

The impact of marketing factors on profitability of smallholder dairy farmers in Nyeri County.

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ABSTRACT

Objective: Dairy farmers in Nyeri County are realizing different profit margins yet they are within the same ecological zones and facing almost similar production constraints. The objective of this study was to identify factors within milk marketing chain that contributes to low profitability by small scale dairy farmers in the area.

Methodology and results: The research focused on causes of profit differentials amongst small scale dairy farmers, hence marketing chains were chosen as the unit of analysis. The study was exploratory, and used both qualitative and quantitative methods including a document review, structured questionnaire, and focus groups to gather data. The use of multiple methodologies necessitated triangulation to improve the validity of the findings, and to enable greater inferences from the results.

The components of the analysis included: (i) Functional analysis to identify the agents involved in the milk market chain and their roles; (ii) Flow analysis to provide insights into the different sub-channels and the flow of the milk through the different channels; (iii) Technical analysis to provide information on the constraints and technical gaps at all the levels in the marketing chain; (iv) Micro analysis at operator level to provide a detailed description of the activity at each level in the chain; and (v) analysis of the Economic and social impact of the chain to give the value of the chain from the perspective of the importance of this sector in the economy. This analysis highlighted the total number of households dependent on dairy, the employment and total value generated,

distribution of the value generated among the participants, and the degree of vulnerability of the households in this chain.

The study established that a total of eight milk marketing chains exist in the area. Even though 86 % of respondents stated highest returns as their main reason of joining any marketing chain, 59 % have remained in the same marketing chain for over five years, with 51% having alternative buyers while 49% are bound to a particular buyer. Information flow between buyers and farmers was quite low with 66% of the respondents meeting only once per year.

A total of 10 financial institutions operate in the area but 90% of the respondents' main source of investment is from sales of their produce. A total of 85 % affirmed the need for additional funding but only 56% of them have approached financial institution with the rest afraid of repayment rates and risk involved. The result of chi-square test of significance ($X^2 = 37.25$; df 28; p 0.113) indicated that there was a significant relationship between farmer age and choice of market chain. The relationship between farmer education and choice of marketing chain was also found to be significant ($X^2 = 32.97$; df 35; p 0.566).

It was established that differences in relative performance are due to differential transaction costs stemming from asymmetric access to assets and information, differences in choice of marketing channel, farm gate prices or differences in environmental and human social factors as well as management of respective market chains.

Application of findings: Farm gate prices can be improved if information flow between farmers and buyers can be improved and competition between buyers improved. When farmers individually sell their milk to many buyers they will not benefit from economies of scale. However, big marketing groups tend to cloud out competitors and eventually negatively impact on the farmers.

Key words: *Dairy farming, marketing, profitability, Nyeri.*