A SURVEY OF THE FACTORS MOTIVATING AND CHALLENGES AFFECTING EXPORTING ACTIVITIES OF THE FIRMS IN THE DAIRY INDUSTRY IN KENYA

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DECLARATION

I declare that this management research project is my original work and has not been presented in any other university or institution of higher learning for examination purposes.

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

Signature: ____________________ **Date** 24/11/08.

MR. VICTOR MONAYO

University of Nairobi

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DEDICATION

To my wife Rose, you were and always will be an inspiration. I will always admire your determination to succeed and commitment to well being of all.

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This is to acknowledge my supervisor who worked with me patiently and without tiring from the beginning to the end of this management research project. thank you sir. Completion of this project has not been easy and has taken a lot of patience, perseverance and hard work to accomplish. Am grateful to all those who supported me when I felt like giving up, both family and friends.

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Most of all, I would like to thank God Almighty for bringing me this far and with His greatness, He has seen me through. I will always remember to count my blessings.

ABSTRACT

The unmistakable fact is that exporting is becoming increasingly important as companies in all parts step up efforts to supply and service markets located outside their national boundaries. Export behavior is an incremental and developmental process, which follows various stages before a firm, becomes fully involved and experienced in exporting. Various firms use exporting as an initial entry mode since it is a low-risk alternative, do not demand large capital outlay or resources and is relatively easy and less costly to withdraw from the arrangement.

The main objective of the study was to carry out a survey of the factors and challenges affecting exporting activities of the firms in the dairy industry in Kenya. This study used a descriptive survey design where the population of interest was firms in the dairy industry involved in the processing and exporting of dairy products. A complete census of all the seven (7) firms involved in both processing and exporting activities during 2007. Primary data was collected using a questionnaire (appendix 2) which was administered on the drop and pick later method for those within Nairobi .For those respondents outside Nairobi, it was sent by post with a self addressed envelope for return to Chief Executive Officers (CEO's) of the population of the study. Data was analyzed using SPSS. These included the mean, mode and standard deviations where appropriate.

In summary, the researcher found that, majority of the firms exporting dairy products were highly motivated by the profits from exports as well as to counter declining domestic sales. In addition, these firms exporting dairy products do experience the problems of perishability of the raw milk as well as high costs of inputs as major challenges. The government should therefore reduce tariffs imposed on milk processing machines to ensure that all firms in the dairy industry are able to process and preserve the milk products cost effectively. Also they should give full cost capital allowances, duty free importation and value added tax (VAT) exemption to all those investing in processing machinery and equipment .This will cut back on costs of production as well as curtailing considerably the abnormal losses that face dairy firms.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Internationalization is the process upon which a firm increases its involvement in international markets. It requires a firm to adapt its strategy, resources, structure and organization to best fit the international environment. This process has been explained in five stages by Kotler and Armstrong (2001) as (1) Deciding whether to go international or not, (2) Deciding what markets to enter, (3) Deciding how to enter the markets, (4) Deciding on global marketing programs, and (5) Deciding on global marketing organizations.

First, a firm has to evaluate the opportunities and risks of going abroad, and whether or not they have the ability to participate and succeed in the global market. Second, the firm must define their international marketing objectives and policies, and select the markets to enter. In the initial stages of internationalization process, many firms choose to enter one or a few countries in order to cement deep relationship. After markets are selected, then the methods of entering those markets are determined.

A business is considered international when it operates or sells its products in foreign countries (Ogutu,2007).This presence in the foreign markets could be either direct or indirect exportation, licensing, franchising, joint ventures, strategic alliances, mergers , consolidations or wholly owned subsidiaries .Each entry mode contains commitments and risks , as well as control and profit potential. The next stage is to decide on the international marketing programs and adjust their local marketing programs to international standards. Finally, the firm decides on the global marketing organization which takes the form of at least three different ways of managing the international activities, by starting with organizing an export department, then an international division and finally they become a global organization. (Kotler &Armstrong, 2001).

When firms consider entering the international market, they must have specific strategic alternatives to cover various target markets, and the different entry modes. Management must ensure the firm uses the best method to enter foreign market and take into consideration the risks and environmental factors that are associated with the different entry strategies (Deresky. 2000).The foreign market entry modes selected will impact on the firm's future performance and will probably dictate on the survival in the international market (Ekeledo & Sivikumar, 2004).

1.2 Dairy Industry in Kenya

The dairy industry in Kenya in 2007 was characterized by three types of player's namely large, medium and mini dairies which are very small and basically deal in supplying raw milk to their local surrounding markets. The whole industry has an installed capacity to process 2.9 million liters per day of raw milk. The large firms are very few i.e. New Kenya Cooperative Creameries Ltd (KCC), Brookeside Ltd and Spinknit Ltd having the lion share of the industry's installed capacity of 64%.The other registered twenty one (21) firms have a combined capacity of 634,000 liters per day i.e. 22% and mini dairies taking the rest 14%.

Historically, from the colonial era in Kenya, the dairy industry was largely owned by the white settlers who had taken large tracks of arable land from the local people and reared dairy animals economically. In 1958, the government of Kenya enacted the Dairy Industry Act, Cap 336, thereby incorporating the Kenya Dairy Board (KDB), now under the ministry of Livestock and Fisheries. The main duties of the KDB are to regulate, license, control and develop the entire dairy industry in the country (Kenya Dairy Board, 2008) .

Nevertheless, until the 1992 when the dairy industry was liberalized, most of the processors, in exception of KCC, were dealing with raw milk and other products for the local market. Currently there are twenty four (24) processors registered with KDB dealing with several products such as fresh milk, skim milk powder, and long life (UHT), Cheese, ghee, ice cream and yoghurt. Due to competition in the local market, where imported milk products are competing with locally processed products, Kenyan firms are compelled to explore on alternative markets in the region and even wider. The major markets for these products are within the region. Tanzania, Uganda, Rwanda, Democratic Republic of Congo, Burundi, Somalia and Sudan although some have been known to export to Egypt and Saudi Arabia.

1.3 Problem Statement

The unmistakable fact is that exporting is becoming increasingly important as companies in all parts step up efforts to supply and service markets located outside their national boundaries (Keegan, 1995). Export behavior is an incremental and developmental process (Bilkey , 1977) which follows various stages before a firm becomes fully involved and experienced in exporting. Various firms use exporting as an initial entry mode since it is a low-risk alternative, do not demand large capital outlay or resources and is relatively easy and less costly to withdraw from the arrangement. (Deresky, 2000).

In Kenya, some of the studies carried out in the field of international business and marketing included a case study of Kenya in export marketing research for Africa (Musoke, 1981). Others are research on prospects of export marketing in the middle east for Kenyan exporters (Rajir, 1982), a study on export marketing using the Internet taking the floriculture industry in Kenya as a case (Muthuri, 2001), factors influencing export trade, a case study of pharmaceutical industry (Kinuthia, 2002), factors influencing the internationalization process of Kenyan firms in plastic manufacturing industry (Waudo, 2005).

While past research has dealt with the subject of entry mode selection, the motivation to export and challenges faced by exporting firms have not been dealt with separately. The dairy industry is quite unique due to the state of raw milk being perishable, and production seasonal, it is the purpose of this study to try and get answers as to the motivational factors affecting exporting firms as well as the challenges they face during the process of internationalization.

1.4 Research Objectives

1) To determine the motivating factors towards exporting activities of the firms in the Dairy Industry

2) To explore on the challenges faced by the firms in the dairy industry in exporting their products

1.5 Importance of the Study

The government to design export assistance programs while encouraging the smaller and medium firms to expand and go across borders and participate in international activities will use results from the study

The firms' management can use the results when exploring the possibilities of expansion to international markets.They first have to understand the activities involved, motivations to export and challenges to be faced .

Academics will benefit by the study to gain more insight and enhance more research studies on other relevant variables.

CHAPTER TWO: LITERATURE REVIEW

2.1 Exporting Activities

To export, it means carrying or sending products or services abroad especially for trade or sale. It is when a company is actively involved in foreign sales , but perhaps due to inexperience and economics, arranges for all documentation and physical goods to be handled by agents or distributors (Paliwoda, 1993).Globalization on the other hand is the process of greater interdependencies among countries and their citizens (Carbaugh, 2006).In terms of daily lives, the term means that residents of a country are more likely now than they were fifty years ago to consume products of another country , to invest in another country or talk on the phone and know developments in other countries more so due to technological change being the main driver.

Export marketing is therefore the first stage of addressing market opportunities outside the home country, while relying on the home –country production to supply products for these markets (Keegan, 1995). He suggests that a firm needs to study target markets and adapt products to meet the specific needs of customers in these markets. International Marketing challenge is more complicated than that of domestic marketing due to the uncontrollable foreign market environment (Cateora, 1996).

Before a firm enters international markets, they must conduct external and internal assessment of the environment. External evaluation involves careful examination of critical features of the international environment, particular attention being paid to the status of the host nation's areas such as economic progress, political control and nationalism etc (Pearce & Robinson, 1991)

Not all companies need to go abroad to survive, e.g. restaurants, cleaning establishments and food manufacturers for they may be supplying their markets well in their local surroundings and they are basically domestic (Kotler, 2000). However other companies operate as global industries in which the strategic position of competence in major geographical or national markets are fundamentally affected by their overall global position (Porter, 1980).

A company should enter few countries when market entry are control costs are high , product communication and adaptation costs are high. dominant foreign firms can establish high barriers to entry , and have good prospects in countries already entered(Ayal & Zif. 1979). Internationalization process takes different methods to different companies. Internationalization process involves changing of attitude that takes place within a company as a result of a series of incremental decisions, which leads to some learning and increased confidence in further trade (Johnson & Wieldershein-paul, 1975)

2.2 Export Motivating Factors

Management will normally consider exporting when stimulated to do so either by proactive or reactive motivations (Campbell. 1996). There are many factors that influence the firm to start exporting. either directly or indirectly (Root, 1994). Proactive motivations are those that stimulate the firm to initiate strategic change, whereas reactive motivations describe the stimuli that results in the firm's response and adaptation to changes imposed by the environment (Stewart and McAuley, 1999).

Proactive motivations will include in search of more profits, having technical advantage or unique products. to enjoy tax benefits, economies of scale, risk diversification and management enthusiasm. On the other hand. reactive motivations will be due to declining domestic sales. competitive pressures. in search of market for over production, extending the product life-cycle, to utilize idle capacity, and to take advantage of sourcing economics (Albaum. Stradskov & Duerr. 1998).

In practice the most successful firms are those that initiate export motivated by their own initiatives i.e. proactive stimuli, since they are more market and strategy oriented .These firms more often plan their course of actions willingly in advance whereas reactive firms are forced by the environmental demands and the general tendency will be panic reaction rendering effective planning and strategy secondary.

Before a firm start the internationalization process, something or someone inside or outside the firm must initiate the implementation of the process (Hollensen, 1998).The motives for a firms' internationalize are classified as internal and external triggers. The internal factors are; perceptive management, specific internal events and inward internationalization, whereas the external factors include, market demand, competing firms, trade associations and outside experts.

Managers often become aware of opportunities available in the market while traveling to other countries (Hollensen, 1998).When new employees join new firms, they come with previous experiences about new foreign markets and will try to develop them in their new roles in the new firms. Specific events such as overproduction or reduction in the domestic market can trigger the urge to enter new markets. The marketing division staff will normally initiate the internationalization process by providing information to the Chief Executive Officer (CEO) who will decide on which new foreign markets the firm should consider (Hollensen, 1998).

A shrinking domestic market or the need for a firm requiring a larger customer base will drive a firm to enter international markets (Burca, Fletcher & Brown, 2004).Similarly if the international market grows, it creates demand for products, which will in turn push firms and their products into internationalization. These markets additionally can offer higher profit opportunities than the domestic market, hence the motive to go abroad. In the event that a competing firm enters a domestic market and offer better products or lower prices, this will act as an incentive for a firm to also enter other foreign markets. This can be seen as a counterattack, where the firm enters a competitors' home market and try and make the competitor to concentrate on defense mechanism (Burca, Fletch & Brown, 2004) in its own domestic market. The collective experience a firm gains by being a part of trade association, dealing with agents who are already doing business with foreign markets and have contacts necessary for internationalization, incentives from their governments through global marketing programs and conferences , chambers of commerce which help the firm to get in touch and get connected with foreign firms by collecting and offering information etc are several different sources of expertise outside the firm supporting the internationalization process(Hollensen, 1998).

2.3 Global Marketing Environment

Global marketing can be defined as the process of focusing the resources (people, money and physical assets) and objectives of an organization on global market opportunities and threats (Keegan, 1995).It is the performance of business activities designed to plan, price, promote and direct flow of a firm's goods and services to consumers or users in more than one nation for profits (Cateora,1996)The difference between domestic and international marketing is the complexity and diversity found in international marketing operations posed by the environment within which marketing plans must be implemented.

Once a company has decided to be international, it has to decide the degree of marketing involvement and commitment it is prepared to make (Erickson, Johansson, Majkgard & Sharma, 1997).These decisions should reflect considerable study and analysis of market potential and company capabilities. This is a process which is not always followed as many companies start small in the international market, growing as they gain experience and gradually changing strategies and tactics as they become more committed. Some enter international market after much research with fully developed long range plans, prepared to make investments to acquire a market position. A variety of strategies are necessary to cope up with unfamiliar problems at different levels of uncertainty encountered in the foreign markets in the form of economic, socio-cultural and politico-legal environment (Cateora & Graham, 1999).

2.3.1Economic Environment

There are various elements of economic environment which a marketer needs to analyze as a prerequisite to entry in a foreign market. These are international trade factors such as balance of payments, exchange rates, trade barriers such as tariffs and quotas, regional international groupings such as Common Market of East and Southern Africa COMESA, and international financial players e.g. International monetary Fund (IMF) and world bank (Cateora & Graham, 1999).Attractiveness and profitability of the target market will depend on whether these economic factors are favorable or not for business operations.

2.3.2 Social -Cultural Environment

Culture is defined as the distinctive way of life of people or a group of people. It is man-made part of the entire social heritage of the human race which is manifested in all aspects of life and is dynamic and evolves over time. Culture dictates for example how people dress, what food they eat, their household techniques, the media, type and methods of work etc (Cateora & Graham, 1999).Education, language, religion, aesthetics, attitudes and values, material culture and social institutions affect the level of demand, quality and types of products demanded and their functional features as well as means of production of these goods and their distribution (Nueno & Bennett, 1997).

2.3.3 Political, Legal, and Regulatory Environment

This is a product of national and international political climate in such a way that the factors a firm will encounter in a foreign country are a product of the host country's political climate as well as the international political climate (Ogutu, 2007).A firm's assessment includes an appreciation of the political environment in the foreign target market whilst striving to make its activities politically acceptable in the host market or it may be subjected to a variety of politically condoned harassment e.g. confiscation or nationalization of resources(Cateora & Graham, 1999).The political risk extends to a problem of uncertainty of continuing of government policy and political philosophies in the event of change of government regimes.

There are several institutions in Kenya in the regulation of the dairy sub-section in the country. The main one is the Kenya dairy Board (KDB) under the Dairy Industry Act, Cap 336 of the laws of Kenya. The board's responsibility is that of developing, promoting, and regulating the dairy industry. The main functions are the enforcement of national standards for the Dairy Industry, training, facilitation of stake holder's activities, maintenance of the Industry's data bank and regulation of imports.

The other one is Kenya Bureau of Standards (KEBS), which is a regulatory body involved in the enforcement of standards and certification of quality standards of all products and services in the country. To ensure regulatory environment further, firms in the Dairy Industry are also required to comply with the licensing regulations of the Local Authorities in their areas and also the Public Health Departments of the Ministry of Health. The participation and involvement of various Dairy Stakeholders in the formulation and enforcement of regulatory environment remains one of the greatest barriers of entry and growth especially to the small and medium business enterprises.

2.4 Dairy Export Strategy

Kenya is shown to have potential to export dairy products having the largest and well-developed dairy herd in sub-Saharan Africa (Karanja, 2003). Kenya and Sudan are the largest sub-Saharan dairy producers accounting for 47% of the total cow milk produced with Kenya having a market share of 24%.Although the country can produce the milk competitively; this advantage is lost due to inefficiencies in milk collection, marketing and processing. In line with global trends in milk producing countries, the country should promote policies that enhance the use of economies of scale and size while streamlining the delivery of inputs and services to farmers.

At an earlier study by Bigsten et al (1997), exporting was associated with large firms with greater capital intensity and location in the capital city where there are better support services and infrastructure .In the Kenyan manufacturing sector, the propensity to export and the proportion of output exported is higher in large firms as compared to micro-enterprises (Kimuyu,1999). Therefore the lesson for the dairy industry in Kenya is clear, to effectively participate in export trade, the industry need to consolidate to enjoy economies of scale and size.

2.5 Overview of theories of International trade

Why do nations trade? The answer to this is that mercantilist's nations did trade so as to build up stocks of precious metals in form of gold and silver (Ball & McCulloch, 1993). These nations encouraged exports by giving subsidies and discouraged imports by levying duties to have a positive balance of trade .Adam Smith in his theory of "absolute advantage" of 1776, showed that a nation would export goods that it can produce with less labor than other nations. Ricardo in 1817, proved that even though less efficient than other nations, a nation could still profit by exporting goods .all that was necessary was to hold a comparative advantage in the production of those goods. This comparative advantage emanates if a nation can produce and export those products that can be produced more efficiently than alternative products and import those that a nation has comparative disadvantage (Kibera, 1996).

The idea that a nation would tend to export products requiring a larger amount of relatively abundant factor was affected by Hechscher and Ohlin in their theory of factor endowment. Finally, the international product life cycle theory states that many products produced in the developed countries will eventually be manufactured in less developed countries and become imports in the very countries their production began (Ball & McCulloch, 1993) .Among the theories of international trade, Michael porter's "theory of competitive advantage of nations"(Porter, 1985) explains best the relationship between competitiveness in the local markets and the international markets. He argues that national prosperity is created and not inherited .Accordingly, a nation's (and equally a firm) competitiveness depends on the capacity of its industry to innovate and upgrade.

Competitive advantage grows out of value a firm is able to create for its buyers that exceed the firms cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price (Rugman, 2002). Companies therefore develop international competitiveness from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers. Firms that survive and flourish in a highly competitive and demanding local markets or customers are much more likely to gain the competitive edge in foreign markets. Porter's theory is in many ways a synthesis of the theories that came before it, and is quite a pragmatic approach to the challenges that the global markets of the twenty-first century presents to the firms of today (Rugman, 2002).

2.6 Export Market Entry Strategies

After a firm has decided to enter a foreign market, it must decide on the mode of entry and operation in that market. The decision of how to enter a foreign market can have a significant impact on the results (Foley, 2007). There are three rules for selecting entry modes; the naïve rule, the pragmatic rule, and the strategy rule (Hollensen, 1998).

With the naïve rule, firms use the same entry mode for all target markets disregarding peculiar differences of these markets. This prevents the firm from exploiting the foreign market opportunities fully (Albaum, Stradskov & Duerr, 1998).On the other hand, the pragmatic rule uses an entry method for each foreign market. A firm chooses an entry mode and if it does not work out, then switches to another mode. The advantage is that it minimizes the risks of wrong entry modes (Hollensen, 1998) but also has a pitfall of not leading the management to choice of the most suitable entry mode since no investigation is carried out initially (Albaum, Stradskov & Duerr, 1998).

With the strategic rule, the firm systematically evaluates and compares all alternatives before making a decision. The rule is to select the mode which maximizes profit contribution over the planned period, given the resources, risks, and nonprofit objectives (Hollensen, 1998). This is a complicated process involving various considerations, and since there is no exact rule as to how to select the most suitable mode, the firm uses their own judgment to make overall evaluation.

There are many different factors influencing a firm's choice to start exporting, either directly or indirectly (Root, 1994).These factors can either be internal or external to the company. Internal factors/stimuli are derived from influences inside the firm (Stewart & McAuley,1999).The internal factors that influence a firm's choice of market entry and subsequent expansion are derived from the management and company characteristics (Burka, Fletcher & Brown, 2004).External stimuli/factors are derived from outside the firm and markets where the firm operates or will operate. These factors can act as either incentives or impediments for a firm's decision to enter a foreign market. The internal factors are in the form of firm size, international experience and products, while external factors are socio-cultural distance between home and host countries, country risk/demand uncertainty, and market share and growth (Root, 1994).

Company *size* is an indicator of its resources, the more resources a company has the more the international involvement is possible (Hollensen, 1998).Firms with limited resources are more likely to choose a less costly entry mode such as export which leaves it at a disadvantage of not having the control over international operations and the degree of freedom desired (Root, 1994).

Previous *international experience* on the market has great influence on how a firm acts when selecting a new foreign market. This previous international experience can come from operations either in a particular country or the general international environment and this refers to how much a company has been involved in international operations (Hollensen, 1998). The experience reduces costs and uncertainty that exists when a firm operates in a new market and also increases the possibility of the firm committing more resources in the expansion of operations in the foreign market.

A highly differentiated *product* will receive a high degree of pricing discretion over its competition as compared to low differentiated products (Root, 1994).Since products vary in their characteristics and nature of use, selection of market entry mode vary a lot. Products that are distinguished by their physical variations, brand name, advertising, after sales service and encourage preference over the competition helps the company to comfortably manage the high costs of being in a foreign market (Hollensen, 1998). This is because they allow the firm to charge premium prices which exceeds costs and can also create entry barriers which will limit competition. By differentiating the products, the firm satisfy better their customer needs thus strengthening their competitive position.

Socio-cultural closeness is when target markets have similar business and industrial practices, similar languages, comparable education levels and cultural characteristics (Hollensen, 1998). In the event that, there is a big difference in socio-culture between the host country and home country, there are possibilities of high internal uncertainty and imbalance for them. The higher the distance, firms will favor an entry mode with low resource commitment and high flexibility such as export.

Entry in a foreign market will always pose more *risks* for a firm than a domestic market will. Foreign market is in itself a risk in addition to the method used to enter it. This risk associated with the foreign market can be sub-divided into economic risk and political risk. It is therefore imperative that a firm performs a risk analysis of the target foreign market and chooses an entry mode which is more suitable given the outcome (Hollensen, 1998).

Market size and corresponding market *growth rate* will determine the firm's willingness to commit resources in that market and also the method of entry employed. A large market with a positive growth rate will encourage higher commitment of resources to that market than a small market which will demand low resource commitment (Hollensen, 1998). The amount of commitment , risk, control desired and profit potential envisaged are some of the major determinants of which mode to adopt (Kotler . 2000).Expansion into a foreign market can be achieved through the following four mechanisms namely, exporting, licensing, joint-ventures and direct investments.

2.6.1. Exporting

Exporting is the marketing and direct sales of domestically produced goods in another country. Exporting is a traditional and well established method of reaching foreign markets .since exporting does not require that goods be manufactured in the target country, no investment in foreign production facilities is required. When a firm establishes export channels they have to decide which functions and what responsibilities that their external agents should have and what will be handled by the firm (Hollensen, 1998).Direct and indirect export is distinguished by how the exporting company carries out the transaction flow between itself and the host country buyer.

Direct export is when an exporting company sells directly to an importer or a buyer in a foreign market. Here a firm will have more control of the situation and communication and feedback from the market regarding product, price, distribution and promotion will be received promptly. Indirect export is when the exporting firm only uses independent firms that are located in the host country. Within direct export, firms are more involved in the host nations than within indirect export. Firms that choose indirect exporting are likely to have limited international expansion objectives and minimal resources devoted to test the market before committing larger resources in developing an export organization (Hollensen. 1998).The decision between direct and indirect exporting depends on the exporting firms' desired control and mostly indirect involves only costs associated with exporting which take the form of marketing expenses. The optimal degree of control should reflect both the risk that exporters expose itself to the amount of goods involved, by relying on other parties (Albaum, Strandskov & Duerr, 1998.)

Piggy back or use of mother hen sales force is when a manufacturer obtains distributors of their products through another manufacturer's established distribution channels (Keegan. 1995). In this arrangement, the products of both the manufacturers must be complimentary and not competitive. The advantage is that the channels are already established and if used in full, they will cost less and revenues will be increased. International intermediaries are there to maximize their profits and not the exporter's revenue; therefore they practice what is called "cherry picking". This is taking products who are in high demand and avoid those that need to be pushed through the market (Keegan, 1995).To avoid this, an exporter can set up direct distribution (which can be expensive especially for new products) or contribute to the cost of sales representatives of the distributor to motivate them and produce good results.

2.6.2 Licensing

Licensing essentially permits a company in the target country to use the property of the licensor .such property usually is intangible, such as trademarks, patents and production technology. The licensee pays a fee in exchange for the rights to use the intangible property and possibly technical assistance. This is a contractual mode (Bradley, 2002) seen as a vehicle for transferring knowledge and skills to the target market (Root, 1994).Since little investment is required, licensing has the potential of a very large return on investment (ROI). However, because the licensee produces and markets the products, potential returns from manufacturing and marketing activities may be lost.

2.6.3 Joint-venture

Joint-Venture is a project where two or more parties are involved in both investment and management. This is an investment mode (Bradley, 2002) which differs from contractual entry modes in that it involves a higher degree of control and ownership by the international firm. There are five common objectives in a joint venture; market entry, risk/reward sharing, technology sharing and joint product development and conforming to government regulations. Other benefits include potential connections and distribution channels access which may depend on relationships.

Alliances are often favorable when:

a) The partners' strategic goals converge while their competitive goals diverge.

b) The partners' size, market power and resources are small compared to the industry leader, and

c) Partners are able to learn from one another while limiting access to their own proprietary skills.

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems will include conflict over asymmetric new investments, mistrust over proprietary knowledge, performance ambiguity (*how to split the pie*), lack of parent firm support, cultural clashes and if how and when to terminate the relationship.

2.6.4 Foreign Direct Investment

Foreign direct Investment (FDI) is a direct ownership of facilities in the target country by an international firm (Bradley, 2002) in form of production units. It involves transfer of resources including capital, technology and human resources .FDI may be made through acquisition of an existing entity or the establishment of a new enterprise .FDI provides a high degree of control in the operations and ability to better know the customers and the competitive environment. However; it requires a high level of resources and a high degree of commitment.

2.6.5 Global strategic alliances and partnerships

These are outfits formed by firms to seek collaboration with another or other firm(s) be it local or foreign to meet challenges of penetrating and or expanding in a complex, turbulent and often unpredictable operating international environment (Ajami & Khambata, 1991).These alliances or partnership are best used when a firm have limited capital resources and there is need to obtain skills, resources and know-how necessary to operate in a foreign market. They also help to ease understanding of host country culture, law and practices. They are usually contractual than equity in nature, and have limited life spans since they are formed for a particular purpose. Where the forms of technology transfers are by other means than the establishment of subsidiaries or foreign direct investments, then successful transfers require new organizational skills through global alliances and partnerships.

2.7 Segmentation, Targeting and positioning strategies

Market segmentation can be defined as the process of dividing a market into groups of potential buyers who have similar needs and wants, values , perceptions or purchasing behaviors (Churchill & Peter, 1998).It is the division of the market into smaller homogenous sub-markets which the organization might successfully satisfy (Kibera & Waruingi, 1998). Therefore, it is the process of dividing a market into subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinctive marketing mix. Once the market is sub-divided the marketer chooses one or more segments to concentrate on serving (targeting) by designing an appropriate marketing mix to place the product in the minds of the target group (positioning)

Buyers are too numerous too widely scattered and too varied in their needs and buying practices that it calls for an appropriate focused strategy that will address the needs and preferences of each and every target market (Kotler.2000).Market segmentation is therefore a prerequisite for effective marketing. There are several bases used for market segmentation such as demographic, psychographic, behavior and benefits.

Demographic segmentation is based on measurable characteristics of population such as age, gender, income , education and occupation (Keegan, 1995).A number of global demographic trends such as fewer married couples, fewer children, changing roles of women in the society, higher incomes and living standards are driving the emergence of global segments(Teresa & Lynette, 1987).For consumer and industrial products, national income is the single most important segmentation variable and indicator of market potential. A traditional approach to demographic segmentation involved clustering countries into segments of high, middle and low income; with companies targeting those segments with highest income levels. For products whose price is low enough e.g. cigarettes, soft drinks, ball point pens etc, population is a more important segmentation variable than income. Milk products fit in a low priced category when packed in economy packs and sold reasonably to a highly populated segment e.g. pouched milk. When packed in premium packaging e.g. gold crown, then the main target is high income segments. If the target market is small children, then packaging is fancy and the product flavored as opposed to when adults are targeted.

Demographic segmentation involves recognizing various age groups such as children, teens, youth, middle age and elders. All these groups exhibit peculiar consumption behaviors that are remarkably consistent across borders. Teens for example, by virtue of their exposure to and interest in fashion, music and a youthful lifestyle, make it easy for marketers to reach them with a unified marketing program. For the elite group who happen to be older, well traveled and have money to spend on prestigious products with an image of exclusivity, technological change in telecommunication makes it easier to reach them via telemarketing, catalog marketing and through the internet.

Psychographic segmentation groups people in terms of their attitudes, values and lifestyles. Data is normally obtained through questionnaires that require respondents to indicate the extent to which they agree or disagree with a series of statements.Behaviour segmentation base the segments on whether or not people buy and use a product , as well as how much they use it. It categorizes the segment in terms of usage rates i.e. heavy, medium , light and non-users, and also user status such as potential users, non-users, ex-users, regulars, first timers, and users of competitors' products (Keegan, 1995).Benefits segmentation is based on the problem a product solves or the benefit it offers. The marketer is expected to have a superior understanding of problem the product solves or the benefits derived from its consumption.

Market segmentation helps the firm to allocate its resources more efficiently. It also allows the management in the long run to identify best profitable opportunities which results in a more efficient allocation of company resources (Johnson, 1971).Market segmentation enables the firm to identify underserved or unnerved markets and gear a specific product to the likes and requirements of that particular target group. The organization analyses the competitor offering in the context of the customer needs and wants and comes up with a better or differentiated offering which will appeal more to that target group. Segmentation has become increasingly important in the development of marketing strategies, in that it helps the firm to achieve a better understanding of itself and the environment within which it exists (Walker & Boyd, 1996) and by extension, examine its capacity to serve the customer better

One of the problems of market segmentation is determining to what extent definable market segments are worth pressing especially when considering developing an individual promotional campaign (Chartered Institute of Marketing, 1999). There are factors to be considered while determining the feasibility of target market segment such as size, profitability, measurability, actionability, accessibility and stability overtime. The market segmentation follows the rationale of concentrating resources on the best prospects, where a fir m focuses attention on one or a few selected market segment(s) and develop appropriate market programs to attain maximum return on investments (Paliwoda, 1993).

2.8 Challenges in the Dairy Industry

The dairy industry is faced with a myriad of challenges which are barriers to effective participation to export trade. These are

2.8.1 Perishability of raw milk

Raw milk is highly perishable and need to be processed without delay to convert it into a storable condition. This needs a large installed capacity and coordinated transport system from production areas to the processing facilities.

2.8.2 Seasonal variation in production due too weather patterns. Pasture abundance depends on the rains received in a particular season and hence the amount of raw milk produced. Exporters are forced to scale down exports to meet local demands when the milk production is low (Daily Nation, 16th September 2008).KCC has scaled down its exports and has not expanded into new foreign markets, mainly due to shortage of supplies.

2.8.3 Competition from imports coming from countries with low costs of production hence lower selling prices. Farm inputs in Kenya are quite expensive which drives production unit cost up and so the selling price .This compared with the price of imports pauses a challenge to local processors. Production of milk requires highly mechanized operations, and with high fuel costs witnessed lately (Daily Nation, 16 September 2008) has contributed to high production costs.

2.8.4. Raw milk transport from production areas to processing areas, rural to urban markets. This largely depends on road infrastructure which in majority areas is in deplorable conditions.

2.8.5. Financing which translates to cost of production especially availability to small and medium firms. In order to be able to process large amounts of milk and increase the products shelf lives, funds are needed to install the capacity and also to finance the strategic reserves of products for the local market and the export market as well.

2.8.6. High cost of inputs. Production in Kenya is very expensive as there are very high duties on imported machinery as well as the cost of electricity and fuel. The Government should come in and offer tax incentives to exporters in form of export compensation, low tariffs and other assistance such as information on markets , credit risks , organize trade fairs , missions etc.

CHAPTER THREE: RESEARCH METHODOLGY

3.1 Research Design

This study used a descriptive survey design. A survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their perception, attitude, behavior or values (Mugenda & Mugenda, 1999).

3.2 Population

The population of interest was firms in the dairy industry involved in the processing and exporting of dairy products. There are twenty four (24) firms registered with the KDB as processors in 2007 but only seven were involved in exporting during 2007.

3.3 Sample Size

A complete census of all the seven (7) firms involved in both processing and exporting activities during 2007.

3.4 Data collection

Primary data was collected using a questionnaire (appendix 2) which was sent by post with a self addressed envelope for return to Chief Executive Officers (CEO's) of the population of the study. A questionnaire is used when researchers require information on consumer feelings and attitudes (Kibera &Waruingi, 1988). The questionnaire was divided in three sections. Part one was used to collect general information, part two to collect information about the motivations to export and final part was used to collect information on the challenges faced by the firms.

3.5 Data analysis

Data was analyzed using descriptive statistics. These included the mean, mode and standard deviations where appropriate. Various factors to determine motivations and challenges were allocated points, from one to five (1-5), one being the lowest and five the highest.

The points on all responses were added and the mean and standard deviation computed. The higher the mean, the stronger the factor. The mode was used to determine the major factors that are perceived to be of greater concern.

CHAPTER FOUR

4.0 DATA FINDINGS, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter discusses the data findings, analysis, interpretation and presentation. The researcher was investigating factors and challenges affecting exporting activities of the firms in the dairy industry in Kenya where respondents comprised of the employees and managers in the (7) firms involved in both processing and exporting activities during 2007. A complete census of all the seven (7) firms involved in both processing and exporting activities during 2007. The response rate was found to be five (5) respondents out of seven (7) i.e. 71%. Analysis of the findings was done through SPSS and the output presented in the form of tables, pie charts and bar graphs. Likert-Scale was used to analyze some of the data with mean and standard deviation while the other data was analyzed using frequencies and percentages.

4.2 Findings from Demographic Information

Table 4.1: Length of Time in Business

	Frequency	Percent
1 to 3 years	0	-
3 to 5 years	0	-
5 to 10 years	1	20.0
10 years and above	4	80.0
Total	5	**100.0**

Table 4.1 shows the length of time that the respondent firm has been in the business of production of dairy products in Kenya. According to the table, 80% of all the respondents said that their firms have been in operations for over 10 years while 20% said that they have been in the business for 5 to 10 years. None of the respondents' firms had been in operation for less than 5 years. This indicates that majority of the firms in the dairy industry have been in their respective businesses for over 10 years. The length of time in

the dairy business is of great essence to the researcher since this would assist in relating the duration of operations with the export activities. From the findings, the research can conclude that, exporting dairy products need the firm to have been in the industry for at least ten years. Figure 4.1.1 illustrates the same information.

Figure 4.1.1: Length of Time in Business

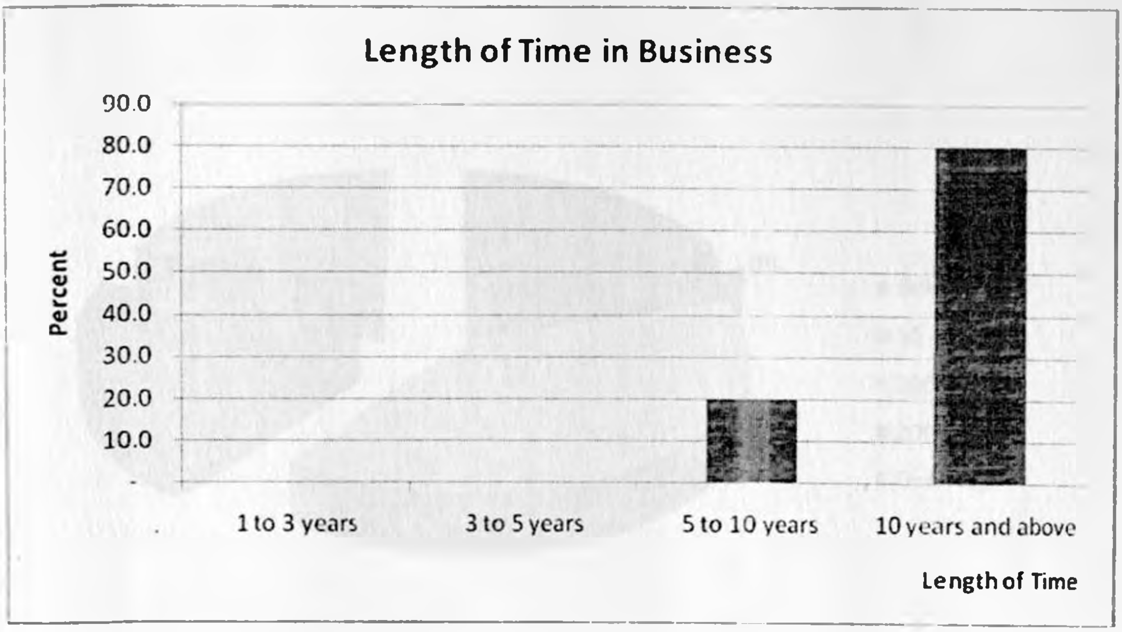


Table 4.2: Number of Staff Employed

	Frequency	Percent
Below 50	1	20.0
50 - 100	0	-
100 - 200	2	40.0
200 - 400	1	20.0
Over 400	1	20.0
Total	**5**	**100.0**

Table 4.2 illustrates the number of staffs employed in the various respondents' firms. From the findings, 40% of the firms had 100 – 200 employees while 20% had 200 – 400 employees, an equal size as those below 50 years and above 400 years. This implies that, majority of the firms in the dairy industry have over 100 employees. This implies that

those firms exporting dairy products have been operating in large scale. Figure 4.2.1 illustrates the same information.

Figure 4.2.1: Number of Staff Employed

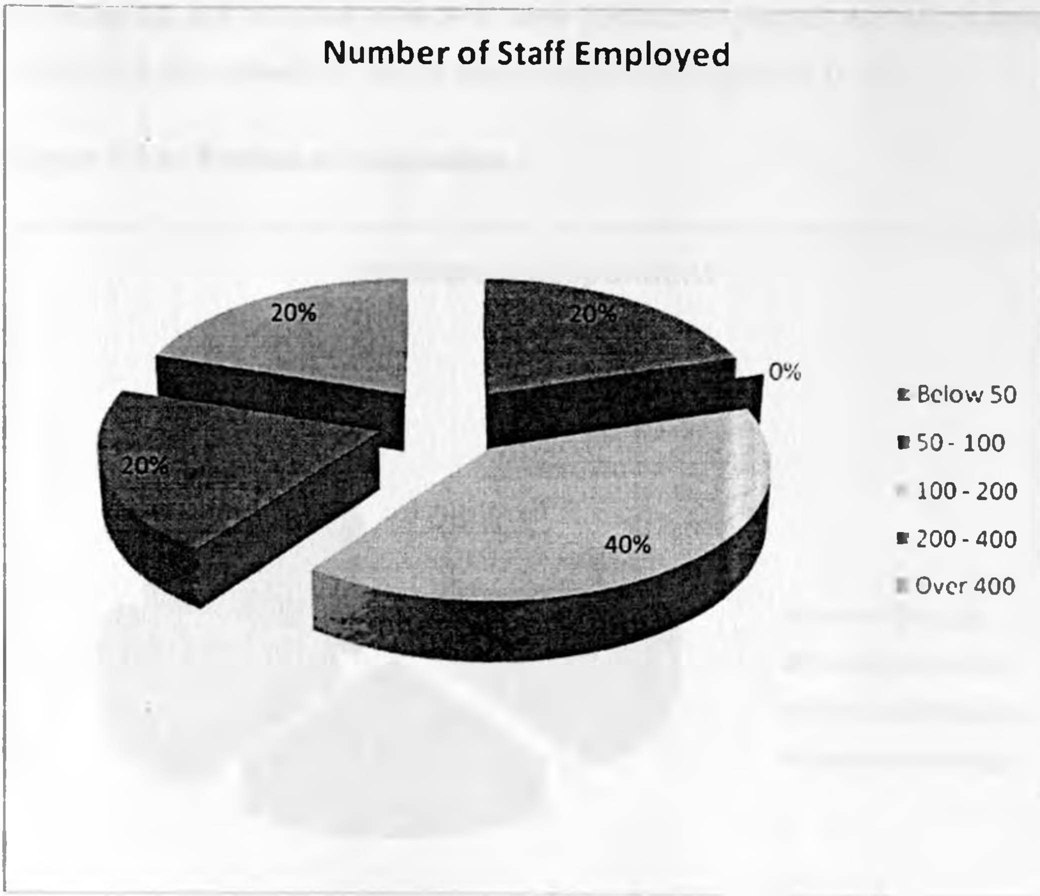


Table 4.3: Position of Respondent

	Frequency	Percent
General Manager	2	40.0
Financial Managers	1	20.0
Marketing Managers	1	20.0
Operations Manager	1	20.0
Total	**5**	**100.0**

Table 4.3 is an illustration of the position of the respondents in their respective firms. According to the table, 40.0% of the respondents were general managers while the

marketing managers, the financial managers, and the operations managers were represented by 20% of the respondents for each designation. This implies that majority of the respondents were the general managers of the respondent firms. The reason for this is that general managers could have detailed information on the overall export operating environment and therefore were in a better position to provide the information that was required by the researcher. This is also illustrated by figure 4.3.1

Figure 4.3.1: Position of Respondent.

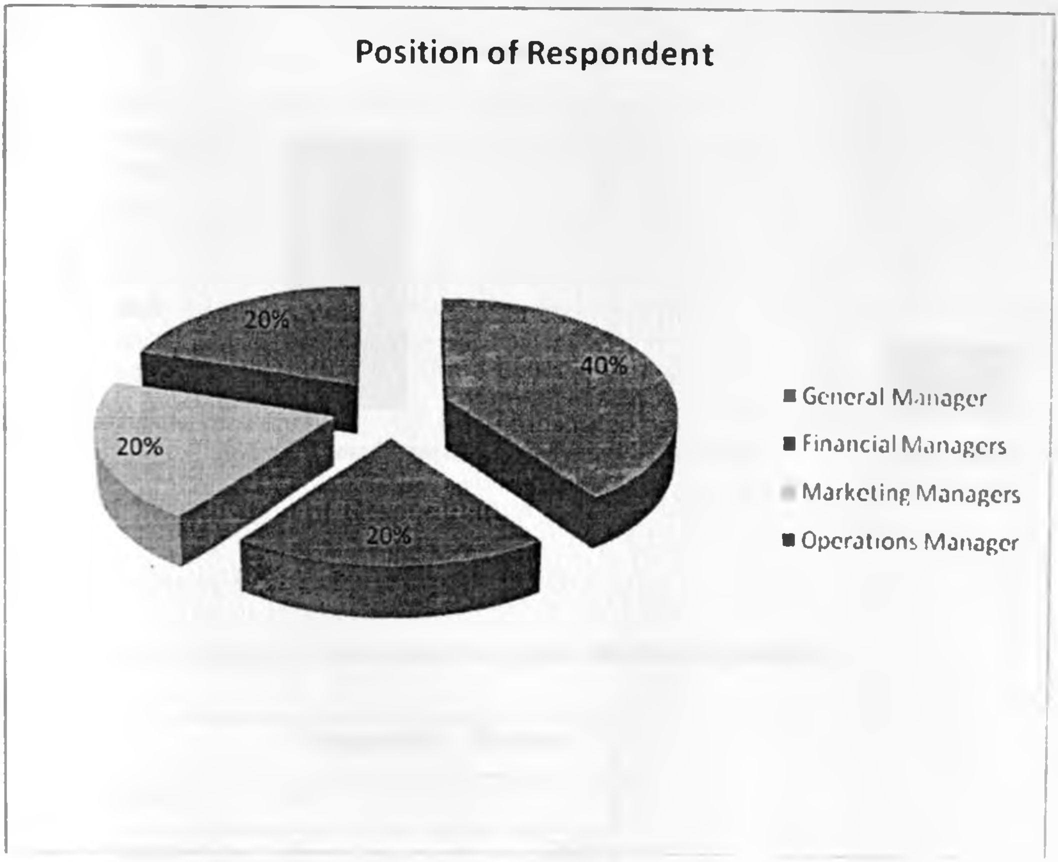


Table 4.4: Ownership of Firm

	Frequency	Percent
Wholly owned Private	4	80.0
Wholly owned Public	0	-
Jointly owned Private/Public	1	20.0
Total	**5**	**100.0**

Table 4.4 shows the ownership of the firm. According to the table, 80.0% of the firms were wholly owned private while 20.0% were jointly owned private and public. None of the firm was wholly owned public. This implies that, majority of the firms exporting dairy products are wholly owned private. The reason for this is because majority of the dairy ranches in Kenya are privately owned, a fact that is projected even to the firms that export the dairy products. Figure 4.4.1 illustrates the same information.

Figure 4.4.1: Ownership of Firm

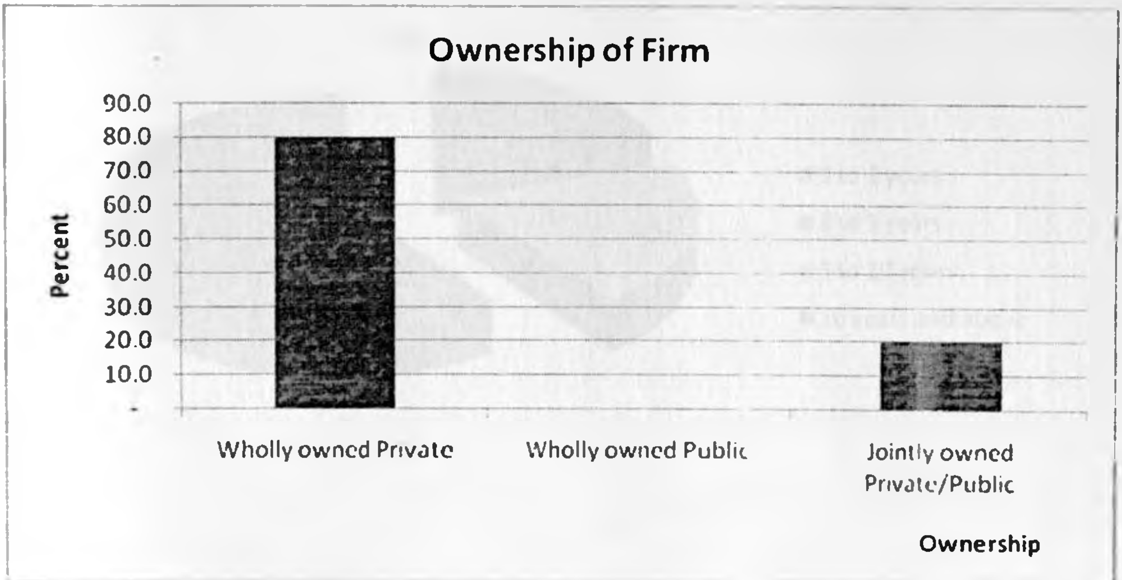


Table 4.5: Length of Time since the Firm Started Exporting

	Frequency	Percent
1 to 3 years	0	-
3 to 5 years	1	20.0
5 to 10 years	1	20.0
10 years and above	3	60.0
Total	**5**	**100.0**

Table 4.5 shows the length of time that the respondents' firms have been exporting the dairy products. As shown in the table, 60% have been in the exporting business for over 10 years while 40% have been exporting for less than 10 years. The reason for this could

be market liberalization which was effected in 1992. The details for this information are also illustrated by figure 4.5.1.

Figure 4.5.1: Length of Time since the Firm started Exporting

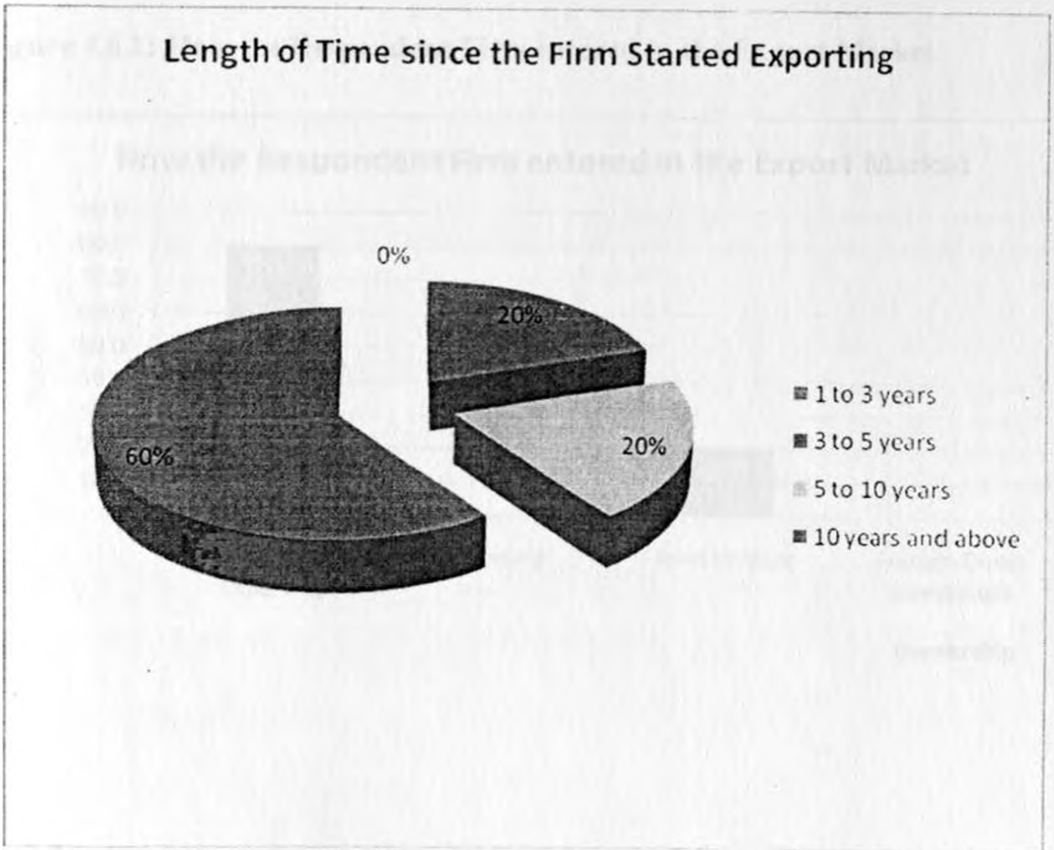


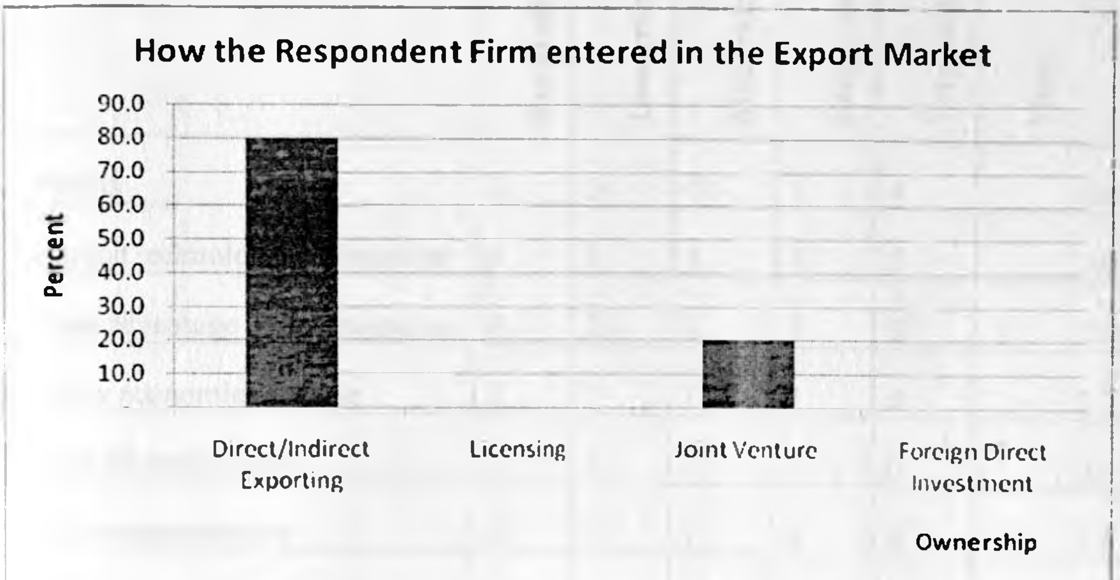
Table 4.6: How the Respondent Firm entered in the Export Market

	Frequency	Percent
Direct/Indirect Exporting	4	80.0
Licensing	0	-
Joint Venture	1	20.0
Foreign Direct Investment	0	-
Total	**5**	**100.0**

Table 4.6 shows how the respondent firm entered in the export market. According to the table, 80% entered the foreign market through direct/indirect exporting while the remaining 20% entered through joint venture. This implies that majority of the dairy

firms entered the dairy export market through direct/indirect exporting. The reason for this could be an effort for the exporting firm to get a ready market or easier market penetration for the dairy products in the foreign country without committing huge resources. This is also shown by figure 4.6.1

Figure 4.6.1: How the Respondent Firm entered in the Export Market



4.3 Findings on Motivation

Table 4.7: Extent of Factors that Motivated Respondent Firms to Export

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Mean	Std. Dev.
Profits	0	0	0	1	4	4.8	0.4
Exploit technological advantage	0	1	3	1	0	3.0	0.6
Take advantage of tax incentives	0	2	2	1	0	2.8	0.7
Enjoy economies of scale	2	1	1	1	0	2.2	1.2
Risk Diversification	1	2	1	1	0	2.4	1.0
Sell overproduction	2	2	1	0	0	1.8	0.7
Declining domestic sales	0	0	2	2	1	3.8	0.7
Utilize excess capacity	3	1	1	0	0	1.6	0.8

Table 4.7 shows the extent to which some factors motivated the respondents' firms to export their dairy products. The research used a 5 – point Likert Scale to analyze the data where 1 point was awarded to those factors which did not influence the firm at all to start exporting. On the other extreme, 5 points were given to those factors influencing the decision for exporting to a very large extent. Within the continuum were 2 points for less extent, 3 points for moderate extent and 4 points for a large extent. Means and standard deviations were used to interpret the information. According to the table, profits as a motivating factor got a mean of 4.8 points with a standard deviation of 0.4 while declining domestic sales had a mean of 3.8 with a standard deviation of 0.7. On the other extreme, utilizing the excess capacity had a mean of 1.6 with a standard deviation of 0.8 while selling the overproduction had a mean of 0.8 with a standard deviation of 0.7. This indicates that, majority of the firms exporting dairy products were highly motivated by

4.3 Findings on Motivation

Table 4.7: Extent of Factors that Motivated Respondent Firms to Export

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Mean	Std. Dev.
Profits	0	0	0	1	4	4.8	0.4
Exploit technological advantage	0	1	3	1	0	3.0	0.6
Take advantage of tax incentives	0	2	2	1	0	2.8	0.7
Enjoy economies of scale	2	1	1	1	0	2.2	1.2
Risk Diversification	1	2	1	1	0	2.4	1.0
Sell overproduction	2	2	1	0	0	1.8	0.7
Declining domestic sales	0	0	2	2	1	3.8	0.7
Utilize excess capacity	3	1	1	0	0	1.6	0.8

Table 4.7 shows the extent to which some factors motivated the respondents' firms to export their dairy products. The research used a 5 – point Likert Scale to analyze the data where 1 point was awarded to those factors which did not influence the firm at all to start exporting. On the other extreme, 5 points were given to those factors influencing the decision for exporting to a very large extent. Within the continuum were 2 points for less extent, 3 points for moderate extent and 4 points for a large extent. Means and standard deviations were used to interpret the information. According to the table, profits as a motivating factor got a mean of 4.8 points with a standard deviation of 0.4 while declining domestic sales had a mean of 3.8 with a standard deviation of 0.7. On the other extreme, utilizing the excess capacity had a mean of 1.6 with a standard deviation of 0.8 while selling the overproduction had a mean of 0.8 with a standard deviation of 0.7. This indicates that, majority of the firms exporting dairy products were highly motivated by

the profits from exports as well as countering the declining domestic sales. This is well illustrated by figure 4.7.1

Figure 4.7.1: Extent of Factors that Motivated Respondent Firms to Export

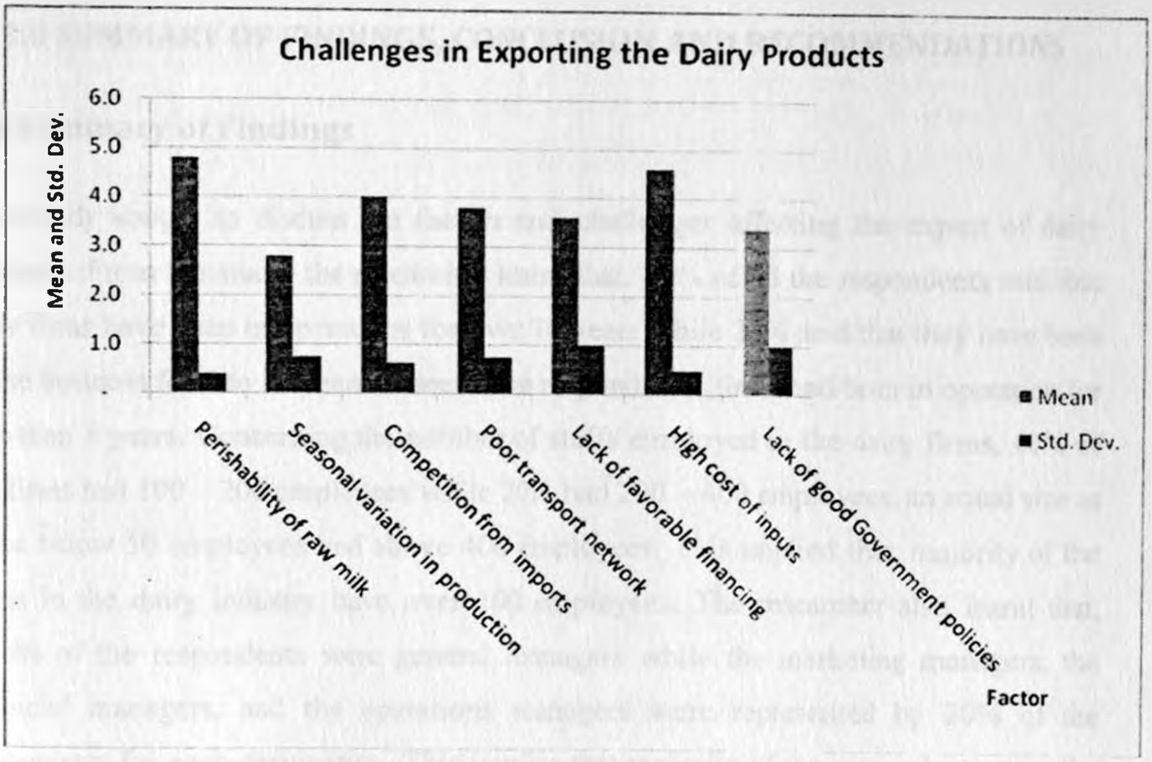
4.4 Findings on Challenges

Table 4.8: Challenges in Exporting the Dairy Products

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Mean	Std. Dev.
Perishability of raw milk	0	0	0	1	4	4.8	0.4
Seasonal variation in production	0	2	2	1	0	2.8	0.7
Competition from imports	0	0	1	3	1	4.0	0.6
Poor transport network	0	0	2	2	1	3.8	0.7
Lack of favorable financing	0	1	1	2	1	3.6	1.0
High cost of inputs	0	0	0	2	3	4.6	0.5
Lack of good Government policies	0	1	2	1	1	3.4	1.0

Table 4.8 shows the challenges that the respondent firms were getting while exporting the dairy products. The information was also presents by a 5 – points Likert Scale which were ranging from 1 point for the challenges which did not affect the firms at all and 5 for those factors affecting the export activities to a very large extent. Within the continuum were 2 points for less extent, 3 points for moderate extent and 4 points for a large extent. Means and standard deviations were used to interpret the information. According to the table, perishability of the raw milk had a mean of 4.8 with a standard deviation of 0.4 while high costs of input had a mean of 4.6 with a standard deviation of 0.5. On the other hand, seasonal variation in inputs had a mean of 2.8 with a standard deviation of 0.7 while lack of good government policy had a mean of 3.4 with a standard deviation of 1.0. This implies that, majority of the firms exporting dairy products do experience the problems of perishability of the raw milk as well as high costs of inputs as major challenges. This information is also illustrated by figure 4.8.1

Figure 4.8.1: Challenges in Exporting the Dairy Products



CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study sought to discuss the factors and challenges affecting the export of dairy products. From the study, the researcher learnt that, 80% of all the respondents said that their firms have been in operations for over 10 years while 20% said that they have been in the business for 5 to 10 years. None of the respondents' firms had been in operation for less than 5 years. Concerning the number of staffs employed in the dairy firms, 40% of the firms had 100 – 200 employees while 20% had 200 – 400 employees, an equal size as those below 50 employees and above 400 employees. This implied that, majority of the firms in the dairy industry have over 100 employees. The researcher also learnt that, 40.0% of the respondents were general managers while the marketing managers, the financial managers, and the operations managers were represented by 20% of the respondents for each designation. This implies that majority of the respondents were the general managers of the respondent firms. According to the findings, 80.0% of the firms were wholly owned private while 20.0% were jointly owned private and public. None of the firm was wholly owned public. This implies that, majority of the firms exporting dairy products are wholly owned private.

It was also notable that, 60% have been in the exporting business for over 10 years while 40% have been exporting for less than 10 years. This implies that, majority of the firms have been exporting dairy products for more than 10 years. Moreover, 80% entered the foreign market through direct/indirect exporting while the remaining 20% entered through joint venture. This implies that majority of the dairy firms entered the dairy export market through direct/indirect exporting.

In regards to the motivating factors, profits as a motivating factor got a mean of 4.8 points with a standard deviation of 0.4 while declining domestic sales had a mean of 3.8 with a standard deviation of 0.7. On the other extreme, utilizing the excess capacity had a mean of 1.6 with a standard deviation of 0.8 while selling the overproduction had a mean of 0.8 with a standard deviation of 0.7. This indicates that. majority of the firms exporting dairy products were highly motivated by the profits from exports as well as the declining domestic sales. On the challenges facing the export of daily products, perishability of the raw milk had a mean of 4.8 with a standard deviation of 0.4 while high costs of input had a mean of 4.6 with a standard deviation of 0.5. On the other hand, seasonal variation in inputs had a mean of 2.8 with a standard deviation of 0.7 while lack of good government policy had a mean of 3.4 with a standard deviation of 1.0. This implies that, majority of the firms exporting dairy products do experience the problems of perishability of the raw milk as well as high costs of inputs as major challenges.

5.2 Conclusion

From the study, the research could draw the following conclusions:

Majority of the firms in the dairy industry have been in their respective businesses for over 10 years. This means that, exporting dairy products need the firm to have been in the industry for at least ten years. In addition, those firms exporting dairy products have been operating in large scale and are privately owned. Exporting is the most preferred means of getting into foreign market since the firm gets a ready market or easier market penetration for the dairy products in the foreign country. Majority of the firms exporting dairy products were highly motivated by the profits from exports as well as fighting the declining domestic sales. As per the challenges, majority of the firms exporting dairy products do experience the problems of perishability of the raw milk as well as high costs of inputs as major challenges.

5.3 Policy Recommendations

The researcher made the following policy recommendations as a result of the findings that were derived from the study:

The government should reduce tariffs imposed on milk processing machines to ensure that all firms in the dairy industry are able to process and preserve the milk products cost effectively. This will cut back on costs of production as well as curtailing considerably the abnormal losses that face dairy firms.

Policies should be developed to ensure that competition from imports is minimized to the lowest level possible. Infrastructure should also be improved to ensure faster services and delivery of milk to the dispatch point. In addition, the government should improve the transport network to ensure that raw milk is transported to the target destination in time. This would reduce the risks of exported dairy products going bad.

5.4 Limitation of the study

The study did not measure the degree of significance of each of the factors motivating and challenges affecting exporting activities of the firms. The scope of the study only looked at whether the factors motivated or challenges affected the exporting activities or not, but not how significant this was.

5.5 Further Research

A study can be conducted and analysis of degree of significance of each factor motivating and challenge affecting exporting activities of the firms measured.

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APPENDICES

Appendix 1

<u>List of milk processors engaged in export</u>

New KCC Ltd	P o box 30131	Nairobi
Brookside Dairy Ltd	P o Box 236	Ruiru
SpinKit Dairy Ltd	P.o Box 78377	Nairobi
Donyo Lessos Ltd	P.o Box 00600-318	Nairobi
Happy Cow Ltd	P.o Box 558	Nakuru
Bio-food Products Ltd	P.o Box 27623	Nairobi
Eldoville Farm Ltd	P.o.Box 24390	Nairobi

Appendix 2

Questionnaire

Part 1- General Information

1. Name of the firm……………………………………………………..

2. Date when started…………………………………………………..

3. Number of staff employed…………………………

4. Position of Respondent…………………………

5. Ownership of Firm

- Wholly owned Private……
- Wholly owned Public…….
- Jointly owned Private/Public…

6. When did you start exporting……………

7. How did you enter in the Export Market (please tick one)

a) Direct/Indirect Exporting……. [ ]

b) Licensing…………………… [ ]

c) Joint Venture……………….. [ ]

d) Foreign Direct Investment…. [ ]

Part 2-Motivating factors

What motivated you to start Exporting? (Please indicate using the scale 1-Not at all, 2-Little, 3-Moderate, 4- Great, 5-Very great)

1. Profits.. [ ]
2. Exploit technological advantage...................... [ ]
3. Take advantage of tax incentives..................... [ ]
4. Enjoy economies of scale .... [ ]
5. Risk Diversification...................................... [ ]
6. Sell overproduction....................................... [ ]
7. Declining domestic sales .... [ ]
8. Utilize excess capacity.................................. [ ]
9. Others (specify)... [ ]

Part 3-Major challenges faced

What are the major challenges faced by your firm? (Please indicate using the scale 1-Not at all, 2-little extent, 3-moderate extent, 4-great extent, 5-Great extent)

1. Perishability of raw milk.............................. [ ]

2. Seasonal variation in production.................... [ ]

3. Competition from imports........................... [ ]

4. Poor transport network.............................. [ ]

5. Lack of favorable financing........................ [ ]

6. High cost of inputs.................................. [ ]

7. Lack of good Government policies................. [ ]

8. Others specify)... [ ]

9. Appendix 3: Letter of introduction

17th September 2008

Dear respondent

REF: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (MBA) student at the University of Nairobi. I am required to submit as part of my course work assessment a management research project on **"a survey of the factors motivating and challenges affecting exporting activities of firms in the dairy industry in Kenya".** To achieve this, your Organization is one of those selected for the study.

I kindly request you to fill the attached questionnaire to generate data required for this study. This information will be used for academic purpose and your organization's name will not be mentioned in this report whatsoever. Findings of the study, shall upon your request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Thank you in advance

Joel M. Njuguna	Mr. Victor Monayo
MBA Student-Researcher	Supervisor
University of Nairobi	University of Nairobi