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Coffee Value Chain Analysis in Kenya (A case of Kenya Planters Cooperative Union)

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Abstract

Value Chain Analysis (VCA) is a strategic tool to measure the customer's perceived value of a product or service. KPCU has a unique role of mobilizing the small scale coffee farmers countrywide though it has been undergoing a financial crisis. KPCU financial crisis has resulted from a number of factors namely;-Lack of training and preparedness by cooperative staff, wrangles in leadership in some coffee factories has affected its performance. The study keenly looks at KPCU value chain and observes that the company has various opportunities that should be seized despite its challenges. The company should also integrate other strategic tools to improve performance other than value chain analysis.

Key Words: coffee, value chain analysis, processing, quality, cherries

Figure1: Kenya Planters Cooperative Union (KPCU)

1.1 Introduction

Kenyan coffee is rated as one of the best globally and 99 per cent of it is exported mainly to Germany, Sweden and Belgium, United States of America and Saudi Arabia (EPZA, 2005).. Kenya produces quality Arabica coffee that is globally recognized normally blended and upgraded with other relatively inferior brands (ibid). The Kenya Planters Cooperative Union (KPCU) was formed in 1937 to represent the interests of small farmers. In 1944, smallholders were required by law to join local growing cooperatives which were run by government under the Coffee Board of Kenya to reduce the power of large estates power in controlling the Board (Condliffe Kebuchi, Love and Ruparell, 2008). Many reforms have been undertaken in the coffee industry. Under pressure from the World Bank, the government took a series of steps between 1990 and 2001 to loosen its control over the cluster. Such steps included: pulling out of cooperative management in1991; ending financial support to cooperatives, the Kenya Planters Cooperative Union (KPCU and the Coffee Research Foundation (CRF) in1995; relaxing regulation of upstream processes in1999; allowing growers to choose among pulping factories, millers, and marketing agents in1999; limiting the role of the Coffee Board of Kenya (CBK) as regulator in2001;privatizing the coffee auction and allowing a portion of coffee to bypass the auction and be sold directly to exporters; and increasing the number of marketing licenses issued from three to twenty-five in 2006(ibid).

Kenya Planters Cooperative Union (KPCU) has a membership of 700,000 small scale farmers, 300 cooperatives and 2,000 private estates (FAO, 2004) KPCU has four Coffee Mills. ; One at the head office, Sagana, Dandora and Meru. The liberalization of the coffee sector was poorly timed and the stakeholders were hardly prepared for such a change. Cooperatives, societies, unions, marketing and input agents that offered services such as; credit, farm inputs and extension services were adversely affected. Countries that depend on coffee for more than 20 percent of their export earnings have increased the volume of coffee they trade by 26 percent, however, their income from coffee exports has fallen by almost a third (ibid).

KPCU has a unique role of mobilizing the small scale coffee farmers countrywide though it has been undergoing a financial crisis. It appears "destined to remain on its deathbed due to lack of funding and behind the scenes intrigues" (Mwaniki, 2012). President Kibaki ordered the revival of KPCU in September 2011(ibid). According to Mwaniki , the current board was elected on July, 2012 and was given the mandate to find ways of lifting KPCU from receivership from Kenya Commercial Bank over Kshs. 656 million debt and 4.5 billion for individuals. The government offered to provide 1.2 billion recommended bail-outs through a supplementary budget which has not been released. The company plans to sell its Kshs. 3 Billion assets to clear the outstanding debts.

KPCU financial crisis has resulted from a number of factors namely;-Lack of training and preparedness by cooperative staff, wrangles in leadership in some coffee factories have affected the output, poor sequencing of reform policy by government, loss of government protection, political interference, inadequate legal reforms, slow decision making process, international prices, infrastructure and weather conditions, competition from other players such as hawkers and private processors and high cost of farm inputs. KPCU of late has been serious governance issues caused by Board of directors (Sirkea, 2008).In January 2007, the Government of Kenya (GOK), through the Ministry of Cooperatives Development and Marketing, and with funding from the European Union commissioned an independent study on KPCU, with a view to establishing the major bottlenecks facing the company. The report indicated that poor governance was one of the major hindrances (ibid).

1.2 The Coffee Value Chain in Kenya

Figure 2: A coffee plantation in Kenya

Value Chain Analysis (VCA) is a strategic tool to measure the customer's perceived value of a product or service (IMA, 1996).It assists companies to determine their strategic advantages and disadvantages of their activities and value creating processes in the market place in order to assess their comparative advantage. Value chain is defined by Michael Porter (1985) as the internal processes or activities a company perform "to design, produce, market, deliver and support its product". He further suggests that "a firm's value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves."He categorizes these activities into primary and support activities.

Shark and Govinadarajan (1993) describe value chain as "value creating activities all the way from basic raw material source from component suppliers through to the ultimate end-use product delivered into the final consumer's hand". According to them the value chain starts with the value creating processes of suppliers, who provide the basic materials and components. This continues with all value creating processes of different classes of buyers and eliminates in the disposal and recycling of materials (IMA, 1996). Taylors (2005) defines VCA as "the multidimensional assessment of the performance of value chain through the examination of product flows, information flows and the management and control of the chain".

Farmers especially smallholders, are mostly involved in production. The value adding activities at production stage include land preparation, fertilizing, spraying, tools maintenance and harvesting (Chege, 2012). For large farms, facilities maintenance and irrigation constitute additional activities. At the farm level, producers receive extension services and relevant inputs from Coffee Research Foundation (CRF) and from private sector traders. Once the coffee cherries are harvested, they are transported to the factories for processing (dry or wet processing) and subsequently to commercial millers for milling and grading. In the processing stage the cherry has the fruit or pulp removed leaving the seed or bean which is then dried. The method used determines the flavors of roasted and brewed coffee. Picking of the cherries is done by hand in Kenya by selectively picking the ripe cherries. In Kenya this process is labor intensive and costly (ibid).

After the pulp has been removed the bean is left surrounded by two layers, the silver skin and the parchment. The beans must be dried to a water content of 10% before they are stable. Mostly the beans are dried in the sun by air circulation to 12-13% moisture or air (Chege, 2012).

Figure 3: Sun drying of the coffee parchment in Kenya

According to Chege (2012), gridding is done on the beans depending on their size, where and what altitude it was grown, how it was prepared and packed, and how it tastes or its cup quality. It can also be graded by the number of imperfections (defective beans, pebbles and sticks) per sample. The grade sizes range, in order from the largest to the smallest, are AA, AB, PB, C, E, TT and T (Chege, 2012). For the finest coffee, the origin of the beans (farm, estate region or cooperative) is very important. The graded beans are passed to the marketing agents who market them for auction at the Nairobi Coffee Exchange (NCE). Traders consequently purchase from the auction and sell to the exporters (Dada, 2007).

Coffee Value Chain in Kenya

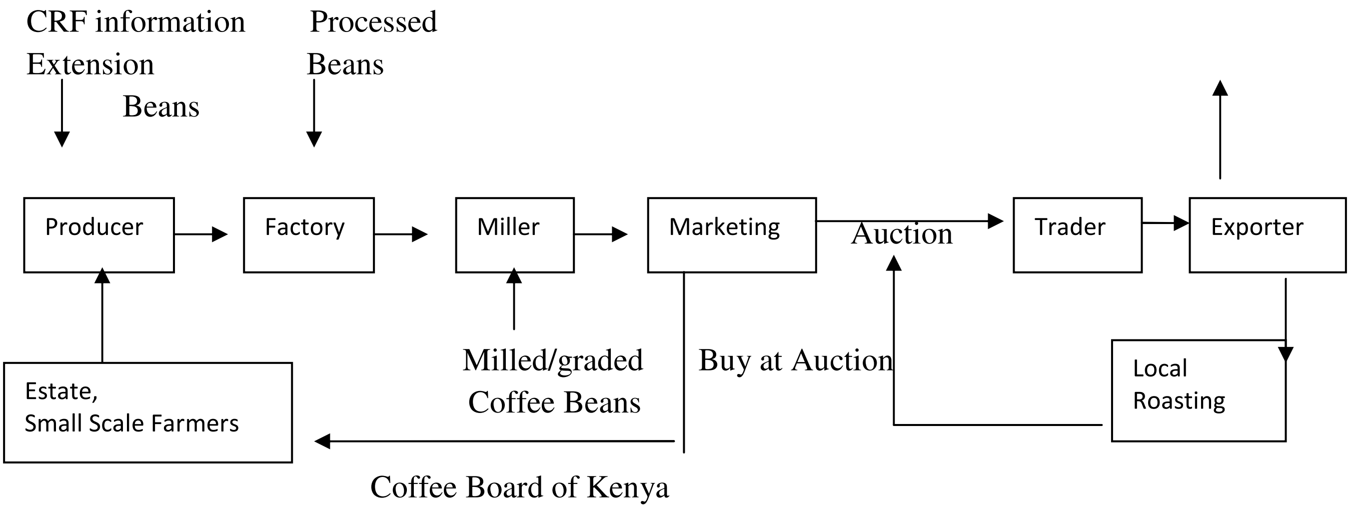

Figure 4: Coffee Value Chain in Kenya

Source: Dada ,2007

1.3 Opportunities for improvement in KPCU

There are various opportunities for KPCU to seize in order to improve performance in the value chain. There are also challenges to overcome in trying to seize these opportunities. Some of these opportunities are; - Kenyan coffee is widely considered as high quality although its acid taste is primarily preferred in Germany and Scandinavian countries where it commands high premium. The country's geographical condition and altitude of the coffee zones are some of the contributing factors of that quality (Chege, 2012). Farmers should be encouraged to maintain quality when harvesting and processing.

Quality of Kenyan Coffee has experienced a drop in quality levels over time. The factors that have impacted on poor quality are: a)On-farm care has gone down due to low and slow payments that hinder their cash flow, high costs of inputs, use of fertilizers and control of coffee berry disease has declined reducing quality levels b) Soil quality: Poor soil quality due to lack of organic manures to improve acidity and lack of extension services to help improve farm husbandry c)Harvesting Methods: At times members harvest coffee berries both ripe and unripe lowering the quality of coffee instead of selective pricking and d)Pulping and fermentation methods: Large scale producers at times use bulky processing methods which lower output quality (Chege, 2012).

Improving coffee which is quality calls for KPCU to: introduce more market discipline at the cooperative level. Ensure information reaches farmers to enhance informed decisions made and elect managers who will spur the cooperatives to greater heights. Monitoring the activities of cooperatives will help improve performance of cooperatives. The government should help cooperatives by providing them with subsidies and relevant market information which may boost production and help farmers to improve quality. Elections of managers in cooperatives should be manned to avoid rigging of elections. Improvement of infrastructure is paramount to ease agony of some farmers when transporting their produce to the factories (Chege, 2012). .

Small scale farmers and estates are constrained by mode of payment make by KPCU. Uncertainty in the timing of their remuneration has made farmers to intercrop coffee with other food crops to avoid loss of income; others have turned into dairy farming especially in Central Kenya. This has compromised the quality of coffee and management of coffee in the farms .Some have even uprooted the coffee plants due to frustrations caused by delays and loss of money, which has eventually reduced the output. It is important that frequently payments are made since many farmers depend on the crop as the sole provider at home. Some producers have to wait up to six months to receive revenues from the coffee they sold. This explains why the use of inputs has declined since they are expensive and other pressing needs such as school fees and daily subsistence become priorities.

Management of the company should be strengthened to ensure farmers are paid promptly and in good prices. Prices of coffee have continued to drop down highly affecting the small holders. Lack of information and poor dissemination structure, high production costs, high labour costs and slow payments implies that the producer has little to gain. The price taker holds the least amount of bargaining power within the value chain. On the other hand the trader is the most powerful and profits most (Dada, 2007).

Coffee payment is mostly affected by huge debts owned by some cooperatives. Coffee prices have been dropping in Kenya due fluctuations of the shilling against the dollar. The fall in global coffee prices is likely to hit Kenyan farmers hard due the huge debt they have accumulated with payment pegged on high prices experienced over the past two years. The government has recently released Kshs 750,000 to cover Ksh4.7billion that the societies had borrowed from co-operative unions (Daily Nation, January, 2013).

Kenya's production costs are relatively high. These are caused by high inefficiency, mismanagement and corruption in the coffee institutions, centralization of all coffee processing activities, pulping, milling, marketing through the CBK and mismanagement of KPCU (Dada, 2007). Labor costs are also high particularly when harvesting. There is need to increase efficiency in management of coffee factories, KPCU and transportation of beans. This will reduce the factory costs that farmers are bound to shoulder. Farm inputs should be negotiated at lower prices since the factories order them in bulky. High production costs have also contributed to the overall decline in production. Production costs include labour, fertilizer and chemicals to control coffee berry disease. To reduce these costs government should reduce taxes on farm inputs and chemicals and also provide subsided inputs to increase production of coffee being a foreign exchange earner. The prices of farm inputs fluctuate each season causing a challenge to farmers. These are priced depending on costs of fuel or electricity. At times during drought, the low volume of water in the rivers goes down hence affecting the cost of electricity and rationing. KPCU should look for alternative source of energy.

Education is the best strategy to enable and encourage farmers to stay in the value chain. Assistance should be given to members to create awareness on their rights and duties. Poor governance of cooperatives has stemmed from uninformed cooperative members who are manipulated by a few individuals in electing cooperative officials. Most coffee factories have a lot of issues on management wrangles over appointment of leaders. Study tours to successful cooperatives at all levels are very effective training tool for benchmarking. Key government officials' visits to members will help train them on how cooperative can improve members' livelihood.

Farmers should be mobilized to focus on development and support in technology, communication, human and financial capital. Dissemination of research information and market intelligence to farmers and sharing of knowledge to farmers' organizations is important. Partnerships should be strengthened along the value chain to successfully integrate farmers. Farmers need specific capacities to be in a position to negotiate with middlemen. Farmers need to be taught on how to measure their output against their profit (EAFF, 2008).

Many farmers' organizations and farmers lack contract and negotiation skills hence leave out insufficient information to make the right decisions. Farmers' organizations should negotiate with government for policy and infrastructure changes that would be beneficial to them. They should be made to understand the benefits and value of being a member of a coffee cooperative. If farmer's organization takes up the roles of collecting, grading, bulking and transporting coffee, value is added to the farmer's activities. Farmers need to strengthen the cooperative efforts to keep contracts.

In the years 2000-2003, a lot of acres of coffee were uprooted or destroyed to create room for more competitive agricultural enterprises such as horticulture, floriculture and dairy especially in central and south Nyanza. Many dealers have been forced to look for lower quality Arabica elsewhere which has resulted to lower prices. Kakuzi growers uprooted their coffees and grew trees instead. There is therefore need to educate farmers on need to increase coffee acreage and produce high quality coffee which is fetching good prices in the international market (EAFF, 2008).Most factories in the rural areas still use manual weighing machines which causes delays, long queues and time wasting. This ultimately affects accuracy and efficiency.

Cooperatives can also improve on most of their processing practices and operations by automating some of their processes. Example include investing in; 1.Electronic Weighing Solutions;- Automated weighing scales can significantly improve the quality of records in factory journals, prevent long queues at delivery points and reduce factory labour overheads synonymous to manual systems. 2. Electronic Moisture Meters; - Accurately monitor the moisture content during drying of coffee. This will help the factory to maintain quality of parchment.

1.4 Challenges encountered in VCA application in KPCU

The company faces challenges in integrating and designing internal and external information system to assist managers in planning, monitoring and improving value creating processes. Technology keeps changing each day and there is need for KPCU to put in place new information systems that will keep abreast with the challenging technology. Cooperation of all personnel in the value chain is a challenge. All key players from the firm level up to the top level need to cooperate in the value chain processes. People running coffee factories should also coordinate with the field officers to ensure quality seeds. The factory managers should cooperate with the transporters to ensure delivery and proper handling of the seeds to ensure quality is maintained. The top level managers should liaise with the buyers to facilitate good pruning of seeds in the coffee auction (IMA, 1996).

Other challenges include raising productivity through Research and Development(R & D), technology transfer and access to inputs for small scale growers. Investment on R & D is insufficient and the knowledge of modern agriculture is wanting among coffee farmers. Integrating the chain through partnerships (cooperative), business contracts and importing regulatory and institutional enforcement which has been poor.

In relation to market challenges, few farmers are organized under cooperatives or associations and therefore have little bargaining power on price, knowledge on proper, harvesting, handling and logistics is poor. Some cooperatives affiliated to KPCU due to management issues have decided to market their coffee directly through private agents thereby adversely impacting on KPCU's income. Other coffee cooperatives have revitalized their secondary cooperative unions to provide services that KPCU used to offer. Examples are: - Mugama farmer's cooperative Union and Meru Central Farmers which have obtained trading licenses to market coffee directly (Wanyama, 2009) .One of the challenge of analyzing the company is inadequate information system. The rigid, internationally oriented information system is inadequate for KPCU to engage in global completion. Indeed dealing with the miller directly is cited as one the competitive advantage large farmers have over the small scale farmers. The small-scale farmers' participation in coffee value chain does not extend beyond forwarding the coffee to cooperatives. Thus, hardly any feedback mechanisms exist to assist small scale farmers to access information on markets or changing dynamics of consumers' needs.

The role played by producers' is blurred and farmers have an issue on information flow. It is not clear how the Kenya Producer's Association promotes policy changes and facilitates information sharing with the farmers. This poses a challenge on VCA on its participatory role in adding value to the coffee industry. Coffee Board of Kenya has no mechanism to deal with low production and poor quality of coffee which is a challenge facing the sector (Chege, 2012). There are low quantities of coffee for processing and most plants are operating below capacity. The cost of power is another constraint as power tariff has been on the rise in the country. Despite the high tariff, power upsurges have been quite power causing interruptions.

1.5 Changes on Leadership

The coffee sector faces a number of challenges which must be addressed to improve value addition and competitiveness. Poor governance and negative influence in cooperatives affect farmers by delaying farm inputs, credit processing and farmer's dues (Chege, 2012).The company may need to use benchmarking; best practices and business redesign to reduce costs. There is need also to eliminate processing and material waste to facilitate quality and significantly increase savings and customer satisfaction KPCU accounts for 70 percent of the country's milled coffee (Opala, 1999) and has the capacity to mill three times Kenya's production level to 45,000 tonnes thus making it the largest miller (Dada, 2007). In recent years, mismanagement, poor governance and lack of business skills have created laxity within the body rendering it less effective. This mismanagement has made some small holders to sift to Thika Coffee Mills or Socifinaf (privately owned French Company) who are able to pay promptly than KPCU (ibid). The government should try and put in place mechanisms to ensure the Board of Directors has raised hopes of coffee farmers through transparency, proper management of funds in and milling coffee.

To overcome poor management the company should invest in developing and accounting models for adoption in a more vibrant and liberalized economy. There is need to strengthen watchdog systems such as improvement in accounting, budgeting, internal and external accounting. Penalties for fraud and misappropriation of funds could deter those who misuse public funds. The appointed for such members require a competitive vetting process to ensure the company gets the best.

Hiring of qualified employees through interviews to meet challenges of competition from other businesses is paramount. Training staff with the relevant skills is important in order to remain relevant and competitive in the changing world. Staff involved at the cooperative level should be trained in order to offer extension services to the farmers and ensure proper processing of the cherries to enhance quality of the beans. KPCU should also invest in IT in order to enhance transparency and accountability to members. Installation of computers, related software and training of personal to run and manage them is important. This will assist production, processing, marketing and payment data to enhance timely payments to members.

1.6 Potential Benefits to Stakeholders, Customers, Employees, Suppliers and Community on KPCU's Value Chain Analysis

Kenyan coffee benefits the country through foreign exchange. It accounts 15% of the exports worth 80 billion US dollars (Kegonde, 2005). He further noted that coffee industry in Kenya has injected over sh107billion to the Gross Domestic Product in the last 10 years. In 2003/04 coffee ranked among the country's top foreign exchange earner. It came fourth after tourism, tea, and horticulture (ibid).

Coffee industry is one of the major employers in Kenya since it is labor intensive. The industry has employed workers who carry out activities such as weeding, spraying, harvesting sorting, and transporting coffee to the pulpery. Other workers work in the coffee factories, milling, marketing and allied activities. More than 700 000 are self employed coffee growers (Mureithi, 2008). In addition, the coffee industry, due to its forward and backward linkages, directly and indirectly benefits about 5 million people in the country (ibid).

There is a fresh impetus to reduce green house gases and carbon levels within the earth's atmosphere as manifested in the Kyoto Protocol. Coffee agronomy has now shifted to accommodate environmentally friendly, bird-shade grown coffee, as a secondary effort to achieve the above. Producers who comply with such structures, and who are subsequently certified, are in-turn guaranteed premium prices (Dada 2007).

Suppliers get ready market to supply inputs such as; coffee seedlings, fertilizer, and financing. Seedlings are grown in local nurseries and are purchased directly by estates and growing cooperatives. Fertilizer is imported and sold either directly to cooperatives or through wholesalers and retailers. Where every institution in the value chain operates as expected and the beans fetch fair prices in the auction, suppliers receive their payments on time. Farmers are able receive timely payments and hence clear school fees for their children, clear outstanding loans and improve their lives.

Coffee is popular due it taste and the stimulating effect of caffeine to its customers. Customers benefit from VCA by creating and flow of value at each stage of production. Coffee is also associated with social interaction and intellectualism (www.parasion for coffee.com/background/overview).There is need for rigorous analysis of each and every lot of green coffee which is roasted, cupped and analyzed so as to match different needs of global clients.

VCA assists shareholders to gain some trust in business through cordial relationships, commitment, shared risks rewarded in the chain (Taylor, 2005). VCA provides a mechanism for the shareholders to seize opportunities for improvement at different stages of the value chain. (Soosey, 2012).It also facilitates change by assisting stakeholders in making decisions on what to produce, when to produce and how to produce. Information flows within the value chain from final consumption through to primary production and input supplier and back again depending on its inclusiveness, transparency and responsiveness to a large extent assist in making production decisions.

1.7 Limitations of VCA and other tools that may be integrated in the VCA

KPCU needs to assess its VCA accurately and assess its individual activities within the value chain in order to capture maximum value for its customers and itself and hence remain competitive. The company should be in a position to carry out its internal cost analysis in order to determine the sources of profitability, internal differentiation and help understand the sources of differentiation including the cost and vertical linkage.

There are many limitations in KPCU when analyzing its VCA. Some of these limitations include; identification of internal data on costs, revenues and assets to be used for value chain analysis is difficult as a result of financial issues affecting the company. There is no scientific approach in VCA and much depends upon trial and error and also experimentation methods. For long-term strategic decision-making changes in cost structures, market prices and capital investments may not be readily available.

VCA in the KPCU poses a number of challenges due to inefficiencies of some actors and in accurate data. Some farmers' sell their coffee at the farm gate to brokers because they want to quick cash and avoid marketing at all. This presents a problem of the balance of return between farmers and other value chain actors. It is also difficult to estimate amount sold to brokers and how much the farmers receive in return. In addition it is difficult to estimate costs that are important for purposes of computing value addition. Most of small scale farmers employ permanent employees. The rest use family member therefore estimating cost of labor is a challenge.

Lack of education and awareness on the importance of customer value in coffee to major players of the company affects VCA .It requires expertise in internal operations and information. It is important that accountants seek information from outside the firm and by bench marking to uplift the company. This information may be financial or non-financial.VCA calls for innovation and creativity in gathering and analyzing information from the firm level, processing level, finally to marketing level for proper decision making. Isolating cost drivers for each value-creating activity, identifying value chain linkage across activities and computing supplier and customer profit margins present serious challenges. Business information systems are often not structured in a way to make it easy to get information for value chain analysis (IMA, 1996).

Without clear definitions of the roles of all the coffee institutions, and without strengthening partnerships between public and private institutions within the coffee industry, other recommendations could fall short of the intended goals. This is because of the fact that a solid institutional structure would serve as a foundation upon which other aspects could be developed by restructuring coffee institutions such as the Coffee Board, the Coffee Research Foundation and cooperative societies.

Storage of green coffee is paramount. Green coffee is usually transported in jute bags. While green coffee may be usable for several years, it is vulnerable to quality degradation based on how it is stored. Jute bags are extremely porous, exposing the coffee to whatever elements that surround it. Coffee that is poorly stored may develop sour taste that may reduce the quality .Storage should be done in the correct moisture and beans should be well dried.

Electricity is a serious constraint to doing business in Kenya. Power has been costly and inefficient. In addition to the high cost of electricity, provision of this utility is erratic, which results to loss of production time and consequently lower productivity of enterprises. Kenya Power should improve in transmission and efficiency to reduce power outrages that affect the factories in processing and drying stages. This causes delays and loss of quality of the coffee beans.

Coffee value chain will only be beneficial to its players; if only farmers access low-cost raw materials; innovative process technology; low-cost access to distribution channels, superior operating management and if they take advantage of economies of scale in marketing process. There is a dire need for policy changes in the sector to enable coffee farmers to enable take part in value addition business from multinationals so that they earn more .Trade in the crop has been dominantly controlled by four export companies and four roasters which has contributed partly to low prices and influences costs. This has made farmers' value addition to decline over the years, leaving it vulnerable to major dealers in the market. The export stage; Neumann Kaffee Gruppe, Volcafe Swiss Cargil-USA, De-cotrade and Tolaco-Swiss control 60 percent of coffee trading in the country. On the other hand Nestle, Tchibo, Krafts Foods Procter& Gamble, Sara Lee control 50 percent of that market. As a result the bargaining power rests on the traders and roasters. There is need to create a shared positive reform agenda to guarantee fair remuneration to all players across the value chain (Daily Nation, December25, 2012).

Taxation of coffee is at 4 percent while as that for tea is at 1 percent (Daily Nation December 25th, 2012). This duty should be harmonized for all the crops which will eventually facilitate increases in payments for the producers. Coffee Board of Kenya should allow coffee factories to roast and pack their produce to promote consumption by licensing them. There is need to improve KPCU by integrating VCA with other performance tools in the company to improve its competitiveness. These include; - Total Quality Management (TQM), the balanced scorecard and SWOT Analysis

i) Total Quality Management (TQM) is a systematic approach to quality improvement that marries product and service specifications to customer performance. TQM hence aims at producing these specifications with zero defects. This creates a virtuous cycle of continuous improvement that boosts production, customer satisfaction and profits. It is essential for managers to: assess customer requirements and deliver quality. They should identify the key problematic areas in the process, train employees to new processes; develop effective measures of product and service quality; create incentives linked to quality goals; promote a zero-defect philosophy across all activities; encourage management to lead by example; and develop feedback mechanisms to ensure continuous improvement.

TQM improves profitability by focusing on quality improvement and addressing associated challenges within an organization. TQM can be used to: increase productivity; lower scrap and rework costs; improve product reliability; decrease time-to-market cycles; decrease customer service problems and increase competitive advantage.

ii) SWOT Analysis

SWOT refers to Strengths, Weaknesses, Opportunities and Threats. It is an established planning tool used by companies when they need to do an honest evaluation of a given business operation. The aim of SWOT Analysis is to identify the extent to which the strategy the company uses and its relevance by exploring its strengths and weaknesses is capable to withstand changes brought about by threats in the business environment (Kalpanele et al, 2010). SWOT gives a summary of the company's current situation and position the company in marketplace. When performing a market analysis, it's important to be transparent about the company's strengths and weaknesses. It's the essential first step in ensuring the company is able to identify those opportunities and threats that are present within its market. The strengths and weaknesses of a company are identified, along with the opportunities and threats in its environment. The SWOT analysis allows the current state and future potential of the company to be evaluated. If the strengths and opportunities outweigh the weaknesses and threats, the company is in a good position. SWOT analysis can also be used to build strategies for the future by considering how weaknesses can be turned into strengths, and how threats can be turned into opportunities.

iii) The Balanced Scorecard

The balanced scorecard is a popular method for measuring a company's performance. The idea of the balance scorecard is that you should not evaluate a firm on the basis of one single measure. Instead, it is most effective if you measure a company's performance according to four distinct perspectives. These perspectives are: the financial perspective (a measure of company earnings); the customer perspective (a measure of performance related to clients); the internal process perspective (a measure of how effectively the organization functions) and the growth perspective (a measure of how well the organization is able to learn and develop).

1.8 CONCLUSION

In order for the coffee value chain to bring benefits to all players; there is need to undertake urgent reforms in the cooperative sectors to make them more responsive to producers' needs as well as streamlining their operations. There is need for policy changes in the sector to enable coffee farmers to take part in value addition business for more profits. The future of the Kenyan coffee industry hinges on how well the following issues are addressed; capacity building of smallholders through adequate access to information, extension services, rural finance, improved seedlings and new technologies and by improving rural infrastructure, the industry can regain robustness and regain high commercial viability of Kenya's premium quality Arabica coffee. Quality management is of great concern for coffee producers and collaborative effort is needed to increase the quality of coffee in Kenya. Growers of premium estate should impose a level of quality control that goes well beyond conventionally defined grading criteria to achieve higher prices that goes with recognition and consistent quality.

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