CHALLENGES AFFECTING COFFEE MARKETING BY COFFEE FIRMS IN KENYA

BY

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DECLARATION

STUDENT’S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ………………………………………..Date:……………………………………

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SUPERVISOR’S DECLARATION

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

Signature……………………………………..Date……………………………………

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DEDICATION

To my lovely wife Mary and daughter Sandra.
ACKNOWLEDGEMENTS

I would like to give thanks to The Almighty God who gave me hope, courage and determination to persevere through all sorts of difficulties until this research study was completed.

I wish to thank my Supervisor Dr. J. M. Munyoki who guided me tirelessly throughout the entire research study.

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ABSTRACT

Historically, coffee has been an important commodity in Kenya because of its contribution to foreign exchange earnings, farm incomes and employment opportunities. The emergence of new consumption patterns poses great challenges to Kenya who sells large quantities of homogenous and undifferentiated coffees. The main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding.

The research objectives were to determine the challenges affecting coffee marketing by coffee firms in Kenya and to determine the marketing strategies adopted by the firms to deal with the challenges. This study employed descriptive research design. The target population composed of eight major coffee marketing firms in Kenya. The researcher collected both primary and secondary data. The researcher administered a questionnaire to the General, Marketing and Operations Managers in each of the eight firms to collect primary data. Secondary data was also collected for this study. The researcher carried out a pilot study to pre-test and validate the questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics. Content analysis was used to analyze qualitative data.

The study found that the challenges affecting coffee marketing in Kenya include fast changing consumer tastes and preferences, economic uncertainty and declining terms of trade at the international level, multiple channels of distribution that eat into the pockets of farmers and the magnitude of marketing costs. The study also found that the coffee marketing strategies adopted by the firms to deal with the challenges include market expansions, exhibitions as a promotion strategy, pricing rationalization and product innovation. The study concludes that fast changing consumer tastes and preferences, economic uncertainty and declining terms of trade at the international level are the main challenges affecting coffee marketing and that market expansions, exhibitions as a promotion strategy, pricing rationalization and product innovation are the main marketing strategies adopted by the firms to deal with the challenges.

The study recommends that there is need to reduce the cost of certification, farmers should be encouraged to adopt product differentiation into specialty coffees that can achieve premium prices in the specialty coffee markets and the coffee marketing firms should look for more market opportunities in the emerging coffee markets as opposed to the traditional coffee markets.
TABLE OF CONTENTS

Declaration ................................................................................................................................. ii

Dedication ................................................................................................................................. iii

Acknowledgements ......................................................................................................................... iv

Abstract ............................................................................................................................................... v

List of Tables ...................................................................................................................................... ix

CHAPTER ONE: INTRODUCTION ............................................................................................. 1

1.1 Background of the Study ............................................................................................................. 1

1.1.1 The Concept of Agricultural Marketing ................................................................................. 2

1.1.2 The Concept of Marketing ..................................................................................................... 3

1.1.3 An Overview of the Coffee Industry in Kenya ................................................................. 4

1.2 Research Problem ..................................................................................................................... 7

1.3 Research Objectives .................................................................................................................. 8

1.4 Value of the Study ..................................................................................................................... 8

CHAPTER TWO: LITERATURE REVIEW .................................................................................. 10

2.1 Introduction ............................................................................................................................. 10

2.2 The Concept of Agricultural Marketing ..................................................................................... 10

2.3 The Concept of Marketing ....................................................................................................... 11

2.4 Marketing Strategies ................................................................................................................ 12

2.4.1 Product Innovation .............................................................................................................. 13

2.4.2 Pricing Rationalization ......................................................................................................... 14

2.4.3 Market Expansions .............................................................................................................. 14
5.6 Recommendations for Further Research

REFERENCES

APPENDICES

Appendix I: Letter of Introduction

Appendix II: Questionnaire

Appendix III: Major Coffee Marketing Firms in Kenya
LIST OF TABLES

Table 4.1: Ownership of the firm.............................................................26

Table 4.2: Main activities of the firm.........................................................26

Table 4.3: Extent that various challenges affect coffee marketing in Kenya...............27

Table 4.4: Level of agreement with various statements on the challenges faced in coffee marketing..................................................................................................................29

Table 4.5: Extent that the firms adopt various coffee marketing strategies to deal with the challenges .............................................................................................................31

Table 4.6: Extent that various requirements associated with selling on international markets present barriers to marketing and higher revenues for coffee farmers.................................32
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Agriculture is the back-bone of Kenya’s economy. It provides food for the population, creates jobs for thousands of people and generates income both through local and foreign trade. Agriculture is practiced both for subsistence and export (Kamau and Sisule, 2001). Kenya’s agricultural based economy is currently faced with challenges related to the marketability of its agricultural products especially coffee. These challenges shape investments in agriculture, returns to these investments and ultimately the country’s economic growth. It is not just enough to produce, today these commodities must compete to find a market internationally, in the region and even at home. This simply means that Kenya has to shift away from its traditional supply-driven strategies and policies to a more demand driven sector. While providing incentives to producers remains an important strategy for the sector growth, it is equally important to cater for the consumer side.

Coffee plays a crucial role in the livelihoods of millions of rural households in developing countries especially Kenya where it is one of the major cash crops. The coffee market continues to be a showcase of the need to address the commodity crisis on a global scale, a crisis that is hampering the development of many countries. The prospects in specialty coffee in terms of quality or origin are growing.
1.1.1 The Concept of Agricultural Marketing

Agricultural marketing covers the services involved in moving an agricultural product from the farm to the consumer. Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale (Njuguna, Katumanga and Gareth, 2009). Some definitions would even include “the acts of buying supplies, renting equipment, (and) paying labor”, arguing that marketing is everything a business does (Smith and Karuga, 2008). Such activities cannot take place without the exchange of information and are often heavily dependent on the availability of suitable finance.

A well-functioning agricultural marketing system necessitates a strong private sector backed up by appropriate policy and legislative frameworks and effective government support services. Such services can include provision of market infrastructure, supply of market information, and agricultural extension services able to advise farmers on marketing. Training in marketing at all levels is also needed. One of many problems faced in agricultural marketing in developing countries is the latent hostility to the private sector and the lack of understanding of the role of the intermediary. For this reason “middleman” has become very much a pejorative word (Nyangito and Okello, 2008).

Kenyan agricultural commodity sub-sectors are exploring alternative marketing channels different from, or in addition to, those already in place. This has been prompted by failure of farmer cooperatives and other marketing bodies to deliver good services leading to low returns to investments. Perennial liquidity problems and high transaction costs in cooperatives often result in late payment to farmers (Karanja, 2001).
The market environment has become very dynamic with the ever changing rules of trade. Consumer preferences are increasingly becoming more complex than they were in the past. There are also key market players, who get what they want from any supplier who is able to meet their requirements for timeliness, quality and even growing practices. There is increased competition due to the lifting of preferential treatment, lowering and harmonization of tariff barriers and the institution of new technical barriers (Karanja, 1998). Farmers also are increasingly demanding a bigger role in marketing of their produce than has been in the past, and in setting the legislative and regulatory environment necessary to keep them competitive globally.

1.1.2 The Concept of Marketing

The development of marketing is influenced by the development of society and its economy. Social and economic conditions largely influence the direction in which marketing evolves. Hence, marketing must continuously make the adaptation necessary for its healthy survival. The purpose of marketing is to generate customer value at a profit. The truth of the matter is that the relationship with a customer will break when value evaporates, ‘you’ve got to continue to generate more value for the consumer but not give away the house’ it’s a delicate balance indeed. Successful marketing strategies create a desire for a product. An astute marketer, therefore, needs to understand consumer tastes and preferences. In addition, marketers must know what information will convince consumers to buy their product, and whom consumers perceive as a credible source of information.

Globally, coffee sales each year exceed $70 billion, but coffee producing countries only capture $5 billion of this value, with the bulk of revenues from the coffee trade retained by developed
countries. Coffee farmers in producing countries only obtain a fraction of the final retail price of coffee (Shepherd 2009). There have been no price controls in the global coffee trade since 1989, when the buffer-stock system run by the International Coffee Agreement broke down. The main reason for the decline in prices in the early years of the current decade was a gradual and continuous increase in coffee production throughout the world, particularly the new coffee exporting countries entering the international market, a good example being Vietnam.

1.1.3 An Overview of the Coffee Industry in Kenya

In Kenya, coffee ranks fourth after tourism, tea and horticulture, accounting for 10% of the total export earnings in 2000 and 6% in 2001 (Karanja, 2001). Over 600,000 smallholders are engaged in coffee production and currently command a 48% share of the market. Coffee production has been on a declining trend since 1987/88 when production peaked at an all time high of 130,000 metric tonnes (MT) of clean coffee. During the last decade, the country's production averaged 77,514 MT of clean coffee. This is 40% less than what was being produced in 1987/88. This means that the country was utilizing only 60% of the 1987/88-production capacity, which translates to a loss of 51,412 MT of coffee per year. The decline in production is more pronounced in smallholder farms where it declined by 47% during the same period. The smallholder average yields during the last one decade were only half those realized in 1987/88. The low productivity in smallholder farms therefore remains one of the major challenges to be overcome due to the small economies of scale if coffee is to remain a viable farm enterprise.

Currently, there are two coffee marketing systems in Kenya. The time tested Nairobi Central Auction System has coffee auctions conducted on Tuesdays during the year unless when the auction is on recess. This is a market where coffee is bought by the licensed coffee dealers
through competitive bidding. The Nairobi Coffee Exchange is under the management of the Kenya Coffee Producers and Traders Association (KCPTA).

The Direct Sale, commonly referred to as “Second Window” requires that a Marketing Agent directly negotiates with a buyer outside the country and a sales contract is duly signed and registered with the CBK. The Board ratifies the contract after carrying out an inspection and analyzing the coffee for quality and value as per the contract.

Although the Nairobi Coffee Auction prices have remained marginally higher than those prevailing in the international markets, they exhibit the same pattern characterized by declining prices in the last few years. The smallholder farmer’s margin (farm gate as a % of auction prices) initially increased from an average of 52% in the late 1980s to about 63% during the mid-1990s. This was attributed to changes in taxation and lowering of statutory deductions. With a decline in prices and production without commensurate decrease in overhead processing and marketing costs, the farm realization has been declining over time (CFC, 2001).

One major feature of the global world trade is the high market concentration of roasters and traders. Kenyan coffee is worldly renown for its high quality that makes it ideal for niche markets. Indeed, most niche coffee markets identify quality as the single most important factor. It is therefore apparent that Kenyan smallholder farmers can benefit from these niche markets provided they are better organized to overcome critical constraints like certification (Sorby, 2002).

Prior to October 1998, Coffee Board of Kenya (CBK) was the sole marketing agent. Since then, a number of marketing agents have been licensed to undertake the coffee marketing function with CBK relegated to industry regulator. This is in line with the Coffee Act, 2001. The
marketing agents are supposed to warehouse clean coffee, undertake classification and in conjunction with auctioneers prepare a sales catalogue, which is used, for bidding at the Nairobi Coffee Auction. After coffee is sold, the marketing agents receive payments from the buyers within seven days from the date of sale. After deducting statutory deductions and taxes, the agents are supposed to remit the rest of the money to the farmers or his/her appointed commission agent within 14 days. However, this is rarely done thereby causing delays in paying farmers.

Changes in consumer demand (traceability, single origin coffees, organic foods) are also necessitating marketing arrangements that allow more personalized relationships between buyers and producers such as in horticulture and coffee (CRF, 1999). Current legislation and regulations governing the marketing of agricultural produce and their products are restrictive and have played a major role in constraining exploration and development of more efficient marketing arrangements. In the past, the marketing of all of Kenya’s coffee has been out of farmers hands. This was the role of the CBK and traders (Kamau and Sisule, 2001)

Although depressed prices have been common to most commodities, much attention has focused on coffee. As the single most important tropical commodity accounting for almost half of total net exports of tropical products, coffee has become emblematic of the problems faced by all developing countries agricultural commodity exports (Stefano, 2009). Coffee prices have been unstable over the years. After a brief recovery in the mid-1990s when buffer stocks were finally cleared, real coffee prices had fallen by 2001 to levels lower than ever recorded.

There are several factors behind this imbalance between supply and demand. On the supply side, production increased at a faster rate than demand due to new technologies, such as higher
yielding trees (Bart, 2000). Moreover, many developing countries were introducing coffee such as Vietnam or expanding production such as Brazil. Coffee prices are volatile in the short run. This price volatility makes the life of coffee farmers difficult since they never know in advance what the international price will be when the harvest time comes, and so cannot plan their production accordingly. At the macro level, volatility has adverse effects on the ability of governments to calculate revenues and social spending, as well as their capacity to service debt (Stefano, 2009).

1.2 Research Problem

Historically, coffee has been an important commodity in Kenya because of its contribution to foreign exchange earnings, farm incomes and employment opportunities. Prior to 1988, coffee was Kenya’s leading foreign exchange earner and currently ranks fourth after tourism, tea and horticulture, accounting for 10% of the total export earnings in the year 2000 and 6% in 2001 (Karanja, 2002b).

The emergence of new consumption patterns, the growing importance of single origin coffees, fair trade and organic coffees, proliferation of cafes and specialty shops poses great challenges to producers like Kenya who are used to selling large quantities of homogenous and undifferentiated coffees.

The main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding (CRF, 1999). Other challenges include unpredictable market prices, poor infrastructure in the coffee growing regions, and high costs of certification. At the moment, Kenya is selling most of its coffee abroad as a commodity rather
than a brand. Most of the top roasters and buyers of Kenyan Coffee have expressed concerns about the deteriorating quality and reliability of supply of the Kenyan coffee.

The availability of reliable marketing intelligence to the producers has been lacking and where available the quality has been wanting. There is need to disseminate market intelligence to producers on the operations of the coffee supply chain. Various studies have been done in the coffee industry in Kenya (Kamau and Sisule 2001 and Karanja 2002a) and found that liberalization of coffee marketing implies that Kenya can no longer be considered as a single market unit since different coffee marketers sell coffee to different buyers across the globe.

To the best of the researcher’s knowledge, none of these studies has focused on the challenges affecting coffee marketing in Kenya thereby creating a knowledge gap and the need for a research study. This study therefore seeks to fill this gap by determining the challenges affecting coffee marketing in Kenya.

1.3 Research Objectives

i. To determine the challenges affecting coffee marketing by coffee firms in Kenya

ii. To determine the marketing strategies adopted to deal with the challenges.

1.4 Value of the Study

The study will help the Coffee Board of Kenya to develop a clear policy on the licensing of new players in the coffee sector and in the promotion of Kenyan coffee abroad through branding. This may help overcome the challenges currently faced.
The study will also assist the Ministries of Agriculture, Co-operatives Development and Marketing in developing policy statements and regulation on coffee marketing and to come up with a clear policy direction for the coffee sector.

The study will enable coffee marketers and co-operative societies to appreciate the various factors that affect coffee marketing and provide recommendations on how the challenges can be overcome.

The study will provide coffee farmers with an insight into the various challenges affecting coffee marketing in Kenya which will help them in making informed decisions.

Researchers and scholars can use this research study to add to their understanding of challenges affecting coffee marketing in Kenya. The study findings will help provide other researchers with the required literature for their research. It would also further lead to the generation of new knowledge and hence bridge the gap.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on challenges affecting coffee marketing presented by various researchers, scholars, analysts and authors. The specific areas covered here include: the concept of agricultural marketing, the concept of marketing, marketing strategies and the challenges affecting coffee marketing.

2.2 The Concept of Agricultural Marketing

Poor marketing facilities and institutions are some of the constraints to increased agricultural production. The major marketing constraints include high transportation costs due to dilapidated roads, improper handling, poor storage facilities and wastage. These result in fluctuations in both productions and incomes. For livestock marketing, limited cattle holding grounds and meddling with stock-routes has limited access to markets. Promoting marketing of agricultural produce will require that holding grounds, watering points, stock-routes and livestock markets be developed; the private sector be encouraged to invest in slaughter houses and cold storage; local authorities in collaboration with the private sector invest in storage facilities; the government provides all-weather rural access roads, improve communication facilities and market information systems among others (Marocchino, 2009).

Agricultural produce is commonly marketed with minimal processing resulting in low revenue earning capacity to farmers, fishermen and creation of fewer employment opportunities for citizens. Efforts should be made to enhance agro-processing to increase value of agricultural
exports and enhance their income earning potential. Some of these measures include, provision of appropriate incentives for establishing agro-industries in rural areas; focused research on value addition regarding processing, storage and packaging of agricultural produce; promotion of partnerships between smallholders and agribusinesses; improvement of supportive infrastructure, e.g., rural access roads, rural electrification, water and telecommunications; and undertake training of farmers and farmer institutions in value addition among others. (Were, 2008).

There is also limited exploitation of the regional market potential. The regional markets that have resulted from regional integration, e.g., the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), etc., and trade liberalization are yet to be exploited to a significant level. The government needs to encourage trade in agricultural produce across borders, improve and/or provide quality control services, build capacity for farmers and fish traders on sanitary, phytosanitary and zoo sanitary measures to international standards, build effective systems to gather and utilize information on external market opportunities, enhance efficiency in port and airport handling services to eliminate delays and costs, designate disease free zones to speed up access to export markets for livestock and their products (Grahame, 2007).

2.3 The Concept of Marketing

Marketing is a management philosophy according to which a firm's goals can be best achieved through identification and satisfaction of the customers' stated and unstated needs and wants (Baker, 2008). Kohli and Jaworski (1990) defined the marketing concept as the “business philosophy, an ideal or policy statement” directing all organizational activities toward effectively knowing and meeting customers’ needs. Importantly, they noted that market orientation is “implementation of the marketing concept”.

11
Furthermore, Kohli and Jaworski (1990) detailed implementation as the organization-wide generation, dissemination, and responsiveness to market intelligence. Market intelligence is data not only about customers, but also competitors and other constituencies, reflecting the more contemporary view of the marketing concept. Continual broad monitoring allows firms to anticipate important industry and market trends. Processing information is central to a firm’s competitive, market-driven capabilities (Moorman, 1995).

With the growing competition in the domestic and international markets, more demanding and assertive customers, rapid advancement in technology, and changing government policies and laws, the marketing environment has changed in the last decade and is becoming more turbulent. E-commerce at present has become a popular marketing strategy and it has eliminated some of the activities in the value chain and helped improve business performance (Cotter, 2002). For example, Dell Computers used a business model of selling directly which eliminated a step in the value chain and other PC makers were also forced to revamp their value chain approach.

2.4 Marketing Strategies

Marketing strategies serve as the fundamental underpinning of marketing plans designed to fulfill market needs and reach marketing objectives (Miles, 2003). Marketing is a general term used to describe all the steps that lead to final sales. It is the process of planning and executing pricing, promotion and distribution to satisfy individual and organizational needs. Companies constantly fail because they do not know what is happening in the marketplace and as a result, they are not fully meeting their customer’s needs. They mistakenly believe that with the proper amount of advertising, customers will buy whatever they are offered.
Plans and objectives are generally tested for measurable results. Commonly, marketing strategies are developed as multi-year plans, with a tactical plan detailing specific actions to be accomplished in the current year. Marketing strategies are dynamic and interactive. Marketing strategy involves careful scanning of the internal and external environments which are summarized in a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis (Baker, 2008).

2.4.1 Product Innovation

Product innovation entails the creation and subsequent introduction of a good or service that is either new or improved on previous goods or services of its kind. Consumers seek different product benefits in various localities, thus as a firm expands, it may use a product as one of its marketing entry strategies. This can only be effective if the firm looks at products not being offered by other firms and ventures into the market and starts offering them (Kotler, 2005). Several classification systems for consumer’s products have been suggested. One basic distinction is based on whether or not the buyer perceived a need for the item. Thus an unsought product is one for which the consumer does not yet recognize a need. This classification is based on consumer buying behavior.

Product innovation provides the most obvious means for generating revenues. Process innovation on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long-term business growth (Hart, 1996). The power of product innovation in helping companies retain and grow competitive positions is indisputable. Products have to be updated and completely renewed for retaining strong market presence.
2.4.2 Pricing Rationalization

The practice of promoting products “on sale” can accomplish both short and long-run objectives. Short-run objectives include creating product awareness and interest, increasing store traffic and sales, reducing inventory, and enhancing perception of savings and value. Long-run objectives include establishing a specific price image for the advertiser to achieve a competitive positioning and customer loyalty. Marketers promoting lower prices must thus decide how much to reduce the price as well as how to communicate the price reduction (Della Bitta, Monroe and McGinnis, 1981).

Past research has shown that the plausibility of a price reduction claim influences consumer perceptions of the advertised offer. However, such research on claim plausibility concern reference prices where exact dollar values are stated (e.g. “usual price $X, sale price $Y”). No one has studied the effects of claim plausibility on percentage reduction claims such as “save 80 percent”. Advertisements featuring percentage price reductions are frequently used by retailers to promote a line or announce a store-wide sale. It would thus be interesting to investigate whether consumer responses toward percentage reduction claims would replicate that previously found using dollar values.

2.4.3 Market Expansions

In the marketing, if a company responds appropriately to the preferences and requests of customers and if these responses are equal to or exceed the performance of the company’s competitors, then success is guaranteed. Comparative research of emerging market potential is a costly exercise for international marketers confronted with a multitude of diverse markets for
which there is lack of available research. Traditional market selection analysis relies on purely macroeconomic and political factors at the outset of the analysis and fails to account for an emerging market's dynamism and future potential resulting from rapid change, national attributes that affect specific sectors and market receptiveness.

To create a market selection framework that does justice to market expansion and enhances traditional analysis, we have sought to integrate into the assessment process tools developed by a variety of scholars. These tools include long-term market potential assessment Arnold and Quelch’s (1998) market demand-driven model. Marketers develop market expansion strategies to ensure that their products are available in proper quantities at the right time and place. Distribution decisions involve modes of transportation, warehousing, inventory control, order processing and selecting of marketing channel.

2.4.4 Exhibitions as a Promotion Strategy

Exhibitions are widely regarded as powerful tools in the promotional mix, yet few studies have been undertaken to establish whether exhibitions are actually effective in meeting the objectives of the exhibitors. Exhibitions have been defined as “organized displays of works of art, science or industry for stimulating public interest, promoting manufactures, expanding trade or illustrating the progress and accomplishments of one or a wide variety of productive activities. Trade exhibitions are obviously regarded as an important tool of marketing communications. When a potentially attractive marketing tool offers face-to-face customer contact coupled with the allure of increased sales, marketers might be expected to embrace it eagerly. They have embraced trade shows, but often come away feeling as if they had been hustled. This is primarily due to factors such as lack of the effectiveness of these events compared with other marketing
communications tools such as selling or advertising, and high and rising costs of participation (Bonoma, 1983).

Exhibitions are the communication link between sellers and buyers organizations and use many different means of sending messages about goods, services and ideas. The message may be communicated directly by sales people or indirectly through advertisements and sales promotion. In developing various elements of promotion, marketers blend together the various elements of promotion that will communicate most effectively with target markets. Promotion strategies serve different purposes and vary in size and scope.

2.5 Challenges Affecting Coffee Marketing

Globalization, fast-changing consumer tastes, and increased competition lead to new, complex marketing challenges that call for new thinking and solutions. There are several challenges involved in marketing of agricultural produce such as coffee in Kenya. There is limited access to the market information, literacy level among the farmers is low, multiple channels of distribution that eat into the pockets of both farmers and consumers (Bart, 2000).

2.5.1 Coffee Prices

The globalization has for instance brought drastic changes in Kenya across all sectors and it is more so on agriculture farmers and made a deep impact on agricultural marketing. It has brought several challenges and threats like uncertainty, turbulence, competitiveness, apart from compelling them to adapt to changes arising out of technologies. Yearly and seasonal variation in producer coffee prices increases the price risks faced by farmers. The price variations adversely affect decision making as far as production, income and expenditures schedules are concerned (Stefano, 2001). The coffee price crash of 2001 had devastating effects on tens of millions of
smallholder farmers and farm workers around the developing world. The cause of the price collapse was a supply-demand imbalance. Growth in supply primarily driven by Brazil’s coffee expansion as well as new Vietnam’s coffee plantations, was increasing supply at 3.6% per year while demand was rising by only 1.5%.

Although the Nairobi auction prices have remained marginally higher than those prevailing in the New York Exchange, they exhibit the same pattern characterized by unstable prices in the last few years (ITF, 2001). It is only in years of high prices such as 1998, 2009 and 2010 that Kenyan farmers enjoy considerable premiums over the international prices. The premiums are minimal or non existent during the periods of low prices. The trends in production have impacted negatively on international coffee prices. Depressed prices prompted calls for international action to address problems of the market imbalance with proposals to both control supply and to promote demand. For coffee, the Association of Coffee Producing Countries (ACPC) promoted a retention scheme from 1st October, 2000 to retain 20 percent of exports to maintain prices above 95 cents/pound and release supplies onto the market when prices exceeded 105 cents/pound.

Coffee prices had not only declined to historical levels but had also become very unstable and unpredictable. Since 1998, the prices went on a downward trend up to 2005. As compared to the Robusta, the arabicas continue to enjoy a considerable price differential despite the down-turn in prices. This premium is attributed to differences in quality. These premiums indicate that the world market still recognizes and rewards high quality coffee. For Kenyan farmers, this means that quality coffee production can pay, the only issue remains on the high cost of producing that coffee and the proportion of the premium received by farmers (Swynnerton, 2004).
2.5.2 Marketing Information

Efficient market information can be shown to have positive benefits for farmers and traders. Up-to-date information on prices and other market factors enables farmers to negotiate with traders and also facilitates spatial distribution of products from rural areas to towns and between markets (Baker, 2008). Most governments in developing countries have tried to provide market information services to farmers, but these have tended to experience problems of sustainability. Moreover, even when they function, the service provided is often insufficient to allow commercial decisions to be made because of time lags between data collection and dissemination (Miles, 2003). Modern communications technologies open up the possibility for market information services to improve information delivery through SMS on cell phones and the rapid growth of FM radio stations in many developing countries offers the possibility of more localized information services. In the long run, the internet may become an effective way of delivering information to farmers. However, problems associated with the cost and accuracy of data collection still remain to be addressed. Even when they have access to market information, farmers often require assistance in interpreting that information (Shepherd, 2000).

The liberalization of the coffee industry has been undertaken gradually in phases with an objective of having minimal disruption of coffee production, processing and marketing. Furthermore, most of the reforms have been initiated and implemented after broad consultations between the government, CBK, farmers and other stakeholders in the industry. However, finding a common ground on some of the reforms have been characterized by acrimony and sometimes outright fights due to various vested interests. This has delayed and sometimes derailed the reform schedule (Kamau, 2000).
2.5.3 Marketing Costs

Efficient marketing infrastructure such as wholesale, retail and assembly markets and storage facilities is essential for cost-effective marketing, to minimize post-harvest losses and to reduce health risks. Planners need to be aware of how to design markets that meet a community's social and economic needs and how to choose a suitable site for a new market (Mantrala, 2006). Farmers frequently consider marketing as being their major problem. However, while they are able to identify such problems as poor prices, lack of transport and high post-harvest losses, they are often poorly equipped to identify potential solutions.

Marketing is essential for the growth of a company. Not surprisingly, firms spend billions of dollars on marketing. Allocating marketing resources is a complex decision in a constantly evolving environment. A manager may arrive at the advertising budget based on the desired level of brand awareness and the cost of various media vehicles to achieve this awareness. This combination of reach and frequency determines the required size of the sales force (Mantrala, 2006). Marketing resource allocation decisions need to be made at several levels – across countries, across products, across marketing mix elements, across different vehicles within a marketing mix element (e.g., TV versus internet for advertising). Each decision requires some specific considerations.

As discussed earlier, these high overhead costs can also be attributed to low capacity utilization, inefficiencies, poor governance, financial mismanagement that currently plague most co-operatives. The high overhead costs combined with high performance risks in co-operatives can explain why smallholder farmers are shunning this formal marketing channel in favour of marketing their coffee at the farm gate level. This situation is unlikely to change unless
deliberate steps are taken to streamline the operations and governance of co-operatives. Amendments of the current Co-operative Act and implementation of good governance policies are therefore much needed.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to find answers to the research questions. In this chapter, the research methodology is presented in the following order: research design, target population, data collection, and the pilot study. The section also explains how data was analyzed to produce the required information necessary for the study.

3.2 Research Design

This study employed descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Bryman and Bell, 2003). Thus, this approach was appropriate for this study, since the researcher intended to collect detailed information through descriptions and is also useful for identifying variables and hypothetical constructs.

3.3 Population of the Study

The target population composed of eight major coffee marketing firms in Kenya. These firms were registered after July 2006 when the coffee rules and regulations were changed to allow for licensing of coffee marketing firms. The study was conducted through a census since the target population is not large.

The study targeted a total of 24 respondents out of which 21 responded giving a 87.5% response rate. This response rate was excellent and representative and conforms to Mugenda and Mugenda
(1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

3.4 Data Collection

The researcher collected both primary and secondary data. The researcher administered a questionnaire to the General, Marketing and Operations Managers in each of the eight firms to collect primary data. The respondents were chosen because they have the relevant experience and knowledge on coffee marketing. The questionnaire had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The closed-ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured in the close-ended questions. The unstructured questions allowed for an in-depth exploration of particular contexts that would have involved the collection of extensive qualitative data.

The researcher administered the questionnaire individually to all respondents of the study. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received. In order to achieve this, the researcher maintained a register of questionnaires which were sent, and which were received back. The questionnaires were administered using a drop and pick later method.

Secondary data was also collected for this study. This data is useful for generating additional information for the study from already documented data or available reports.
The researcher carried out a pilot study to pre-test and validate the questionnaire. To establish the validity of the research instrument, the researcher sought opinions of experts in the field of study especially the researchers, supervisor and lecturers in the Department of Business Administration. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity. The researcher selected a pilot group of 10 individuals from the target population to test the reliability of the research instrument. The respondents participating in the pilot study did not participate in the final study. The pilot data was not included in the actual study. The pilot study also enabled the researcher to be familiar with the research and its administration procedure as well as identifying items that require modification. A construct composite reliability co-efficient (Cronbach alpha) of 0.6 or above for all the constructs is considered adequate. The acceptable reliability coefficient is 0.6 and above (Cooper and Schindler, 2003). If the Cronbach alpha is below 0.6, the reliability of the questionnaire is considered too low and thus the research tool should be amended.

3.5 Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Data was analyzed using relevant statistical analysis tools. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS) and presented through percentages, means, standard deviations and frequencies. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objective and assumptions through the use of SPSS. Mugenda and Mugenda (2003), explains that SPSS is a comprehensive, integrated collection of computer programme for managing, analyzing and displaying data. Content analysis was used to analyze data that is qualitative in nature or that aspect of the data
collected from open ended questions. Content analysis is a research technique used to determine the presence of certain words or concepts within texts or sets of texts. The researcher quantifies and analyzes the presence, meanings and relationships of such words and concepts and then makes inferences about the messages within the text. To conduct a content analysis on any such text, the text is coded or broken down into manageable categories on a variety of levels; word, word sense, phrase, sentence, or theme and then examined using content analysis. In this study, content analysis was used to analyze the responses collected from the open ended questions so as to bring out common themes or data from the various responses collected. This approach ensured that any unanticipated themes were given the opportunity to emerge from the data.
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents analysis and findings of the research study as set out in the research methodology. The results were presented on the challenges affecting coffee marketing by coffee firms in Kenya. Questionnaires were used to collect quantitative data. The questionnaires were designed in line with the research objectives. To enhance the quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likert scale.

4.2 General Information

On the designation of the firm, the respondents indicated that their firms were mainly coffee marketers while some were dealing with coffee quality management and projects management. Most of the firms were started in late 2006 and others in early 2007.

The study sought to establish the ownership of the firm. The findings are given in Table 4.1.
Table 4.1: Ownership of the firm

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational</td>
<td>16</td>
<td>76.2</td>
</tr>
<tr>
<td>Local</td>
<td>5</td>
<td>23.8</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

From the findings, the study established that the majority (76.2%) of the firms were multinational while 23.8% were local.

The respondents were also asked to state the main activities of the firm. The findings are given in Table 4.2.

Table 4.2: Main activities of the firm

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee marketing</td>
<td>100.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Projects management</td>
<td>42.9</td>
<td>57.1</td>
</tr>
<tr>
<td>Coffee quality management</td>
<td>76.2</td>
<td>23.8</td>
</tr>
</tbody>
</table>

Source: Research data

The study found that all the firms were in coffee marketing; 76.2% were in coffee quality management while only 42.9% of the firms were in projects management.
4.3 Challenges Affecting Coffee Marketing

The study required the respondents to indicate the extent that various challenges affect coffee marketing in Kenya. The findings are given in Table 4.3.

Table 4.3: Extent that various challenges affect coffee marketing in Kenya

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price volatility</td>
<td>1.8647</td>
<td>.85489</td>
</tr>
<tr>
<td>Globalization</td>
<td>2.1353</td>
<td>.89811</td>
</tr>
<tr>
<td>Fast changing consumer tastes and preferences</td>
<td>1.2588</td>
<td>.77621</td>
</tr>
<tr>
<td>Increased competition at the world coffee market</td>
<td>2.0588</td>
<td>.77621</td>
</tr>
<tr>
<td>Limited access to marketing information</td>
<td>1.7059</td>
<td>.87141</td>
</tr>
<tr>
<td>Low literacy levels among farmers</td>
<td>2.6471</td>
<td>.91725</td>
</tr>
<tr>
<td>Multiple channels of distribution that eat into the pockets of farmers</td>
<td>1.4706</td>
<td>.56329</td>
</tr>
<tr>
<td>Poor government funding of farmers</td>
<td>1.9059</td>
<td>.97014</td>
</tr>
<tr>
<td>Economic uncertainty and declining terms of trade at the international level</td>
<td>1.3824</td>
<td>.69695</td>
</tr>
<tr>
<td>Magnitude of marketing costs</td>
<td>1.6529</td>
<td>.59708</td>
</tr>
<tr>
<td>Lack of policies in place that provide small farmers with a level playing field</td>
<td>2.8235</td>
<td>.99911</td>
</tr>
<tr>
<td>Poorly designed coffee market liberalization reforms</td>
<td>2.6765</td>
<td>.68404</td>
</tr>
<tr>
<td>Taxation at the local and national level</td>
<td>2.7647</td>
<td>.81868</td>
</tr>
<tr>
<td>Cost of certification</td>
<td>2.0882</td>
<td>.99598</td>
</tr>
<tr>
<td>Imbalance between supply and demand</td>
<td>2.5882</td>
<td>.65679</td>
</tr>
<tr>
<td>Poor infrastructure affecting coffee transportation to factories</td>
<td>1.9412</td>
<td>1.01328</td>
</tr>
<tr>
<td>Deteriorating quality and reliability of supply of the Kenyan coffee</td>
<td>2.0302</td>
<td>1.34840</td>
</tr>
</tbody>
</table>

Source: Research data
From the findings in Table 4.3, majority of the respondents reported that the challenges that affect coffee marketing in Kenya to a very great extent include fast changing consumer tastes and preferences, economic uncertainty and declining terms of trade at the international level and multiple channels of distribution that eat into the pockets of farmers as shown by a mean score of 1.2588, 1.3824 and 1.4706 respectively.

The respondents further stated that the challenges that affect coffee marketing in Kenya to a great extent include magnitude of marketing costs as shown by a mean score of 1.6529, limited access to marketing information as shown by a mean score of 1.7059, price volatility as shown by a mean score of 1.8647, poor government funding of farmers as shown by a mean score of 1.9059, poor infrastructure affecting coffee transportation to factories as shown by a mean score of 1.9412, deteriorating quality and reliability of supply of the Kenyan coffee as shown by a mean score of 2.0302, increased competition at the world coffee market as shown by a mean score of 2.0588, cost of certification as shown by a mean score of 2.0882 and globalization as shown by a mean score of 2.1353.

They also indicated that the challenges that affect coffee marketing in Kenya to a moderate extent include imbalance between supply and demand as shown by a mean score of 2.5882, low literacy levels among farmers as shown by a mean score of 2.6471, poorly designed coffee market liberalization reforms as shown by a mean score of 2.6765, taxation at the local and national level as shown by a mean score of 2.7647 and lack of policies in place that provide small farmers with a level playing field as shown by a mean score of 2.8235.

The study also wanted to establish the respondents’ level of agreement with various statements on the challenges faced in coffee marketing. The findings are given in Table 4.4.
Table 4.4: Level of agreement with various statements on the challenges faced in coffee marketing

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer preferences are increasingly becoming more complex than they were in the past with the emergence of new consumption patterns and the growing importance of single origin coffees.</td>
<td>1.5070</td>
<td>1.23705</td>
</tr>
<tr>
<td>There is increased competition due to the lifting of preferential treatment, lowering and harmonization of tariff barriers and the institution of new technical barriers.</td>
<td>1.8824</td>
<td>1.09447</td>
</tr>
<tr>
<td>Delays in payments arise from stock management problems and delays in the processing of proceeds along the coffee marketing chain.</td>
<td>1.2059</td>
<td>.41043</td>
</tr>
<tr>
<td>Volume of production can vary widely from one year to the other, which causes prices to be highly volatile.</td>
<td>1.7059</td>
<td>.87141</td>
</tr>
<tr>
<td>Vulnerability is enhanced by the relatively high degree of dependence the world coffee supply has on Brazil.</td>
<td>2.1941</td>
<td>1.43082</td>
</tr>
<tr>
<td>The lengthy co-operative payment system is a major hindrance to efficient service delivery and a source of concern to farmers.</td>
<td>1.5010</td>
<td>.74874</td>
</tr>
<tr>
<td>The main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding</td>
<td>1.3765</td>
<td>1.09325</td>
</tr>
<tr>
<td>The availability of reliable marketing intelligence to the producers has been lacking and where available the quality has been wanting.</td>
<td>2.4118</td>
<td>1.23381</td>
</tr>
<tr>
<td>There is need to disseminate market intelligence to producers on the operations of the coffee supply chain.</td>
<td>1.9176</td>
<td>.32703</td>
</tr>
<tr>
<td>The main weakness with coffee liberalization is that it has not opened avenues for the Kenyan coffee farmer to access direct market for his own coffee.</td>
<td>1.8235</td>
<td>.93649</td>
</tr>
</tbody>
</table>

Source: Research data
According to the results of the study in Table 4.4 above, majority of the respondents strongly agreed that delays in payments arise from stock management problems and delays in the processing of proceeds along the marketing chain as shown by a mean score of 1.2059 and the main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding as shown by a mean score of 1.3765.

The respondents were also in agreement that the lengthy co-operative payment system is a major hindrance to efficient service delivery and a source of concern to farmers as shown by a mean score of 1.5010, consumer preferences are increasingly becoming more complex than they were in the past with the emergence of new consumption patterns and the growing importance of single origin coffees as shown by a mean score of 1.5070, volume of production can vary widely from one year to the other, which causes prices to be volatile as shown by a mean score of 1.7059, the main weakness with coffee liberalization is that it has not opened avenues for the Kenyan coffee farmer to access direct market for his own coffee as shown by a mean score of 1.8235 and there is increased competition due to the lifting of preferential treatment, lowering and harmonization of tariff barriers and the institution of new technical barriers as shown by a mean score of 1.8824.

The respondents also agreed that there is need to disseminate market intelligence to producers on the operations of the coffee supply chain as shown by a mean score of 1.9176, vulnerability is enhanced by the relatively high degree of dependence the world coffee supply has on Brazil as shown by a mean score of 2.1941 and that the availability of reliable marketing intelligence to the producers has been lacking and where available the quality has been wanting as shown by a mean score of 2.4118.
The respondents also suggested that in order to overcome the challenges affecting coffee marketing in Kenya, there is need to reduce the cost of certification, farmers should be encouraged to adopt product differentiation into specialty coffees that can achieve premium prices in the specialty coffee markets, the coffee marketing firms should look for more market opportunities in the emerging coffee markets as opposed to the traditional coffee markets, coffee quality should be improved to rhyme with the changing consumer tastes and preferences, direct marketing of coffee without using intermediaries who eat into the pockets of farmers should be encouraged, there should be increased access to marketing information, there should also be increased government funding of farmers and improvement of infrastructure to facilitate coffee transportation to the factories.

4.4 Coffee Marketing Strategies

The respondents were asked to state the extent that the firms adopt various coffee marketing strategies to deal with the challenges. The results are given in Table 4.5.

**Table 4.5: Extent that the firms adopt various coffee marketing strategies to deal with the challenges**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Innovation</td>
<td>2.1765</td>
<td>1.05803</td>
</tr>
<tr>
<td>Pricing Rationalization</td>
<td>2.1471</td>
<td>1.30575</td>
</tr>
<tr>
<td>Market Expansions</td>
<td>1.2059</td>
<td>.41043</td>
</tr>
<tr>
<td>Exhibitions as a Promotion Strategy</td>
<td>1.7059</td>
<td>.87141</td>
</tr>
</tbody>
</table>

Source: Research data
From the results of the study in Table 4.5 above, the majority of respondents said that to a very great extent, their firms adopt market expansions as shown by a mean score of 1.2059 to deal with the challenges. They also indicated that to a great extent, the firms adopt exhibitions as a promotion strategy as shown by a mean score of 1.7059, pricing rationalization as shown by a mean score of 2.1471 and product innovation as shown by a mean score of 2.1765.

The respondents were also asked to state the extent that various requirements associated with selling on international markets present barriers to marketing and higher revenues for coffee farmers. The results are given in Table 4.6.

**Table 4.6: Extent that various requirements associated with selling on international markets present barriers to marketing and higher revenues for coffee farmers**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export licence</td>
<td>1.6765</td>
<td>1.09325</td>
</tr>
<tr>
<td>Minimum volume requirements</td>
<td>2.4118</td>
<td>1.23381</td>
</tr>
<tr>
<td>Minimum quality requirements</td>
<td>1.2824</td>
<td>1.09447</td>
</tr>
<tr>
<td>Tariffs on processed forms of coffee in importing countries</td>
<td>1.6059</td>
<td>0.41043</td>
</tr>
</tbody>
</table>

Source: Research data

From the results of the study in Table 4.6 above, the majority of respondents indicated that the various requirements associated with selling on international markets that present barriers to marketing and higher revenues for coffee farmers to a very great extent include minimum quality requirements as shown by a mean score of 1.2824 while those that affect to a great extent include tariffs on processed forms of coffee in importing countries as shown by a mean score of 1.6059, export licence as shown by a mean score of 1.6765 and minimum volume requirements as shown by a mean score of 2.4118.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendations made there-to. The conclusion and recommendations that were drawn were aimed at achieving the research objectives which were to determine the challenges affecting coffee marketing by coffee firms in Kenya and the marketing strategies adopted by the firms to deal with the challenges.

5.2 Summary of Findings

The study found that the challenges affecting coffee marketing in Kenya to a very great extent include fast changing consumer tastes and preferences, economic uncertainty and declining terms of trade at the international level and multiple channels of distribution that eat into the pockets of farmers. The challenges that affect coffee marketing in Kenya to a great extent include magnitude of marketing costs, limited access to marketing information, price volatility, poor government funding of farmers, poor infrastructure affecting coffee transportation to the factories, deteriorating quality and reliability of supply of the Kenyan coffee, increased competition at the world coffee market, cost of certification and globalization.

The challenges that affect coffee marketing in Kenya to a moderate extent include imbalance between supply and demand, low literacy levels among farmers, poorly designed coffee market...
liberalization reforms, taxation at the local and national level and lack of policies in place that provide small farmers with a level playing field.

The study also found that delays in payments arise from stock management problems and delays in the processing of proceeds along the marketing chain, the main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding. The study also established that the lengthy co-operative payment system is a major hindrance to efficient service delivery and a source of concern to farmers, consumer preferences are increasingly becoming more complex than they were in the past with the emergence of new consumption patterns and the growing importance of single origin coffees, volume of production can vary widely from one year to the other, which causes prices to be volatile, the main weakness with coffee liberalization is that it has not opened avenues for the Kenyan coffee farmer to access direct market for his own coffee and there is increased competition due to the lifting of preferential treatment, lowering and harmonization of tariff barriers and the institution of new technical barriers.

The study further established that there is need to disseminate reliable market intelligence to the producers, vulnerability is enhanced by the relatively high degree of dependence the world coffee supply has on Brazil and that the availability of reliable marketing intelligence to the producers has been lacking and where available the quality has been wanting.

The study also revealed that to a very great extent, the coffee marketing firms adopt market expansions as a marketing strategy to deal with the challenges. The firms also adopt other marketing strategies which include pricing rationalization and product innovation, and exhibitions as a promotion strategy. The study also deduced that the various requirements
associated with selling on international markets that present barriers to marketing and higher revenues for coffee farmers include minimum quality requirements, tariffs on processed forms of coffee in importing countries, export licence and minimum volume requirements.

5.3 Conclusion

From the study findings, the study concludes that the challenges affecting coffee marketing in Kenya include fast changing consumer tastes and preferences, economic uncertainty and declining terms of trade at the international level, multiple channels of distribution that eat into the pockets of farmers, magnitude of marketing costs, limited access to marketing information, price volatility, poor government funding of farmers and poor infrastructure affecting coffee transportation to the factories, deteriorating quality and reliability of supply of the Kenyan coffee, increased competition at the world coffee market, cost of certification, globalization, imbalance between supply and demand, low literacy levels among farmers, poorly designed coffee market liberalization reforms, taxation at the local and national level and lack of policies in place that provide small farmers with a level playing field.

The study also concludes that delays in payments arise from stock management problems and delays in the processing of proceeds along the marketing chain, the main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding, the lengthy co-operative payment system is a major hindrance to efficient service delivery and a source of concern to farmers, consumer preferences are increasingly becoming more complex than they were in the past with the emergence of new consumption patterns. The study also revealed that the coffee marketing strategies adopted by the
firms to deal with the challenges include market expansions, exhibitions as a promotion strategy, pricing rationalization and product innovation.

**5.4 Implication for Policy and Practice**

These findings imply that the coffee marketing firms in Kenya are faced with numerous challenges both from the operating environment and internal challenges. Thus for the firms to remain afloat in the highly competitive environment, they should engage in more proactive strategies by coming up with innovative marketing strategies in order to keep pace with the competition. The top management of the firms should consult widely on how they can overcome the internal challenges facing the firms and also benchmark their operations with best performers worldwide with a view of enhancing their competitive advantage.

**5.5 Recommendations**

From the discussions and conclusion in this chapter, the study recommends that in order to overcome the challenges affecting coffee marketing in Kenya, there is need to reduce the cost of certification, farmers should be encouraged to adopt product differentiation into specialty coffees that can achieve premium prices in the specialty coffee markets, the coffee marketing firms should look for more market opportunities in the emerging coffee markets as opposed to the traditional coffee markets, coffee quality should be improved to rhyme with the changing consumer tastes and preferences, direct marketing of coffee without using intermediaries who eat into the pockets of farmers should be encouraged, there should be increased access to marketing information, there should also be increased government funding of farmers and improvement of infrastructure to facilitate coffee transportation to the factories.
5.6 Recommendations for Further Research

The study recommends that further research should be done on the challenges affecting the marketing of other agricultural products such as tea, pyrethrum and cotton in Kenya to allow for generalization of challenges affecting marketing of agricultural products in Kenya since the marketing of each product employs a different strategic approach. The study further recommends that a similar study be done on other non agricultural products for the purposes of benchmarking.
REFERENCES


Stefano P. (2009), *Winners and Losers in the Coffee Marketing Chain*. Serialised Excerpts in ECAPAPA Newsletters.


APPENDICES

Appendix I: Letter of Introduction

Vitalis Nkonge Chokera

School of Business, University of Nairobi,
P.O Box 30197-00100, Nairobi.

September, 2011.

Dear Respondent,

I am a postgraduate student at the University of Nairobi pursuing a Master of Business Administration degree.

I would like to conduct a research project on Challenges Affecting Coffee Marketing by Coffee Firms in Kenya. The focus of my research will be coffee marketing firms in Kenya and this will involve use of questionnaires administered to the General, Marketing and Operations Managers.

Kindly respond to the questions as honestly as possible and to the best of your knowledge. The information provided will be treated with utmost confidentiality; neither your name nor any other personal details shall appear in my report. Your assistance will be highly appreciated.

Thank you in advance.

Yours faithfully,

Vitalis Nkonge Chokera

(Student)

Dr. J.M. Munyoki

(Supervisor)
Appendix II: Questionnaire

PART A: BACKGROUND INFORMATION

1) Name of the firm ________________________________

2) Designation of the firm ________________________________

3) When was the firm started? ________________________________

4) What is the size of the firm? ________________________________

5) What is ownership of the firm?

   Multinational [ ]  Local [ ]

6) What are the main activities of the firm?

   Coffee marketing [ ]
   Project management [ ]
   Coffee Quality management [ ]
   Others (Please specify) ________________________________

7) What is your education level? (Tick as applicable)

   Diploma [ ]  Bachelors’ degree [ ]
   Masters [ ]  PhD [ ]

8) How long have you worked for the firm?

   Less than 1 year [ ]  1-5 years [ ]
   6-10 years [ ]  11-15 years [ ]
   Over 15 years [ ]
PART B: CHALLENGES AFFECTING COFFEE MARKETING

9) To what extent do the following challenges affect coffee marketing in Kenya?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price volatility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Globalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast changing consumer tastes and preferences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased competition at the world coffee market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited access to marketing information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low literacy levels among farmers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple channels of distribution that eat into the pockets of farmers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor government funding of farmers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic uncertainty and declining terms of trade at the international level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Magnitude of marketing costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of policies in place that provide small farmers with a level playing field</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorly designed coffee market liberalization reforms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation at the local and national level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of certification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imbalance between supply and demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor infrastructure affecting coffee transportation to the factories</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Deteriorating quality and reliability of supply of the Kenyan coffee

10) What is your level of agreement with the following statements on the challenges faced in coffee marketing? Use a scale of 1-5 where 1= Strongly agree, 2= Agree, 3= Neutral, 4= Disagree and 5= Strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer preferences are increasingly becoming more complex than they were in the past with the emergence of new consumption patterns and the growing importance of single origin coffees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is increased competition due to the lifting of preferential treatment, lowering and harmonization of tariff barriers and the institution of new technical barriers</td>
<td></td>
<td></td>
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<td>Delays in payments arise from stock management problems and delays in the processing of proceeds along the marketing chain</td>
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<td>Volume of production can vary widely from one year to the other, which causes prices to be highly volatile.</td>
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<td>Vulnerability is enhanced by the relatively high degree of dependence the world coffee supply has on Brazil</td>
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<td>The lengthy co-operative payment system is a major hindrance to efficient service delivery and a source of concern to farmers.</td>
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<td>The main issues at the moment in marketing Kenyan coffee around the world revolve around value addition, quality assurance, packaging and branding</td>
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<td>The availability of reliable marketing intelligence to the producers has been lacking and where available the quality has been wanting.</td>
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<td>There is need to disseminate market intelligence to producers on the operations of the coffee supply chain</td>
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<td>The main weakness with coffee liberalization is that it has not opened avenues for the Kenyan coffee farmer to access direct market for his own coffee.</td>
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11) What can be done to overcome the challenges affecting coffee marketing in Kenya?

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PART C: COFFEE MARKETING STRATEGIES

12) To what extent does your firm adopt the following coffee marketing strategies to deal with the challenges?

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<tr>
<th></th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>Not at all</th>
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</thead>
<tbody>
<tr>
<td>Product Innovation</td>
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<td>Pricing Rationalization</td>
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<td>Market Expansions</td>
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<td>Exhibitions as a promotion strategy</td>
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</table>
13) To what extent do the following requirements associated with selling on international markets present barriers to marketing and higher revenues for coffee farmers?

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<tr>
<th></th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
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<tr>
<td>Export licence</td>
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<td>Minimum volume requirements</td>
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<td>Minimum quality requirements</td>
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<td>Tariffs on processed forms of coffee in importing countries</td>
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</tbody>
</table>
Appendix III: Major Coffee Marketing Firms in Kenya

1. Sustainable Management Services Limited.

2. Coffee Management Services Limited.


4. Tropical Farm Management (K) Limited.

5. Oaklands Coffee Marketing Limited.

