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AN ASSESSMENT OF THE EFFECT OF DISTRIBUTION ALLIANCE ON GROWTH OF HOTELS IN ELDORET TOWN, KENYA

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ABSTRACT: *Strategic alliance enables firms to remain competitive and thus survive, grow and prosper. In order for enterprises to survive in a rapidly changing business environment, they are increasingly forming strategic alliances with other firms. This paper assesses the influence of distribution alliances on growth of hotel industry in Eldoret town. The paper is based on a study that sought to evaluate the influence of strategic alliances on the growth of the hotel industry in Eldoret town in North Rift region of Kenya. The study applied the Resource Dependency theory and the Resource Based theory and adopted a descriptive survey research design on a target population of 220 respondents involved in the hotel industry in Eldoret town. A sample of 112 respondents was drawn proportionately from four categories of hotels using stratified random sampling technique. A semi-structured questionnaire was administered to the respondents to collect the required data. Data was analyzed using both descriptive and inferential statistical techniques with the aid of the Statistical Package for Social Sciences (SPSS) version 20. Multiple regression analysis was also used to analyze the data. The study established that distribution alliance had increased the hotel sales, profits, product/service quality and reduction of costs. Further, strategic alliance had increased market share and enabled hotel businesses to gain competitive advantage. The study also established that the hotels have improved proximity to customers and faster and easier market penetration due to strategic alliance. Based on the research findings and conclusion in the study, it is recommended that hotels need to come up with governance structure that governs strategic alliance. This will help reduce problems encountered in strategic alliance.*

KEYWORDS: Distribution Alliance, Growth, Hotels, Eldoret, Kenya

INTRODUCTION

Strategic alliances are trading partnerships that enhance the effectiveness of the participating firms' competitive strategies by providing for mutual resource exchanges (technologies, skills, or products); they are also various new business forms that enable the partners to enhance and control their business relationships in various ways (Todeva, 2005). According to Chathoth and Olsen (2003), alliance strategy in the hospitality industry to date has been restricted to global and domestic market entry strategies developed by firms like Holiday Inn and Hilton, centred on franchise agreements, joint marketing efforts and management contracts.

Although these contractual agreements can be considered alliance agreements, they have not evolved over time to bring about parity in risk sharing between partners. For instance, management contracts have evolved from non-equity contracts to equity contracts, which are in contradiction to the theory of collaborative ventures, and contradict the direction of evolution when compared to other industries. This can be attributed to opportunism that restricts the evolution of alliance contracts from equity to non-equity agreements.

Concept of Strategic Alliances in Hotel Industry

Firms that use alliances as a source of competitive advantage take strategic measures to improve their profitability as the alliance progresses, which lead to the evolution of the contractual agreement between partnering firms (Chathoth *et al*., 2003). This evolution could be based on size, governance mechanisms and/or resource sharing agreements with the objective of making the alliance more efficient and profitable. This provides support to the theoretical underpinnings of concepts such as Transaction Cost Economics (TCE), Resource Based View (RBV) and the relational view.

The hospitality industry has witnessed the use of alliance strategy in the past that has been centred predominantly on franchise agreements. Many examples of franchise agreements exist in the industry, used domestically as well as worldwide by lodging and foodservice chains (Chathoth *et al.*, 2003). In a hospitality franchise agreement, although the two firms involved typically share assets, the risk exposure is not equally shared. The franchisor is exposed to lower risks than the franchisee, who meets the infrastructural requirements of the agreement. The franchisor meets the product, technology, marketing and training aspects of the agreement for a fixed and/or variable fee. Although the variable component of the fee changes with the level of sales, the reduced risk exposure is balanced by the fee's fixed component. On the other hand, the franchisee's return depends purely on the cash flow generated by the franchise operation. The franchisor usually has the upper hand in the agreement. Consequently, these types of contracts do not create parity in the agreement between the franchisor and franchisee.

In the case of hospitality outsourcing (management) contracts, the property owner provides the infrastructure requirements while the operator provides management expertise. The contractual relationship between the owner and the operator is such that the operator is given exclusive rights to manage the property while the owner assumes the venture's financial risks (Eyster, 1997). The operator's main objective is earning management fees that are a percentage of revenues (Alexander & Lockwood, 1996; Eyster, 1997), whereas the property owners are concerned with net operating cash flows (Eyster, 1997). Although both firms combine specialized assets, the value of the operating company's expertise has more perceived value than the value of the infrastructural requirements provided by the owner. Eyster (1997) suggests that management contracts in the US have shown some evolutionary trends, as owners have used various measures to reduce their share of risks while getting operator firms to bear greater risks. Consequently, these measures may result in the development of more balanced alliance contracts in the future.

Hotels and restaurant companies will form more strategic alliances in the future as they become financially unviable (Strate & Rappole, 1997). Restaurant companies would run the restaurant to generate profits for the hotel. The development of these types of alliances suggest that alliances between firms that specialise in certain products and services (across segments) will be driven by the objective of sharing resources and capabilities to minimise firms' risk exposure while increasing their long-term aggregate returns.

An example of the evolution of marketing alliance in the lodging industry is depicted by the competitor alliance that involves seven hotels in the Greens point area in Houston, Texas (Strate & Rappole, 1997). This alliance is aimed at creating a combined marketing effort to attract customers to the area as a result of shrinking hotel sales. Customers benefit from such alliances as they can avail of services; for instance, call free of charge those hotels that form a part of the alliance and use free shuttle services of the hotels. The benefits that this alliance has

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brought about are reflected in the increased revenues earned because of combined marketing efforts (Whitford, 1998). The hotels, on the other hand, benefit as this not only helps increase sales and provide better customer service but also helps reduce costs. Other strategic alliances include joint venture which is an agreement by two or more parties to form a single entity to undertake a certain project (Margarita, 2009). Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits. Joint ventures between small firms are very rare, primarily because of the required commitment and costs involved.

Outsourcing is another form of alliance. The 1980s was the decade where outsourcing really rose to prominence, and this trend continued throughout the 1990s to date, although to a slightly lesser extent. Affiliate marketing has exploded over recent years, with the most successful online retailers using it to great effect. The nature of the internet means that referrals can be accurately tracked right through the order process. Amazon was the pioneer of affiliate marketing, and now has tens of thousands of websites promoting its products on a performance-based basis. This can be used by the hotel industry in Kenya to enhance the quality of services provided to the customers with the aim of increasing customer retention.

Effect of Distribution Alliance on Firm Growth

Distribution alliance is a situation where one firm agrees to distribute products of other firms (Išoraitė, 2009). It occurs when a firm forms a partnership that allows another to use the channel resources of another firm in the target market. It is usually formed because the businesses involved want more customers. Distribution alliances seek to increase the number of sale points for a product or service and ensures that customers encounter one's products or services.

The supplier and distributor work together in marketing, sales and delivery. For instance, Coca Cola supplies its raw materials to bottling companies but supports the sales through mass marketing campaigns and providing signs, banners, coolers etc. to retailers all over the world. Morrison (1994) argues that small hotel firms can link with organizations within both the private and public sector to distribute its product. If one business has a product but lacks distribution, it may seek synergy by allying with a company that has good distribution and no competing product (*Strategic Alliances*, 2005).

If a firm has a product one of the best ways to market it is to recruit distributors, where each one has its own geographical area or type of product. This ensures that each distributor's success can be easily measured against other distributors (Išoraitė, 2009). This is supported by Chernesky (2006) who argues that a company with a product may form an alliance with another company that has an established distribution system that the first company cannot create for itself without incurring great cost and delay in market penetration. Chernesky (2006) gives the example of Avon Products and Readers' Digest that have well established direct distribution channels with customers. These two companies have explored synergies for marketing a number of different products, through one another's distribution systems. Therefore, to penetrate a particular market, a firm needs to perform the proper business development, which includes setting distribution channels to give direct access to the target market.

Studies by Alison (1994) gave two types of marketing /distribution systems. The first is vertical system, which involves co-ordinated distribution linking producers with wholesalers and retailers. It also refers to alliances between a hotel and other types of companies such as airline companies, travel agencies, rent cars, restaurants, shopping stores and card service companies.

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This is designed to achieve operating efficiencies and marketing effectiveness and has become a dominant force in the process of hotel product distribution. The second is horizontal marketing system which involves horizontal clustering of similar/related business entities. It consists of alliances among hotels, which include typical forms of cooperation among hotels such as chains, management contract, franchise and referral groups (Nykiel, 2003).

Distribution is centred on co-operation and joint marketing services such that the stages of production and distribution are administered collectively by the individual members of voluntary chain integration. Alison (1994) further adds that for small firms in hotel industry, the specific choice of distribution channel and its configuration should reflect the identification of more efficient ways to combine separate economic functions, that must be carried out to provide a meaningful assortment of products to target customers. This approach sees the concept of the distribution channel as an extension of a firm's organization, being used as a co-operating weapon to achieve competitive advantage. Therefore, the pretence of a small firm as a legal entity is dropped, and the channel members are treated as partners in a deliberately designed and managed strategic alliance (Alison, 1994).

Statement of the Problem

Growth is necessary for any firm's survival in a competitive market environment. In the 21st century, competition among organizations has become tough and unpredictable. Strategic alliances are expected to enable firms to achieve their targets within the required time. Strategic alliance ought to bring benefits to firms that enhance survival and growth. In Kenya, hotels are significant in generating employment and income, but past statistics indicate that they face stagnated growth and some have even closed (Shikuri & Chepkwony, 2013).

Wandongo *et al.* (2010) have researched on key performance indicators in the hospitality industry in Kenya and conclude that managers monitor competitiveness and financial performance but fail to look at how strategic alliance can be used to improve competitiveness and financial performance. Shikuri *et al.* (2013) have investigated the challenges facing the hospitality industry in Kericho Kenya. They identify key challenges such as shortage of competent manpower, financial constraints, high competition and problems with suppliers. They, however, fail to propose actionable solutions to these challenges in relation to strategic alliances. Despite the benefits that strategic alliances bring to organizations, there is limited literature on the actual contribution they ca bring to the growth of hotels. The study was, therefore, conducted in an attempt to fill this gap in literature with respect to growth of the hotel industry in Kenya. The study was conducted among selected hotels in Eldoret town in the North Rift region of Kenya.

MATERIALS AND METHODS

The study adopted a descriptive survey research design, which was justified by the fact that it captures the current perception of the population with regards to the variables of the study. The design was adopted because the population that was studied was too large to be observed directly. The design was, thus, economically viable both in time and money as it involved taking a sample of population to generalize results for the whole population, resulting to in-depth, rich and meaningful research findings.

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Data on the target population was obtained from Uasin Gishu County records. The records indicated that there were a total of 220 hotels and lodging firms that had been in operation for over three years in Eldoret town at the time of the study. The hotels were categorized under A, B, C and D All of which formed the target population. The owners or managers were considered as decision-makers as regards adoption of strategic alliances in the management of their businesses. Therefore, they were also targeted as sources of relevant information on behalf of their businesses.

Because the population was composed of sub-groups that were different in number, proportionate random sampling was used to select 140 hotels and lodgings by randomly selecting 21 from category A, 13 from category B, 54 from category C and 52 from category D. This represented 63.6% random selection from each category based on Yamane formula. After selecting the 140 hotels and lodging, purposive sampling was used to select 140 owners/managers of the hotels, as shown in Table 1 below.

Table 1: Target Population

Category	Size	Number	Specialization
A	Medium	18	Restaurant with Lodging
	Small	16	
B	Medium	4	High standard restaurant and lodging
	Small	15	
C	Medium	25	Lodging and breakfast only
	Small	60	
D	Medium	28	Eating houses
	Small	54	Restaurant and bar
Total		**220**	

Therefore, the sample size for this study was 140 respondents.

A semi-structured questionnaire was used to collect data. Data analysis was done in line with the objectives of the study, which describe whether or not the variables affect growth of hotels. Multiple regression model was used to explore the relationships among the variables.

RESULTS

Effects of Distribution Alliances on Growth of Hotels

The respondents were asked an open-ended question on the kinds of distribution alliances their hotels were engaged in. The results indicated that majority of the respondents stated that their firms engaged in distribution alliances by distributing the products of the producers to the wholesalers and sometimes to the retailers. The respondents were also of the view that they often linked with other agencies like airline companies, travel agencies and taxi service providers to distribute their products or even reaching out to their customers.

The respondents were further asked to state the effects of distribution alliance on the firm growth and their responses were as shown in Table 2 below.

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Table 2: Effects of Distribution Alliances

Statement	SD F(%)	D F(%)	N F(%)	A F(%)	SA F(%)	Total F(%)
B1. Sales (increase)	0(0.0)	1(0.9)	2(1.8)	92(82.1)	17(15.2)	**112(100.0)**
B2. Profit (increase)	0(0.0)	0(0.0)	13(11.6)	75(67.0)	24(21.4)	**112(100.0)**
B3. Wider market	0(0.0)	8(7.1)	6(5.4)	75(67.0)	23(20.5)	**112(100.0)**
B4. Product/services quality improvement	1(0.9)	1(0.9)	14(12.5)	67(59.8)	29(25.9)	**112(100.0)**
B5. Increase in number of customers	0(0.0)	1(0.9)	7(6.3)	55(49.1)	49(43.8)	**112(100.0)**
B6. Wider geographical coverage	0(0.0)	7(6.3)	13(11.6)	54(48.2)	38(33.9)	**112(100.0)**
B7. Market shares (increase)	0(0.0)	7(6.3)	4(3.6)	63(56.3)	38(33.9)	**112(100.0)**
B8. Competitive advantages	0(0.0)	2(1.8)	7(6.3)	73(65.2)	30(26.8)	**112(100.0)**
B9. Reduction in distribution costs	1(0.9)	5(4.5)	10(8.9)	61(54.5)	35(31.3)	**112(100.0)**
B10. Improved proximity to customers	0(0.0)	7(6.3)	8(7.1)	52(46.4)	45(40.2)	**112(100.0)**
B11. Faster and easier market penetration	0(0.0)	1(0.9)	6(5.4)	62(55.4)	43(38.4)	**112(100.0)**

Source: Author (2015)

As shown in Table 2, majority (97.3%) of the respondents stated that distribution alliance had increased the firm's sales while only 3(2.7%) disagreed. Another 99(88.4%) of the respondents stated that distribution alliance had led to the increase of profits of the firms at the time the study was conducted. In addition, 98(87.5%) of the respondents were of the opinion that distribution alliance had widened the market scope of their firms while 14(12.5%) disagreed.

The study further found that 96(85.7%) of the respondents stated that through distribution alliance, their firms had improved their service quality whereas 104(92.9%) stated that the number of customers had increased as a result of distribution alliance. There had also been a wider geographical coverage as a result of distribution alliance as stated by 92(82.1%) of the respondents. Another 101(90.2%) stated that market share had increased due to distribution alliance while 7(6.3%) disagreed. According to 103(92%) of the respondents, their firms had experienced competitive advantage due to distribution alliance while 96(85.8%) of the respondents stated that distribution alliance had led to the reduction in distribution costs. Moreover, 97(86.6%) of the respondents stated that distribution alliance had improved proximity to customers whereas 105(93.8%) stated that there had been faster and easier market penetration due to distribution alliance.

The study hypothesized that distribution alliance does not contribute to growth of hotels in Eldoret town. The results on the hypothesis test for the effect of distribution alliance on the growth of hotels were as shown in Table 3 below.

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Table 3: Hypothesis Test Results on Effect of Distribution Alliance on Hotel Growth

Model	standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error			Tolerance	VIF
(Constant)	1.385	0.822	1.250	0.000		
Distribution	0.306	0.140	2.064	0.046	0.884	1.131

From the results of the hypothesis test shown in Table 3 above, the p-value was 0.046. The p-value was less than 0.05. Therefore, the null hypothesis was rejected and it was concluded that there is a significant relationship between distribution alliance and growth of hotels. This variable had a beta value of 0.306.

DISCUSSION

The study sought to evaluate the effects of distribution alliance on growth of hotel industry in Eldoret town in Kenya. Distribution alliance is a situation where one firm agrees to distribute products of other firms (Išoraitė, 2009). It occurs when a firm forms a partnership that allows another to use the channel resources of another firm in the target market. In the study, the findings indicated that distribution alliance had increased the firm's sales, profits and widened the market scope of their firms.

The study further established that 85.7% of the respondents stated that through distribution alliance, their firms had improved service quality whereas 92.9% stated that the number of customers had increased as a result of distribution alliance. There had been a wider geographical coverage as a result of distribution alliance as stated by 82.1% of the respondents while 90.2% stated that market share has increased due to distribution alliance. The study established that the firms had gained competitive advantage, experienced a reduction in distribution costs, improved proximity to customers and faster and easier market penetration due to distribution alliance. This agrees with the views of Chernesky (2006) that a company with a product may form an alliance with another company that has an established distribution system that the first company cannot create for itself without incurring great cost and delay in market penetration. Therefore, to penetrate a particular market, a firm needs to perform the proper business development, which includes setting distribution channels to give direct access to the target market. According to Nykiel (2003), distribution alliance leads to the concept of the distribution channel as an extension of a firm's organization, being used as a co-operating weapon to achieve competitive advantage. Statistically, the p-value for hypothesis test on distribution alliance was 0.046. This p-value was less than 0.05. Therefore, it was concluded that there is a significant relationship between distribution alliance and growth of hotels.

CONCLUSION AND RECOMMENDATIONS

Based on the research findings on the effects of distribution alliance on growth of hotels, it is concluded that distribution alliance has increased the hotel sales, profits and widened the market scope of the firms. Further, service quality of the hotels and number of customers has increased as a result of distribution alliance. There has been a wider geographical coverage and increase in market share due to distribution alliance. In addition, hotels have experienced competitive advantage, reduction in distribution costs, improved proximity to customers and

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faster and easier market penetration due to distribution alliance. Statistically, there is a significant relationship between distribution alliance and growth of hotels. Based on the research findings and conclusion in the study, it is recommended that hotels need to come up with governance structure that governs strategic alliance. This will help reduce problems encountered in strategic alliance.

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