance can be measured in terms of sales volume, sales margin, number of hours service was sold to the customer, and number of placement per customer. The resulting deduction is that organisational performance, therefore, is a multidimensional construct tapping into the financial, operational, and customer-related domains.

Business growth can therefore be perceived as a reflection of performance trends in terms of sales and market share gains as well (Vorhies *et al.*, 1999; Kaplan & Norton, 1996; Venkatraman, 1989). With regards to intermediary performance, as viewed from another perspective, performance may be regarded as resulting from two variables: firm specific which are the internal capabilities of the firm, including the marketing capabilities and non-firm-specific variables and what can best be described as environmental variables because they exist outside the immediate boundaries of the firm (Mugambi, K'Obonyo & Kibera, 2011). According to Mugambi *et al.* (2011), the interaction of these environmental variables (contextual factors) and firm-specific variables produces performance outcome. The corporate strategy, which in this study refers to the distribution strategy, among other strategies would therefore affect intermediary performance thus the unique focus of this study.

### Empirical Literature

Indeed, previous research shows a connection between the distribution channel choices (otherwise referred to as the distribution strategy) and the performance of a firm. Chen & Lai (2010) examined the influence of distribution systems and customer loyalty on firm performance in Taiwanese life insurance companies. The study examined the impact of three factors related to marketing systems (distribution channel, agents' turnover, and customer loyalty) on firm performance (efficiency score and profitability). Using the data envelopment analysis approach to calculate efficiency scores, they found that the performance of the multiple distribution strategy was worse than the single distribution channel strategy in terms of efficiency and profitability. Selecting a marketing system, therefore, is a key decision for a successful business.

Other researchers have also established that performance can be affected by internal resources within the organisation (Vorhies *et al.*, 1999; De Sarbo *et al.*, 2007; Day 2011). Chege *et al.*, 1995, Gabrielson *et al.*, 2002, and Chen & Lai, 2010 focused on the distribution system performance of the parent organisation and not of their intermediaries, but the performance of the organisation can be affected by the performance of its channel partners. This study, therefore, sought to establish the relationship between distribution strategy and intermediary performance.

Young *et al.* (1994) have established that assertive and defence impression management techniques may help channel members improve, protect, or repair their image as they continue to evolve towards co-operative arrangements. This behaviour emanates from the fact that intermediaries are used by parent organisations to meet the latter's penetration objectives. Intermediaries educate the retailers and use their relationships to introduce the manufacturers' products and services while also providing logistical support to ensure availability of the products and services for consumption. This study therefore seeks to build evidence with the telecommunication industry context of the Kenyan market with specific interest in the channel choices of the intermediaries themselves.

### Research Problem

The Kenyan telecommunication industry is not new to ever changing distribution channel choices by Mobile Service Providers (MSPs); the most recent of these being the attempts by MSPs to bypass their intermediaries in the distribution of scratch cards by popularizing the use of web-based recharge platforms. However, little can be said about an adoptive approach of the MSP intermediary organisations themselves in implementing new channel strategies as per the changing business environment.

In addition, research efforts directed towards factors affecting organisational performance has paid little attention to distribution strategy effects on performance with the scanty ones focussing on export-oriented. Studies by Vorhies & Morgan (2005) positively identified a relationship between distribution channel management and firm performance and used this relationship to benchmark several firms' performance. Nevertheless, there exists a research gap regarding the interaction of a firm's capabilities and the adopted distribution strategy in driving performance. The current discussion intends to understand the impact of distribution channel on MSP intermediary organisations' performance amid influence from where the effects of other actors such as contextual

**Table 1: Operationalisation and Measurement of Variables**

Variable	Nature	Operationalisation	Measures
MSP Intermediary Organisations' performance	Dependent variable (DV)/ Endogenous	The actual rating of performance variables in the study as in sales performance (financial measures), market share (non-financial measures), and customer satisfaction (non-financial measures)	Interval measure, Interval scale for the weekly sales performance for question 2a and Sum of management/ respondents judgments on 1-5 scale for Questions 2b-d; ordinal measure.
Distribution strategy	Exogenous independent variable	The choice of the strategy to deliver products and services to the retailer or either through direct ,indirect or hybrid (dual) distribution strategies; warehousing; administration/operations; Manpower/people; customer servicing/routing	Nominal measure of response Yes or No

factors can be pursued. Indeed, Mugambi *et al.* (2011) have indicated that other factors such as the choice of strategy and contextual factors affect firm performance.

As such, this study sought to establish the effect of Distribution Strategy on Mobile Service Provider intermediary organisations; performance in Nairobi County, Kenya.

## THEORETICAL FRAMEWORK AND HYPOTHESIS

### Theoretical Framework

The theoretical literature on performance maintains that there exists an effect of channel choices on a firm's performance since this pertains to the manner in which a firm reaches its consumers. In the context of the current study, the choice of distribution strategy by an intermediary, whether direct, indirect, or even both and the challenges faced is underpinned on the theory of power and conflict within the channels of distribution.

### Hypothesis

The analytical framework underlying this position is fashioned in this study in line with positivism approach, which seeks to use existing theory to develop hypotheses that are tested and confirmed wholly, in part, or otherwise refuted leading to further development of theory to be tested with further research. Saunders *et al.* (2009) affirm that through positivism the researcher is concerned with facts and not impressions. In achieving the study's objective, the following model was used to test the statistical significance of relationships involving the two variables of MSP intermediary organisations' performance

and marketing capabilities; the Equation took the form of a linear regression.

The study hypothesized that

**H<sub>0</sub>**- There is no statistically significant relationship between distribution strategy and performance of MSP intermediary organisations in Nairobi County, Kenya

The effect of distribution strategy on MSP intermediary organisations' performance:

$$IP_{ij} = \alpha + \beta DS_{ij} + \epsilon \quad (i)$$

where;

$\alpha$  is the model equation intercept

$\beta$  is the path coefficient

$\epsilon$  is the error term

$IP_{ij}$  =MSP Intermediary organisations' performance for firm performance  $i$  given operating context  $j$ ,

$MC_{ij}$  =Marketing capability influence on the intermediary firm  $i$  performance given operating context  $j$ .

### Operationalisation and Measurement of Variables

The variables were measured and operationalised as indicated in Table 1.

## RESEARCH METHODOLOGY

Kenya is located on the eastern coast of Africa and has a surface area of 582,664 square kilometres and a population of about 40 million (Republic of Kenya, 2011). Nairobi County has the majority of telecommunications

intermediaries because 397 out of the 1,172 MSP intermediary organisations in Kenya are located here representing 34% of the entire intermediaries' population.

There are four major telecommunications companies in Kenya; namely Safaricom, Airtel, Essar, and Orange Telkom. The target population of this study consisted of the 397 intermediary organisations of mobile service providers selling airtime scratch cards in Nairobi County, Kenya. The proportional stratified random sampling technique was used to select 219 respondents from the target population of 397 (the sampling frame) intermediary companies in Nairobi County. The population was divided into four strata based on type of MSP and each stratum was used to identify the respective respondents. Each intermediary business was assigned a unique number and simple random sampling was used to select the sample in each stratum. This study collected primary and secondary data. A semi-structured questionnaire was used to collect primary data from the distributors; this allowed the researcher to collect both quantitative and qualitative data (Muathe *et al.*, 2010).

### Data Collection Procedures

The semi-structured questionnaire was administered by seven trained research assistants. The research assistants delivered the questionnaires to the respondents and agreed the time upon which they collected them. Using a semi-structured questionnaire to collect data serves as a mutual validating role for the information collected. The period of data collection was from 14 June 2013 to 15 August 2013.

### Data Analysis Method

The completed questionnaires were scanned and cleaned to remove deficient, erroneous, incoherent, and irrelevant answers. The descriptive statistics of mean and standard deviation were used to assess data characteristics. The output was presented in the form of tables. The researcher made use of frequencies, percentages, mean, and standard deviations to interpret the information.

### Response Rate

The study sought responses from a total of 219 respondents drawn from the intermediary organisations of the four MSPs including Safaricom, Airtel Kenya, Orange, and Essar. After data cleaning, screening, and

verification only 213 questionnaires could be regarded as complete representing a response rate of 97.3%. The sample response rate is as indicated in Table 2.

**Table 2: Response Rate of Sample**

Responses	Values	Percentage
Administered questionnaires	219	100.0%
Unusable, unreturned and disqualified questionnaires	6	2.7%
Completed usable questionnaires	213	97.3%

Source: Survey 2013

This study achieved a response rate of 97.3%. Six questionnaires representing 2.7% of the 219 questionnaires issued were excluded from analysis because they were incomplete, not returned, or not completed at all.

### Multi-collinearity Test

As indicated, the study used a positivism approach of hypothesis testing to find the relationship that existed between the study variables thus a need to run a diagnostics of the relationship between the variables for multi-collinearity. Notably, multi-collinearity exists when two or more variables are highly correlated with each other. A proper multi-collinearity diagnostic test must be conducted since highly correlated variables designed to test different concepts usually measure the same theoretical concepts.

During multi-collinearity diagnostics analysis, Field (2009) suggests that a tolerance value of less than 0.1 suggests the existence of a serious collinearity problem. In addition, there is cause for concern when the variance inflated factor (VIF) values are greater than 10. The results of multi-collinearity diagnostics test for the study variables in the current study are shown in Table 3.

**Table 3: Study Variables Diagnostics**

Dependent variable: MSP Intermediary organisations Performance	Multi-collinearity statistics	
	Tolerance value	VIF
Distribution strategy	0.732	1.366

The tolerance values obtained for the variables of distribution strategy was 0.732 which was higher than the acceptable limit of 0.1. In addition, VIF value was less than 10, suggesting that the variable was not highly

correlated with each other; hence the data set was free from multi-collinearity problems.

## RESULTS AND DISCUSSIONS

The study analysed data to evaluate the distribution strategies used by the MSP Intermediary organisations in Nairobi County. Subsequently, the effect of distribution strategy choice on intermediary performance was determined through regression analysis.

### Evaluation of the Distribution Strategy

The distribution strategy of MSP intermediary firms was evaluated on the basis of five attributes as listed in Table 4.

The warehousing of products by the MSP Intermediary organisations featured as a key activity of the distribution strategy with a mean score of 4.08. This result indicates that ensuring the adequacy of storage facilities and proper stock rotations were central activities in the distribution strategy of the MSP Intermediary organisations. The second highly rated distribution activity was operations administration with a mean score of 3.92. The overall the distribution strategy among the MSP intermediary organisations was above average (mean score of 3.60).

The *t*-test statistic revealed that the distribution strategy mean scores differed significantly from one intermediary to another on all the attributes of distribution strategy. The highest difference was observed in the overall assessment (*t*-value=200.44, *p*< 0.05) followed by warehousing (*t*-value=155.02, *p*< 0.05). The lowest significant difference was observed in the manpower aspect of distribution (*t*-value=117.49, *p*< 0.05).

### Hypothesis Testing

The study sought to establish the relationship between distribution strategy and intermediary performance within MSPs in Nairobi County, Kenya. The null hypothesis tested in this study was stated as follows:

H1: There is no statistically significant relationship between the distribution strategy and MSP Intermediary organisations performance in Nairobi County, Kenya.

To assess the influence of distribution strategy on the MSP Intermediary organisations' performance, distribution strategy (independent variable) was regressed on MSP intermediary organisations' performance (dependent variable). The Regression Model capturing the hypothesised relationship is presented in equation (i).

### Regression Model: Equation

Equation (i) depicts the relationship between distribution strategy and MSP Intermediary organisations' performance was given as follows:

$$IP_{ij} = \alpha + \beta DS_{ij} + \epsilon \quad (i)$$

where  $\alpha$  is the model equation intercept

$\beta$  is the path coefficient

$\epsilon$  is the error term

$IP_{ij}$  =Intermediary performance for firm performance *i* given operating context *j*,

$DS_{ij}$  =Distribution strategy for firm *i* performance given operating context *j*.

**Table 4: MSP Intermediary Organisations' Distribution Strategy**

Distribution Strategy	Sample size	Mean	Standard error mean	t-value	p-value
Choice of distribution strategy	213	2.6743	.01753	152.543	.000
Warehousing	213	4.0822	.02633	155.021	.000
Operations administration	213	3.9202	.02584	151.729	.000
Manpower	213	3.6995	.03149	117.493	.000
Customer service and routing	213	3.6009	.02767	130.125	.000
Overall assessment	213	3.5954	.01794	200.436	.000
Overall mean score=3.595					
One sample t-test: test value=0(Ho: there is no significant difference between the means, at $\alpha=0.05$ . Reject Ho if $p\text{-value} \leq \alpha$ , otherwise fail to reject Ho if $p\text{-value} > \alpha$					

Source: Survey (2013)

The results of the regression are summarised in Tables 5, 6 and 7.

The Adjusted R-square statistic indicates that only 5.1% of the variance occurring in performance of the intermediaries is explained by the regression model. The overall model, however, was statistically significant ( $F_{(1,211)} = 12.426$ ,  $p\text{-value}=0.001$ ). The results of the regression model revealed a statistically significant positive linear relationship between distribution strategy and intermediary performance ( $\beta=0.273$ ,  $p\text{-value}=0.001$ ).

These observations imply that an improvement in the distribution strategy by a factor of 0.273 would produce a positive improvement in the MSP intermediary organisations' performance, hence supporting rejection of the null hypothesis of no statistically significant relationship between the distribution strategy and intermediary performance. Consequently, a multiple regression equation that can be used to estimate MSP intermediary organisations' performance given a set of

distribution strategy variables is as follows:

$$\text{MSP Intermediary organisations performance} = 2.841 + (0.273 * \text{Distribution strategy})$$

Similarly, the study findings indicate that distribution strategy significantly influences intermediary performance ( $\beta=0.273$ ,  $P<0.05$ ) at 5% level of significance although it contributes minimally to the variance in the intermediary performance as reflected in the Adjusted R-Square statistic of 5%. These findings led to rejection of the null hypothesis and adoption of the alternate hypothesis which postulated that distribution strategy influences performance.

Daga (2008) describes a supply chain as consisting of all parties and their supplied activities that help a marketer create and deliver products to the final customer. The literature indicates that a marketer who utilises more than one distribution design is following a multi-channel or hybrid distribution system. The multi-channel approach

**Table 5: Summary Results of Regression Model**

R	R-Square	Adjusted R-Square	Std. Error of the estimate
0.236	0.056	0.051	0.29518
Predictors: (Constant)- Distribution strategy			
Dependent variable: Intermediary performance			

Source: Survey (2013)

**Table 6: Results of Significance of Regression Model Two**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.083	1	1.083	12.426	0.001
Residual	18.384	211	0.087		
Total	19.467	212	-		
Dependent variable: Intermediary performance					
Predictors: (Constant)-Distribution strategy					

Source: Survey (2013)

**Table 7: Results of Coefficients of Regression Model Two**

Model	Beta Coefficients		T	Sig.
	Beta ( $\beta$ )	Std. Error		
(Constant)	2.841	0.280	10.159	0.000
Distribution strategy	0.273	0.078	3.525	0.001
Dependent Variable: MSP Intermediary organisations' performance				
Significance level, $\alpha=0.05$				

Source: Survey (2013)

expands distribution and allows the marketer to reach a wider market although the marketer must be careful with this approach due to the potential for channel conflict (Lascu, 2002).

Chen & Lai (2010) examined the influence of distribution systems and customer loyalty on firm performance in Taiwanese life insurance companies and used the data envelopment analysis approach to calculate efficiency scores. The study examined the impact of three factors related to marketing systems (distribution channel, turnover of agents, and customer loyalty) on firm performance (efficiency score and profitability). The results indicated that multiple distribution strategy performs worse than single distribution channel strategy in terms of efficiency and profitability. Selecting a marketing system, therefore, is a key decision for a successful business. Chen & Lai (2010) demonstrate that performance can also be affected by internal resources within the organisation.

## CONCLUSIONS

From the various angles and perspectives, empirical data review (Chen & Lai, 2010; Daga, 2008; Lascu, 2002) and anchoring on various theories, the study demonstrated that the choice of distribution strategy contributed significantly to the performance of MSP intermediary organisations therefore, it is a key determinant of the success of MSP Intermediary organisations in Nairobi County. Data analysis indicated that improvement of the distribution strategy by a 0.273 factor improved performance positively.

## Managerial and Theoretical Implications

The existence of this statistically significant relationship between distribution strategy and MSP intermediary organisations' performance within the telecommunication sector drew this study to a recommendation that sales managers need to lobby its management to invest in more people and an ICT system that will enable tracing, tracking and trending of performance of each salesperson and route to ensure adequate coverage of the territory. This would ensure that MSP intermediaries have a on the ground knowledge and facts of the market and can gather market intelligence promptly.

In addition, the sales manager need to lobby the management to approve a performance compensation plan, bonus/incentive scheme that will motivate the salesperson to ensure efficient routing of the customers, where daily actual/targets and retailer information is

availed which will lead to improved performance of the MSP intermediary organisation. Such moves would see a better re-assessment and capturing of the market areas of profit contribution such as scratch card distribution and mobile accessories which the MSP organisations has previously tried to elbow the intermediaries out of.

With regards to further areas of research, this study appreciates that further work should be conducted in the field of distribution as appertains to the distribution choice, network management and amount of revenues spent by MSP intermediaries on their distribution related activities. It is worth noting that the bulk of knowledge on distribution abounds in export oriented companies with scanty focus in other industries such as telecommunication within the local environment. Furthermore, future studies could also take the dimension of an upstream analysis of the effect caused by the choices made by the parent organisation on intermediary organisation; this arises from the apparent scenario where MSP parent organisations and their intermediary firms may be adopting different distribution strategies co-currently which both affect the outcome of the other.

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