CHALLENGES OF INCREASING DOMESTIC CONSUMPTION OF KENYAN TEA - A CASE OF FACTORY DOOR SALES AT THE TEA FACTORIES IN THE NANDI REGION

By

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DECLARATION

I declare that this is my original work and that it has not been submitted to any other university or anywhere else for examination and academic credit.

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DECLARATION BY THE SUPERVISOR

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DEDICATION

To God, in whom I live, move and have my being and to my wife Rose, Sons Robin, Rein and Larry.
ACKNOWLEDGEMENTS

Understanding a Master of Business Administration (MBA) was probably one of the best ideas that I have ever pursued in life. In achieving my dreams, I realized my efforts were complimented by a number of people whom I have the pleasure to recognize.

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ABSTRACT

This study sought to investigate the challenges of increasing the domestic consumption of the Kenyan tea, with particular reference to the factory door sales in the tea factories in the Nandi region. The study investigated the challenges faced by the producers in their attempt to increase the domestic market of the black tea.

Specifically, it was aimed at determining reasons for slow growth in domestic tea consumption and factory door-sales in particular, recent developments in the domestic market, strategies in place to increase the door sales and domestic consumption in general and if budgeting for promotion and marketing were in the agenda of the factories. It was also aimed at coming up with possible recommendations for improving the domestic tea consumption.

The study, whose findings are expected to be used by the stakeholders and policy makers in the tea industry, in helping them make well informed and strategic decisions, was conducted among the Kenya Tea Development Agency (KTDA) factories as well as the Multinational and locally-owned tea factories in
the Nandi region. Tea Board of Kenya was very useful in providing some vital
data for the study.

Convenient sampling was adopted in order to confine the study to the factories
in the Nandi region where the case study was conducted. A census study was
then conducted to cover all the tea factories in the region. Data was collected
by way of questionnaires method. The questionnaire was administered to the
various factory managers.

Finally the data was analysed using statistical packages for social sciences
(SPSS) as well as descriptive statistics and in particular measures of central
tendency such mean, mode as well as measures of variability and frequency
distribution and the findings presented in tables, pie-charts, graphs and text
form.
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LIST OF ABBREVIATIONS

V.A.T. - Value Added Tax

EATTA - East Africa Tea Traders Association

KTDA - Kenya Tea Development Agency

DN - Daily Nation

TBK - Tea Board of Kenya

TRFK - Tea Research Foundation of Kenya

FAO - Food and Agricultural Organisation

FS - Financial Standard

IGG - Inter-Governmental Group
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TERMS AND DEFINITIONS

1. **Ethnocentrism**: It is the consumers’ intent to purchase domestic products against the imported ones. A belief held by consumers about inappropriateness, in deed morality of purchasing foreign-made products in place of locally/domestically made product. Ethnocentric consumers will tend to reject people, symbols and values that are culturally dissimilar, while intra-cultural objects will become recipients of pride and attachment.

2. **Domestic Consumption**: is the production, marketing, usage and utilization of a local firm’s products within the home market. Farms produce and tend to target the home market for the usage and consumption of their products.

3. **Black Tea**: a beverage made from green tea leaves after undergoing the factory processing of withering, rolling, fermenting (oxidation) under controlled temperatures and drying or firing to arrest further oxidation.

4. **Tea Factory**: Locally owned, Multinational or partly Government-owned processing plants for the processing of green tea leaf into black tea.
6. **Factory Door Sales**: Black tea that is sold locally at the tea factory gates or at the local outlets and are either sold in bulk or packed into smaller packages.

7. **Packaging**: includes the activities of designing and producing the container for a product. Can be said to be a process of packing and storing of made tea into sellable and ready to use quantities.

8. **VAT**: a tax charged on the price of goods and services. It can be changed at each stage of the production process but can be claimed back from the government by the companies involved. The final customer, however, can not claim it back.

9. **GLUT**: a situation in which there is more supply of a product than is needed/demand or used. When the supply is in excess of usage or demand.

10. **Auction**: Public market/event where the goods/products e.g. (black tea) are sold to the highest bidders. Usually held periodically.
11. **Value Addition**: adding worth, or a desired character, quality or benefits to a product.

12. **Non-user**: Potential customers who are currently not using or utilizing the product.
CHAPTER ONE
INTRODUCTION

This chapter looks at the background of the study, the objectives of the study and the research questions. It also looks at the significance and the scope of the study.

1.1 Background of the study

Although Kenya is the third largest producer of black tea in the world after India and Sri Lanka, the country remains the leading exporter of black tea in the world commanding a remarkable 19.8 percent of all global tea exports in 2006 (Tea Board of Kenya 2006 Annual Report). Tea production in the world market is currently experiencing a glut, which explains the steady decline in the world tea prices that are being witnessed. There is rapid entry of new players like Vietnam who do not mind quality and end up almost dumping their product in the market.

Information available from the tea industry also point to overproduction of tea and is raising anxiety of immense proportions (EATTA 2006 Annual Bulletin). Over 75% of Kenyan tea exports are destined to only 5 countries namely: Pakistan, Egypt, U.K, Sudan and Afghanistan while the balance is shared among
over 46 other countries. In the recent past, we have seen a warming relationship between India and Pakistan which for sometimes had been frosty. It should be remembered that India is one of the leading producer of tea in the world while Pakistan on the other hand is a major player in the tea game as a big consumer and major importer. With this relationship, Kenya, which mainly depends on Pakistan as the main market, is bound to suffer and we may experience tea glut in the country (Omari 2005). Fear of the country holding large stocks of unsold tea should any of the major buyers discontinue purchase is really worrying.

There is also a threat from new entrants in the production expanders including Vietnam and Indonesia which are focusing on the mass market category, with Vietnam possibly doubling or tripling the output. This is explained by the fact that labour costs in Vietnam are the lowest imaginable, and lower too in Indonesia. Besides, there is economy of scale, which improves as a nation ramps up output (EATTA 2006 Annual Bulletin).

Currently, the Kenyan producers have the option to sell their tea through three market outlets of their choice, namely the Mombasa Auction, Direct Private Sales or Factory door Sales. 20% is sold through direct sales and only 10%
through door sales, leaving a massive 70% through Mombasa auction which is mainly export oriented together with a portion of direct sales (Tea Board of Kenya 2006 Annual Report, F S 17th July 2007).

In 2006, of the total production of 310 million Kilograms, the domestic market absorbed only 16.5 million Kilograms or 5% of the national production (Tea Board of Kenya, Appendix 2). This translates to a per capita consumption of about 0.5Kg compared to Britain and Ireland with a per capita consumption of over 2Kgs. These statistics are grim in the sense that we mainly produce for the export market and this means that in the event that there is a glut in the international market, we do not have any fall back strategy especially in the local market.

The production and hectors under tea continues to increase significantly while the increase in the domestic consumption is very minimal.

Another worrying trend that calls for an urgent need to increase the domestic consumption is the strengthening of the Kenya shilling against the world major currencies particularly the dollar. This is forcing the producers and tea factories to go into major cost cutting exercises and to look for cheaper ways
of doing business thus leading to the possibilities of massive job losses and retrenchments.

The recent trends, where tea has faced stiff competition from other beverages, soft drinks and juices as well as the ever declining world tea prices as a result of over production together with entrance of new producers, are now forcing the Kenyan producers as well as the Tea Board of Kenya to look for ways of marketing tea locally with the aim of increasing the domestic demand (Tea Board of Kenya Consumer Research, 2003). Most of the factories are now engaged in the factory door sales in order to maximise the domestic sales and market. Door sales are meant to reach mainly the domestic market and in particular the rural and semi-urban population which constitute a bigger percentage of the Kenyan population. This population lives closer to the factories and could provide ready market to the product.

Internationally, tea is facing a situation where supply has outstripped demand. During the 16th and 17th Sessions of the Food and Agriculture Organisation, Inter -Governmental Group on Tea meetings (FAO - IGG) held in 2005 and 2006, tea producers and consumer countries agreed on the need to grow their respective domestic consumption.
In October 2006, Tea Board of Kenya unveiled the "National Tea Drinking Day" as a strategic plan in promoting the local tea consumption. It was also aimed at improving the level of awareness of tea as a health drink - all geared towards countering the consequences of over reliance on the export market. Despite all these attempts, the domestic consumption still remains low and is now a major concern of the tea industry.

1.2 Problem statement

Although Kenya is one of the leading producers of tea, reports indicate that only 10% of the product is consumed locally, the bulk being exported to other countries. The strengthening of the Kenya Shilling against major world currencies coupled with the rising cost of production, competition and overproduction from other major world producers and the ever declining global tea prices remain major threats to the Kenyan tea industry and particularly so due to its over-reliance on the export market.

Reports from EATTA indicate that tea export earnings have declined by 16% in the past 3 years on account of the exchange rates.

Kenya, with a population of over 35 million, could provide adequate market for disposing off much of the product. The country should borrow a leaf from
India which, though being the leading world producer of black tea, exports only 12.9%, leaving the bulk of 87.1% for domestic consumption (International Tea Committee, 2006). Thus if the Kenya's domestic market were to be improved by a significant margin the industry would be saved from the eminent collapse and possible job losses. Expansion of the domestic market would as well improve the producers' profits.

The study therefore sought to investigate challenges faced by the Kenyan tea producers in their attempt to increase the domestic demand of the product. The study tried to come up with the possible recommendations of expanding the domestic market so as to counter the consequences and problems associated with the export and external markets.

1.3 Objectives of the study

The general aim of the study was to establish the challenges faced by the producers in their attempt to increase the domestic consumption of the Kenyan tea. Specific objectives include:

1. To determine the significance of factory ownership and policy on the volumes of tea sold as door sales against their annual production.
2. To analyse the packaging design, type and size; and the effects of tea prices on the volumes of tea sold as door sales.

3. To establish the type and size of customers, market distribution channels and outlets involved in the door sales.

4. To establish the Factories' budgetary allocation towards marketing and promotion; and the effects of value addition on the volumes sold.

1.4 Research questions

The study sought to answer the following questions:

1) What is the budgetary allocation towards the marketing and promotion of door sales?

2) What are the types and sizes of customers, market distribution channels and outlets that are actors in the factory door sales?

3) How does the packaging design, type, size and tea prices influence the volumes of tea sold factory as door sales?

4) What is the significance of the factory ownership on the domestic sales and volume of teas sold to the domestic market?

5) How does value addition affect the volume of teas sold at the domestic market as door sales?
1.5 Significance of the study

The outcome of the study would be useful to the individual Companies, the Tea Board of Kenya, policy makers at the government level, management consultants, other scholars and students of management.

To the individual tea companies this study would assist them come up with strategies of increasing the domestic consumption and hence increase their domestic market shares thereby sustaining profits and sales whenever there are problems associated with tea exports as a result of external competition and strong Kenyan shilling. The company management would find the study useful in helping them make the right strategic decisions concerning employment, mechanization, factory and tea field expansions.

The Tea Board of Kenya would find the outcome of this research important as a basis for diagnosis and possible solution to domestic marketing problems in the tea sector.

Policy makers at the government levels are expected to find the outcome of this research useful for the country's economic planning and decision making in terms of employment, redundancy and retrenchment, import and export regulations excise duty imposition, tax collection or VAT exemption to the
sector and hence the overall revenue collection and economic development based on the incomes from the tea sector.

Other scholars may find the outcome of this study as a useful tool and basis for further research in the overall area of domestic marketing management and strategies.

Students of management should make use of the findings of this research to get empirical evidence to support the theories learnt in class. Thus the findings will be useful in increasing the body of knowledge.

1.6 Justification of the study

No study has been undertaken to investigate the challenges faced by the producers in their attempt to increase the domestic consumption of tea in the country. The study sought to identify, investigate and analyse the real challenges to the growth of the domestic tea market. It is after identifying and investigating the challenges that it would be useful to come up with possible strategies of increasing the domestic consumption.
The outcome of the study can therefore form the basis for setting up real and right strategies for the general marketing of tea in the Kenyan market with the sole aim of expanding the domestic market. This can assist the factories and other stake-holders in the tea industry in the production planning and management.

1.7 The scope of the study

The study covered tea factories in the Nandi region. These included the multinationals—fully foreign and partly foreign owned, locally owned and the Kenya tea development agency (KTDA) factories.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of theoretical and empirical literature. The literature was reviewed from books, journals, research projects and surveys, newspaper articles, internet, workshops, seminars and market reports.

2.2 Main Review

2.2.1 Domestic Consumption of Agricultural Products in Africa

In the sale of potatoes, whole-sellers collecting potatoes improved efficiency in the marketing channel to the benefit of farmers in the production areas from whom they buy and then sell to the distributing wholesalers in Nairobi (Laurens and Tjalling, 1999). They further revealed that a potato wholesaler who continually operates in the Nairobi wholesale market has 3 alternative buying strategies - buy from collecting wholesalers who come to Nairobi, buy from farmers in production areas himself by travelling to the production area himself or sending an employee or agent on his/her behalf. The foregone buying strategies can be applied by the traders dealing with the factory tea sales as they weigh which option is economical, convenient and reliable.
A great deal of Kenyan maize was not handled by the controlled officials marketing systems but in the parallel marketing sub-systems. Maritim (1982) estimated that 60% of all marketed maize in Kenya was traded in rural markets where prices and volumes exchanged were determined by the supply and demand conditions prevailing in that specific locality.

Quite surprisingly, and despite their perceived strong preference to "sifted flour" urban consumer in large number turned to wholemeal maize that had become increasingly available at a price amounting to only 60% of the sifted maize flour (Makumbo, 1994, Jayne and Argwings - Kodhek, 1997). A parallel can be drawn from the sales of maize and maize flour for the tea door sales in Kenya.

Like in the grain marketing system, with each country’s domestic demand often varying along with the weather, less-developed countries have been known to rapidly move from surplus to a deficit situation. In a country with a high import parity and low export parity prices, the increased risk of stock piling (or glut) seem to lower the real cost of storing the excess stocks streamlining supply with demand requirements (Crawfood, 1997).
While studying coffee marketing in Ivory Coast and Costa Rica, Lauren & Tjalling (1999) realized that domestic marketing should be extended in terms of quantity and quality. Improved transport infrastructure may provide the possibility to modernize coffee processing, to introduce wet method and to use the existing over capacity for processing coffee from the neighbouring farms.

In meat and livestock marketing, Cramfind, (1997) noted that specialized livestock and meat marketing systems are characterised by longer channels and a high degree of complex. Thus, there has to be good communication and steady flow of relevant information between market participants if they are to operate effectively as a system. This is not the case in door sales which, though requires good communication, may not have longer channels. Brewing of tea is seen as an inconvenience especially to the youth, who may not be very patient. Like in beef, the development of livestock industry in developing countries is sometimes constrained by the form of traditional technologies of food preparation and shopping behaviour.

As is expected of the door sales, Kirungu (1994), explained that in milk sales and consumption, as the number of sale outlets increase, there emerges a need for intermediaries to operate between the sales force and retailers. This is
what happened in Kenya where the number of small kiosks increased dramatically in response to urban growth.

Kiosks are expected to boost the retail sales and door sales as this does not require more capital or infrastructure. Kiosks in towns and residential estates as well as market centres are known to serve a large number of low to medium income earners which represent the biggest number of the Kenyan population.

Tea could also be sold in the assemble markets which are distributed throughout and are spread across the country. While studying Food Assembly Markets in Africa, Tjalling Dijston (1996) found out that the assemble markets not only increased the efficiency of the marketing channel, but it may also improve its effectiveness by stimulating a higher output. This was useful in the context of trade liberalization policies in Africa.

2.2.2 Food Packaging and Sizes

In food packaging, it is a known fact that the packaging is one of the food products' attributes perceived by consumers. Packaging is a critical factor in the decision-making process because it communicates to consumers. Intention to purchase depends on the degree to which consumers expect the product to
satisfy them when they consume it (Kupiec and Revell, 2001). Under wood, et al. (2001) suggests that consumers are more likely to spontaneously imagine aspects of how a product look, tastes, feels, smells or sound while they are viewing a product picture on the package.

A number of local and small scale tea packers have emerged and the type of packages used at the door sales have not been analysed in order to reveal the consumers perception of the materials. Thus no empirical evidence or data is available to determine or confirm the consumers' perception of various tea packages available in the Kenyan market. The study will seek to establish, among other objectives, the consumers' perception of the packages and in particular companies with the exports and import-oriented tea packages and packaging materials used.

Different sizes appeal to consumers with some what different involvements. For example, low price for some low involvement products such as generics, is made possible through cost-savings created by reduced packaging and promotional expenses. Consumers find low price of the generics, in the right size of packaging offer excellent value for money (Prendergast and Marr 1997).
Alan Turner (1995) while carrying out a study on pre-packed food labelling, concluded that people take note of food labels more than is generally thought. Some of the labelling information is used some of the time, circumstances dictate what details are used at any one time, different people look for different things and buying decisions are less likely to be swayed by labelling than by factors such as quality, value and price. Thus there will be need to analyse the kind of labelling used on tea packages, so as to ascertain whether they convey any message that is of great value to the consumers as is expected of any food labelling.

2.2.3 World Tea Domestic Consumptions

Reports from committee FAO - CCP - Inter-Governmental Group in tea (16th session, July 2005) indicates that all tea producing countries have been involved in attempting to promote domestic consumption.

Until 1995, India domestic consumption was rising, not only in absolute terms, but also per capita. Since then the rate of market growth has fallen according to National Survey from 2.5 to an average annual rate of 1.8%. There was a falling back in internal market due to a consumer shift away from the traditional tea - drinking to consumption of colas a well as oversupply of plainer
varieties of tea (Tehelka, March 24, 2007). Promotion of tea in the domestic market has been mostly in the form of media presentations and publications. Under the 2004 national budget, the generic promotion of tea in India was one of the major activities which qualified for support from the Central Government through an increased promotion over the years which has increased the domestic consumption by 3% and is still growing.

In Sri Lanka, in response to a proposal aimed at increasing tea consumption in producing countries (16th Session FAO CCP - July 2005), a number of programmes have been implemented by the Tea Board of Sri Lanka over the past years. One such programme involves conducting seminars for medical professionals in order to disseminate research findings on the health aspects of tea consumption. Workshops and seminars were also conducted targeting housewives association in various regions. The topics of tea and health were also included in various local tea promotions and through print media.

2.2.4 Previous Research/Studies

Although very little research has been conducted in this area, the following are findings of recent studies, surveys and reports.
Research undertaken by Omari (2005) on Producer awareness and perception of value added strategy in the marketing of the Kenyan tea recommended the need for a policy shift in order to fully enter into tea value addition as a means of getting out of current position where tea is sold as a commodity to other countries that add value. However, his research was export-oriented and never tackled the domestic market problem.

Researches undertaken by Kassamani (1999) and Okunyanyi (1999) tackled sugar issues especially pertaining to its marketing. Odingo (1977) has also noted that there is lack of proper marketing and distribution mechanism of food commodities. In a research, which specifically looked at maize and sugar, found out that whereas maize has marketing problems, sugar does not face the same problems and this is because it has alternative uses especially for industrial use. Tea, as for now, only has single usage as a beverage and is bound to have marketing problems and hence the need to look at its domestic promotion.

As noted from the above studies, there is no specific study that has been done on challenges of increasing the domestic tea consumption in Kenya.

In April and May 2003, the Tea Board of Kenya commissioned a Consumer Research to carry out survey among various consumer segments all over the
country to gain better understanding of tea consumers and their consumption habits. The survey's findings on attributes in consumer beverage choice included:

- Taste - (tea rated fairly),
- Nutritional value - (tea rated poorly)
- Refreshment quality - (tea rated poorly)
- Family preference - (tea rated well).
- Affordability - (tea rated well).

The survey revealed that tea was mainly chosen because of traditions or upbringing and availability i.e. tea is a traditional, family and habitual drink.

The survey further found out that tea has a traditional image i.e. it is only taken at home and not fit as a social or out-door drink like beers or soft drinks like sodas. There is also a negative attitude towards strong or black tea unlike in the west where tea is rarely taken with milk.

Thus, it is necessary to improve on the poor and fair ratings noted as we strive to increase the domestic consumption of the product. The main area to be looked at is the refreshment. This is so because tea is not viewed as
refreshment like other drinks such as soda, beer, juices, coffee and cocoa. Tea
is not viewed as a social or out-door drink, but as a traditional drink like
porridge and this attitude has to be changed if the domestic tea consumption
has to be increased.

The survey recommended among others: new communication to focus on
emphasising the role of tea as a modern refreshment product; consumer
education/promotion programme to promote tea as a social and out-door drink
or beverage; branding support; consumer education programme for school in
order to capture young people with the message, value addition and avail the
best grade of tea in the market for the Kenyan who can afford to buy (The Tea

The Tea Industry Task Force Report (August 2007) realised low domestic
consumption, over reliance on a few export markets and inefficient marketing
systems as the main concerns in tea trade and marketing in the country. They
recommended increased funding to Tea Board of Kenya to finance research,
development and promotion activities and in particular, promotion of domestic
consumption by classifying tea as a food item to enable it to be excepted from
VAT thereby making it affordable to many.
2.3 Critical review of major issues

It may be vital for the tea companies and the Tea Board of Kenya to get customers use tea more frequently (e.g. persuading Kenyans to drink tea more frequently rather than during the breakfast and tea breaks only). A case in point is where the consumption of chocolate products in France was lower compared to other European countries even though France was a major producer. Annual consumption of finished chocolate products per head of production was 5.1Kg in 1995 compared to 6.1Kg in other European countries. However, in recent years, France consumption of the products has been marked by two main trends: a change in eating habits and a de-structuring of meal arrangements which favour "snacking" and individual consumption and an increase in demand for products with a high cocoa content. Total consumption of chocolate in France thus rose by 88% of the households with children (Dematris and Claudio, 1995).

Another area to be looked at is to interest users in using more of the product on each occasion. Sierra Leone for example, like other parts of Africa, has a rich tradition of celebrating births, initiation rites, marriages and funerals. Many people are invited to these celebrations where a lot of rice is used as main food. Rice consumption at these celebrations ranges between 15.8Kg to 21.8Kg.
per adult. Such occasions have increased the rate of rice consumption in the
country (Laurens, 1999).

Through research and development, discovering new use of product and
convincing people to use the product in more varied ways (Kotler, 2001) could
increase the number of buyers who will pay for quality and value.

Like Kirangu, 1994, found out the number of small kiosks increased dramatically
for the sale of milk in Kenya in response to urban growth. Kiosks are expected
to boost the retail and sale of door sale teas as this does not require much
capital and infrastructure and due to the fact that kiosks are distributed in
towns and residential estates as well as market centres, where the biggest
number of Kenyan population lives. Thus the potential in the growth or increase
in number of such sales outlets should be looked at.

Prendergast and Marr, 1997 explained that consumers find low price of the
generics, in the right size of packaging to offer excellent value for money.
Different package sizes appeal to different types of consumers. In this study
analysis shall be made on the different package sizes and types as well as the
buyers' preferences to various sizes and types together with the corresponding
type of buyers per every package category and the convenience of purchase.
For a mature product like tea in the Kenyan market to survive and expand according to Kotler (2001), there is need to increase advertising and trade as well as customer promotion. Increase in research and development budgets so as to develop product improvements (value addition) and line extension and also attempt to supply private brands.

Volumes can also be increased by convincing current brand users to increase their usage of the brand either by trying to get customers to use the product more frequently, trying to interest users in using more of the product on each occasion or try to discover new product uses and convince people to use the product in more varied ways (value addition), (I Winsink and Rays, 1996).

In terms of growth opportunities, the GAP analysis framework (Weber, 1986) could be applied. Thus to guide the search for growth opportunities for tea, GAP analysis to be applied could take either of the following forms: new users or new user segments: stimulate non-users; stimulate light users; increase amount used on each use occasion; create new product line elements; expand distributor coverage/intensity/exposure; close existing product and price gap; penetrate substitutes' position and defend the factories or product's current position.
Vinda and Reardon, (2007) suggested that domestic consumption, conceptualized as activities that buyers perform to deliberately identify and select projects and brands is determined by perceived relative product quality of the domestic made vs foreign product, consumer ethnocentrism and patriotisms. Thus encouraging Kenyans to use more of the Kenyan tea through increased distribution channel, better pricing, value addition and better marketing strategies can increase the domestic tea consumption against the other beverages and soft drinks which are among the major threats to the Kenyan tea.

Shimp and Shurma (1987) pointed to an individual's tendency to view domestically manufactured products as superior and the belief that it is inappropriate to purchase imported products due to adverse effects such purchase may have on domestic employment and the nation's economy. Kenyans therefore have the moral rights, obligations and authority to buy and consume more of their tea than the imported beverages.

Various studies (Tea Industry Task Force Report and Tea Board of Kenya Research 2003) have indicated low domestic consumption as the major tea industry concerns, compared to the volume exported. It if therefore necessary
that the challenges be looked into with a view of reducing, countering, eliminating or solving the identified ones and properly analysed with the subsequent and ultimate aim of increasing the domestic consumption to a remarkable level. This is necessary in the event that there is a problem with the export market as has been experienced in the recent past, the country can still sustain the tea industry, a sector which is one of the major employers in the Agricultural sector of the country.

2.4 Conceptual framework

Increasing the domestic consumption of the Kenyan tea faces a number of challenges. These challenges include the level of awareness of the value of tea; individual factory ownership and policies on door sales; cost of packaging material and domestic tea pricing. Others are Perception on the packaging size, type and design; inadequate distribution channels and market outlets; inadequate advertising, promotion and marketing expenditures and strategies; size and type of customers and less emphasis on value addition. These challenges are the independent variables and increasing the domestic consumption of the Kenyan Tea is the dependant variable. (fig. 1)
2.5 Summary of gaps to be filled by the study

From the previous studies and reports, it can be noted that even though some attempts have been made to promote the domestic tea consumption, records show that the levels are still lower than expected given the potential market available in the country.
Four years down the line since Tea Board of Kenya commissioned the consumer survey, not much has changed (Appendix 2 - local consumption). The survey also showed that no actual study has been conducted to investigate, analyse and address the real reasons for the slow growth of domestic consumption.

The study therefore sought to investigate, analyse and diagnose the real cause of the slow growth and the actual challenges to the growth of domestic consumption. The study identified the challenges faced by the factories as these could be the real causes of the slow growth. It was after the investigation and identification of these challenges that it may be useful to come up with possible strategies of increasing the domestic consumption.

Omari (2005) simply carried out a study on the value addition of tea mainly meant for the export market. This further shows that no study had been carried out to establish the real challenges that have led to the slow growth of domestic consumption - the gap which this study sought to fill.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology used in the study. It comprises a detailed account of the following: study design, target population, sampling design, data collection procedures and instruments employed as well as data analysis.

3.2 Research Design

The researcher used descriptive design to determine the characteristics of the target population examine association between variables and assessed expected behaviour. Descriptive studies determine and report the way things are (Mugenda and Mugenda, 2003). The major purpose of descriptive research is the description of the state of affairs as it exists. This study sought to identify and investigate the challenges of increasing the domestic consumption of the Kenyan tea.

After the challenges had been identified the researcher described them in terms of frequency. The research required quantifiable data which is numerical
in nature and whose findings could be generalized to other areas across the county. The study was descriptive thereby justifying the descriptive study design as the most appropriate.

3.3 Target Population

The study targeted the KTDA factories, the multinationals and large scale locally owned tea factories in the Nandi region (Appendix 3). The region has good representation of the major factory sub-groups in the country in terms of ownership.

3.4 Sample Design:
Convenience sampling was adopted in order to confine the study to the tea factories in the Nandi region. This is because tea factories in this region have good representation of the total number of factories in the country. In addition, over 30% of the multinational factories in Kenya are found in this part of the country. Again, a number of the locally owned factories are found within this region, which also has a good representation of the KTDA factories. Thus, the outright choice of the Nandi region through convenience sampling ensured a true and more realistic representation of different ownership and hence the
various factory sub-groups. Thereafter a census study was used targeting the factory managers of all the tea factories in the region.

The census study was adopted because although the tea factories in this region have different ownership, they are close to one another and are easily accessible. The number of factories also had good representation of the total number of tea factories in the country.

3.5 Sample Size

Regarding the sample size, and according to Tull (1980), increasing the sample size reduces potential error. As the sample size increases the sampling distribution becomes clustered more closely around the population value i.e. the standard error of the mean becomes smaller. In this research therefore, due to the proximity of the factories from one another in the Nandi region, a census study was carried out to cover all the 15 tea factories in the region. As a result the population was retained at 15, which is however too small for regression analysis or other statistical tests such as correlation and covariance which the researcher had hoped to use so as to come up with a model of analysis to analyse the data.
3.6 Data collection instruments

This research has relied on the use of questionnaire as the major tool for data collection (Appendix 1). This method was chosen because the researcher hoped that it would help the respondents to respond to the questions without much struggle. Questionnaires were designed to collect primary data. A structured, close-ended questionnaire was used. The questionnaire was served to the factory managers or unit factory managers (KTDA) of all the factories in the region.

The questionnaire was divided into four sections in line with the four objectives already set. Observations were made in such areas like the packaging material design and type used.

As for secondary data, a comprehensive and exhaustive research of literature on value and marketing of tea and other related African agricultural products was conducted. The source of data included business journals, books, the interest, newspapers and other publications.
3.7 Data Collection Procedure

The researcher obtained an introductory letter to assist him obtain permission to carry out research and collect data from factories. This enhanced their cooperation and facilitation of the survey.

The researcher personally visited the individual factories in order to present the questionnaire and explain to the managers about the study and to create some rapport.

The questionnaire was collected immediately after being filled by the respondents.

3.8 Data analysis

The data gathered was analysed and presented using descriptive statistics. Due to the small sample size, the initially proposed statistical tests such as correlation and covariance could not be used. Cramer and Howitt (2004) have suggested that descriptive studies be analysed using descriptive statistics. Descriptive statistics include tabulation and organization of data in order to demonstrate their main characteristics and involves use of techniques such as measures of central tendency, measures of dispersion, correlation and graphical presentations.
The data gathered was captured using Census and Survey Processing System (CSPro) package and processed using Statistical Package for Social Sciences (SPSS) for windows and Microsoft Excel. Secondary data on small business challenges and failure rates has been organized and summarised using Microsoft Excel and summaries provided in tabular form.

All results have been reported cumulatively except for instances where comparisons or unique findings need to be singled out. The cumulative analysis was aimed at establishing certain trends that can eventually be generalised to the target population.
4.1 Introduction

This study sought to establish the challenges faced by the producers in their attempt to increase the domestic consumption of the Kenyan tea. In this chapter, the researcher discusses the findings which he presents using frequency tables, charts, percentages and other statistical measures.

4.2 Factory ownership and Policy

A total of fifteen factories were contacted. 80% of them fell in the large scale category while the rest, 20%, fell in the small scale category.

Fig. 4.1: Factory ownership
In terms of ownership, 73% of the factories contacted are multinationals, partly foreign and partly locally owned. Though considered large scale, 7% of the factories contacted are locally owned while the rest, 20% are owned by Kenya Tea development Agency (KTDA).

Table 4.1: Factory ownership

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational - partly foreign, partly-locally owned</td>
<td>11</td>
<td>73%</td>
</tr>
<tr>
<td>Large-Scale - locally owned</td>
<td>1</td>
<td>7%</td>
</tr>
<tr>
<td>Small-holder (KTDA)</td>
<td>3</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.1 Policy on factory door sales

Majority of the factories (93%) contacted have a policy on factory door sales and the rest, 7% have no policy guiding the factory door sales.

Fig.4.2: Policy on factory door sales
4.2.2 Limit on factory door sales

As asked if there was a limit to the quantity of the tea sold to the domestic markets at factory door sales, 53% said confirmed that there was a fixed limit whereas the rest, 47% said there was no limit. This trend was witnessed in both multinationals and smallholder factories.

Fig.4.3: Whether limits are put on factory door sales

![Pie chart showing limits on factory door sales]

Those that have limits on the quantities sold at the factory door sales were asked about the percentage allocated to the factory door sales of the total production. 88% of them said that up to five percent of their production was conducted through the door sales with 12% talking of demand driven.

As asked if the door sales allocation was exhausted by the buyers, only 47% of the respondents said that their allocation is exhausted. The majority (53%) said that their allocation is not sold out.
The literature review shows that there has been a general crop production in the recent past. Despite this growth, all the respondents agreed that they haven't witnessed a corresponding increase in their annual factory door sales in relation to the increase in the annual crop production. This observation was witnessed across board regardless of size of the factory with both large scale and small scale factories responding in a similar way.

4.3 Marketing, promotion and value addition

Respondents were asked if there was a department specifically dealing with the sales and promotion of factory door sales, 13% of the respondents confirmed the existence of such a department. It is worth noting that none of the small scale and KTDA owned factories have a dedicated department to handle factory
door sales. This is worrying because lack of such a key function is a sign of local market neglect.

Table 4.2: Marketing department dealing with sales and promotion

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Large scale</th>
<th>Small scale</th>
<th>Multinational</th>
<th>Large-Scale - locally owned</th>
<th>Small-holder (KTDA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yes</strong></td>
<td>13%</td>
<td>17%</td>
<td>0%</td>
<td>18%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>No</strong></td>
<td>87%</td>
<td>83%</td>
<td>100%</td>
<td>82%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Regardless of whether they have a marketing department specifically dealing with the sales and promotion of factory door sales, respondents were asked if they carry out any form of marketing and promotion of the factory door sales. Only a third of the respondents (33%) said they do. The rest (67%) don't carry out any form of factory door sales promotion. Even though none of the KTDA run factories has a dedicated department dedicated to factory door sales, all those that participated in the survey do carry out some form of promotion to encourage factory door sales.

Majority of the promotion is concentrated at district level (80%) with a few targeting the location levels (40%). Twenty percent (20%) target both district and location levels. None of the factories contacted focused on national and provincial levels.
4.3.1 Budget allocation for door sales

The factory door sales promotion conducted by these factories does not seem to be guided by any policies. It is largely unstructured and haphazard. 93% of all the factories contacted said there had no budgetary allocation for the promotion and marketing of door sales. In fact, none of the small scale factories, including KTDA run factories have a fixed budgetary allocation for the promotion of factory door sales. This has a correlation to the lack of growth of factory door sales despite the growth of crop production.

The only multinational that has a fixed budget for promotion of factory door sales said they dedicate 5-10 percent of its marketing budget goes to the promotion of factory door sales.

4.3.2 Value addition

Respondents were also asked if they carry out any value addition to what they sell. Only a few factories (33%) add value to their produce. Value addition, for example attractive packaging is expected to give buyers reason to buy from the factory doors. Lack of growth in factory door sales can also be attributed to lack of value addition. Thirty six percent of the multinational factories said they carry out some form of value addition to their produce.
There is a correlation between value addition and the amount of sales as the responses indicate. Asked if the value addition had increased the sales at the factory doors, eighty percent of the respondents said it had. This observation is witnessed in both multinationals and KTDA owned factories.

Fig. 4.5: Effect of value addition on amount sold

4.4 Packaging and tea pricing

The most used packaging materials are those made out of polythene materials followed by paper bags without lining, both of them scoring 40%. The paper bags with lining were mentioned by 20% of the respondents while those made of polypropylene were mentioned by 13%. 7% of the respondents mentioned specially designed bags with company logos as the other form of packaging that they use for factory door sales.
Fig. 4.6: Packaging materials used for factory door sales

In terms of popularity, paper bags without lining are the most preferred type (53%) followed by polythene (27%) and polypropylene at 13%. Paper bags with lining are preferred by 7% of the factories as shown in figure below.

Fig. 4.7: Most popular packaging material type

Despite mentioning the different packaging materials used and those preferred by buyers, none of the factories that participated in this survey owns a packaging machine.
4.4.1 Contribution of packaging materials to sales

Asked if the current packaging materials contributed to the low sales, 27% of the respondents seem to agree while 13% are not sure. 60% were however of the opinion that the packaging material had no effect on the factory door sales.

Eighty seven percent of the respondents said there is a preference of packaging size. Majority (73%) of the factory door sales are made in small quantities. The preferred pack size is $\frac{1}{4}$ kg followed by $\frac{1}{2}$ kg while the rest (23%) prefer other pack sizes like 1kg and 2 kg.
4.4.2 Who determines the prices

In most factories (53%), the management is the one that determines the prices charged whereas in 27% of the factories, the cost of production plays a great role in fixing the prices. The other factors that play a role in determining the prices are market forces (13%) and the packaging type (7%).
4.4.3 The role of prices in the low sales volumes

Respondents were asked if the low sales volumes at factory doors would be attributed to the prices charged. 86% percent of the respondents agreed that the low sales would be attributed to the low sales while 7% disagreed strongly. Seven percent of the respondents were not sure.
4.5 Customer size and distribution channels

One would expect the majority of customers in factory door sales to be individual customers. However, the findings indicate that majority of the customers at factory doors are retailers who constitute 60% of the customers followed by individual end users at 33%. Distributors make up 17% of the customers at factory door sales.

Among these three groups of customers, there is no particular allocation of proportions guiding their purchases.

4.5.1 Market outlets (distribution channels)

Respondents were asked if they had distribution channels of their own. Only 13% percent confirmed existence of such channels. None of the KTDA run factories had their own distribution channels.

Those who have their own distribution channels were asked if they gave a commission to the distributors. The findings indicate that there is no commission given. This may be a further reason, perhaps why factories have witnessed low factory door sales.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.6 Introduction

This chapter contains conclusions, recommendations and proposals for further research. The recommendations relate to the study objectives supported by the research findings and existing literature.

4.7 Summary of Findings

From the survey it is noted that factory ownership in the area of study is mainly large scale (80%). In a majority of the factories that participated in the survey, there is a policy on factory door sales. However, the door sales allocation is not exhausted. There is no department that is dedicated to handle door sales and that a majority of the factories do not carry out any form of factory door sales promotions. Most of promotions in any are carried out at district level and thus the local market neglect.
It is also noted that factory door sales promotion is not guided by any policies. Only the multinationals have a fixed budget of only 5-10 percent of annual marketing budget.

The study also revealed that value addition is not carried out effectively in these factories yet it greatly determines customer appeal and their perception of packaging. It is very necessary for the factories as discussed in (Chapter 2) that value addition helps to ascertain if labelling and packaging conveys any messages to customers.

According to most respondents the packaging material has no effect on the factory door sales and that there is a preference for small pack sizes. Most of the factory door sales packages are made in small quantities.

The study also revealed that the price charges in most factories are mainly determined by the management. Other determinants mentioned are production costs and market forces. According to the respondents, most of the low sales volumes at factory doors would be attributed to the prices charged.
Also to note is that majority of customers at factory door sales are retailers followed by individual customers and distributors, and that there are no clear channels of distribution. For those with their own distribution channels, they don't get any commission thus a possible reason for lack of growth in factory door sales.

4.8 Conclusions

The study sought to investigate, analyze and diagnose the challenges faced by the Kenyan tea producers in their attempts to increase domestic demand of the product.

According to these findings, marketing and promotion; budgetary allocation to marketing; value addition; market distribution channels and tea pricing are major factors that influence demand for tea in the domestic market. Management in both sectors should seek to build a working relationship with understanding and respect of the major players in the market and also increase on advertising and trade as well as customer promotion.

Almost all factories have a policy on factory door sales and this seems not to play any role in determining the demand for door sales. However, it was noted
that over 50% of the factories have a fixed limit of the quantity of teas sold to the domestic market thereby restricting any potential for expansion. Again it was noted that whatever quantity allocated to domestic door sales is never exhausted even though there has been a significant annual increase in the general crop production.

Over 70% of the factories do not have departments specifically dealing with the sales and promotion of factory door sales and particularly so for small-holder KTDA factories. Lack of such a key function is a sign of local market neglect.

Again it can be concluded that almost all the factories do not carry out any form of marketing and promotion of the factory door sales - another worrying trend showing a total neglect of the domestic market.

Furthermore there seem to be no factory budgetary allocation to marketing and promotion for door sales - again becoming another major contributor to low domestic sales of door sales.

Almost all the factories agreed that there is a corresponding increase in the factory door sales to the increase in value addition. However, only a third of the factories add value in form of attractive packages. Thus lack of growth in factory door sales can be attributed to lack of emphasis on value addition by the individual factories.

Although the type of packaging material used seem not to play a major role, the study shows some preference to paper bags without lining. Thus factories may
have to exploit the popularity of this packaging material to increase the
domestic door sale.

Though it looks uneconomical, the factory should concentrate on the $\frac{1}{2}$ Kg pack
size which is the most preferred size over the larger sizes. The volume sold
will balance off.

In most factories, the management determines the prices. Low sale volume was
also attributed to the current prices charged which are seen to be higher. The
fact that most prices are determined by the management could also lead to the
highly charged prices which was seen to have been agreed by 86% of the
respondent as one of the major contributors to low sale volumes witnessed in a
number of factories. Price determination should be left to the market forces
and guided by the cost of production. The government may have to consider a
waiver on VAT charged on the tea in order to encourage the local sales.

Most factories (87%) do not have distribution channel and market outlets for
their door sales and the few who have never paid any commission to the
distributors. Lack of distribution channels and market outlets seems to be one
of the major contributors to low sale volumes of the factory door sales and
domestic market in general.

4.9 Recommendations

Marketing and promotion is vital in every organization and it has its own
challenges. Most factories dedicate their time to production and export trade
before balancing the performance of both domestic and foreign trade.
Also the factories should seek to address their customer needs and also motivate them through giving commissions to the distributors. Value addition is paramount to increasing the door sales and must be put in place by the producers.

4.9.1 Value Addition

The factories should exploit the value addition strategies through packaging and labelling as a way of claiming and retaining distinct market share for the product. Tea value addition is a major component of branding which enhances product strategy because it commands customer loyalty.

To increase the volume of local sales, factories need a deliberate policy shift in order to fully enter into the value adding sector as a means of getting out of the current position of selling little of the non-value added teas. This goes hand in hand with spending in R & D and purchasing of the packaging materials to be used in this area. Thus some initial capital is required to undertake a successful tea value addition initiative.

The factories therefore need to put a lot of emphasis on value addition as it contributes immensely to the volumes sold.
4.9.2 Budget

For effective promotion and marketing of the factory door sales, a clear budget should be set aside to ensure that these activities are not randomly done. In this case, the factories should have well established marketing departments to handle these accounts. This in return will enable the factories to measure the resource flows and increase the growth of factory door sales. Factories should therefore budget for marketing and promotion of factory door sales in order to increase the volume of sales. Also the budget should have an allocation for research in order for the factories to come up with better strategies. The government may have to consider a waiver on the VAT charged on the product in order to increase the purchasing power of local customers so as to increase the sale volume.

4.9.3 Distribution Channels & Marketing Outlets

Factories should increase their market outlets and distribution channels in order to increase their market shares. Distribution channels and market outlets are known to increase the volume of sales in distant areas as well. The management should look for distributors in distant markets away from their factories and pay commission to these distributors.
Factories should encourage good communication lines between the market participant and increase proper marketing and distribution mechanisms as this further improves and stimulates higher inputs.

4.9.4 Communication

Good communication lines should be extended among the marketing participants. Effective and rapid communication is a vital 'tool' of management. Readily available and accurate information about the products, and its prospects and achievements generates a healthy interest in the factory door sales amongst its markets.

It is, in itself, a form of motivation in that the essence of teams which involves bringing in a wider range of departments and people into the service delivery process will boost the factories performance in domestic markets.

Proper communication will also create a policy shift that will increase tea value in terms of producer- consumer awareness and perceptions.
4.10 Suggestions for further research

Similar studies should be conducted in other regions to confirm the role played by marketing, pricing and packaging in tea consumption.

5.6 Limitations of the study

This research project on the challenges of increasing the domestic consumption of the Kenyan tea was the first one. It therefore did not have a precedent to form a foundation for this study. In addition there was a limitation in terms of information, particularly limited literature to review in this area.

Although a census study was conducted in the region, the sample size was a little smaller making it difficult to come up with a model of analysis such as regression or correlation. This definitely affected the manner in which the results were analysed.
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APPENDICES

APPENDIX I - QUESTIONNAIRE

Introduction

In Kenya, the bulk of black tea processed by the local factories is destined for the export market, leaving a very small percentage for the domestic market. The over-dependence on the external market means that in the event that there is a glut in the international market, the country may resort to holding large stocks of unsold tea. This calls for a fall back strategy in the local market. Few efforts have been made to study the actual challenges of increasing the domestic consumption in order to come up with the solid fall back strategies to counter the problem associated with the external market. In an attempt to unearth the challenges, I wish to undertake a research study.

This questionnaire is intended to help gather data in my research project on "challenges of increasing the domestic consumption of the Kenyan tea - A case of Factory Door Sales at the Tea Factories in the Nandi Region".
Your factory has been identified as one of the respondents. In this respect, I kindly request you to answer the questions therein. The information given will be purely used for academic purposes and in that connection, I assure you of utmost confidentiality.

SECTION 1 - Factory ownership and policy

Please tick or insert as appropriate.

1) In Kenya, the tea industry is divided into two sectors: large scale and small scale. Which sector does your factory belong?

(a) Large scale ( )
(b) Small scale ( )

2) What is your factory ownership?

(a) Multinational - fully foreign owned ( )
(b) Multinational - partly foreign, partly-locally owned ( )
(c) Large-Scale - locally owned. ( )
(d) Small-holder (KTDA) ( )

3) Do you have a company policy on Factory Door Sales?

(a) Yes ( )
(b) No ( )
4) Is there a limit to the quantity of tea sold to the domestic market as factory door sales?

(a) Yes ( )  
(b) No ( )

5) If yes, what percentage of the total production do you allocate to the door sales?

(a) 0 - 5 ( )
(b) 5 - 10 ( )
(c) Above 10 ( )
(d) Others (specify) ( )

6) Are the allocated quantities exhausted by the buyers?

(a) Yes ( )  
(b) No ( )

7) There has not been a corresponding increase in your annual factory door sales in relation to the increase in the annual crop production:

(a) Strongly agree ( )
(b) Agree ( )
(c) Not sure ( )
(d) Do not agree ( )
SECTION 2 - Marketing, promotion and value addition

Please tick or insert as appropriate.

1. Do you have a marketing department specifically dealing with the sales and promotion of factory door sales?
   (a) Yes ( )  (b) No ( )

2. Do you carry out any form of marketing and promotion of the factory door sales?
   (a) Yes ( )  (b) No ( )

3. If yes, at what level do you carry out promotion?
   (a) Location ( )
   (b) District ( )
   (c) Provincial ( )
   (d) National ( )

4. Is there specific budgetary allocation for the promotion and marketing of door sales?
5. If yes, what percentage of the total budget do you allocate to promotion and marketing?

   (a) 0 - 5  (  )
   (b) 5 - 10  (  )
   (c) 10 - 20  (  )
   (d) Over 20%  (  )
   (e) Others (Specify)  (  )

6. Do you carry out any form of value addition?

   (a) Yes  (  )
   (b) No  (  )

7. If yes, has this increased the volume of tea sold at the local market?

   (a) Yes  (  )
   (b) No  (  )

SECTION 3 - Packaging and tea pricing

Please tick or insert as appropriate.

1. Does the type of packaging material used determine the demand and quantities sold?
2. What type of packaging material do you use for packaging door sales?

(a) Polythene
(b) Paper bags with lining
(c) Paper bags without lining
(d) Others (specify)

3. Which is the most popular packaging material type?

(a) Polythene
(b) Paper bags with lining
(c) Paper bags without lining
(d) Other (specify)

5. Do you have a packaging machine?

(a) Yes
(b) No

6. The current packaging type and design has contributed to the low volumes of teas sold as factory door sales.

(a) Strongly agree
(b) Agree ( )
(c) Not sure ( )
(d) Do not agree ( )
(e) Strongly disagree ( )

7.0 Do you sell teas in bulk or small quantities?
(a) Small ( )
(b) Bulk ( )
(c) Others (specify) ( )

8.0 Is there any preference to a particular package size?
(a) Yes ( )
(b) No ( )

9.0 If yes, which is the most popular/preferred size?
(a) ¼ ( )
(b) ½ ( )
(c) 1Kg ( )
(d) Others (specify) ( )

10.0 Who determine the prices?
11.0 High prices of factory door sale teas are responsible for the low volumes sold at the domestic market.

(a) Strongly agree ( )
(b) Agree ( )
(c) Not sure ( )
(d) Disagree ( )
(e) Strongly disagree ( )

SECTION 4 - Customer size and distribution channels.

Please tick or insert as appropriate.

1. Who are your major customers?

(a) Distributors ( )
(b) Retailers ( )
(c) Individual direct consumers ( )
(d) Others (specify) ( )
2. Is there a percentage (quantity of tea) allocation to various groups of buyers?

(a) Yes ( )
(b) No ( )

3. If yes, who is allocated the most?

(a) Distributors ( )
(b) Retailers ( )
(c) Individual direct consumers ( )
(d) Others (specify) ( )

4. Do you have market outlets or distribution channels?

(a) Yes ( )
(b) No ( )

5. If yes do you offer any commission to your distributors?

(a) Yes ( )
(b) No ( )
## APPENDIX II - TEA PRODUCTION, EXPORT AND DOMESTIC CONSUMPTION SINCE 1963

<table>
<thead>
<tr>
<th>Year</th>
<th>Hectares</th>
<th>Production of Made Tea (Kgs)</th>
<th>Local consumption (Kgs)</th>
<th>Exports (Kgs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>21,448</td>
<td>18,082,363</td>
<td>2,728,727</td>
<td>15,353,636</td>
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<tr>
<td>1970</td>
<td>40,274</td>
<td>41,077,594</td>
<td>5,659,318</td>
<td>33,851,055</td>
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<tr>
<td>1975</td>
<td>61,542</td>
<td>56,729,779</td>
<td>6,068,210</td>
<td>49,662,600</td>
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<td>1980</td>
<td>76,541</td>
<td>89,893,358</td>
<td>14,491,671</td>
<td>72,799,000</td>
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<td>1985</td>
<td>83,827</td>
<td>147,103,554</td>
<td>17,701,737</td>
<td>126,086,264</td>
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<tr>
<td>1990</td>
<td>97,020</td>
<td>197,008,269</td>
<td>17,538,306</td>
<td>169,506,564</td>
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<tr>
<td>1991</td>
<td>100,626</td>
<td>203,588,719</td>
<td>17,465,008</td>
<td>175,555,295</td>
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<tr>
<td>1992</td>
<td>103,502</td>
<td>188,142,279</td>
<td>15,465,008</td>
<td>166,506,564</td>
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<td>1993</td>
<td>104,863</td>
<td>211,168,360</td>
<td>13,719,730</td>
<td>188,390,150</td>
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<td>1994</td>
<td>109,717</td>
<td>209,422,861</td>
<td>12,638,029</td>
<td>174,924,676</td>
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<td>1995</td>
<td>112,556</td>
<td>244,525,160</td>
<td>14,343,509</td>
<td>227,497,459</td>
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<td>1996</td>
<td>116,974</td>
<td>257,161,930</td>
<td>13,638,927</td>
<td>234,226,100</td>
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<td>1997</td>
<td>117,351</td>
<td>220,722,149</td>
<td>13,211,449</td>
<td>198,375,000</td>
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<td>1998</td>
<td>118,419</td>
<td>294,165,097</td>
<td>11,767,880</td>
<td>263,023,00</td>
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<td>1999</td>
<td>120,597</td>
<td>241,739,000</td>
<td>14,322,417</td>
<td>231,570,338</td>
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<td>2000</td>
<td>123,997</td>
<td>259,112,695</td>
<td>19,297,068</td>
<td>216,989,000</td>
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<td>2001</td>
<td>127,981</td>
<td>282,559,815</td>
<td>24,480,338</td>
<td>250,151,000</td>
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<td>2002</td>
<td>134,583</td>
<td>282,952,950</td>
<td>12,628,238</td>
<td>265,255,000</td>
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<td>2003</td>
<td>137,028</td>
<td>280,134,517</td>
<td>12,651,134</td>
<td>267,962,000</td>
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<td>2004</td>
<td>139,976</td>
<td>324,282,263</td>
<td>13,626,020</td>
<td>315,386,000</td>
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<td>2005</td>
<td>143,104</td>
<td>328,000,000</td>
<td>14,025,000</td>
<td>312,975,731</td>
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<td>2006</td>
<td>147,073</td>
<td>310,000,000</td>
<td>16,549,414</td>
<td>291,438,506</td>
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</tbody>
</table>

APPENDIX III - LIST OF TEA FACTORIES IN THE NANDI REGION

Multinationals (foreign or partly locally owned factories)
1. Kepchomo
2. Siret
3. Kapchorua
4. Kapsumbeiwa
5. Tinderet
6. Savani
7. Kaimosi
8. Chemomi
9. Kipkoimet

Large scale—Local Owned factories
1. Nandi Tea
2. Koisagat
3. Kibwari

Small-scale (K.T.D.A.) Factories
1. Chebut
2. Mudete
3. Kapsara
Source: Tea Board of Kenya

Tea Board of Kenya

Kenya established the Tea Board of Kenya to regulate the entire tea industry and ensure that all marketing and technical factors are favorable to the tea industry and to ensure that all issues of the tea industry are handled appropriately.

Tea Research Foundation of Kenya (TRF)

The TRF acts as a center to conduct research on indigenous tea varieties, investigating their growth as well as their diseases and other factors that play a major role in impacting the production of tea. The Foundation is responsible for promoting, coordinating, and executing research aimed at the improvement and development of the tea industry.

Kenya Tea Development Authority (KTDA)

The KDTA is responsible for ensuring that tea factories operate efficiently and improving the quality of tea produced. The KDTA acts as a body responsible for managing the factories and ensuring the tea industry remains competitive.
APPENDIX IV - MAIN PLAYERS IN KENYA'S TEA INDUSTRY

The key players in Kenya's tea industry and who will be relied on while conducting the study include:

(i) **Tea Board of Kenya** - This is the Apex body in the Tea Industry in Kenya established in June 1950 by Act of parliament (Cap 343) to regulate the entire sector.

   Its key functions include, promotion of Kenyan tea in both local and external markets, investigation of and research into all matters relating to the tea industry and also advising the government on all policy matters regarding tea.

(ii) **Tea Research Foundation of Kenya (TRFK)** - was established in 1980 to carry out research on control of pests and diseases. The organization plays a major role in coming up with better quality, high yielding and disease resistant clones through research.

(iii) **Kenya Tea Development Agency (KTDA)** - This is a government agency managing tea factory companies owned by small-scale tea growers.
(iv) **Multinational Tea Companies (Tea Estates)** - Comprise tea factories owned by the Unilever (Brooke Bond), James Finlays, Eastern Produce Ltd., Williamson Tea Kenya, Sotik Tea Company Ltd among others.

(v) **Locally owned Tea Factories**: - These are large scale tea factories owned by Kenyans and comprise Nandi Tea, Koisagat, Sasini Tea and Coffee, Karirana and Kaisugu Tea factories among others.

(vi) **Tea Brokers** - These are middle men who value tea and sell on behalf of the producers, mainly for export.

(vii) **Buyers** - are mainly off shore buyers who participate at the Mombasa auction and mainly sell tea in bulk to tea packers.

(viii) **East African Tea Trade Association (EATTA)** - is an association of tea producers, broken, buyers and packers in East Africa. It provides orderly marketing of tea, foster closer relationship within an industry and collects and circulates statistics to assist members conduct business.
Appendix V: LETTER OF INTRODUCTION

Sospeter O. Angira,
Kenyatta University
School of Management Science
P.O. BOX 43844,
NAIROBI.

Date...........................................

Dear Sir/Madam,

RE: COLLECTION OF RESEARCH DATA FROM YOUR ORGANIZATION

I am an MBA student at Kenyatta University, faculty of Business studies. I have completed my course work and now require to carry out a mandatory research project on "challenges of increasing domestic consumption of Kenyan tea- a case of factory door sales at tea factories in the Nandi Region."

The study focuses on the selected/sampled tea factories in the region and in particular the large-scale and small-scale (KTDA) sectors. In this regard, I kindly request you to fill the accompanying questionnaire in an honest and truthful manner. The information provided will be used exclusively for the academic purpose.

I wish to assure you that the information given will be treated with strictest confidence. A copy of my final paper can be availed to your organization on request.

Thanks in advance for your kind support.

Yours faithfully,

S.O.ANGIRA.

MBA STUDENT.