

Abstract

Dairy is a major component of many rural households at least in the High and Medium Potential Lands (HMPL) in Kenya. The Kenyan dairy industry is based mostly on smallholder milk production. The history of cooperative development in Kenya is tied closely to the aims of the Government's rural development policy. Soon after Independence in 1963, Government was given wide-ranging powers in organizing farmer cooperatives to deliver the necessary services. The government's aim was to use cooperatives as a tool to facilitate commercialization of Kenya's smallholder farm sector. Currently, most of the running cooperatives are characterized by weak management capacities, inadequate capital base, and low economies of scale. This exploratory research reveals the effectiveness of the value chain strategy as a planning tool, on the performance of the selected producer-owned dairy groups. The paper identifies the value activities within the milk value chain and the cost drivers within the chain that contribute to competitive advantage. An in-depth analysis of how the value chain strategy has been used in the selected dairy groups, the impact on their performance, challenges faced and the specific areas that supporting partners are able to focus on within the dairy value chain are discussed. As a result of this research, a positive change in the livelihoods of the farmers was realized, as a result of maximizing the core value activities within the dairy chain. The core activities were the activities within the "inbound stage" of the dairy value chain and which include; Provision of farm inputs, selection of good cattle breeds, provision of animal feeds and drugs and proper milk handling practices, this means training the dairy farmers on clean milk production, at the farm level. The study established the lack of knowledge by the farmers on how to handle milk especially at the milking stage, and poor hygiene of the milk jars used during the milking process. This affected the quality of milk as a result of bacteria that contaminates the milk, causing rejects at the collection points. With such improved business services to small farmers, it was established that small farmers' transaction costs that are usually large relative to the size of their output, was greatly reduced, resulting to improved quality of milk and efficiency of the producer-owned groups. It was also established that in order for Michael Porter's value chain model to be effective in the producer-owned dairy groups, there is need to include external support activities that are outside the milk value chain. The study indicates that managers performing value-chain analysis need to take into account newly important business drivers. Expanding the value chain ensures that no potential strategic activity is forgotten and no opportunity for enhancing value are over-looked. The added-value chain proposes adding an expanded set of activities to the original value-chain concept; specifically activities that can help improve the livelihoods of the dairy farmers. The study reveals the following set of external activities that help improve the livelihoods of the farmers; Credit Facilities, provision of basic necessities like soap, sugar, bonuses/advances and school fees loans