

**EFFECTS OF LIBERALIZATION ON MARKETING OF  
UNPROCESSED MILK IN BOMET COUNTY, KENYA**

**ANDREW TURGUT**

**Research Project submitted in partial fulfillment for the award of degree in  
Master of Business Administration of The Nairobi University**

**OCTOBER 2012**

**DECLARATION**

This research project is my original work and has not been submitted for another degree qualification of this or any other University or Institution of higher learning.

Signed ..... Date .....

**Name: Andrew Turgut** **Reg. No. D61/66910/2010**

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

Signed ..... Date .....

**Name: Mary Kinoti (Mrs)**

**Lecturer. Department of Business Administration**

**School of Business**

**University of Nairobi**

## DEDICATION

This work is dedicated to all the milk marketers in Bomet County who are doing their best to improve the marketing of unprocessed milk in the County.

## ACKNOWLEDGEMENT

To God be the glory great things He has done.

Many people have made vital contributions to this work in diverse ways and I am forever grateful to each of you who prayed, encouraged, inspired, taught and supported me throughout this study. God bless you all.

I wish to commend the following people for their contributions:

Mary Kinoti (Mrs), my supervisor for her support, encouragement, guidance and inspiration throughout my Study at the Nairobi University.

Professor Francis Kibera, my moderator for his guidance, support and inspiration.

My dear wife, Anne for her love, prayers and great support.

Eric Chepkwony, Naomi chepkurui, Florence Ngeno, Isaac Langat, Florence I.angat and Pastor Peter Sigei for their assistance in data collection and coding

My immediate and the entire family, for their contribution and support.

The family of Shalom Celebration Centre (Kambira Deliverance Church) for their warm fellowship, love, moral support and prayers.

All my supportive respondents who accepted to respond to my questionnaires

## **ABSTRACT**

Informal milk outlets are shown to absorb most of the milk from smallholder farmers accounting for over 80% of the total milk sold. Milk sellers and resellers, transporters, co-operatives and farmer groups are identified as the most important participants at the rural markets

The purpose of this study was to investigate the effects of liberalization on the marketing of unprocessed milk in Bomet County. Data was collected from the five constituencies in the County during the Months of September and October 2012. Interviews were carried out by use of administered questionnaires. The respondents included twenty five dairy farmers and fifteen unprocessed milk resellers. The respondents were selected using proportional sampling method and SPSS software was used to analyze the collected data. Quantitative data was analyzed using descriptive statistics. The findings from the study revealed that market liberalization has greatly affected the marketing of unprocessed milk in the County. It has positively affected all the marketing mix practices. The strongest relationship existed between marketing mix practices and market performance. The study recommends continuous review and harmonization of regulator) policies in the milk market sector. The study also recommends further study on customer satisfaction and other factors that affect market performance.

## TABLE OF CONTENTS

DECLARATION.....	I
ACKNOWLEDGEMENT.....	in
ABSTRACT.....	IV
LIST OF TABLES.....	VIII
LIST OF FIGURES.....	IX
<b>ACRONYMS AND ABBREVIATIONS.....</b>	<b>X</b>
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of (he study.....	1
1.1.1 Liberalization.....	2
1.1.2 Marketing.....	2
1.1.3 Milk sector in Kenya.....	4
1.1.4 Milk sector in Bomet County.....	5
1.2 Problem Statement.....	6
1.3 Objectives of the Study.....	7
1.4 Value of the Study.....	7
CHAPTER TWO: LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Marketing Concept.....	8
2.3 Marketing mix variables.....	8
2.3.1 Product.....	9
2.3.2 Price.....	10
2.3.3 Place.....	10
2.3.4 Promotion.....	11
2.4 Market Liberalization.....	12
2.5 Liberalization of milk marketing.....	13

<b>2.6 Impact of Market Liberalization.....</b>	<b>14</b>
2.6.1 Conceptual framework.....	16
<b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>	<b>18</b>
3.1 Introduction.....	18
3.2 Research Design.....	18
3.3 Population of the study.....	18
3.4 Sampling and Sample size.....	18
3.5 Data Collection.....	19
3.6 Data Analysis.....	19
<b>CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS.....</b>	<b>20</b>
<b>4.2 Background Information of the respondents.....</b>	<b>20</b>
4.2.1 Gender.....	20
4.2.2 Age.....	21
4.2.3 Education Level.....	21
4.2.4 Years of Experience in Dairy Business.....	22
4.2.5 Number of Employees in the Business.....	23
4.2.6 Average number of litres handled per annum.....	24
<b>4.3 Marketing mix practices of unprocessed milk.....</b>	<b>24</b>
<b>4.4 Effects of liberalization on the marketing mix practices.....</b>	<b>27</b>
<b>4.5 Market liberalization and competition.....</b>	<b>29</b>
4.5.1 Competitiveness of Milk Marketing.....	29
4.5.2 Negative or Positive effects of Competition.....	29
4.5.3 Extent of competition influence to the unprocessed milk business.....	30
<b>4.6 Other factors on liberation of milk marketing.....</b>	<b>30</b>
4.6.1 Indicators of the Success of the Unprocessed Milk Business.....	32
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION.....</b>	<b>33</b>
<b>5.1 Introduction.....</b>	<b>33</b>
<b>5.2 Summary.....</b>	<b>33</b>
<b>5.3 Conclusion.....</b>	<b>35</b>

5.4 Recommendation of the study.....	35
<b>5.5 Limitation of the study.....</b>	<b>36</b>
<b>5.6 Recommendations for further research.....</b>	<b>36</b>
REFERENCES.....	37
<b>APPENDICES.....</b>	<b>42</b>
Appendix 1.....	42
Questionnaire.....	42
Appendix II.....	48



## LIST OF TABLES

Table 1.1	Constituencies.....	5
Table 3.1	Sample size determination.....	19
Table 4.1	Gender.....	20
Table 4.2	Age.....	21
Table 4.3	Education Level.....	22
Table 4.4	Years of Experience in Dairy Business.....	22
Table 4.5	Number of Employees in the Business.....	23
Table 4.6	Average number of litres handled per annum.....	24
Table 4.7	Marketing mix practices of unprocessed milk.....	25
Table 4.8	Effects of liberalization on the marketing mix practices.....	27
Table 4.9	Competitiveness of Milk Marketing.....	29
Table 4.10	Negative or Positive effects of Competition.....	29
Table 4.11	Extent of competition influence to the milk business.....	30
Table 4.12	Other factors on liberation of milk marketing.....	31
Table 4.13	Indicators of the Success of the Unprocessed Milk Business.....	32

## LIST OF FIGURES

**Figure 2.1**      **Conceptual framework**

## ACRONYMS AND ABBREVIATIONS

COMESA	: Common Market for Eastern and Southern Africa
IEBC	: Independent Election and Boundaries Commission
FAO	: Food and Agriculture Organization
ICM	: Integrated Communication Marketing
IFCN	: International Farm Comparison Network
ILRI	: International Livestock Research Institute
KDB	: Kenya Dairy Board
KCC	: Kenya Co-operative Creameries
SME	: Small and Medium Enterprises
UK	: United Kingdom
USA	: United States of America
WTO	: World Trade Organization

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the study

Highly developed countries have pursued the path of economic liberalization in order to remain globally competitive: partial or full privatization of government institutions and assets, greater labor-market flexibility, lower tax rates for businesses, less restriction on both domestic and foreign capital, open markets. In developing countries, economic liberalization refers more to liberalization or further opening up of their respective economies to foreign capital and investments. Some of the fastest growing developing economies today have achieved rapid economic growth in the past decades after they liberalized their economies to foreign capital (Kumar, 2011).

Trade liberalization as noted by Carbaugh (2006) however, carries substantial risks that necessitate careful economic management through appropriate regulation by governments. Some argue that foreign providers crowd out domestic providers and instead of leading to investment and the transfer of skills, it allow foreign providers and shareholders to capture the profits for themselves, taking the money out of the country. Thus, it is often argued that protection is needed to allow domestic companies the chance to develop before they are exposed to international competition. Other potential risks resulting from liberalization are risk of financial sector instability resulting from global contagion, risk of brain drain and risks of environmental degradation.

Market liberalization according to Globerman( 1990) aims at improving efficiency in resource allocation by facilitating more or less automatic price adjustments in response to market competition through the forces of supply and demand. The rationale is that market competition, over time, should lead to stability in production and consumption. The result is thus expected to be beneficial to the society as a whole. The serious crisis affecting milk producers throughout the world as argued by Davis (1962) is partly generated by the price hyper-volatility in agricultural markets. As indicated by the International Farm Comparison Network (IFCN), milk is in fact one of the world's most volatile commodities, which leads to unpredictable situations

### **1.1.1 Liberalization**

Liberalization of economy generally refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities. The arguments for economic liberalization include greater efficiency and effectiveness that would be more beneficial to everybody. Thus, liberalization means the removal of trade controls, to encourage economic development. The primary goals of economic liberalization are the free flow of capital between nations and the efficient allocation of resources and competitive advantages. This is usually done by reducing protectionist policies such as tariffs, trade laws and other trade barriers. One of the main effects of this increased flow of capital into the country is that it makes it cheaper for companies to access capital from investors. A lower cost of capital allows companies to undertake profitable projects that they may not have been able to with a higher cost of capital pre-liberalization, leading to higher growth rates (Anderton, 2006).

### **1.1.2 Marketing**

Marketing as an idea has been in the business environment since 1950s. Prior to that, producers of goods and services tended to be more focused on the production side - with long runs and lead times, rather than finding out what customers required. Hence, they first produced goods and services and then figure out how to sell them to the customers. The marketer was perceived as a mixer of the 4ps: product, price, place and promotion. But with the epoch of marketing as an idea, producers started perceiving customers as a central element in business that is, no customer no business was the order of the day (Indgreen, 2008).

According to Kotler (2006) marketing is the process by which companies create value for customers and build strong customer relationships, in order to capture value from customers in return. It is creating value, solutions, and relationships either short term or long term with a company or brand. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationship and create value for their customers and for themselves. Marketing is used to identify the customer, satisfy the customer, and keep the customer. With the customer as the focus of its activities, marketing management is one of the major components of business management.

The adoption of marketing strategies McGrath (2000) requires businesses to shift their focus from production to the perceived needs and wants of their customers as the means of staying profitable. The term marketing concept holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than Competitors. Marketing is to establish, maintain and enhance long-term customer relationships at a profit, so that the objectives of the parties involved are met. This is done by mutual exchange and fulfillment of promises (Gronroos, 2000).

Production problems while important can almost always be solved, but not so with marketing, as the competitive feature of selling, a product is always changing and profit margins are slim. Any one, entering the dairy business for the first time, should solve his marketing problems before he invests. For most part, farmers give attention to producing farm products and turning over the job of marketing to middlemen. However, dairy farmers in many areas have organized themselves and formed co-operative societies, which have taken over marketing activities of milk (Ensminger, 1980).

The characteristics of milk and its products (Davis, 1962) have a great influence on conditions under which they find a market. Raw milk on the farm is a highly perishable product and must be moved to the place where it is to be processed quickly. The storage coolers on the farms have lengthened the possible time before milk is delivered to a processor or the end user. Milk is a bulky product with relatively low value per unit weight. This makes it costly to transport over long distances. The necessity for keeping milk cold during transportation adds to the cost.

Raw milk for consumption must be delivered quickly and kept under refrigeration because of its perishable nature. Regulations prescribed by local health authorities must be adhered to in the production of milk for raw use. There are also regulations for processors but they are usually less stringent. The necessity of moving raw milk rapidly at all points in the distribution system requires that supply be closely tailored to demand. Adherence to regulations of health authorities and keeping a constant adequate flow of milk available have resulted in somewhat higher prices paid to producers of milk used as raw (Whyte, 1972).

### **1.1.3 Milk sector in Kenya**

Milk production as argued by Ochuonyo (1990), plays a key role as a source of livelihoods in the rural high potential areas with families producing milk showing low poverty index. Lately, milk density has become a key parameter impacting on milk marketing and social welfare of milk consumers. Dairy industry in Kenya is regulated through the Dairy Industry Act, Chapter 336 of the Laws of Kenya, as enacted in 1958. Under the Act, the Kenya Dairy Board (KDB) was established in order to organize, regulate, and develop efficient production, marketing, distribution and supply of dairy produce in Kenya. Hence the KDB has broad powers over the organization of the dairy marketing system in Kenya.

In the COMI-SA region Karanja (2003) important milk importers are Burundi, Botswana, DRC, Malawi, Mozambique, Rwanda, Ethiopia, Somalia, Sudan, Uganda and Zambia. According to FAO the named COMESA countries imported a total of 30,000 metric tonnes of dry milk powder worth over US \$ 57 million in 1998. The market for milk powder is even greater in Western and Northern Africa with Nigeria alone importing more than 120,000 tonnes a year. It is therefore apparent that Kenyan dairy products can easily find markets in the region and in the wider world so long as they remain competitive. The international trade in dairy products is, however, heavily distorted by tariff and protection mechanisms of the major consuming nations in North America and Europe. Indeed, these issues feature prominently in WTO and Agenda 2000 agreements. Progress in resolving these issues is slow and is unlikely to have a major impact within the next 5-10 years. This is especially the case after the signing of the USA farm security and rural investments Act 2002 in May 2003.

The marketing system for milk and milk products in Kenya can be divided into two subsystems, formal and informal, depending on whether the parties involved in marketing are licensed by the KDB or are agents of a KDB licensed dealer or not. Those engaged in formal marketing operate under a license issued by the KDB, or they may be agents of a licensed dealer, such as the KCC. However, the informal marketing subsystem deals with marketed milk and milk products that do not enter the formal marketing subsystem (Mbogoh, 1993)

#### 1.1.4 Milk sector in Bonict County.

BometCounty is an administrative county in the Rift valley province of Kenya. It is located in the southern part of the province. It borders Kericho, Nyamira, and Narok countics. Its capital town is Bomet. The county has a population of 730.129 (2009 census) and an area of 1.997.9 km<sup>2</sup> .The figure below shows the population distribution:

**Table 1.1 Constituencies**

No.	Name	Administrative Town	Population (2009 National Census)	Area (Sq. Km)
1	Sotik	Sotik	167,289	446.2
2	Chcpalungu	Sigor	163,833	490.6
3	Bomet East	Ndarawcta	127,430	316.1
4	Bomet Central	Bomet	126.520	261.5
5	Konoin	Koiwa	145,057	483.5

Source: Independent Electoral and Boundaries Commission (IEBC)

The county has an estimated dairy cattle population of 210.855 and produces an average of 1.2 million litres of milk per year, half of which is channeled through new KCC.Sotik branch. There are over ten milk cooling centres located within the county operated by different players namely new KCC, Brookside, East Africa Dairies and others. Many dairy farmers here are smallholders who keep a few cows in small pieces of land that average about 5 acres and below. The marketing system for milk and milk products in BometCounty just like in the country can be divided into the two subsystems, formal and informal. Those engaged in formal marketing operate under a license issued by the KDB, or they may be agents of a licensed dealer, such as the KCC. However, the informal marketing subsystem deals with marketed milk and milk products that do not enter the formal marketing (Kenya Dairy Board). Most of the farming is of a mixed system that also includes tea, maize growing, poultry keeping and farming subsistence crops. For a long time, the region's dairying potential was well known but not realized, but with the liberalization of the sector.



there is leading to a change in perception about dairy farming and allowing peasant farmers to benefit from it (ILRI, 2010).

## **1.2 Problem Statement**

The milk sector has experienced three periods of major shifts of pricing policy since 1965. In the first period lasting until 1971, a milk quota and contract pricing system guided dairy production. Milk marketing was undertaken by a number of independent factories, processing and selling dairy produce in a relatively free market system. The pricing policy aimed at increased production for domestic and export markets. Between 1971 and 1992, a pan-territorial liberalized production and uniform pricing system guided dairy production and marketing. During this period, producer and consumer prices were determined by the Ministries of Agriculture and finance based on recommendations on milk procurement, processing and distribution costs. In 1992, the government liberalized the dairy industry (Omiti and Muma, 2000).

Market liberalization has impacted on the marketing of goods and services including milk in Bomet County. This has led to free flow of capital between suppliers and consumers. The marketing system for milk and milk products in Bomet County is mainly channeled through the two subsystems, formal and informal. The focus of this study was therefore, to establish whether there has been any significant changes in the marketing of unprocessed milk, in the milk sector in Bomet County

Most of the studies have concentrated on dairy marketing in general. These include ( Isaboke1995, Mbogoh1993, Omiti 2000 and Karanja 2003). However, there is little information that has been documented on the real effects of liberalization on the marketing of unprocessed milk in Kenya hence there was need by the researcher to gather more information. The research question that the study sought to answer was; what is the influence of liberalization on the marketing of unprocessed milk in Bomet County?

### **1.3 Objectives of the Study**

The objective of the study was to investigate the effects of liberalization on the marketing of unprocessed milk in BomctCounty.

### **1.4 Value of the Study**

The findings of the study are likely to provide a basis for long term strategic planning in so far as tax collection on milk sales is concerned in Bomet County.

The study will assist the policy makers in formulating guidelines that will enhance profitability in the milk sector.

To the investors, the findings will guide them in making investment decisions in the dairy business sector.

The results of the study will add to the existing body of knowledge in business marketing. Academicians may use it for further research, while practitioners may apply lessons in planning and implementing future changes.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

There are a number of studies that have been done on the subject of market liberalization over the years. For the purpose of this study, the literature review will only narrow down to few sub-topics namely; marketing concept, marketing mix variables, market liberalization, liberalization of milk marketing and the impact of liberalization.

### **2.2 Marketing Concept**

The marketing concept according to Ferrel (2007) is the philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs, better than the competition. Today most firms have adopted the marketing concept, but this has not always been the case. Marketing occurs any time a person or organization strives to exchange something of value with another person or organization. Thus, at its core marketing is a transaction or exchange. Marketing consists of activities designed to generate and facilitate exchanges intended to satisfy human or organizational needs or wants. Marketing concept as argued by Kibera (2007) is the belief that no decision making should be made before understanding the target market. Marketers should identify the unsatisfied needs and wants of consumers before developing a product to satisfy the needs and wants at a profit.

Marketing involves an exchange of one product for another. On one side of the exchange is the marketer who takes the initiative by trying to stimulate and facilitate exchanges. Marketers develop plans and programs and implement them in hopes of creating an exchange. In this respect, a trade retailer, a university recruiting students and Airlines seeking passengers are all marketers. On the other side of exchange is the market which consists of people or organizations with needs and wants to satisfy, money to spend and the willingness to spend it. Marketing programs are directed at markets that either accept or reject the offer. Markets are made up of current and prospective customers, defined as any person, group, or organization with whom a marketer has an existing or potential exchange relationship (Etzel, 2007).

### **2.3 Marketing mix variables**

The major marketing management decisions can be classified in one of the four categories; namely product, price, place and promotion. These variables are known as the marketing mix

or the 4 P's of marketing. They are the variables that marketing managers can control in order to best satisfy customers in the target market. The firm attempts to generate a positive response in the target market by blending these four marketing mix variables in an optimal manner (Schultz, 1993).

### **2.3.1 Product**

The product includes design and packaging as well as physical features and any associated service such as free delivery. It is a set of basic attributes assembled in an identifiable form. Each product is identified by a commonly understood descriptive name such as cars, insurance, tennis rackets or entertainment. In marketing, a broader definition is needed to indicate that customers are not really buying a set of attributes but rather benefits that satisfy their needs. Thus users do not want sand paper they really want a smooth surface. In the case of physical products, it also refers to any services or conveniences that are part of the offering (Solomon. 2009).

The product as argued by Berkowitz (1989) is good, service or idea consisting of a bundle of tangible and intangible attributes that satisfy consumers and is received in exchange for money or another unit of value. Tangible benefits include physical items such as cars, or soap, and intangible benefits include becoming healthy or wealthier. The life of a company often depends on how it conceives, produces and markets new products.

Product decisions are those concerned with product line and range, Style, shape, design, colour, quality and other physical features of a product, packaging and labeling of a product. Branding and trade mark given to a product, product servicing and channel of distribution. The decisions should be based on current marketing environment, nature of market competition, consumer expectations, information available through marketing research and so on. Cooperation of other departments is also necessary in marketing decision-making. Production or product is rightly treated as the heart of the marketing mix. Customers purchase a product because of its attributes, features and benefits. These are the selling points of a product. They should be adjusted to the buying motives of consumers. A consumer/customer considers the total package of benefits available from the product and takes a decision to purchase the product. This suggests that various decisions regarding the product to be marketed need to be taken correctly. As a result, the product offered in the

market will be a quality product. In addition, it will be utility oriented, attractive, convenient, properly designed and branded (Keegan. 1989).

### **2.3.2 Price**

Price according to Brassington (1997) has to reflect issues of buyer behavior because some people judge value in terms of their perception of what they are getting for their money, what else they would have had for that money and how much that money meant to them in the first place. Pricing also has strategic dimension, in that it gives messages to all sorts of people in the market. Customers, for instance may use price as an indicator of quality and desirability for a particular product and thus price can reinforce or destroy the work of the other elements of the marketing mix.

The price is very important (Etzel. 2007) as it determines the company's profit and hence, survival. Adjusting the price has a profound impact on the marketing strategy, and depending on the price elasticity of the product, often it will affect the demand and sales as well. The marketer should set a price that complements the other elements of the marketing mix. When setting a price, the marketer must be aware of the customer perceived value for the product. Three basic pricing strategies are: market skimming pricing, market penetration pricing and neutral pricing. The reference value (where the consumer refers to the prices of competing products) and the 'differential value' (the consumer's view of this product's attributes versus the attributes of other products) must be taken into account. Pricing decisions should take into account profit margins and the probable pricing response of competitors. Pricing includes not only the list price, but also discounts, financing, and other options such as leasing. Growth in competition as indicated by Smith (2010) can put pressure on prices. Global suppliers and globalized customers searching via the internet partly increase the competition. Companies enjoy lower margins with more efficient web-enabled data bases and processes. They also cut off the middleman

### **2.3.3 Place**

Distribution and supply chain (Ferrel, 2008) can be used to achieve a sustainable advantage and true differentiation in the market place. Prices can be copied easily even if only for the short term. Products can become obsolete almost overnight. Good promotion and advertising cannot be done once in a period. Distribution is vital to the success of every firm. Firms neglect the distribution component of the marketing mix at their own peril

Distribution channel as noted by (Hutt, 2010) accomplishes all the tasks necessary to make a sale and deliver product to customers. Ownership of a product has to be transferred from the manufacturer to the consumer who needs and buys it. Goods must be physically transported from where they are produced to where they are needed. Services ordinarily cannot be shipped but rather are produced and consumed in the same place. Distribution role within a marketing mix is getting the product to its target market. Critical activity in getting product to market is arranging for its sale and transfer of title from producer to final consumer. Other common activities are promoting the product, storing it, and assuming some financial risk during the distribution process.

The firm's marketing department needs to design the most suitable channels for the firm's products and then select appropriate channel members or intermediaries. The firm needs to train staff of intermediaries and motivate the intermediary to sell the firm's products. The firm should monitor the channel's performance over time and modify the channel to enhance performance. Place (or placement) decisions are those associated with channels of distribution that serve as the means for getting the product to the target customers. The distribution system performs transactional, logistical, and facilitating functions. Distribution decisions include market coverage, channel member selection, logistics, and levels of service (Keegan, 1989).

#### **2.3.4 Promotion**

Promotion (Locher, 1989) is intended to further the objectives of an organization. It makes use of various tools to perform three essential promotional roles; informing, persuading and reminding target audiences. Beyond simply being aware of a product or brand, customers must understand what benefits it provides, how it works and how to get it. Competition among firms puts pressure on the promotional programs of sellers to draw attention to and differentiate their offerings. In an economy with abundant supply of products, consumers have many alternative ways of satisfying even basic physiological needs. As a result persuasive promotion is essential.

Promotion (Engel, 1991) refers to communication undertaken to persuade others to accept ideas, concepts, or things. It is a controlled integrated program of communication methods and materials designed to present an organization and its products to prospective customers. The idea is to communicate need-satisfying attributes of products to facilitate sales and thus

contribute to long run profit performance. The tools of promotion include advertising, personal selling, reseller support, publicity and sales promotion. It is the communication of marketing.

Like most marketing decisions, an effective promotional strategy requires the marketer to understand how promotion fits with other variables of the marketing mix. Consequently, promotion decisions should be made with an appreciation for how it affects other areas of the company. For instance, running a major advertising campaign for a new product without first ensuring that there will be enough stock to meet potential demand generated by the advertising would certainly adversely affect company's production department. Thus, marketers should not work in a vacuum when making promotional decisions. Rather, the overall success of a promotional strategy requires input from other functional areas. In addition to coordinating general promotion decisions with other business areas, individual promotions must also work together. Under the concept of Integrated Marketing Communication (IMC) marketers attempt to develop a unified promotional strategy involving the coordination of many different types of promotional techniques (Koller, 2006).

#### **2.4 Market Liberalization**

Market liberalization means the removal of restrictions on economic system. Generally, Liberalization refers to removal or relaxation of restrictions previously imposed by government usually in area of economic policy. In economic policy, liberalization can either be privatized or be liberalized. Most countries have liberalized various markets, instituting a system of competition, but still some of the key sectors are partially or completely in government ownership (Arnold. 1995).

The early 1990s (Barros, 2007) was an era of intense changes in the global economic system. Most of the International companies that we see today in most countries were born as a result of the economic transitions the globe went through during the period. It was the age of relaxation of a number of rules popularly known as "Liberalization". With liberalization, there was an increase in competition and certain categories were facing competition for the first time. There could be no more laxity on the part of the Companies existing pre-liberalization as the whole economic system was overthrown to willingly accommodate more players.

Liberalization had far reaching impacts. One area which it impacted significantly was the arena of marketing. Organizations couldn't take their customers for granted any more as there were other organizations waiting to eat into their market share. Marketing hence became a more incisive tool for organizations to make their presence felt and appeal to their target audience. The economic liberalization of 1990s did away with most government controls and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors (Arthur. 2007).

Liberalization as Vigneri(2007) argued is about the realization that Economies of scale is necessary for economic growth and it entails; encouraging growth of private sector, simplification of policy regulation, tax structure, facilitating foreign direct Investment, restructuring public sector for efficiencies. It is also providing incentives for exports and allowing more imports, putting emphasis on modernization of plants and equipment through liberalized imports of capital goods and technology as well as moving away from protection of small scale industries.

## **2.5 Liberalization of milk marketing**

Dairy farmers are now able to market their milk directly as a result of liberalization. Dairy farmers who sell raw milk direct to the market have given more attention to marketing problems than have dairy farmers selling to processors. That is largely or partly because they have been in a position to get good results. Their main effort has been devoted to a system of bargaining with milk dealers for better prices. With liberalization, the bargaining power of dairy farmers has increased considerably (Juergenson. 1990). However, as noted by Kohls (1990) price of milk is influenced by several factors including cost of production, government pricing support programs, domestic supply and consumer demand, dairy farmers co-operatives and dairy product import policies. All these factors contribute to the complex milk price process and none dominates the other. Chabernlain (1993) indicated that there is always some ultimate government responsibility in setting milk prices. Controlling prices to make milk available to all people gives uneconomic returns to dairy farmers and may lead to decreased interest in dairying and unfair advantage to private raw milk sellers.

Literature has shown Havrylynshyn (1990) that trade liberalization in general enhanced total economic welfare and made societies better off. Since 19<sup>th</sup> century, when the theory and concept of comparative advantage was initially conceived by British Economist David



Ricardo, there were no shortages of evidences showing that there were gains to be made from freer trade. A fairly comprehensive literature survey by Dowrick (1989) on impact of trade liberalization on manufacturing in developing countries, in most cases showed that economies practicing relatively more liberal trade policies were doing better in terms of export performance, productivity and economic growth as compared to those less liberal ones. It was argued that trade liberalization opens up markets and promote export. By exposing domestic markets to foreign competition, past studies showed that domestic prices were affected and excess profits of domestic firms with market power operating in oligopolistic markets were removed. The intensifying of competition removed inefficiencies which would in turn increase productivity.

There are a number of cases as reported by Son (2006), where liberalization was not managed there was a possibility of large foreign firms establishing themselves as oligopolies or even monopolies in the newly liberalized market. With market dominance, these firms could behave against competitive market principles such as engaging in anticompetitive practices. If this happens, new entry barriers emerge in the industry there by distorting markets again. In contrast to developed economies where the legal framework is adequately developed to tackle such issues, many developing economies do not have such a framework. As such post liberalization developments in these economies can undermine what trade liberalization was intended for in the first place.

Sachs (1995) noted that liberalization threatened the existing small and medium market players (SMEs), who were operating completely among themselves, albeit under protection, before liberalization, which most likely would be forced out of business by the new big foreign firms or through the flooding of cheaper import substitutes. While this development is inevitable in moving towards freer trade, it is also important that domestic players benefit from the liberalization measures, failing which social discontent may arise. The threat of cheaper imports and bigger foreign or even domestic companies establishing themselves and exercising their market power through monopolistic practices are very real in a more liberalized environment

## **2.6 Impact of Market Liberalization**

Kenya's dairy industry is one of the most impressive in the developing world, and can boast a century of progress. The country contains 70 percent of the dairy cattle in eastern and

southern Africa. The importance of milk production, marketing, and processing to the wealth, and health, of the Kenyan people cannot be overstated. However, it is also true that a number of constraints have hampered the development of the sector, limiting the ability of many agents to operate to their full potential. Current attempts to formulate constructive and supportive policies are crucial to the future of Kenya's dairy industry. Since market liberalization in 1992 informal milk sales have grown in prominence, but most informal traders are not licensed. Licensing is pegged on possessing fixed trading premises, thus excluding most itinerant traders. Although this requirement is not based on the Dairy Industry Act, it is enforced by the Kenya Dairy Board (KDB) under the Public Health Act (Cap. 242) (II.RI. 2004).

Price liberalization has borne mixed impacts along the dairy production marketing consumption continuum in general. There are indications of differential impacts on input supply especially on veterinary services, milk prices, and private-sector participation in milk processing and marketing. The dairy sector is also experiencing serious problems due to macro-economic difficulties, decreasing budgetary support, inefficiencies in pricing and marketing, high input costs, institutional and governance problems and low adoption of dairy technologies. The main change in dairy marketing in Kenya since the marketing reform program in Kenya started being implemented in 1992 has been the licensing of new dealers, either as individuals or as private companies. The KCC is no longer protected through the licensing and inspectorate activities of the KDB. Both producer and consumer prices of milk increased by 20% - 40% between 1992 and 1994, but they appear to have remained relatively stable since early 1994. There has been an expansion of the formal marketing subsystem as more dealers get licensed to engage in dairy processing and distribution businesses. Impact of marketing liberalization on prices has not been documented, despite the observation made above, and there is need for a detailed study on the actual pattern of price changes for milk and milk products in Kenya since 1992 (Owango, 1998).

Production costs according to Omore (1999) are nearly equal to producer prices in most milk-producing areas. With increasing input costs, profit margins are not large for most operators. Although import and export parity prices seem to have been achieved, there has been a debatable decline of 4% in real producer milk prices, in some areas. However, it is believed that most dairy farmers across the country generate good returns, especially from the milk they sell to consumers, which regularly constitutes over 50% of all their marketed milk. In

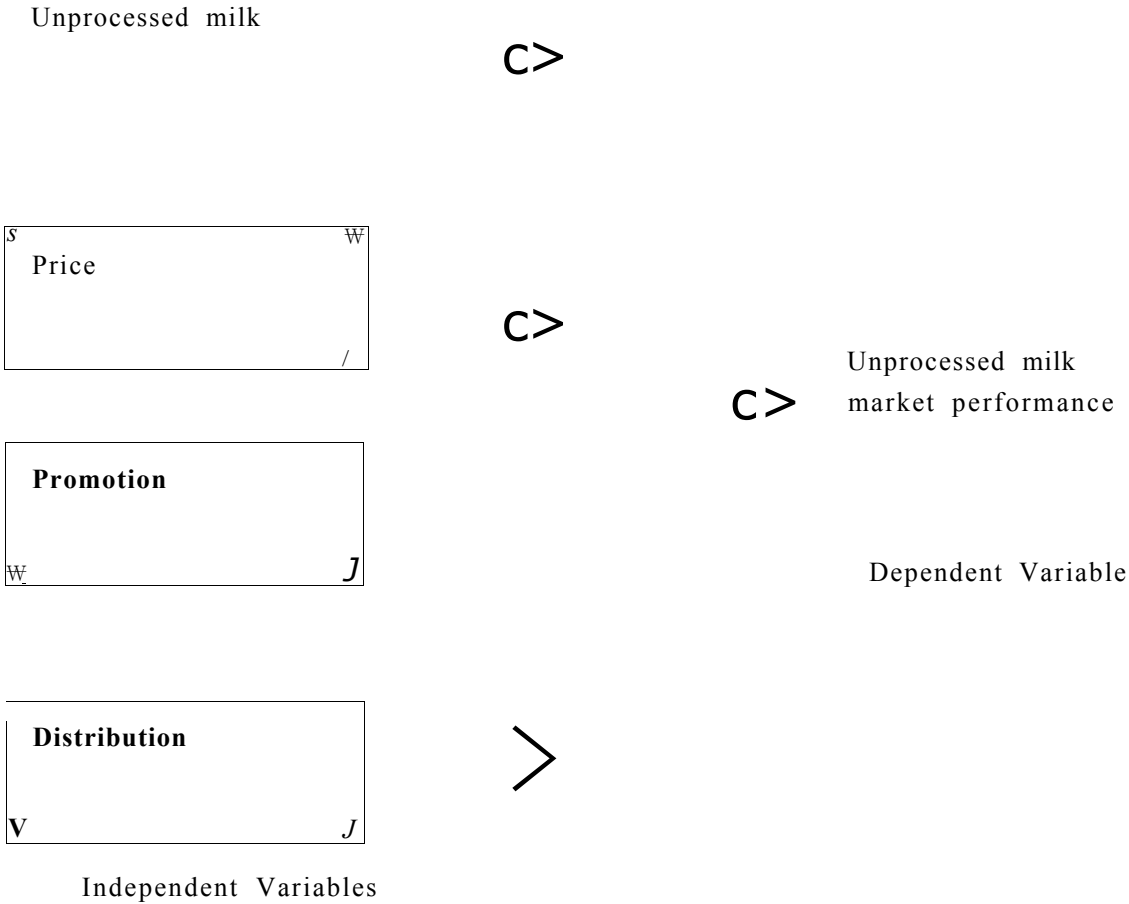
many instances, reforms do not seem to have led to greater price competition amongst milk processors as they are geographically scattered and tend to significantly influence regional farm-gate prices following the collapse of Kenya Co-operative Creameries (KCC). However, a major positive impact of price liberalization is the reduction in delays of farmer payments for their milk sold to now largely private factories.

### **2.6.1 Conceptual framework**

A conceptual framework is the result of what a researcher conceptualizes as the relationship between variables in the study and shows the relationship graphically or diagrammatically (Mugenda and Mugenda, 2003). A conceptual definition is an element of the scientific research process in which a specific concept is defined as a measurable occurrence or in measurable terms; It basically gives one of the meanings of the concept (Mugenda, 2008).

According to Donald and Kisulu (2009) conceptual framework helps in the formulation of the research design and providing a reference points for discussion of literature, methodology and data analysis. It thus assists the researcher to organize their thinking and to complete an investigation successfully by providing the linkages between the various concepts in the study

Figure 2.1 Conceptual framework



Source: ( Researcher, 2012)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter entails the various stages followed in carrying out the study. It shows a blueprint that guided collection, measurement and analysis of data. In particular the following subsections were included: research design, study population, sampling size, data collection instruments and data analysis.

### **3.2 Research Design**

A descriptive cross-sectional research design was used for the study. It was carried out through a cross-sectional survey of descriptive nature of study. It sought to investigate the effects of liberalization of marketing of unprocessed milk in Bomet County. This research design was chosen rather than, for instance, case study, because the objectives of the study required an in-depth understanding of the effects of liberalization on marketing of unprocessed milk in the dairy marketing subsystem in Kenya.

### **3.3 Population of the study**

The population of the study consisted of 400 milk marketers that included dairy farmers and unprocessed milk resellers in the respective areas

### **3.4 Sampling and Sample size**

A sample size of 40 milk marketers from all the constituencies were selected using proportional sampling method as shown in Table 3.1. This gave each item in the population an equal probability chance of being selected. The sample was an adequate representation that would yield reliable results.

**Table 3.1 Sample size determination**

<b>Zone code</b>	<b>Zone name</b>	<b>No. of eligible farmers</b>	<b>Method</b>	<b>No. selected</b>
01	Sotik	110	$110/400*40 =$	11
02	Chepalungu	90	$90/400*40 =$	9
03	Hornet East	70	$70/400*40 =$	7
04	Bomet Central	80	$80/400*40 =$	8
	Konoin	50	$50/400*40 =$	5
<b>Total</b>		<b>400</b>		<b>40</b>

### 3.5 Data Collection

Data was collected by using questionnaires. The respondents were 40 milk marketers consisting of farmers and resellers. The questionnaire were designed as shown in the Appendix I. The questionnaire was made up of different sections as indicated and the questions were close ended, where the respondent was provided with a set of answers from which to choose. Questionnaires are the instruments utilized to obtain primary data.

### 3.6 Data Analysis

The completed questionnaires were checked and edited for completeness and consistency before processing the responses. The data was then coded to facilitate grouping into various categories. Quantitative data was analyzed by descriptive analysis. The descriptive statistical tools were used by the researcher to describe the data and determine the extent to be used. The findings were presented using tables. The Likert Scale questions were analyzed using mean score and standard deviation. Data analysis was done using SPSS as well as Microsoft Excel to give mean scores, frequencies and percentages. Tables were used to summarize data for further analysis and comparison. The use of percentages is important for two reasons; first, they simplify data by reducing all the numbers to range between zero and 100. Second, they translate the data into standard form a base of 100 for relative comparison (Cooper and Schindler, 2003).

## CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

### 4.1 Introduction

This chapter gives the results of the analysis where the researcher has used the filled questionnaires to get the results of the study concerning effects of liberalization on marketing of unprocessed milk in Bomet County, Kenya. The results were then presented in form of tables where quantitative data was analyzed through computer excel while qualitative data was analyzed through coding. The response rate was 100%. This means that the researcher managed to collect data from (100%) all of the sampled population. This percentage is excellent for statistical reporting. Mugenda and Mugenda (1999) recommended a response rate of 50% and above for data analysis.

### 4.2 Background Information of the respondents

The study results give background information of the respondents in terms of gender, age, level of education, years of experience, number of employees and average number of litres sold per annum.

#### 4.2.1 Gender

The study results in Table 4.1 indicate the gender of the respondents based on female or male response.

**Table 4.1 Gender**

Description	Frequency	%
Male	26	65
Female	14	35
Total	40	100

The study results indicate that there were more male (65%) respondents as opposed to the female respondents in the study. This implied that there were more male who carried out unprocessed milk business in the County than female.

#### 4.2.2 Age

The study results in Table 4.2 indicate that the age of the respondents was between 21 and below years and 55 and above years.

**Table 4.2 Age**

<b>Descriptions</b>	<b>Frequency</b>	<b>%</b>
Under 21 years	1	2.5
21 -34 years	7	17.5
35-44 years	17	42.5
45-54 years	13	32.5
55 and above years	2	5
Total	40	100

The study results in Table 4.2 indicate that a substantial number of the respondents (42.5%) were in the 35-44 age group followed by those in 45-54 (32.5%). The results show that most of the dairy farmers in the County are middle aged (35-54 years).

#### 4.2.3 Education Level

The study results in Table 4.3 give the education level of the respondents starting from primary to post graduate levels.



**Table 4.3 Education Level**

<b>Descriptions</b>	<b>Frequency</b>	<b>%</b>
Primary	14	35
Secondary	19	47.5
High school	6	15
Post graduate	1	2.5
Total	40	100

The study results in Table 4.3 indicate that majority of the respondents (47.5%) were secondary school holders then followed by primary (35%) school holders while post graduate holders were (2.5%). The findings revealed that dairy business in the County is carried out mainly by people with secondary level of education and below.

#### **4.2.4 Years of Experience in Dairy Business**

The study results in Table 4.4 indicate the years of experience of the respondents where it illustrates the respondents duration in the business.

**Table 4.4 Years of Experience in Dairy Business**

<b>Descriptions</b>	<b>Frequency</b>	<b>%</b>
5 and below	8	20
6-10	13	32.5
11-20	19	47.5
Total	40	100

The study results indicate that the majority of the respondents were (47.5%) having between 11-20 years of experience in the business then followed by (32.5%) 6-10 years of experience. The findings implied that most of the respondents have been in the dairy business for a period of between 6-20 years. This means that more dairy business people joined the dairy sector after it was liberalized.

#### **4.2.5 Number of Employees in the Business**

The study findings in Table 4.5 indicate the number of employees in the business starting from 10 and below to 91 and above.

**Table 4.5 Number of Employees in the Business**

<b>Descriptions</b>	<b>Frequency</b>	<b>%</b>
1-10	40	100
11-30	0	0
31-50	0	0
51-90	0	0
91 and above	0	0
Total	40	100

The study results in Table 4.5 indicate that the number of employees in the study were between 1 and 10 for all the respondents. This implied that the dairy business is mainly done in a very small scale in the County.

#### 4.2.6 Average number of litres handled per annum

The study results in Table 4.6 indicate the average number of litres handled per annum starting from 500 to 100,000 and above litres.

**Table 4.6 Average number of litres handled per annum**

<b>Descriptions</b>	<b>Frequency</b>	<b>%</b>
500-10,000	26	65
10,001-50,000	8	20
50,001-100,000	5	12.5
100,001 and above	1	2.5
Total	40	100

The study findings in Table 4.6 indicate that majority (65%) of the respondents handled on average 500 to 10,000 litres per annum while the least (2.5%) handled 100,000 and above litres per annum. This implied that the dairy business in the County was mainly carried out by small scale business holders with the highest turnover of only 10,000 litres per annum.

#### 4.3 Marketing mix practices of unprocessed milk

The study findings in Table 4.7 indicate the level of respondents' agreement with the marketing mix practices on a scale ranging from 1 to 5, where 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree, where the mean response between 1-1.4 strongly disagree 1.5-2.4 disagree, 2.5-3.4 neutral, 3.5-4.4 agree and 4.5-5 strongly agree. Any value of the standard deviation less than 1 indicate that the mean responses were not much deviated from the actual mean while the standard deviation values above 1 indicate that the mean responses were much deviated from the actual mean.

**Table 4.7 Marketing Mix Practices of Unprocessed Milk**

	Mean	Standard Deviation
There are less or no advertising costs	5.0	.00
Marketers dealing in unprocessed milk are more compared to those dealing in processed milk	4.9	.36
Unprocessed milk must be sold immediately thereby incurring little or no storage costs	4.9	.36
Milk prices are determined by market forces of demand and supply	4.9	.33
In most cases the product is directly delivered to or picked by the customers hence minimal renting costs	4.9	.30
Milk resellers buy milk on cash basis unlike processors who buy on credit and pay at the end each month	4.8	.42
Milk resellers offer better prices than milk processors	4.8	.40
Milk resellers buy milk at lower prices in high production areas and sell at higher prices in low production areas	4.8	.50
Product is packaged in re-usable containers hence reduced packaging costs	4.8	.38
Promotional activities are largely by personal selling	4.6	.50
Milk resellers buy milk at the farmers' farms unlike the processors who buy at designated areas	4.6	.63
Unprocessed milk business owners have the advantage of being in direct contact with their	4.5	.50

customers		
Milk resellers incur little or no additional costs other than transportation and risk of milk contamination	4.4	.63
Product distribution in unprocessed milk business is mainly carried out by business owners and therefore controlled transportation costs	4.4	.49
Milk price variations are generally stable due to competitive marketing	4.3	.47
Promotional costs for unprocessed milk are minimal	4.0	.69
Milk production has greatly increased as a result of marketing which has led to low cost farm inputs	2.7	1.28
Marketing leads to reduced cost of milk production	1.6	.95

The study results in Table 4.7 indicate that the respondents strongly agreed that (mean 4.5-5) there are less or no advertising costs; marketers dealing in unprocessed milk are more compared to those dealing in processed milk; unprocessed milk must be sold immediately thereby incurring little or no storage costs; milk prices are determined by market forces of demand and supply; in most cases the product is directly delivered to or picked by the customers hence minimal renting costs; milk resellers buy milk on cash basis unlike processors who buy on credit and pay at the end each month; milk resellers offer better prices than milk processors; milk resellers buy milk at lower prices in high production areas and sell at higher prices in low production areas; product is packaged in re-usable containers hence reduced packaging costs: promotional activities are largely by personal selling; milk resellers buy milk at the farmers' farms unlike the processors who buy at designated areas and unprocessed milk business owners have the advantage of being in direct contact with their customers

#### 4.4 Effects of liberalization on the marketing mix practices

The study findings in Table 4.8 indicate the level of respondents' agreement with the effects of liberalization on the marketing mix practices on a scale ranging from 1 to 5, where 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree, where the mean response between 1-1.4 strongly disagree 1.5-2.4 disagree. 2.5-3.4 neutral, 3.5-4.4 agree and 4.5-5 strongly agree. Any value of the standard deviation less than 1 indicate that the mean responses were not much deviated from the actual mean while the standard deviation values above 1 indicate that the mean responses were much deviated from the actual mean.

**Table 4.8 Effects of liberalization on the marketing mix practices**

	Mean	Std. Deviation
Liberalization has led to competitive milk pricing	5.0	.22
Packaging and labelling of milk has been affected by liberalization	4.9	.36
In the post liberalization era. milk distribution is managed either by the farmers or the resellers	4.9	.33
Under normal circumstances, milk prices have generally remained stable in the post liberalization era	4.9	.44
Milk prices are influenced by forces of supply and demand which was not the case before liberalization	4.6	.49
Milk as a product used to suffer severe price fluctuations prior to liberalization	4.5	.59
Due to the perish ability nature of raw milk, the distribution channel is short and precise	4.5	.63
liberalisation has led to negotiated milk prices where	4.5	.84

discounts are offered in some cases		
Milk distribution network has greatly increased as a result of liberalization	4.4	.71
Liberalization has affected the quantity of milk being produced to some extent	4.2	1.05
Liberalization has affected the quantity of milk being produced to some extent	4.2	.67
There are more distribution channels for raw milk that have emerged after liberalization than before	4.0	.83
Liberalization has not affected milk promotion much since the demand for milk is inelastic	3.6	1.05
Liberalization has encouraged more marketers to join the milk hence low distribution costs	3.5	.71
Liberalization has affected the quality of milk being produced to some extent	2.7	1.03

Based on the study findings in Table 4.8 with a mean of (mean 4.5-5), the respondents strongly agreed that Liberalization has led to competitive milk pricing; packaging and labelling of milk has been affected by liberalization; in the post liberalization era, milk distribution is managed either by the farmers or the resellers; under normal circumstances, milk prices have generally remained stable in the post liberalization era; milk prices are influenced by forces of supply and demand which was not the case before liberalization; milk as a product used to suffer severe price fluctuations prior to liberalization; due to the perishability nature of raw milk, the distribution channel is short and price and liberalisation has led to negotiated milk prices where discounts are offered in some cases.

#### 4.5 Market liberalization and competition

The study results under Table 4.9 indicate the competitiveness of milk marketing according to the respondents.

##### 4.5.1 Competitiveness of Milk Marketing

**Table 4.9 Competitiveness of Milk Marketing**

<b>Description</b>	<b>Frequency</b>	<b>%</b>
Fairly competitive	2	5.0
Very competitive	38	95.0
Total	40	100.0

The study results in Table 4.9 shows that 95% of the respondents indicated that unprocessed milk marketing was very competitive in Bomet County.

##### 4.5.2 Negative or Positive effects of Competition

**Table 4.10 Negative or Positive effects of Competition**

<b>Description</b>	<b>Frequency</b>	<b>%</b>
Negative	2	5
Positive	38	95
Total	40	100

The study findings in Table 4.10 indicate that the competition of unprocessed milk marketing in the County has got positive effects in the milk sector.



#### 4.5.3 Extent of competition influence to the unprocessed milk business

**Table 4.11 Extent of competition influence to the unprocessed milk business**

Description	Frequency	%
Moderate extent	3	7.5
Great extent	17	42.5
Very great extent	20	50
Total	40	100

The study findings under Table 4.11 indicate that competition influences unprocessed milk business to a very great extent (50%) as given by the highest percentage response.

#### 4.6 Other factors on liberation of milk marketing

The study findings in Table 4.12 indicate the level of respondents' agreement with other factors on liberation of unprocessed milk marketing on a scale ranging from 1 to 5, where 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree, where the mean response between 1-1.4 strongly disagree, 1.5-2.4 disagree, 2.5-3.4 neutral, 3.5-4.4 agree and 4.5-5 strongly agree. Any value of the standard deviation less than 1 indicate that the mean responses were not much deviated from the actual mean while the standard deviation values above 1 indicate that the mean responses were much deviated from the actual mean.

**Table 4.12 Other factors on liberation of unprocessed milk marketing**

	Mean	Std. Deviation
There is free entry and free exit in the marketing business of unprocessed milk	4.8	.42
The number of milk marketers has increased due to market liberalization	4.7	.48
Marketing of unprocessed milk has been affected by the growing bargaining power of sellers	4.5	.58
There is less capital required to start a business of marketing unprocessed milk	4.5	.55
Competition influences marketing of milk	4.4	.65
Marketing of unprocessed milk has been affected by the growing bargaining power of buyers	4.3	.51
Since market liberalization in 1992 unprocessed milk sales have grown in prominence	4.2	.56
Licensing is pegged on possessing fixed trading premises hence few raw milk resellers are licensed	3.4	.83

The study results in Table 4.12 indicate that the respondents strongly agreed that (mean 4.5-5) there was free entry and free exit in the marketing business of unprocessed milk; the number of milk marketers has increased due to market liberalization; marketing of unprocessed milk has been affected by the growing bargaining power of sellers and that there is less capital required to start a business of marketing unprocessed milk. The respondents also agreed that since market liberalization in 1992 unprocessed milk sales have grown in prominence; marketing of unprocessed milk has been affected by the growing bargaining power of buyers and competition influences marketing of milk. The respondents finally were

neutral that licensing is pegged on possessing fixed trading premises hence few raw milk resellers are licensed.

#### **4.6.1 Indicators of the Success of the Unprocessed Milk Business**

The study findings in Table 4.13 indicate factors for the success of the unprocessed milk according to the response given in the study.

**Table 4.13 Indicators of the Success of the Unprocessed Milk Business**

<b>Description</b>	<b>Frequency</b>	<b>%</b>
Market Size	6	15
Customer Satisfaction	24	60
Employee and Customer	10	25
Total	40	100

The study results in Table 4.13 indicate that customer satisfaction was the main factor (60%) that indicated the success of the unprocessed milk business followed by (25%) employee and customer satisfaction while market size (15%) is the least.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

This chapter gives the summary, recommendations and conclusions that were captured by the researcher. The study further illustrates the recommendations that can be adopted by the relevant authorities to improve the marketing of unprocessed milk in the County.

### **5.2 Summary**

The study found out that there is a direct relationship between liberalization, marketing, mix practices and the market performance of unprocessed milk in Bomet County. According to the descriptive data analyzed, there was a strong positive relationship. All the respondents agreed that liberalization and marketing mix practices have a major effect on the market performance of unprocessed milk. Standard deviation tests were used to calculate the mean for all the matrix questions, and the response was positive. The study revealed that there were more male who carried out unprocessed milk business in the County than female; that most of the dairy marketers in the County are middle aged (35-54 years); that dairy business in the County is carried out mainly by people with secondary level of education and below; that more dairy business people joined the dairy sector after it was liberalized; that the number of employees in the study were between 1 and 10 for all the respondents and that the dairy business in the County was mainly carried out by small scale business holders with the highest turnover of only 10,000 litres per annum.

Marketing mix practices of unprocessed milk have a strong relationship with the milk market performance. The study results in Table 4.7 indicate that the respondents strongly agreed that (mean 4.5-5) there are less or no advertising costs; marketers dealing in unprocessed milk are more compared to those dealing in processed milk; unprocessed milk must be sold immediately thereby incurring little or no storage costs; milk prices are determined by market forces of demand and supply; in most cases the product is directly delivered to or picked by the customers hence minimal renting costs; milk resellers buy milk on cash basis unlike processors who buy on credit and pay at the end each month; milk resellers offer better prices than milk processors; milk resellers buy milk at lower prices in high production areas and sell at higher prices in low production areas; product is packaged in re-usable containers hence reduced packaging costs; promotional activities are largely by personal selling; milk resellers

buy milk at the farmers' farms unlike the processors who buy at designated areas and unprocessed milk business owners have the advantage of being in direct contact with their customers.

Liberalization on the marketing mix practices have strong positive effect on the performance of unprocessed milk market. Based on the study findings in Table 4.8 with a mean of (4.5-5), the respondents strongly agreed that Liberalization has led to competitive milk pricing; packaging and labelling of milk has been affected by liberalization; in the post liberalization era, milk distribution is managed either by the farmers or the resellers; under normal circumstances, milk prices have generally remained stable in the post liberalization era; milk prices are influenced by forces of supply and demand which was not the case before liberalization; milk as a product used to suffer severe price fluctuations prior to liberalization; due to the perishable nature of raw milk, the distribution channel is short and precise and liberalisation has led to negotiated milk prices where discounts are offered in some cases.

The general results of the study was supported by the study done by Karanja (2003) that was conducted on the dairy Industry in Kenya featuring the small holder milk producers.

The study results indicated that milk marketing is very competitive as shown by a very high percentage response and that competition has positive effect on unprocessed milk marketing business. The principle advantage is efficient allocation of resources. When many suppliers compete for the business of consumers, prices gravitate toward costs of production and scarce resources are used for those goods and services for which there is real demand. Competition thereby produces maximum economic value from given resources. Most respondents agreed that competition is good for milk business and it has the effect of improving and stabilizing market prices, increasing creativity and efficiency. The same findings were also supported by Mbogoh (2003) that was carried out on the impact of liberalization in the Kenya dairy sub-sector. He concluded that market competition has intensified among the existing market players and that a number of new marketers entered the market and this has undoubtedly caused some changes in the market shares.

There are other factors on liberalization of unprocessed milk marketing. The study results in Table 4.12 indicate that the respondents strongly agreed that (mean 4.5-5) there was free entry and free exit in the marketing business of unprocessed milk; the number of milk marketers has increased due to market liberalization; marketing of unprocessed milk has been affected by the growing bargaining power of sellers and that there was less capital required to

start the business of marketing unprocessed milk. The study results in Table 4.13 indicate that customer satisfaction was the main factor (60%) that indicated the success of the unprocessed milk business.

### **5.3 Conclusion**

Based on the study findings the researcher concluded that market liberalization and marketing mix practices influence unprocessed milk marketing business performance. Strong relations existed between market performance and marketing mix practices, market liberalization and competition. In this study, the researcher utilized information obtained from the sampled respondents. The results, both by utilizing categorical analyses, mean, mode and standard deviation analyses, indicated a very strong correlation between marketing mix practices, market liberalization and market performance. The results of the study findings further indicated that the relationship is not only significant but also direct. This indicated that a change in marketing mix variables would have a corresponding change in the market performance. The change could either be positive or negative depending on the direction change of the marketing mix variables.

The study also found out that the market performance was higher after the introduction of market liberalization than before. Generally there was a positive performance of all the other variables as given in the trends. The trends also illustrated that market liberalization had a positive effect on most of the marketing mix variables. It was also established that milk marketing was highly competitive and the competition had a positive effect on both the seller and the buyer. Customer satisfaction was the main factor that contributed to the success of the unprocessed milk business.

### **5.4 Recommendation of the study**

Based on the study findings, the researcher makes the following recommendations to the study:

Milk marketers particularly resellers, should be registered irrespective of whether they have offices from where they operate or not. This will enable the regulating authorities to oversee all the operators in the sector and ensure that rules and regulations governing the milk sector are adhered to by all the players. It will also increase the tax base for the local authorities since most of the unregistered milk resellers hardly pay taxes on their businesses.

Competition plays a positive role in the sector as well, there is therefore need to ensure that given regulations are strictly followed. Unfair competitive practices should not be tolerated at any level. The study has shown that customer satisfaction is a major contributor to business success. Business owners should therefore, invest more on customer satisfaction rather than in business expansion ventures. Bigger market does not necessarily translate to business success.

### **5.5 Limitation of the study**

The most obvious limitation of the study is its cross-sectional design. Therefore, firm conclusions about the directions of causality implied in the study cannot be drawn. Thus, relationships among variables must be interpreted with caution. The data collection was confined to five relatively large constituencies of Bomet County. The replication of the study at different Counties of Kenya would enable better generalization of the findings of the study.

Secondly, due to time and financial constraints, a small sample size that comprised of 40 marketers of unprocessed milk in Bomet County was used. This sample is only a very small proportion of the entire population of the milk marketers. Therefore, research studies with much larger sample size would be required to ensure appropriate generalization of the findings of the study. The present study has relied largely on quantitative methodology of data collection (though qualitative methodology was used to a very limited extent) and is therefore restrictive. Therefore, more of qualitative methodology of data collection should be undertaken in future to provide wider perspective to the present study

### **5.6 Recommendations for further research**

The researcher then recommends further research on other factors that affect market performance of unprocessed milk which are not covered in this study. It is quite evident that changes in marketing mix variables have direct correlation with the market performance. Further research should therefore be carried out to establish how best to vary them so as to yield optimum results in the most cost effective manner. Further research can also be done to find out other factors that can enhance customer satisfaction.

## REFERENCES

- Anderton, A. (2006). *Economics. 4th, edition*. Edinburgh Gate Harlow Essex - UK: Causeway Press.
- Arnold. R. A. (1995). *Economics in our times*. MN USA: West publishing company.
- Barros. De, R. ct al. (2007). *Economic liberalization, distribution and poverty*, Latin America in the 1990s, U.K : Cheltenham.
- Berkowitz, E. N. ct al. (1989). *Marketing 2nd edition*. Boston: Irwin Publishers limited.
- Brassington, F. and Pcttitt, S. (1991). *Principles of marketing*. London: Pitman Publishing.
- Buttle, F. (2009). *Customer relationship management*. UK: Oxford.
- Carbaugh J. R. (2006). *International economics*. 11<sup>th</sup> edition. UK: South-Western Publishers.
- Carl in. W. and Mayer C. (2003). "Finance, investment and growth"- *Journal of Financial Economics - No. 6H. - pp. 191-226*.
- Chabrlain, A. (1989). *Milk production in the tropics*. UK : London. PP 12-18
- Chaffey, I). and Smith P.R. (2010). *Marketing excellence. 3rd ed*. UK : Oxford press.
- Cooper. D.R. and Schindler, P.S. (2005). *Business research methods 11th edition*. Boston: McGraw - Hill
- Dang. K.Son.. and Minh, T. P. (2006). *Economic integration capacity of Agriculture's enterprises*. Hanoi: Institute of policy and strategy.
- Davis, R. F. (1962). *Modern dairy cattle management.*: USA: Englewood Cliffs.



- Don, E. Schullz, E.D., et al,(1993). *"Integrated marketing communications "*. NTC Business Books, a division of NTC Publishing Group.
- Dowrick, S., and Nguyen D.T. (1989). "OECD Comparative Economic Growth" 1950-1985: Catch-Up and Convergence. *American Economic Review* 79(5): 1010-1030
- Engel, J.F et al, (1991 ). *Promotional strategy - managing communications process*. 7<sup>th</sup> edition. Boston: Irwin Publishers limited W<sup>5</sup>13:
- Ensminger, M.E. (1980). *Dairy cattle science*. USA: Danville.
- FAO.(Food and Agriculture Organization of the United Nations). (1993). *Kenya Dairy Development Project*, Preparation Report. Report 34/93 CP ken 33. FAO. Rome, Italy.
- Ferrcl, O.C. and Hartline M. D. (2008). *Marketing strategy*. USA: Nartorp Boulevard.
- Globcrman, S. and Dean. J.( 1990). *Recent trends in intra-industry trade and their implications for future trade liberalization*. Washington: USA.
- Griffin, M.(1999). "Overview of developments in the world dairy market". *Paper presented at the 5<sup>th</sup> Hoi stein Congress of the Americas, Santiago, Chile*.
- Gronroos. C. (2000). *Serx'ice management and marketing: A Customer Relationship Approach*. Wiley: Chichester.
- Havrylyshyn, O. (1990). "Trade Policy and Productivity Gains in Developing Countries": *A Survey of the Literature*. *World Bank Research Observer* 5(1): 1-24.
- Hutt. M. D. and Speh. T. W. (2010). *Business marketing management*. 10<sup>h</sup>. edition. South western Canada: Cengage learning.

- ILRI (Oct, 2010). *Improved dairying, empowers farmers in Kenya's south rift valley region.*
- ILRI (2004), *Small holder dairy: the policy environment of Kenya's dairy sector*
- International Trade Centre UNCTAD/GATT, Geneva. 1989, pp 79-112.
- Isaboke, M.J. 1995. *An Economic Analysis of Dairy Production Systems in Nyamira District.*  
 MBARcsearch project. University of Nairobi, Kenya.
- Juergenson. E. M. and Mortenson, W.P. (1977). *Approved practices in dairying.*:  
 Danville Illinois pp 295-301
- Karanja. A. (2003). "The Dairy Industry in Kenya - The Post Liberalization Agenda  
 Working Paper 49 No. 1, 2003", *Paper presented at a dairy industry  
 stakeholders workshop held in Nairobi, Kenya (27th August 2002)*
- Kcegan. W.J (1989), *Global Marketing Management*. 4<sup>th</sup>, edition. Englewood Cliffs New  
 Jersey: Prentice Hall inc
- Kibera. F.N. and Waruingi. B.C.(2007). *Fundamentals of marketing. An African  
 Perspective.* Nairobi: Kenya Literature Bureau.
- Kohls, R.L and Joseph N. (1990). *Marketing agricultural products.* USA: New York.  
 PP 88-148
- Kotler, P. and Keller. K.L.(2006). *Marketing management.* 12<sup>th</sup> edition. Pearson:  
 Prentice Hall
- Kumar. S. C. (2011). *History & analysis of liberalization episodes in India* .India: I laryana.
- Levi, J. and Havinden. M. (1982). *Economics of african agriculture.* UK: Longman  
 Group Ltd.

- Kindgreen, A.(2008). *Managing market relationship*. Burlington USA: Gower Publishing Limited.
- Locher, W. (1989)."Marketing and Sales" Jn Training Manual on Cotton Trading Operations. Geneva, 1989, pp 79-112. 2**
- Mbogoh, S. G.(1993)."Dairy marketing system in Kenya". *Department of Agricultural Economics, University of Nairobi, 1993.*
- Mbogoh, S. G.(2003)."Impact of liberalization on dairy market "Department of Agricultural , University of Nairobi,
- McCarthy,!. E. and Perreault D. W. Jr, (1993). *Basic marketing*. 1 I<sup>th</sup> edition. Boston: Irwin.
- McGrath. M. E. (2000). *Product Strategy for high technology companies*.2<sup>nd</sup> .edition: New York.
- Michael. J. Etzel, J.M. et al. (2007). *Marketing*. 14<sup>th</sup> .edition. USA:New york.
- Murioga. M. W. 1987. *Effective Marketing of Dairy Products in Kenya*, MBAResearch project. University of Nairobi, Kenya.
- Ochuonyo, J.B.O. and Mbogoh, S.G. (1990)."Kenya's dairy Industry". *The Marketing System and the Marketing and Pricing Policies for Fresh Milk. Paper presented At workshop on Dairy Marketing in Sub-Saharan Africa, held at Addis Ababa, Ethiopia, November 26-30.*
- Omiti, J. and Muma M.(2000). "Policy and institutional strategies to commercialize the dairy sector in Kenya". *Occasional Paper 6/2000. IPAR (Institute of Policy Analysis and Research). Nairobi, Kenya. 25 pp.*
- Omora A.and Muriuki H., et al. (1999). "The Kenya dairy sub-sector: A rapid appraisal MoA/KARI/ILRI Collaborative Research Repon".*Smallholder Dairy (R&D) Project. Nairobi, Kenya 51 pp.*

- Owango M., et al. (1998). "Dairy Co-operatives and policy reform in Kenya". Effects of livestock service and milk marketing liberalization *Food Policy Journal* 23(2): 173-185.
- Pride, W.M and Ferrel, O. C. (2007). *Foundations of marketing*, San Francisco : California
- Sachs, I. D., and Warner, A. (1995). "Economic Convergence and Economic Policies". *NBER Working, Paper 5039. Cambridge, Mass.*
- Smith, A. (1976). *An inquiry into the nature and causes of the wealth of nations*, vol. 1. University of Chicago Press.
- Solomon, M.R, et al. (2009). *Marketing real people real choices*. New Jersey: Pearson education limited.
- Sullivan, A. and Sheffrin, S. M. (2002). *Economics principles in action*. New Jersey : Pearson Prentice Hall.
- Vigneri, M. and Santos, P. (2007). *Ghana and the cocoa marketing dilemma*. What has liberalization without price competition achieved?. *Ghana: Overseas development Institute*
- Whyte, R. O. (1972). *Milk production in developing countries*. U.K: London.

## APPENDICES

### Appendix I

#### Questionnaire

##### Section A

1) Gender?

(a) Male ( )

(b) Female. ( )

2) Age? (a) Under 21 ( )

(b) 21- 34 ( )

(c) 35 -44 ( )

(d) 45 - 54 ( )

(c) 55 and above ( )

3) Educational Qualifications?

(a) Primary ( )

(b) Secondary ( )

(c) High School ( )

(d) Graduate ( )

(c) Post-graduate ( )

4) Name of the business\Farm

5) Years of experience in the business?

(a) 5 and below ( )

(b) 6- 10 ( )

(c) 11-20 ( )

(d) 21-30 ( )

(e) 31 and above ( )

6) Number of employees in the business?

(a) 1-10 ( )

(b) 11-30 ( )

(c) 31 - 50 ( )

(d) 51 - 90 ( )

(e) 91 and above ( )

7) Average number of litres handled per annum

(a) 500-10.000 ( )

(b) 10.001- 50.000 ( )

(c) 50.001 - 100.000 ( )

(d) 100,000 and above ( )

## **Section B**

### **Market liberalization and marketing mix variables**

8) Do you think market liberalization affects business?

(a) Yes

(b) No

9) To what extent does market liberalization affect your business?

(a) No extent

(b) Little extent

(c) Moderate

(d) Great extent

(e) Very great extent

10) Please indicate your level of agreement or disagreement with the statements given below on a scale ranging from 5 to 1 where: 5 - Strongly agree, 4 - Agree, 3 - Neutral, 2 - Disagree, 1 - Strongly disagree

**Effects of liberalization on the marketing variables mix**

	1	2	3	4	5
Liberalization has affected the quality of milk being produced to some extent					
Liberalization has affected the quantity of milk being produced to some extent					
Packaging and labeling of milk has been affected by liberalization					
There are more distribution channels for raw milk that have emerged after liberalization than before					
Milk as a product used to suffer severe price fluctuations prior to liberalization					
Under normal circumstances, milk prices have generally remained stable in the post liberalization era					
Milk prices are influenced by forces of supply and demand which was not the case before liberalization					
Liberalization has led to competitive milk pricing					
Milk distribution network has greatly increased as a result of liberalization					
Due to the perish ability nature of raw milk, the distribution channel is short and precise					
In the post liberalization era, milk distribution is managed either by the farmers or the resellers					
Liberalization has encouraged more marketers to join the milk hence low distribution costs					
Liberalization has not affected milk promotion much since the demand for milk is inelastic					
More milk promotional activities have centred on the quality of milk rather than quantity					
Liberalization has led to negotiated milk prices where discounts are offered in some cases					

11) Please indicate your level of agreement or disagreement with the statements given below on a scale of 5 - 1 where: 5 - Strongly agree, 4 - Agree, 3 - Neutral, 2 - Disagree, 1 - Strongly disagree

**Effects of marketing on the marketing variables mix**

	1	2	3	4	5
Marketing leads to reduced cost of milk production					
Milk production has greatly increased as a result of marketing which has led to low cost farm inputs					
Marketers dealing in unprocessed milk are more compared to those dealing in processed milk					
Milk prices are determined by market forces of demand and supply					
Milk price variations are generally stable due to competitive marketing					
Milk resellers incur little or no additional costs other than transportation and risk of milk contamination					
Milk resellers offer better prices than milk processors					
Milk resellers buy milk at lower prices in high production areas and sell at higher prices in low production areas					
Product distribution in unprocessed milk business is mainly carried out by business owners and therefore controlled transportation costs					
Milk resellers buy milk at the farmers* farms unlike the processors who buy at designated areas					
Milk resellers buy milk on cash basis unlike processors who buy on credit and pay at the end each month					
Unprocessed milk business owners have the advantage of being in direct contact with their customers					
Product is packaged in re-usable containers hence reduced packaging costs					
Unprocessed milk must be sold immediately thereby incurring little or no storage costs					
Promotional costs for unprocessed milk are minimal					



Promotional activities are largely by personal selling	1	2	3	4	5
There are less or no advertising costs					
In most cases the product is directly delivered to or picked by the customers hence minimal renting costs					

### Section C

#### Market liberalization and competition

12) In your own opinion how competitive is milk marketing?

- (a) Very competitive
- (b) Fairly competitive
- (c) Not competitive

13) Does the competition rate have negative or positive effect on your business?

- (a) Negative
- (b) Positive
- (c) None

14) How effective are the policies put in place by the regulators to govern competition in the milk sector?

- (a) Very effective
- (b) Effective
- (c) Somehow effective
- (d) Not effective

15) To what extent does competition influence your business?

- (a) Not at all
- (b) Little extent
- (c) Moderate extent
- (d) Great extent

(e) Very great extent

**Other factors on liberation of milk marketing**

16) Please indicate your level of agreement or disagreement with the statements given below on a scale of 5 – 1 where: 5 - Strongly agree, 4 - Agree, 3 - Neutral, 2 - Disagree, 1 - Strongly disagree

	1	2	3	4	5
The number of milk marketers has increased due to market liberalization					
There is free entry and free exit in the marketing business of unprocessed milk					
Competition influences marketing of milk					
Licensing is pegged on possessing fixed trading premises hence few raw milk resellers are licensed					
Since market liberalization in 1992 unprocessed milk sales have grown in prominence.					
There is less capital required to start a business of marketing unprocessed milk					
Marketing of unprocessed milk has been affected by the growing bargaining power of buyers					
Marketing of unprocessed milk has been affected by the growing bargaining power of sellers					

17) What among the following do you think indicates the success of unprocessed milk marketer?

- (a) Market size
- (b) Financial performance
- (c) Customer satisfaction
- (d) Employee and customer satisfaction

18) Other factors that affect marketing of unprocessed milk? Please explain

**THANK YOU FOR YOUR TIME**

## Appendix II

### Activity schedule May - October 2012

Month/ Events	Month/ Events	Month/ Events	Month/ Events	Month/ Events	Month/ Events	Month/ Events	Month/ Events
Identifying of the ' Research title	<b>May/June</b>						
Developing a proposal		<b>July</b>					
Defending proposal			<b>August</b>				
Proposal amendment				<b>August</b>			
Data collection					<b>September/ October</b>		
Data analysis						<b>October</b>	
Final Report writing							<b>October</b>

### BUDGET

Items	Amount in Kenya Shillings
Car Fuel to the field Bomet County	1,6000
Stationery	5,000
Typing and printing	3,000
Data collections and analysis	7,000
Internet costs, library access	5,000
Binding	2,000
Research assistant	2,000
<b>Total</b>	<b>40,000</b>

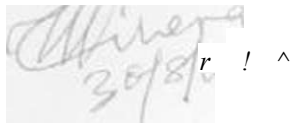
I KKI( I\* CM I IHI. R M. I/ \ I ION ON M XKKF. I INC. OI-  
I M'KO€ I SSI I) MiI K

III C \NI OF INFORMAL DAIRY SEC I OR IN ROM 1.1  
COI NTV

BY

\M>IO W TI RC.I I

*rfl/ftdou&tl*



Wina  
30/8/06  
r ! ^



Research Project Proposal submitted in partial fulfillment of requirements  
of Nairobi University for the degree of Master of Business Administration

*kVttUil,*  
.11! %>01 2