RESPONSE STRATEGIES BY MERU CENTRAL DAIRY
CO-OPERATIVE UNION LIMITED TO THE CHANGES IN
THE DAIRY INDUSTRY

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university

Signed…………………………………….          Date……………………………………

Mbae Mwenda Gatobu.

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

Signed…………………………………….          Date……………………………………

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To anyone who I might have forgotten and everyone who supported me to this end I say thank you and may God bless you all.
DEDICATION

I dedicate this project:-

To my caring Dad: Festus Mbae Mwamba and to my loving Mom: Joy Karimi Mbae. Thank you for according me the opportunity and supporting me financially. You’re great parents.

To my bro: Kim and my sisters Kendi, Kanana and kaggy - Thank you for all your endless support and believing in me.

To my Nephew: Robin - I did this project for you to follow suite and challenge by going beyond.

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<td>M.C.D.C.U Ltd</td>
<td>Meru Central Dairy Co-operative Union limited.</td>
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<td>K.C.C</td>
<td>Kenya Co-operative Creameries</td>
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<td>M.C.F.C.U</td>
<td>Meru Central Farmers Co-operative Union</td>
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<td>FINNIDA</td>
<td>Finnish International Development Agency</td>
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<td>UHT</td>
<td>Ultra heat treated</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<td>FINNAGRO</td>
<td>Finnish agriculture and agro food industry</td>
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ABSTRACT

Organisation operates in an environment. The environments in which these organisations operate are constantly changing with different factors influencing them. The business environment has become more volatile unpredictable and very competitive. Organisation ought to realize that the days that customers want a knocking at their doors are long gone. They should know that their services and products regardless of how good they are simply to not sell themselves. Managers’ decisions have got strategic impact and contribute for strategic change. This study is designed to determine the changes in the dairy industry and the response strategies that M.C.D.C.U Ltd has adopted to deal with the changes.

The study was conducted by interviewing senior managers of the company. It was designed to determine the changes in the dairy industry and the response strategies that M.C.D.C.U Ltd has adopted to deal with the changes.

The study found out that competition has really intensified in the recent year and the company has adopted several strategies to respond to increased competition.

The study used primary data collected through an interview guide administered to six respondents, however only five of these respondents were interviewed.

Key Words

Strategy, Response, Co-Operatives, Dairy Industry
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organisations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. The environment is constantly changing. To survive in a dynamic environment, their strategies need to flow on their customers and deal with emerging environmental challenges. This is necessary because they are environmental serving. Ansoff (1987), In order for an organisation to remain successful in its business, there is need to understand the concept of opportunities and threats that are provided by external environment. Opportunities carry an avenue for improving performance for the organization while threats carry the potential to inhibit the success of organisation. Organisations are environment dependent as they do not operate in a vacuum (Ansoff and Mc Donnel, 1990). They obtain their inputs from and discharge outputs to the environment through a transformation process which Porter (1998) calls the value chain. The organisation’s according to Pierce and Robinson (1997), consists of all conditions and forces that affect its strategic options and define its competitive situation.

The organisation response to the challenges brought about by the changes in the environment is of vital importance. The Kenyan business environment has been undergoing drastic changes for some time now. Some of the changes include; accelerated implementation of economic reforms, the globalization and liberalization of the economy, discontinuation of price controls, privatization and commercialization of the public sector and increased international competition. In this changing environment, organisations have had to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organisation in jeopardy Aosa (1998).
1.1.1 Response Strategies

Pierce and Robinson (1987) defined strategic responses as a set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm’s objectives. This means then it is a reaction to what is happening in the economic environment of organisations. Ansoff and McDonnel (1990) noted that strategic responses involve changes in the firm’s strategic behaviors to assure success in transforming future environment. They also noted that increased competition has created fundamental shift in the economic environment where no organisation can hope to stay afloat if it fears to come up with proper strategic responses. Strategic response therefore involves the firm’s strategic behaviors to assure success in transforming future environment.

The environment has been characterized as complex, dynamic, multi-faceted and having a far reaching impact, Kazmi (2002). A fundamental is occurring whereby the world economies are witnessing the forces of globalization and liberalization of trade. The phenomenon of globalization, according to Hammond and Gross (2003) refers to “The fact that people around the world are becoming more and more knowledgeable about each other”. M.C.D.C.U Ltd therefore, Should respond to challenges in the external environment in a manner that allows it to gradually transform and also act as prerequisite to transformation into a truly national firm, proactive, an effective and efficient customer driven firm, In order to gain competitive advantage over their competitors besides the firms’ success and indeed even for its continued survival in the dairy industry.

1.1.2 Environmental Changes

A business environment become more complex, more competitive and less predictable survival requires that companies perform at a higher level with a broader repertoire of capabilities (grant 2005). The external environment is dynamic and keep on changing with time posing new challenges in form of new opportunities and threats. The combined measure of changeability and predictability of the firms external environment requires that the firm responses appropriately to avoid
mismatch which may lead to failure. Indeed as organization environment changes, the firm should continuously adopt its activities and internal configuration to reflect the new external situations. Failure to do so endangers the future success of organization (Aosa, 1998). Successful firms therefore continuously reassess the competitive factors in its industry which will bring future success. Whenever the historical success strategies do not match the future success factors, the firm either develops new strategies or leaves the industry (Ansoff and McDonnell 1990).

Available knowledge reveals that changes in the environment will require new strategies which in turn call reformed organisational capabilities. Organisation must adapt their strategies to new environment (Ansoff and MC Donell 1990). According to Thompson and Stickland (1993), it is necessary for organisations to use scanning techniques so as to predict environmental changes. Such scanning techniques involve studying and interpreting the social, political, economical and technological events so as to identify trends that could affect the industry. Environmental scanning enables managers to become aware of new developments that could pose new opportunities and threats to the organisation. This is because organisations are open systems that are interdependent with the environment; hence the strategy employed needs to take into account the environment within which they are operating (Mwathi, 2003).

Environment changes have inspired various studies to identify organisations response to challenges posed by the environment. A study in the dairy industry in Kenya concluded that due to the ongoing economic reforms in the country, firms in the industry made certain adjustments in their marketing mix components of producers prices, promotion and place in order to adapt to changes and remain competitive in a liberalized industry (Bett, 1995).

1.1.3 The Dairy Industry in Kenya
Kenya has one of the largest dairy industries in sub-Saharan Africa. Developments in the industry span over a period of 90 years and have undergone various evolutionary stages. In the first 60 years it was dominated by the large-scale farmers, while in the
last 30 years smallholder farmers have increasingly dominated the sector, contributing over 80% of the total milk production. Secondly, it has evolved through three market periods: For the period up to 1969 it operated as an open market with various independent dairies being active market players. Between 1969 and 1992 and primarily due to the rationalization of the dairy industry by the Government, a monopolistic market situation was created from 1992 the Government liberalized the industry. Up to 1992, the dairy industry in Kenya was under government control, which gave the policy guidelines, set prices, determined the players in the industry and set the market rules among other things.

Since milk market liberalization in May 1992, competition in milk processing and marketing has increased significantly in the industry. Since then, the Board has licensed over 40 private and dairy co-operative processors to process and market milk and milk products. The industry has a processing capacity of 2.5 million litres per day. The Kenya Cooperative Creameries (K.C.C) is estimated to have a processing capacity of 1.2 million litres of milk per day and the other processors combined have a processing capacity of about 1.3 million litres of milk per day. Kenya Co-operative Creameries (K.C.C) enjoyed a protected monopoly in the marketing of the milk and dairy products. Presently, the dairy industry is regulated by the Kenya Dairy Board, established under Section 4 of the Dairy Industry Act Cap. 336 enacted by Parliament in 1958. It is from this Act that the Board derives its mandate. A list of main players in the Dairy industry with their processing capacity is appended at the end of this project as Appendix 111.

1.1.4 Meru Central Dairy Co-Operative Union Limited

Meru Central Dairy Co-operative Union has a long history which dates back in the 1960’s. The 1st Co-Operative Union was formed in 1967 by three primary co-operative societies. These societies are Katheri Dairy Farmers Co-Operative Society, Naari Dairy Farmers Co-operative Society and Buuri Dairy Farmers Co-operative Society. In that period, there used to exist another strong Union for coffee primary societies known as MACCU. In 1972, a directive was issued by the Ministry of Co-
operative Development that there can be only one co-operative union in any administrative district. The Dairy Union thus amalgamated with the Coffee Union (MACCU) to form the then giant Meru Central Farmers Co-operative Union (MCFCU). As such, since the merger, the main pre-occupation of the Dairy Section was in selling of raw milk to main urban centers and delivering of the surplus milk to Kiganjo K.C.C. As selling of raw milk in urban centers intensified, a need to improve the cumbersomeness of distributing the raw milk lead to some innovation. A semi manual chilling and packing system was installed in 1978. In the seventies the country was generally enjoying the substantial economic growth. There were a number of development partners who were participating in helping Kenya to attain its vision. In this regard, the Finnish International Development Agency (FINNIDA) was involved in promoting rural dairy development in the country.

It commissioned a consulting company for agriculture and agro food industry known as FINNAGRO to undertake a feasibility study with a broad objective of initiating small scale milk processing plants in areas that were not adequately served by the then Kenya Co-operative Creameries. The study concluded that there was a big potential in Meru and Bungoma Districts. Through FINNIDA, it was recommended that the two districts be chosen as pilot projects to undertake milk processing activities to promote dairy farming in the potential districts not adequately served by K.C.C. Thus the 1st milk processing plant was installed in 1982 with a grant from the Government of Finland at a cost of Ksh.15.75million. This plant had a capacity of processing 20,000 litres of milk into only one production line of UHT milk in polythene sachets. The economic impact of the plant to dairy farming was tremendous. Whereas the feasibility study had indicated that it would take about 8 years before the full capacity of the plant is realized, it took only 3 years to exceed the installed capacity. In 1986, the Union was not able to handle the surplus milk and therefore approached K.C.C. to off load the surplus milk. K.C.C. declined to accept the surplus milk and indeed a lot of milk was wasted. It is worth noting that the Management of K.C.C. was not happy with the activity of Meru and Kitinda (new milk processing plants) and they even changed their bi-laws to state that any firm that
is engaged in milk processing business is a competitor and hence should not entertain the idea of selling of milk to them.

Between 1987 and 1990, a mode of expanding the plant was initiated. FINNAGRO was again engaged to carry out a feasibility study of expanding the 20,000 liter capacity plant. Their report became the blueprint upon which the new plant was expanded on. In line with feasibility study, FINNAGRO filed an application to the Finnish Export Credit Ltd. for covering up to 85% of the contract price with the pre-mixed concessional credit. The Meru Union was expected to pay a minimum of 15% of the contract price. The foundation for the new factory was laid in 1992 at a staggering cost of Ksh.230million. The factory has a capacity of processing 50,000 litres in the following products: Pasteurized one day fresh, 2 weeks shelf life milk, Cream, Fermented milk (mala and Yoghurt), Ghee, Butter and Ice cream. In 1995, the Union launched its own A.I. scheme following the earlier Government withdrawal of the same in 1993/94. In 1996, the installed capacity of the factory exceeded (i.e. over 50,000 litres of milk per day used to be received.) However in 1997/98 the El Nino rains tremendously caused a decline in milk production. In 1999/2000 long life milk Tetra Pak line was inaugurated with a maximum capacity of processing 10,000 litres of milk per day in 500ml packets.

From the year 2000, the Dairy Union started experiencing a lot of challenges. The Dairy Union was heavily indebted to its key financiers (Co-operative Bank as well as other suppliers of goods and services). Payment to farmers accumulated in arrears of 3months as well as salaries and wages of all the workers. In 2003 the Ministry Of Co-operative Development intervened and formed a commission of inquiry which lead to dissolution of the Management Board which was in office. The Commission also recommended that the Union should be restructured into 4 independent business entities, Namely; Coffee Union Dairy Union, Multipurpose Society and SACCO. Meru Central Dairy Co-operative Union ltd was thus formed in May 2005. A list of active and non active members of Meru Central Dairy Co-operative Union is appended at the end of this project as Appendix 1V.
1.2 Statement of the Problem

In the fast changing environment where milk processing companies like any other organization are dependant business can no longer operate as usual they have to be strategic in their commitment in addressing the changes in the dairy industry. This research aimed to add value on the response strategies that M.C.D.C.U Ltd has adopted as a result of changes in the dairy industry. Many changes occurred and will continue to occur which in most instances continues to alter the environment in which organization operates in Kenya. These changes continue to create opportunities and also pose challenges and threats to the organization.

Milk processing companies, like all other organizations, are environmental serving (Ansoff, 1984 and Sullivan, 1993). They depend on the external environment for their survival they have to understand requirements of this environment and adapt to them. Failure, they give rise to a serious strategic problem characterized by the maladjustment of the organizations output and the demand of the external environment (Ansoff, 1984). For the milk processing companies to be successful, their strategies have to address the environmental challenges adequately.

Fundamental changes have taken place in the Kenyan business environment. Liberalization of both domestic and foreign trade, changes in the legislation, advancement in technology, as well as changing climatical conditions as a result of pollution and destruction of the natural environment by the human are some of the challenges facing the dairy industry. With these problems the dairy industry in Kenya has continued to experience serious problems of severe milk shortages during dry seasons and massive milk wastage during the rainy season both situations resulting to major loses by all processors. The other challenge that comes during dry spell is that since Kenyas’ most power comes from hydroelectricity there is massive power rationing causing the factories to turn to other sources of energy which are more expensive and yet they are not producing at the economies of scale.
Several studies have been carried out on strategic responses of firms to changes in the environment in a number of industries. Bett (1995) studied the impact of economic reforms on the dairy industry in Kenya. Kombo (1997) carried out a study on strategic responses on motor vehicle franchise holders in Kenya. A study on strategic responses of East African Breweries limited to the changes in the environment was done by Njau (2000). Chepkwony (2001) studied the strategic responses of oil industry in Kenya to the changes in then environment. Thiga (2002) studied the responses of airline industry to the changes in the environment. All these studies focus on other industries and are limited in their use of understanding challenges in the environmental turbulence encountered as a result of seasonal variation as evidenced in the dairy industry. The industry usually deals with perishable commodity. This study addressed the following question so as to generate information to fill the existing knowledge gap:-

i. What challenges M.C.D.C.U Ltd is experiencing as a result of changes in the dairy industry?

ii. What response strategies has M.C.D.C.U Ltd adopted to cope with changes in the dairy industry?

1.3 **Objectives of the Study**

This study established the following:-

i. To establish the challenges M.C.D.C.U Ltd is facing as a result of changes in the dairy industry.

ii. To establish the response strategies M.C.D.C.U Ltd has adopted to cope with the changes in the dairy industry.
1.4 Value of the Study

M.C.D.C.U Ltd will use the research findings to evaluate themselves and forge forward with their new strategies. The findings will provide insights on how the organisation can adopt and respond to changes in the dairy industry. This will help organisations adopt strategies that will give them strategic advantage than their competitors.

The research will be important to the managers of the companies within the dairy industry in that it will inform them of their pertinent changes of the environmental factors and how to respond to them and constraints involved. This will enable the players in the dairy sector to be able to change the strategic responses if what they are already using is not being effective.

To the potential investors in the milk processing business, the research will help them in enabling them assess and forecast the future of the business. The findings will also be of value to them in that they will have available information on strategic response to the ever complex and dynamic dairy environment.

Finally to the academicians and researchers in the field of strategic management, the findings will lay foundation for understanding responses of milk processing industry to changes in the environment and for further research on dairy industry. They will further be able to use this study as a source of reference in forming their future research topics and studies.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on strategic response by M.C.D.C.U Ltd to the changes in dairy industry. The facets of this chapter include the concept of strategy, environmental changes and challenges, organisational response to environmental changes, the five forces model and the factors influencing response strategies.

2.2 The Concept of Strategy

Pearce and Robinson (1997) define strategy as large-scale future oriented plans for interacting with competitive environment to achieve company objectives. It is a company “game plan”. A strategy reflects a company’s aware some of how, where and when it should compete and for what purpose it should compete. The main strategy is to achieve long-term sustainable advantage over the competitors of the organisation in every business in which it participates. It recognizes competitive advantage results from a thorough understanding of the external forces that impact on the organization. Thompson and Stickland (1993) define strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and pursue organizational mission. Porter (1996) “states , The essence of strategy is choosing to perform activities differently than rivals do’. D’Aveni (1994) takes the view that strategy is not only the creation of advantage but also the creative destruction of opponents advantage. Strategy is the direction an organisation chooses to take in future; to fulfill its obligations to its stakeholders (Johnson and Scholes, 2002, Peter, 1995).

Aosa (1998), states that strategy is creating a fit between the external characteristics and internal conditions of an organisation to solve a strategic problem. The strategic problem is a mismatch between the internal characteristics of an organisation and its external environment. The matching is achieved through development of
organizations core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment. Strategy creates viable match between the external environment and organization’s capabilities. Ansoff (1998) argues that strategy assists companies to cope with change, which is usually precipitated by environmental factors. Internally, strategy entails formulation and implementation of capabilities and resource strengths that are needed to sustain competitive edge by the company. Strategy therefore is a powerful tool for coping with the conditions of change, which surrounds the firm today. It offers significant help for coping with turbulence confronted by business firms.

2.3 Environmental Changes and Challenges

Environment is the key to success of any organisation. It can be relatively stable or turbulent. Environment has been defined differently by different authors. Environment refers to the general business setting created economic, technological, political and social forces in which an organisation plans to operate (Pearce and Robinson, 2002). Challenges are defined as encounters an organisation faces. These encounters are problems, hiccups or threats that a company faces. The challenges are brought about by the environment in which the organisation operates.

Hersy (1996) observes that organisations do not exist in a vacuum, but are continually affected in numerous ways by changes in the external environment. External environment consists of all the conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson, 1997). A vast number of writers have categorized the external environment in both domestic and global which have the following sub-categories: Remote environment, Industry environment and Operating environment. Most organisations have little or no influence on or control over the economic, social, political, technological and ecological factors in the remote environment. For success in the present world, one need to consider not only the internal environment of the company consisting of its resources and employees, but also needs to consider the external factors. These aspects cannot be stopped but one can adjust accordingly as per changes in the economic, social or political pressures.
These are the external factors which consist of, Opponents or competitors, the changing economic structure, impact of the society, financial arrangement, legal or political system and the impact of the environment.

Some of the challenges that organisations faces may be past and future economies that can affect the fortunes and strategy of the firm. The stage of the business circle of a company can be; depression, recession, recovery or prosperity stage. Inflation or deflation trends affect the prices of goods and services as well as raw materials. Severe inflation leads to wage and price control whereas recession may lead to unemployment which will result to lower sales discretionary goods. If the monetary policy is tightened, funds needed for plant addition may be too costly or unavailable. Tax policy reduces attractiveness of investment in the industry. Strategist in organisation must determine what economic factors are most important to their business and attempt to predict the changes which are likely in this condition (Juan and Gweck, 1980).

Johnson and Scholes (2002) argues that climatic and ecological are threats from unforeseen weather changes which influences some firms whose products are seasonal. Example is milk production. Others are ecological issues such as protection of endangered wildlife which affect industries located near forest and those that use wildlife for some of their raw materials. Firms are greatly affected by political factors. Continuous assessments of the government help individual organizations to develop complementary plans that anticipate and optimize environmental opportunities. Management ability to act on the basis of changes in the environmental factors is limited not only by its available resources and its perceptions of the need for change but by various legal and government restrictions (McCarthy et al, 1996). Organisation must therefore be aware of both laws and attitudes of governmental bodies if they are to avoid conflicts and for prosperity of their privileged status.
Economic environment is concerned with the nature and direction in which the firm operates. It’s characterized by the factors that affect supply, demand, growth, competition and profitability within the industry. Betman and Zeithaml (1993) noted that the economic environment dramatically affects companies’ ability to function effectively and influences their strategic choices. They state that interest and inflation rates affect the availability and cost of capital. In addition, unemployment rates affect labour availability.

The social-cultural environment is concerned with the society’s attitudes and cultural values. When the organisation conducts its business, it will need to do so in a way that respects and bears in mind the fact that the social-cultural environment is characterized by different people and therefore it has to conduct its business in a way that respects and accommodates this environment failure to do so can result in bad publicity, losses and even the folding up of the business due to public pressure. Changing technology that might affect the firms’ raw materials, operations, products and services can offer opportunities for improving goal achievements and threaten the existence of a firm. Example computers, lasers, industrial robots and computer controlled machines. Technical changes affect the product and services, life cycle and its demand (Byars, 1991). A product experiences remarkable sales growth, it then matures and finally declines. Firms spend a great deal of energy trying to determine where they are in the circle so that they can know how to invest in their efforts. Risks are investments in technology, innovation without assurance that it will be accepted.

2.4 Organisational Responses to Environmental Changes

Ansoff and Mc Donnell (1990) observes that environment serving organisation exhibit two major styles of behaviors i.e. incremental behavior, to minimize departure from historical behavior which seeks change, and four primary types of management responsiveness; Operating responsiveness to minimize cost, Competitive responsiveness to optimize profit, Innovative responsiveness to develop new term profit potential by new product or services and marketing strategies and entrepreneurial responsiveness for long term growth, profitability and continuity.
Strategy exists at corporate the overall purpose and scope of an organisation division or business level and departmental level to compete in particular markets (Mintzberg et al, 2003; Johnson and Scholes, 2004; De wit and Meyer, 2004; Johnson et al, 2006). De wit and Meyer (2004) add a fourth level- the network or the alliances and partnerships. According to Kaplan and Norton (2000) five key principals for building on strategy is focused organization are to; Translate strategy to operational terms, align organisation to strategy; makes strategy everyone’s everyday job; make strategy continue process and mobilize change through strong and effective leadership.

2.4.1 Strategic Responses

Pearce and Robinson (1991) define strategic responses as a set of actions that result in the formalization and implementation of plans designed to achieve firms’ objectives. Strategic responses are therefore organizational actions that are long-term in nature. They are more embracing of an organisation as a whole as opposed to department decisions. These responses are known to involve large amounts of resources. They are a reaction of organisations to what is happening in the environment. Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an enterprise and adaptation of causes of action and the allocation of resources necessary for carrying out these goals, in view of future market demand and general economic conditions. It is the direction and the scope over the long term, which achieves the advantage of an organisation, over the long term through its configuration of its resources within a changing environment and to fulfill stakeholders expectations (Johnson and Scholes, 2004; Johnson et al, 2006).

There is need for organisations to align themselves to the changes in the external environment. This requires undertaking strategic responses that will help them to counter the environmental turbulence hence remain relevant in the industry. Various strategies can be undertaken in the effort of aligning and realigning the organisations activities to such turbulence. Huczynski and Buchanan (2007) noted that organizational change is a strategic imperative. This means that radical shifts or strategic changes are required in order to cope with the many and unpredictable
changes in the wider social, economic, political and technological environment. Ansoff and Mc Donell (1990) indicated that strategic responses involve changes in firms’ strategic behaviors to assure change in transforming future environment. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment. One of the fundamental issues in developing an operations strategy and for that matter a competitive strategy is which activities should be performed internally, and which should be left to others such as suppliers, customers or partners (Hayes et al, 1996).

2.4.2 Operational Responses

The nature and tasks undertaken by the operating core of an organisation has an important influence on the various aspects of organizational design and control (Johnson and Scholes, 2001). There are links between the type of production process and the approach to management. The operational strategies are concerned with how the component part of an organisation deliver effectively the corporate and the business level strategies in terms of resources, processes and people. (Johnson and Scholes, 2006; Johnson et al, 2006) The operation management is concerned with exploiting the present strategic position to achieve objectives, converting the potential into actual profit and matching capability to the turbulence of the firm’s environment (Ansoff and Mc Donell, 1990)

Operations are the core functions of the organisation and continuously manage the flow of the resources through it. In most organisations, operations account for 80% of employees hence most of their added value (Naylor, 1996). The output of operations system is the bundle of goods and services which is consumed in society. An organisation that does not continuously satisfy the needs of the customer fails. Bromn et al (2000), observes that operational issues are those activities that enable the organisation as whole to transform a range of basics inputs which may include materials, energy, customer’s requirements, information, skills and finances into outputs for the end customer. Operation management organizes plans controls and
improves the use of the process, inventory workforce and facilities and equipment in
order appropriately to determine the ranking of competitive priorities like price,
quality, dependability, flexibility and time, thereby providing short term profit, long
term and market share.

Organisation culture dictates how things are done around any given organisation.
Organisation culture is the collection of tradition values, policies, beliefs and attitudes
that constitute a pervasive context for everything we do and think in an organisation.
It shows what is acceptable and what is not acceptable in organisation. The
organizational culture helps the employees to identify themselves with their
organisation and accept their rules, internalizes the organisation values and motivates
them to achieve the organisation objective. Changing organisation culture is very
difficult though its possible. Positive organisation culture yields proper
communication to each other also to outsiders. It also results in other factors relevant
for survival in the changing environment such as teamwork, outcome orientation,
innovation and risk taking, attention to detail and also people orientation.

The range of responsibilities that operations managers have within the plant or service
itself is both profoundly important and wide in scope; they include human resources,
assets and costs. The management of human resource is not limited to the reasons of
one department; it is a company’s wide responsibility. Managing assets is an integral
part of an operations manager’s role. Hills (1991) and Brown et al (2000) observe that
up to 70% of assets may fall under the responsibility of operations management. The
greatest single cost in the transformation process within a manufacturing environment
is usually in material management becomes relegated to a tactical-clerical buying
function and is not seen in the strategic framework that it needs. Second, the
organisation will need to form excellent relationships are still difficult for
organisations that are unable to form to these strategic links.
2.4.3 Tactical Responses

Tactical responses are the short duration, adaptive, action oriented, realignment that opposing forces use to accomplish limited goals and the strategic and tactical difference lies primarily in the scale of action or perspective of leaders. Tactical decisions are more involved in ensuring the efficient and steady use of current resources already allocated, dealing with day to day activities for smooth and efficient operations and to coordinate the functional activities to focus on current market demand (Chandler, 1962). The tactical adjustment will always be needed but are made with the framework of basic strategic decision (Drucker, 1955). Senge (2006) argues that symptomatic intervention and the quick fix solve problem but on temporary, whereas its fundamental solution works more effectively, but strengthening the fundamental response and weakening symptomatic response require long term orientation and share vision to avoid pressures to divert investment into short term problem solving.

Porter (1985) indicates that recognizing accurately by reading market signals is significant for developing competitive strategy. He further observes that a firm that continuously invest to gain competitive advantage by improving its relative cost position and differentiation will be difficult to challenge successfully even with vigorously offensive strategy. Kotler (2004) argues that tactical responsiveness can be achieved through the marketing plan that lays out the target market and the value preposition based on market opportunity and tactical marketing plan that specify the marketing tactics, product features, promotion pricing, sales channels and services.

2.4.4 Corporate Responses

Performance contracting is a major part in achieving set objectives of a company. A performance contract is a formal and legally enforceable agreement between an employer and employees defining the performance expectation which are to be delivered by the employees as well as the time in which they are to be delivered. Performance contracting gives an organization a competitive edge over the organisation since it has a binding commitment. The signing of the contract indicates
commitment by the parties to implement the strategic plan. Apart from performance contracting, alliances are the other response strategies that greatly put organisations at a competitive edge.

Strategic alliance is an agreement between two or more individuals or entities stating that the involved parties will act in a certain way in order to achieve a certain goal. They make sense to the organisations which have complementary strength. The alliances usually reduce competition in the business or even support the companies in various means either being monetary or even product wise. Alliance helps in bringing economies of scale in production and or marketing allies can share and or transfer technical and manufacturing expertise access to markets to previously blocked by government barriers among other benefits.

Bench marketing is the other response strategy. It is defined as the organisation assessment of the performance and practices of other organisations and competitors in an effort to analyze and its own performance. Bench marking is essential for organisation to raise their standards. The purpose according to Kanji and Asher (1996) is to identify and fill gaps in performance by putting in place the best practice, thereby establishing superior performance. Benchmarking can be described in three distinct types, namely: Internal Benchmarking, Competitive benchmarking and Comparative benchmarking. Internal benchmarking is where organisation undertakes comparison between functions, department or a similar organisation as a means of improving performance. Competitive benchmarking is a cross comparison within one industry sector aimed at establishing best practice through identification of gaps within your own competitor’s performance. Comparative benchmarking is the comparison across all business sectors aimed at establishing best practice in all areas of operation (Kanji and Asher, 1996).
2.4.5 Business Responses

This means that there is need for business to be able to respond swiftly to the changes in their industry. This is because the organisation will always be ahead of its competitors if they can be able to change with the turbulent environment by being able to meet the customers need satisfactorily. Information technology is the world mover. Information technology hardware and system keeps evolving after every month, new information technologies with enhanced connectivity capabilities can trigger the transformation of an industry structures and change the source of competitive advantage. The organisations that are swift enough to respond to information technology changes obtain competitive benefits of volume and experience that may not accrue to those who follow.

The other aspect of business response is the Total Quality Management (TQM). It is geared to ensure that the organisation consistently meets or exceeds customer requirements. Total Quality Management (TQM) is a way of life for organisation as whole, committed to total customer satisfaction through a continuous process of improvement and the contribution and involvement of people (Mullins 2007). Total Quality Management (TQM) maintains that organisations must strive to continuously improve organisation functions which include; Marketing, Finance, design, engineering and production of customer service etc by incorporating the knowledge and experiences of workers.

Finally, research and design is another key in dealing with the changes in any industry. Continuous research brings new ideas to the organisation that gives it competitive edge hence bringing success to the organisation. New products or enhancements to the products or the changes in production are all benefits that come with research and development.
2.5 The Five Forces Model

In an industry, whether service or manufacturing, (Porter, 1980) observes that the rules of competition are embodied in five competitive forces which are, the entry of new competitors, the threat of substitutes, the bargaining power of suppliers and rivalry among the existing competitors. The collective strength of these five competitive forces determines the ability of the firms in any industry to earn profits and these five forces vary from industry to industry. According to (porter, 1980) industry structure has a strong influence in determining the competitive roles of the game as well as the strategies potentially available to the firm. He holds to belief that the strength of competitive forces in an industry determining the degree to which the input of investment occurs and drives the return to the free market level, and thus the ability of firms to sustain above average firms.

Threat of entry is the first force. New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from the existing competitors that the entrant can expect, if barriers are highly and/or the new comer can expect sharp retaliation from competitors, the threat of entry is low and vice versa.

Intensity of rivalry among existing competitors is the second force. This takes the familiar form of jockeying for position-using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Intense rivalry is the result of a number of interacting factors namely: numerous or equally balanced competitors; slow industry growth; high fixed or storage costs; lack of differentiation or switching costs; capacity augmented in large increments; diverse competitors; high strategic stakes; and high exit barriers among others.
Pressure from substitute products is the third force. All firms in an industry are competing, in broader sense, with industries producing substitute products. Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternatives offered by substitutes, the firmer the lid on industry profits and vice versa.

Bargaining power of buyers is the fourth force. Buyers compete with the industry by forcing down prices, bargaining for quality or more services, and play competitors off against each other-all at the expense of industry profits. The power of each industry’s important buyer groups depends on number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business.

Bargaining power of suppliers is the fifth and last force according to porter, 1980. Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The five force model is illustrated below.
According to (Porter, 1980), the intensity of competition in an industry is neither a matter of confidence nor bad lack. Porter, competition on industry is rooted in its underlying economic structure and goes well beyond the behavior of current competitiveness. The state of competition in an industry depends on five basic competitive forces and the collective strength of these forces determines the intimate profit rotational in the industry, where profit potential is measured in terms of long run return on invested capital.

Source (Porter, E.M, 1980), competitive strategy, the free press, Pp.4
2.6 Factors Influencing Response Strategies

Igor Ansoff, founder of strategic management, argued that strategic planning was essential for firms operating in a complex and turbulent environment. At the time, sociologists dominated the research on strategic adaptation of non-profit organizations primarily and concluded that ad-hoc management was appropriate when the demand and the technology in the firm’s market evolved incrementally. He provided a practical framework for selecting a firm’s expansion route in a growing market by reasoning that long-range planning was necessary to drive managerial decision making when the speed of change exceeded the firm’s ability to respond. Until publication of Corporate Strategy (1965), companies had little guidance on how to plan for, or make decisions about the future.

Ansoff was one of the first people to identify and define environmental turbulence and how it affects business decisions, following on the idea of environmental turbulence. Ansoff introduced his strategic success Hypothesis, which states that a firm’s performance is optimum when three conditions are met. They are: the aggressiveness of the firm’s strategic behavior matches the turbulence of its environment; the responsiveness of the firm’s capability matches the aggressiveness of its strategy; and the components of the firm’s capability must be supportive of one another (Ansoff and McDonald, 1990). By understanding the importance of aligning the triplets of Ansoff’s equation, any organization can quickly and easily evaluate where they are going and what they need to do to get there. Fulfillment of the three variables that form the hypothesis is very important for the firm’s success. The component of the firm’s capability must be supportive of one another. In order to succeed, these capabilities cannot be in disparity, they must work together for them to achieve the common goal of the firm. A balance is required in the capabilities, these capabilities form the pillars of success for the strategy so if there is a weakness in any of these pillars then the strategy will not work at all. The figure below demonstrates this strategy.
The responsiveness of the firm’s capabilities must match the aggressiveness of its strategy. A firm may have a very aggressive strategy to deal with the turbulence in the environment but does not have the capabilities to support this aggressive strategy; this makes the strategy to become unworkable. The firm’s capability may include financial resources, human resources skills, law and regulations. All these factors must be able to support the strategy of the firm for it to succeed. A firm’s management should carry out an evaluation of its capabilities in order to determine what is lacking and what needs to be added in order to be able to match the response strategy that they have adopted.
In the dairy industry, proper storage is a factor in deciding which strategy the firm adopts to deal with the aggressiveness of the environment. A lot of resources should be used in order to purchase the best storage facilities so as to store the excess milk that comes during the rainy season so as to make use of the same during the dry season where the milk is never enough. Example of proper storage can be to process the liquid milk into milk powder during the rainy season which the firms can sell during the dry season when the milk is not enough. The firms in the dairy industry whether they are private or public should be able to implement such strategies so as not to experience wastage during the rainy season which causes so much loss as a result of wastage and inadequacy of milk during the dry season which causes losses as a result of operating below the economies of scale. M.C.D.C.U Ltd should be able to raise money or find donors who can help them in adopting such strategies if they do not have enough money.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter set out various stages and phases that the researcher followed in completing the study. It provided the blue print for the collection and analysis of the data. This section was an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. Most of the decisions about how the research was executed and about how the respondents were to be approached and how the research will be completed are highlighted. Research design, data collection and data analysis sub section are included.

3.2 Research Design

The research was conducted through a case study. A case study is a form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of which unit is under study (Young, 1960 and Kothari, 1990). Case study drills down rather than cast wide. It is a method which involve an in-depth, longitudinal examination of a single instance of event and hence providing a systematic way of looking at events, collecting data, analyzing information and reporting the results. The researcher gained a sharpened understanding why the instance happened as it did, and what may became important to look at more extensively in future research.

The aim was to equip the researcher with in-depth information on how M.C.D.C.U Ltd as an organisation responds to changes in the dairy industry as well as get an insight what strategies the dairy industry sector as whole is applying in dealing with the same. Case study is an appropriate research design as it undertakes in-depth analysis of M.C.D.C.U Ltd as a unit hence facilitates intensive study.
3.3 Data Collection

This Study used primary data. The primary data was gathered using the interview method. The respondents were the senior management team of M.C.D.C.U Ltd. The selection of the management team was due to the fact that the research involved strategies which mainly occurs at the level before it get to the implementation level and the feedback analyzed at the managerial level. The target number of informants that were interviewed was six; to comprehensively cover area of the business in the organization. These included:-The chairman of the dairy section, The General manager, Chief Finance officer, Sales and marketing manager, Human resource manager and the Information technology manager. The interviews were prior arranged with the managers to ensure their availability. The interview guide is appended at the end of this project as Appendix 11.

3.4 Data Analysis

Data analysis is the process in which raw data is ordered and organized so that useful information is extracted from it. The data that was collected was qualitative. Content analysis technique was used. Content analysis is defined as technique for making inferences by systematically and objectively identifying specifying characteristic of messages and using the same approach to related trends (Nachmias and Nachmias, 1996). This is because considering the kind of data that was intended as per the interview guide, a conceptual and qualitative context analysis is the best suited method. This type of analysis was relevant for this study because it did not restrict respondents on answers and had a potential of gathering more information with much detail.
CHAPTER FOUR: DATA ANALYSIS FINDINGS AND DISCUSSIONS

4.1 Introduction
This chapter shall present the analysis and interpretation of findings of the study as set out by research objectives. The researcher used porter’s five forces model and the results are presented in order of objectives, that is: To establish the challenges M.C.D.C.U Ltd is facing as a result of changes in the industry as well as to establish the response strategies M.C.D.C.U Ltd has adopted to cope with the changes in the dairy industry. The target interviewees were six but only five were successfully interviewed since one was on leave and was not available to respond to the interviewer. This therefore represented a response rate of 83.33% which is an adequate response rate to base conclusion on.

4.2 Changes in the Milk Industry
The first research objective was to establish the challenges M.C.D.C.U Ltd is facing as a result of the changes in the industry. The project interview guide used porter’s five forces modes and the respondents were asked to indicate the changes that have taken place in each of the five forces (rivalry among organisations threat of substitute products, threats of new entrants, power of buyers and power of suppliers).

Rivalry among firms in the dairy industry increased significantly since market liberalization in May 1992. The competition in milk processing buying from farmers and marketing increased tremendously many processing companies have come up since then. This is because milk is a basic necessity of human being which is used in various ways among them being feeding young ones, used for drinking and also making of other beverages, milk has been used as accompaniment of other foods in Kenya for instance ugali and cakes.
Another change that has taken place in industry due to the liberalization of the industry by the government is; up to 1992 the dairy in Kenya was under government control, which gave the policy guidelines, set prices determined the players in the industry and set the market rules among other things. Since the liberalization many companies have come since they were allowed to enter the industry with no entry barriers, the market was thus thrown open. Respondents noted that with good management from collection point through processing to the marketing then milk has very easy production system which earns good money. This has attracted more people in the industry since majority of those who owns large dairy farm prefer processing their own milk rather than selling to be processed by other processors.

On bargaining power of the suppliers of milk who are small medium and large scale farmers several changes have taken place. In this industry all that is needed is milk. The milk should be collected in a particular area which is not vast in order to fetch profits. Also since milk is highly perishable the processing firms needs to collect the milk soonest possible from the time of milking so that the milk can be processed before it is stale. Putting all these aspects in mind the processors need to build loyalty to the local farmers as much as possible, for farmers as much as possible. For farmers to be loyal then good incentives have to be given. This has increased the bargaining power of the suppliers who have many other options after the liberalization of the market. They can opt to sell their milk to the processors who are efficient enough to avoid losses due to milk becoming stale before it is processed.

Some brokers have also come up to buy milk from the farmers to sell to the processing companies. This is a big change in the industry since it lengthens the collection processes. This is major change in the industry since in the past these brokers didn’t exist. The challenges that these brokers pose to M.C.D.C.U Ltd will be discussed in section 4.3.

The bargaining power of the buyers has also witnessed some changes. Customer loyalty on different types of brands in market today is slowly becoming low. If a customer does not find particular products from their preferred processors then they
easily pick competitors products. This means that consumers have therefore become more enlightened, empowered and very demanding when it comes to milk, in as much as there is some level of loyalty to particular brands by consumers the consumers have also undergone several changes worth noting by companies since they affect the company’s livelihood. One major change in milk industry is that for example in major urban areas all milk processing companies make sure that their products are in the shops and supermarkets shelves which means if a customer preferred milk brand is not there then they move to the other competitors brand which may lead to permanent shift of brand by the customer.

Customers have also become very conscious on what they buy some consumers are even willing to pay a premium for milk that has extra vitamins and other nutrients. For example, in milk processing, the cream content of the milk matters very much. In slums for example, consumer will always purchase the milk with the highest percentage of cream content. Milk processing companies always likes to minimize the cream content during processing so that the milk will stay for long time without becoming stale. This change poses a challenge to the industry. Companies have to be very keen in how they process their milk.

Regarding the substitute products, porridge, strong tea (especially in the coastal region and slums), milk powder from western countries soda and juices, black coffee, chocolate and Milo were identified as the major substitutes to the consumption of milk. These substitute products deviates consumer from purchasing milk. This is a challenge to the milk processing companies because part of their market is taken away from them.

Finally it was observed that global warming is having a big effect on the dairy industry. Global warming leads to unreliable weather patterns which affects the production of milk by farmers. This is because the vast dry spell leads to low milk production since there isn’t enough to feed the dairy animals.
4.3 Challenges Posed by the Changes

The changes taking place in the milk processing industry as discussed in 4.2 have brought some challenges with them to M.C.D.C.U Ltd. The challenges will be discussed using porter’s five forces models.

The rivalry among organisations results in stiff competition. In milk processing industry rivalry starts from buying of raw milk from the farms. The big processors always pitch camp on their rivals’ territories to buy the vital commodity. Rivalry leads to loss of market share since every processor will make sure that it has a market share it commands and since they have always been emerging since 1992, M.C.D.C.U Ltd has lost market share it initially commanded. This loss of market share is a big challenge because it means that the company has to work extra hard to retain its market share or even better conquer others so as to increase its own. The respondents indicated that the big milk processing. This threat is a challenge to M.C.D.C.U Ltd because every new entrant takes a chunk of the market share. The liberalization of the economy of the economy was a serious challenge to M.C.D.C.U Ltd because since then many milk processing companies have been licensed. These new entrants made the union face stiff competition from new and aggressive players. The company had to work harder to keep with the competition in the industry.

Powerful consumers’ demands more attention from the company, their complaints must be addressed in good time and effectively. These consumers will force the company to lower their prices on their brands. Any price increase will be resisted by the customers which in turn erodes the profits. When cheap brands are introduced to the market M.C.D.C.U Ltd and other players are forced to reduce the prices of their brands. Any price increase will be resisted by the customers which in turn erodes the profits. If they fail to do so then the customers always shift to the cheap brands. This is a challenge to the union and it management has to invest in manpower to address customer issues.
The emergent of brokers who buy milk from the farmers, stores the milk into the coolers and sell to the processing companies poses a big threat to M.C.D.C.U Ltd. This is because these brokers cause inadequate supply of milk to the union. The union is sometimes forced to operate below the economies of scale. This makes the company to keep on changing the prices of the final products so as to cover for the losses. Consumers do not like shaky prices and will resort to other substitute products that have reliable prices.

Destruction of natural environment by humans has continued to cause global warming. This has caused adverse weather conditions which in turn has affected crop output. For farmers to produce more milk then the crop to feed on their dairy animals should be sufficient. With unstable crop to feed to the cows then the production of milk is unstable and the M.C.D.C.U Ltd processing company lacks enough milk to process. This will result to the company not being able to supply processed milk to all its consumers even the very loyal. This gives them opportunity to sample competitors’ milk and this may cause some of them to shift for good.

Increasing fuel and electricity costs, poor infrastructure especially the roads network in the rural areas where the milk is collected and high cost of living are other industry factors that are a big challenge to M.C.D.C.U Ltd. During the dry spell power rationing is very common in Kenya and most of the Kenyans power is hydro. The power rationing mostly affect the rural areas. Since M.C.D.C.U Ltd is in the rural areas of Meru it is hardly hit by the power blackout. This result to use of generators which are much more expensive to maintain and run compared to electricity. This raises the cost of processing the milk which results to lower profit margins. This is a problem not only to M.C.D.C.U Ltd but also other players in the industry. The low profit margin makes the companies to always strive to cut costs and improve efficiency. These are discussed in 4.4
4.4 Response Strategies to Changes

M.C.D.C.U Ltd has responded to the challenges brought about by the changes in the dairy industry in various ways. The company has been very aggressive in trying to block competitors from conquering its milk collection territory which is the entire Meru region. Raw milk is the sole major raw material that a milk processing company needs to keep it on its toes. The more a company is able to collect and process the greater the income. This is simply because it will be processing much far above the economies of scale. This fact has made the major milk processing companies like the Brookside, K.C.C and other small upcoming entrepreneur who build coolers and buys the milk direct from the farms and initially sells the milk in large quantities to the highest bidder to pitch camps on their competitors’ territory.

The company has successfully fought these competitors through its effective mode of payment. This payment to the farmers is made on monthly basis unlike the competitors who pay on a weekly basis or worst still on a daily basis. Most farmers prefer that they be given their dues on a monthly basis since it will have accrued well enough to do useful undertakings. The weekly or daily monies may not be useful since they might be spent on daily basis as they are received. The company also makes sure that their members are paid on due date are not late. The farmers are paid early enough so that they can use the money on the planned projects. Payments of farmers are made through Sacco banks which are located in almost every major market of the entire region. This mode of payment is advantageous since these Sacco banks give loans to the farmers. The other competitors pay only by cash and this means that the farmers are not able to access soft loans from their milk money.

Apart from the measures discussed above, M.C.D.C.U Ltd has also gone further to put some extra measures to protect the competitors from fishing out some of their suppliers. The extra benefits that the company has put in place include: The farmers are given both animal feeds to feed their animals, drugs and also farm inputs for example Wheelbarrow and fertilizers by loan from all the affiliated societies headquarters. This is important to the farmers in that they are able to acquire what is essential to them even if they don’t have cash. This helps farmers to continue
producing more milk since they don’t lack essential commodities like animal feeds due to lack of money to buy them when they are out of stock in between the month. The provision of AI services to the farmers is also an important factor which helps M.C.D.C.U Ltd to keep their members intact. Every society has its own AI officer. This does not only help the farmers to inseminate their animals even if they don’t have money when their cows are on heat but also it helps in improving the cow breeds locally. Finally the firm has successfully put their members intact due to the fact that they frequently organize educational trips of their members to other part of the country. This trips helps the farmers in that they acquire knowledge on the modern ways of rearing dairy cattle which will enable them produce more milk. The more the large quantity of milk means that the firm will operate at economies of scale which will finally result to more earnings.

Some well financially and well established companies like K.C.C and Brookside have introduced fighter brands to the market. The fighter brand is a brand that is cheaper that the main company’s brand which is used to fight competition where the company brand is weak. In the case of milk industry, the urban areas are the most targeted areas since milk is easily available in rural areas. To block the fighter brands from dominating the great Meru region where other company’s milk brand are not well known or better still not liked by the customers, M.C.D.C.U Ltd has opened up milk bars. The bars sell processed but not formally packed milk of very little quantities at cheap and affordable prices to the locals who are not able to buy the packed milk from the shops or supermarkets. This regional pricing and packing strategy has greatly helped M.C.D.C.U Ltd to block the fighter brands from dominating its territory. Still on pricing, the company adjusts its prices regularly to match with competition. For instance, during rainy season milk is very cheap across Kenya. Some companies have gone to an extent of buy two get one free strategy. To keep up with them M.C.D.C.U Ltd usually changes the prices as the market demands.
In order to make sure that during the rainy season when milk comes in plenty the farmers don’t experience the losses due to milk spoilage or failure of collection from their centers or even to protect their members from getting to interact with other processors directly who are their competitors. M.C.D.C.U Ltd buys all the milk from the farmers and sells it to the other processors who have large processing capacity. For example Brookside Company buys raw milk from M.C.D.C.U Ltd which then process and sells to the market. This strategy ensures that M.C.D.C.U Ltd does not frustrate their members. This helps gaining royalty from their suppliers who are the farmers which in the long run helps in strengthening their bond.

In order to cope with the challenge of adequate milk due to deviation of milk to other selling points e.g. hotels, schools, hospitals, big organisations, M.C.D.C.U Ltd has instructed their affiliated societies to put up many buying centers. These collection centers are located close to the farmers so that they can’t opt to sell their milk to other outlets due to the distance between them and the collection centers. This has ensured constant supply of milk throughout the year. Still on collection of milk the affiliated societies have been instructed to impose fines to the members who for one reason or another opt to sell their milk to other outlets and when the condition gets worse he/she intend to go back to the firm. This strategy helps in keeping the farmers tied to the firm.

On distribution, M.C.D.C.U Ltd has made various responses to cope with the increasing competition. The company has partnered with key traders across the countries who distribute its products. The company usually targets the influential partners. This is to make sure that they are able to aggressively sell the company products since they are the middlemen between the company and other smaller traders. The distributors are given some incentives to re-distribute the products and this ensures that the products reach the furthest corners of the country. Some distributors have actually signed contracts with the company not to sell any other competitors milk and this effectively locks competition out in such regions. Still on transportation, M.C.D.C.U Ltd has enough vehicles to transport all its milk from both
the collection to the processing point and to all its distributors who then uses their own means to distribute the milk to the traders.

To ensure effective delivery, all the milk collected is taken to the processing machine and processed the same day. After processing the packaging is done and all other measures that should be conducted are well taken care of. Then the transporting Lorries are loaded with the milk the same day and they take it to their effective destination. This efficiency not only help in controlling backlog of milk but also helps in making sure that the milk reaches the consumers while still fresh. M.C.D.C.U Ltd has worked very hard to maintain very high quality processed milk. In fact research conducted to some shop owners by the marketing department of M.C.D.C.U Ltd indicates that M.C.D.C.U Ltd milk is always the first to priority for the most customers. It is in view of this that the company has adopted the Kaizen principles in its operations. Kaizen is a system of continuous improvement on quality, technology processes, company culture, productivity safety and leadership. It was developed in Japan after the Second World War when the country had to rebuild after the devastating war. Kaizen is a system that involves every employee from upper management to the lower cadres in the organisation. Everyone is encouraged to come up with small improvement suggestions on a regular basis. This makes the low level employees feel that they are part of the team and that their input is valued by the company.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the study findings. It also presents the recommendation conclusion and areas for further research. This will be presented in order of objectives.

5.2 Summary of the Findings

The first objective sought to establish the challenges M.C.D.C.U Ltd is facing as a result of changes in the dairy industry. Rivalry among companies in the dairy industry was found to have increased tremendously in recent years. This is simply because of the liberalization of the industry by the government and also due to the fact that milk is a basic commodity hence its market ready since its consumption is high. Cut throat competition amongst the players in the industry exists since the margins are small and they must strive to beat competition.

New entrants were found to be a big threat in the milk industry. It was observed that it is very easy to enter milk processing industry especially with availability of raw milk. This fact makes the big own processing plants rather than selling their milk to the already existing processing plants. This is again contributed due to the fact that milk has a ready market and anybody with all what it takes to se up processing factory will survey never shy off. It was also noted that consumers were not particularly loyal to brands of milk and they would buy any brand they find on the shelves so long as the prices is right.
Providing, black coffee/tea sodas were found to be the main substitute’s products to milk. They pose a real danger to milk because they have lower costs especially in large institution porridge without milk is mostly preferred by management. It was also noted that most youngster preferred sodas to milk and also a big percentage of people prefers drinking sodas during the day or other beverages rather than milk.

Supplier power was also found to have undergone several changes. Dairy farmers now have several options when it comes to selling of milk. Milk brokers have camped everywhere and large companies have also camped to their rival’s backyard to offer them even more money for the raw milk. Large organisations like hospitals and schools have also increased in numbers. These institutions also need milk for their dairy use.

Consumers had also changed a great deal. The harsh economic conditions made some of the consumers to shift to other alternatives of milk or shift to the milk brands which contains the highest cream content so as to dilute the milk to increase the quantity. The consumer is had also become very price sensitive and were not willing to pay beyond certain psychological pride for any given product.

5.3 Conclusions

From the summary of the findings discussed in 5.2 the following conclusion can be drawn. The first objective of this study to establish the challenges M.C.D.C.U Ltd is facing as a result of changes in the dairy industry. The major changes that were found include: Since the liberalization of dairy industry in May 1992, many changes have taken place. M.C.D.C.U Ltd had to face severe competition from so many upcoming processors who were very aggressive to gain market share. With the changes in the competitive environment M.C.D.C.U Ltd has to struggle to retain its market share. The emergent of these other players also means that M.C.D.C.U Ltd must also fight hard enough to retain their milk suppliers since it is finds it difficult to get enough milk to process since the suppliers are more choosier than before.
The second objectives sought to establish the response strategies M.C.D.C.U Ltd has adopted to cope with the changes in the dairy industry. The company was found to have responded in very many ways to these challenges. The company has put up measures to stop the competitors to camp to their territory to buy raw milk. The company has also put up measure to make sure that their suppliers are loyal to them.

The company has also opened up hotels outlets to sell processed milk to their customers at a subsidized price to fight the competitors’ fighter brands from penetrating their strong hold which is the entire great Meru. The company has also put up measure to collaborate with other big processor like Brookside to sell milk to them during rainy season when milk comes in plenty to avoid losses to the farmers. Collection centers of raw milk are also positioned strategically to avoid the supplier from selling their milk to competitors. Distributors of processed milk are given incentives to motivate them. The factory has also improved its processing machine so as to be effective. Finally the company has maintained good quality and it continues to improve on quality so as not to be overtaken by its competitors.

From the discussion, M.C.D.C.U Ltd is faced with stiff competition in the milk processing industry from various other players, which has brought several challenges to the company. The company has had various responses to these challenges ranging from quality maintenance and improvement aggressive collection and distribution to effective suppliers and consumers retention. These responses are both strategic and operational in nature. However, strategic response appears to be given more emphasis by the company then the operational responses. Investing in modern technology of for example drying the excess milk during rainy season when milk comes in plenty to be used in dry seasons as well as diversifying into other related industries would go along way in enhancing the product portfolio and improving profitability.
5.4 **Limitations of the Study**

The researcher was unable to get all the six heads of department for the interview. One of the top managers was on leave hence totally unavailable since he decline even telephone interview. Due to this, only five out of six respondents were used for this study. All in all the five represented 83.33% which is an adequate response rate to base conclusion on.

The second limitation that the researcher encountered was lack of full commitment by respondent to answering the questions due to their busy working environment. Some of the respondents were not willing to spend so much time with the interviewer. The researcher had therefore to rush through the interview guide without pestering deep for appropriate response.

5.5 **Recommendations for Further Research**

M.C.D.C.U Ltd only can’t be used to give conclusive findings for the whole industry. This is because all other processors are located on different location which may have different challenges from that M.C.D.C.U Ltd is facing. Other studies need to be carried out for other companies in the industry so as to come up with conclusive findings.

Secondly this study was based on porter’s five force model. There are other models by other scholars. These other models are different from porters’ five forces model though they basically zero in on similar facts. Other studies based on other models should be conducted on the same field and different contexts.
5.6 Recommendations for Policy and Practice

M.C.D.C.U Ltd can use backward integration strategy to increase their raw milk for processing. This can be achieved through partnering with farmers with big farms in Nanyuki to rear dairy cows. This would ensure that the company will be able to have constant supply of milk and spend less on fighting for the raw milk with other players in the market. This would also ensure that the company wouldn’t have to keep changing their market prices of processed milk. The company buys most of its raw milk locally through the affiliated societies. This milk is usually not enough especially during dry spells. To overcome this obstacle the company can put up buying centers fully equipped with modern coolers to other regions where milk comes in plenty especially Kiambu and Kitale regions.

Finally the company can also make a bold move and venture into modern technology of drying the milk into milk powder. Milk comes in plenty during rainy seasons. Instead of selling raw milk to its competitors the company should move to this technology. This would make the company so much profit during dry spells when the milk is insufficient. The company can also start buying milk from its competitors during this period hence creating a competitive advantage over its rivals.
REFERENCES


Greening D.W and Gray B (1994) *Testing a model of organizational response to social and political issues*, the academic management journal.


*Kenya Dairy Board website*


*M.C.D.C.U Ltd website.*


APPENDICES

Appendix 1: Letter of Introduction.

Dear sir/madam.

I am a student pursuing Master of Business Administration (MBA), strategic management, in the school of Business, University of Nairobi. The title of my study is, “Response Strategies by Meru Central Dairy Co-Operative Union Limited to the Changes in the Dairy Industry”. This project seeks to establish the capability of M.C.D.C.U Ltd in responding to the changes in the Dairy Industry. Based on your experience and knowledge, I request that you please give me the most appropriate response.

Your participation is essential to this study and will enhance our knowledge of strategic management operations in Kenya. I wish to assure you that all the information with respect to this research will be treated with the strictest confidence it deserves and will only be used for academic purposes, and in no circumstances will your name be mentioned in the report without your prior permission. A copy of the finding may be sent to you on request.

Thank you very much.

Mwenda Gatobu
Student

Dr. Martin Ogutu
Supervisor
Appendix 11: Interview Guide

This guide is designed to collect views of how Meru Central Dairy Farmers Co-operative Union Limited responds to changes in the dairy industry.

Section A
i) What is your managerial position in the Meru Central Dairy Farmers Co-operative Limited?
..................................................................................................................................................
ii) How long have you worked here.................................................................

Section B.
1. Has the number of competitors in the Milk processing industry increased significantly in the last 10 years?
   i) If yes, how has this affected Meru Central Dairy Farmers Co-operative Union Limited competitive position?
   ii) How has Meru Central Dairy Farmers Co-operative Union Limited responded to the challenges?
2. What makes it easy or difficult for other players to enter the milk processing industry in Kenya?
3. What has been done to limit new entrants in the industry?
   i) By Meru Central Dairy Farmers Co-operative Union Limited?
   ii) By Government?
4. Is there strong competition among firms in the Milk processing industry?
5. What challenges has this rivalry posed to Meru Central Dairy Farmers Co-operative Union Limited?
6. How has the company responded to these challenges?
7. Has there been an increase in substitute products to milk in the last few years?
   i) If yes, what challenges have these substitute products posed to the Meru Central Dairy Farmers Co-operative Union Limited?
   ii) How has Meru Central Dairy Farmers Co-operative Union Limited responded to these challenges?
8. Who are your (Meru Central Dairy Farmers Co-operative Union Limited) big suppliers?
9. How have the suppliers influence changed in the past few years?
10. What challenges has this suppliers influence posed to Meru Central Dairy Farmers Co-operative Union Limited?
11. How have you responded to these challenges?
12. Have your customer become more demanding in the past few years?
   i) If yes, what challenges have these demanding consumers posed to you?
   ii) How have you responded to these challenges?

Thank you for your cooperation.
## Appendix 111: Main Players In The Dairy Industry

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<th>Rank</th>
<th>Company</th>
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<th>Milker 2</th>
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<td>Spin Knit Dairy Div Nakuru/Nairobi</td>
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<td>6</td>
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Source: Kenya Dairy Board Website
Appendix IV. Affiliated Societies Of M.C.D.C.U Ltd.

1. Uruku Dairy Farmers Co-operative Society
2. Kithoka Dairy Farmers Co-operative Society
3. Abogeta Dairy Farmers Co-operative Society
4. Nkuene Dairy Farmers Co-operative Society
5. Kanyakine Dairy Farmers Co-operative Society
6. Igoki Dairy Farmers Co-operative Society
7. Kithirune Dairy Farmers Co-operative Society
8. Githongo Dairy Farmers Co-operative Society
9. Magati Dairy Farmers Co-operative Society
10. Buuri Dairy Farmers Co-operative Society
11. Nyaki Dairy Farmers Co-operative Society
12. Kigane Dairy Farmers Co-operative Society
13. Mitigo Dairy Farmers Co-operative Society
14. Naari Dairy Farmers Co-operative Society
15. Ruiga Rurii Dairy Farmers Co-operative Society

In active Societies

16. Chure Dairy Farmers Co-operative Society
17. Nthunguru Dairy Farmers Co-operative Society
18. Kithino Dairy Farmers Co-operative Society
19. Katheri Dairy Farmers Co-operative Society

Source: Meru Central Dairy Co-Operative Union Ltd website