Influence of strategic Market Development Practices on Competitiveness of Kenyan Tea in the Global market.

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Abstract

Kenyan tea though acclaimed globally as a high quality product available all year round continues to face growing competition both regionally and globally. This has resulted to a decline in its market share in the global market. The main objective of the study was to examine the influence of strategic market development practices on competitiveness of Kenyan Tea in the global market. The study used cross-sectional survey design to collect both qualitative and quantitative data from the respondents. The target population consisted of all one hundred and eighty-nine members of the East Africa Tea Trade Association (EATTA) who participate in the tea auction at Mombasa. The target population was categorized into organizational population and the respondents’ population. Respondents’ population comprised of four top managers from every organization. The sampling frame for this study was seven hundred fifty-six managers who included Chief Executive Officer, Finance Director, Marketing Manager and Operations manager who acted as the major agents of the entire value chain in the tea industry from the producer to the final international consumer. Stratified sampling technique was used to select a sample for buyers, brokers, warehouse, packers and associate members while purposive sampling technique was used to select the managers who represented both the small-scale and large-scale producers. To obtain the desired sample size for the study with the organizational population of 189, Slavin’s formula (1960); n = N/(1+Ne²), was applied. Where; n = Sample Size N = Total Population e = Error of Tolerance with a confidence level of 95 % (giving a margin error of 0.05). The main instrument used to collect primary data from the sampled respondents was structured and unstructured questionnaire. The questionnaire underwent pilot study to test for the validity and reliability of the research instrument. Internal consistency of the questionnaire was determined by use of Cronbach’s Coefficient Alpha (α). Collected data was further prepared for analysis using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. Data was analysed using percentages, mean and standard deviation while t-tests and p-value was used to test the hypothesis. Pearson correlation coefficient (r) was derived to show the nature and strength of the relationship of the variables where Coefficient of determination (R2) was used to measure the amount of variation in the dependent variable as explained by the independent variable. The study findings indicated that there was a positive relationship between competitiveness of Kenyan tea and strategic market development practices as signified by a coefficient of 0.507. This meant that a 1% change in Strategic Market Development practices increases competitiveness of Kenyan in the global market by 0.507 units. Such increase as revealed by the study was attributed to adoption of market penetration, market segmentation, and market diversification strategies which in the long run created new customers in new segments as well as expansion of the potential market for Kenyan tea in the global market. The study concludes that Market segmentation strategy may be executed in diverse criterion including demographic, geographical, and behavioural segmentation among others. The study emphasized on demographic market segmentation as a strategic market development practice to enhance competitiveness of Kenyan Tea in the global market. The study recommended that to boost competitiveness of Kenyan Tea globally good local and international marketing strategies need to
Introduction
Groosman, (2011) observed that tea is a very popular beverage-second only to water and is consumed all around the world. Millions of people are engaged in the production and processing of tea, and many more rely on it for their livelihoods. Tea Directorate of Kenya (2010), KTDA (2012) and TRI (2013) informed that West-European countries in the World such as UK and Netherlands have long, historical ties with the tea trade. Further, Dutch merchants already became familiar with tea in the 17th century during their journeys to the Far East, and UK began building fast ships specially to get tea from the Orient around 1840. The British built tea plantations in India and Sri Lanka (Ceylon, at the time), and the Dutch established plantations on Java and Sumatra. Nowadays, the international tea trade is largely in hands of multinational companies (MNC) with British and Dutch roots.

The tea (*Camelia sinensis*) history in Kenya can be traced back to 1903 when G.W.L, Caine, a European settler introduced the first seedlings from India and planted them in Limuru near Nairobi (Tea Board of Kenya, 2010). The commercial cultivation of tea began in 1924 and remained exclusive activities of the colonialists until 1956 when African farmers were allowed to start growing tea. The producers of the Kenyan Tea are the small-scale farmers and large-scale producers mainly the Multinationals. The Small-scale tea producers are managed and controlled by KTDA, KTDA accounts for 60% of Kenya’s total tea production and about 6% of global tea production (Omari 2015). KTDA oversees the collection, processing and selling of processed tea both locally and internationally as well as facilitation of small-scale producers’ payments. Large-scale producers of Kenyan tea who include Brooke Bond, George Williamson, Eastern Produce and African Highlands among others are responsible for processing and marketing of their own made tea.

Tea Board of Kenya, (2013) informed that tea industry in Kenya contributes 4 percent of Kenya’s Gross Domestic Product and 10 percent of Agricultural Gross Domestic Product. In 2009, as demonstrated by the Tea Board of Kenya; Kenya was the highest tea exporter at 25.4% hence earning highest foreign exchange. The government of Kenya lists tea industry as one of the pillars of realizing the government’s Vision 2030. The main market destinations for Kenyan tea are Pakistan, Egypt, United Kingdom, Sudan and Afghanistan accounting for about 71% of the total export volume. The rest of the tea is exported to over 60 market destinations world-wide. United Arab Emirates (UAE) is an emerging market for Kenya tea. The domestic market is limited and accounts for only about 5% of total production (Tea Directorate, 2014).

Although Kenya is in a leading position for quality Black CTC teas, the value of its exports is still subject to price swings similar to those in commodity markets. Kenyan tea lacks visibility in the global market as it is sold as a blend and not as an original tea. This makes the traceability of the Kenyan Tea in the International Markets unnoticeable making it loses the competitiveness in the global market. Lenore, (2013) observed that as more and more producers are attracted by the premium prices paid for Kenyan teas, competition has increased thus limiting Kenya’s margins and international competitiveness in the market. Emerging export producers, for example China, are producing lower quality teas in large volumes and as a result locking out a large market segment. On a country-specific scale, Kenyan producers have also been driven away from value added production due to the high tariff in importing countries. Omari (2015), indicated that despite the fact that Kenya is the 3rd largest producer of tea it is apparent that it is the leading exporter of tea. This means that there is minimal local consumption compared to China, India and Sri Lanka. This reliance on foreign markets affects Kenya’s export performance as almost the entire production is dependent on international markets. Kenya as well exports its tea in bulk as compared to other countries that export value added teas making it loose competitiveness in the international market.

Statement of the Problem
Kenya’s tea industry continues to face growing competition both regionally and globally. The country is one of the most successful producer and exporter of quality black CTC tea in the world. Kenyan tea is acclaimed globally as a high quality product, available all year round and primarily used for blending teas from other origins. As a result, Kenyan tea lacks visibility in the world market as it
is sold as a blend and not as an original tea (Tea Board, 2013). This negatively impacts on competitiveness of Kenyan tea in the global market.

However, Kenyan tea has been losing its market share in the global market in the recent past for instance in 2013 it witnessed a decline of 15% in market share as compared to 2012 (KTDA, 2014). The declining competitiveness of the tea has been attributed to limited number of market players, low level of value addition, new entrants in the market such as Rwanda with superior quality teas and increased taxes by the Kenyan government (Tea Directorate, 2014, KTDA, 2015). Tea directorate (2014) noted that Kenya exports over 99% of her tea as black CTC of which 88% is exported in bulk form while the rest as value added tea an indication that there is limited value addition and product range in tea due to factors that include limited research outputs on value added products.

According to (KTDA, 2015), Kenya has continued to over-rely on the traditional markets including Pakistan, Egypt, United Kingdom, Sudan and Afghanistan accounting for about 71% of the total export volume. The 71% gives a reflection on the power of the buyers as high resulting to a negative impact on the competitiveness of the Kenyan tea in the global market. In such circumstances, any adverse effect on the economy and political status of these countries greatly affects the demand of the Kenyan Tea in the said markets and as result the prices. The Economic survey (2015) pointed out that unit price of Kenyan tea maintained a downward trend owing to higher supplies and decline in demand for black CTC tea in certain key traditional markets. Despite capacity to produce quality black CTC tea all year round and exportation of the same in bulk, lack of strategic market development practices hinders market expansion contributing to declining competitiveness of the Kenyan tea in the global market. This observation may be justified by the fact that the traditional markets of the Kenyan Tea are faced with numerous challenges hence dwindling. It is in this view that this study sought to establish the influence of strategic market development on competitiveness of Kenyan Tea in the global market.

**Purpose of the paper**

The purpose of this paper was to establish the influence of strategic market development practice on competitiveness of Kenyan tea in the global market.

**Literature Review**

The study was guided by the theory of International Competitiveness which assumes that, through exporting, a country can accumulate wealth by exporting the maximum of its product and importing the minimum of the product from other countries. Atikiya (2015) in support of this theory reported that firm’s competitiveness depends on its strategic fit into the relevant global value chains of geographic clusters and networks. According to Porter (2000) international success in a particular industry is determined by reinforcing factors which create an environment which enables the firm to compete. Porter’s (1990) stated that countries, like companies compete in international markets for their fair share of the world markets.

The relevance of this theory to the study was that Kenya exports 95% of the Tea produced out of which 88% was exported to traditional markets and only consuming 5% in the domestic market (Tiampati, 2013). According to porters’ studies (1980, 1990, 2000) companies are increasingly aware that they have to be internationally competitive not only when they venture abroad but also because they face international competition in their home market. As markets become more open to global competition, competitiveness may well be the key to survival.

MAAFAP (2012) carried out a study which concluded that Kenya’s tea sector is vulnerable because most of the tea is exported to only a few countries. The report further noted that about 95 percent of the tea produced in Kenya is exported, and about 60 percent of exports go to only three countries Pakistan, Egypt and the U.K. Over reliance on a few export markets, together with low domestic consumption comparative to production, becomes a major challenge for Kenya’s tea industry. Reibstein, (2010) observed that, the increasing intensity of competition in the tea global markets was a challenge facing Kenyan companies in the tea industry at all stages of involvement in international markets hence the need for strategic market development practice to overcome such a challenge. Through market penetration and market segmentation Kenyan Tea would regain its competitiveness in the global market.

Rahman, (2007) and Young, (2014) stated that all ages of people in the world enjoy tea as a beverage. On the same note, Nasir &Shamsuddoha, (2011) affirmed that about two thirds of the world’s population drink tea every day. Gramza-Michalowska, (2014); Tounekti et al., (2013); Khan...
and Mukhtar, (2013); Lambert, (2013) and de Godoy (2013) also confirmed that tea has been gaining popularity due to rising consumer awareness of its health benefits and its medicinal value resulting to tea being sold in most supermarkets, health and natural food stores and stores in tea and coffee rooms throughout the world. The researchers further noted that new brands of tea and tea products are emerging in the world markets and pharmaceutical products based on tea are constantly being developed. The cited observations are all indicators of strategic market development approach that promote competitiveness of tea as a beverage in the global market hence the relevance of the current study.

The research by Ghosh (2014) compares well with another study carried out by Hassanzadeh et al (2016) on factors affecting tea consumption pattern in an urban society in Iran. Hassanzadeh et al reported that among the demographic variables of age, weight, and education on tea consumption; children and teenagers have the least amount of tea usage. Hassanzadeh in their study also analysed different tea consumption habits on different gender and found that among male and female; men are significantly higher tea consumers than women and in terms of different occupation levels, it was revealed that working class consume high volumes of tea on a daily basis as compared to households. Based on different education levels, the study revealed that rate of consumption of academically trained subjects was higher than and non-academically trained ones and on marital status, it was discovered that averagely, married participants consumed much tea than singles.

Ghosh (2014) conducted a study on a new way of market segmentation in India. The study informed that demographic variables are normally used by marketers as a popular basis of market segmentation because they mirror consumers’ needs, wants and preferences. The pertinent variables according to Ghosh include age, income, stage of life, generation, social class and gender.

Study findings by Mbui (2015) found out that strategic management approaches in Kenyan tea subsector through market promotions, partnerships, product diversification, cost leadership and technological innovation would eventually expand the Kenyan Tea market globally hence increasing its competitiveness.

Methodology

This study espoused a cross-sectional survey research design to collect both qualitative and quantitative data from the respondents. The survey design was appropriate because tea industry is a multi-stakeholder industry. This study sought to analyze the influence of strategic market development on competitiveness of Kenyan Tea in the global market. The target population consisted of all one hundred and eighty-nine (189) members of the East Africa Tea Trade Association (EATTA) who participate in the tea auction at Mombasa. Stratified sampling technique was used to select the study sample of 68% for buyers, brokers, warehouse, packers and associate members while purposive sampling technique was used to select KTDA managers who represented small-scale producers and large-scale producers Mugenda and Mugenda (2003) advised a10% sample of the accessible population is considered an adequate sample for a given study. The survey researched on the existing conditions or relationships, current processes and the resultant effects. Inferential conclusions were made from the secondary data from relevant reports. Data obtained was presented and analysed using SPSS version 22.0. The findings were presented in form of frequency tables and pie charts and discussions and interpretation of the same provided.

| Responses                              | N   | Mean | Std. Deviation |
|----------------------------------------|-----|------|----------------|
| Demographic Market segmentation        | 336 | 4.0  | .917           |
| Consumer Preference                    | 336 | 4.6  | .489           |
| Political Volatility                   | 336 | 3.8  | .954           |
| Price Differentiation                  | 336 | 3.9  | .896           |
| Market Development                     | 336 | 4.1  | .743           |
| Market Diversification                 | 336 | 4.3  | .731           |
| Traditional Global Markets             | 336 | 3.7  | 1.028          |
| EATTA Regulations and Conditions       | 336 | 3.6  | 1.065          |

Table 1: Strategic Market Development Descriptive Analysis Results
Results and Discussion

The objective of the study was to assess the influence of strategic market development practices on competitiveness of Kenyan Tea in the global market. The study looked into market segmentation, market development, market diversification and price differentiation as key strategic market development practices influencing competitiveness of Kenyan Tea in the global market.

According to the study respondents, market segmentation increases competitiveness of Kenyan Tea in the global market. This was reflected by a mean of 4.14 as shown in table 4.1. This agrees with study findings by Asnoff, (1993) who asserted that market segmentation as a growth strategy identifies and develops new market segments for current products. Although other factors could influence competitiveness of the Kenyan Tea globally, Asnoff maintained that market segmentation leads to new customers in new segments which support competitiveness of the product. Market segmentation strategy may be executed in diverse criterion including demographic, geographical, and behavioural segmentation among others. The respondents with a mean of 4.02 revealed that demographic market segmentation was a key approach to strategic market development and thus increases competitiveness of Kenyan Tea in the global market. These findings conform to findings in the study by Ghosh (2014) on a new way of market segmentation in India. The study informed that demographic variables are normally used by marketers as a popular basis of market segmentation because they mirror consumers’ needs, wants and preferences. The pertinent variables according to Ghosh include age, income, stage of life, generation, social class and gender. Rahman, (2007) and Young, (2014) stated that all ages of people in the world enjoy tea as a beverage.

The study findings informed that Market development may be achieved by paying attention and responding to changing consumer tastes and preferences through market diversification strategy. Gramza-Michalowska, (2014); Tounekti et al., (2013); Khan and Mukhtar, (2013); Lambert, (2013) and de Godoy (2013) confirmed that tea has been gaining popularity due to rising consumer awareness of its health benefits and its medicinal value resulting to tea being sold in most supermarkets, health and natural food stores and stores in tea and coffee rooms throughout the world. The stated consumer preferences can be used strategically to develop new global markets for Kenyan tea. The respondents in this study agreed with a mean of 4.61 as reflected in table 4.1 that consumer preference affect competitiveness of Kenyan Tea in the global market. The cited observations are all indicators of strategic market development approach that promote competitiveness of tea as a beverage in the global market hence the relevance of the current study.

The research by Ghosh (2014) compares well with another study carried out by Hassanzadeh et al. (2016) on factors affecting tea consumption pattern in an urban society in Iran. Hassanzadeh et al reported that among the demographic variables of age, weight, and education on tea consumption; children and teenagers have the least amount of tea usage. Hassanzadeh in their study also analysed different tea consumption habits on different gender and found that among male and female; men are significantly higher tea consumers than women and in terms of different occupation levels, it was revealed that working class consume high volumes of tea on a daily basis as compared to households. Based on different education levels, the study revealed that rate of consumption of academically trained subjects was higher than and non-academically trained ones and on marital status, it was discovered that averagely, married participants consumed much tea than singles.

According to the respondents, Kenyan tea is not as competitiveness as other teas from other countries due to minimal value addition. The respondents indicated value addition aspects such as blending, flavouring, repackaging, labelling and branding would increase competitiveness of Kenyan Tea in the global market.

Political Volatility of a country affects market penetration hence influencing competitiveness of Kenyan Tea in the global market. The respondents agreed that political volatility affects competitiveness of Kenyan Tea. This is evidenced from the mean of 3.86. Alberto et al (1992) Working Paper No. 4173 on Political Instability and Economic discovered that there exists high inter-connectivity between economic growth and political stability. Alberto et al further confirmed that unstable political environment may lead to a decline in investment, limit the speed of economic development, government collapse and political unrest. The major markets of Kenyan Tea as revealed by the respondents among others are Pakistan, Egypt and Sudan. The said countries in the recent past had experienced political crisis in form of civil wars. This to a great extent impacts
negatively on the Kenyan Tea markets since the citizens of these countries would spend more on personal security vis a vis tea consumption. Alberto et al (1992) also indicated that high propensity of a change of government connects with uncertainty about the new policies of a potential new government and risk-averse economic agents are may shy away from taking economic initiatives or may exit the economy. At a mean of 3.95, the respondents agreed price differentiation increases competitiveness of Kenyan Tea in the global market. Different grades of Kenyan Tea are offered for sale in the market at different prices.

Pandya and Rao (1998) in their study on diversification and firm performance argued that managers employ market diversification as a strategic option to improve their firms’ performance. The respondents in this study confirmed that Market Diversification influences competitiveness of Kenyan Tea in the global market. This was signified with a mean of 4.30. Respondents were of the view that market focus influences competitiveness of Kenyan Tea in the global market. This was represented by a mean of 3.73. The respondents agreed that Kenyan tea is exported to few traditional markets. This finding was in line with research findings by MAAFAP (2012) which observed that Kenya’s tea sector was vulnerable because most of the tea was exported to only a few countries and about 60% of exports go to only three countries Pakistan, Egypt and the U.K. Over reliance on a few export markets, together with low domestic consumption comparative to production, presented as a major challenge for Kenya’s tea industry. This finding validates the observation in the current study that competitiveness of Kenyan tea in the global market was eroding. This as well agrees with a market analysis report by AFFA (2016) which pointed out that Pakistan was the leading export destination for Kenyan tea having imported 10.04 Million Kilograms, accounting for 27% of the total export volume.

The respondents agreed that EATTA Regulations and Conditions influence competitiveness of Kenyan Tea in the global market with a mean 3.61. The tea auction system brings the buyers and sellers together to determine the price through interactive competitive bidding on the basis of prior assessment of quality of the tea. This is an indication that EATTA mandate of commanding the interests of all the stakeholders in the tea trade by ensuring permissible business environment was achieved.

The respondents advised that government policies guiding the trading of Kenyan tea in the global market appeared to have an impact on the competitiveness. Some of the policies cited included tax policies where the respondents indicated that Kenyan tea as being subjected to high taxation making the tea uncompetitive in the global market. For instance, tax on Value Added tax, Ad vorelam and exportation tariffs. The respondents indicated some consumer countries set trade sanctions that affect the Kenyan tea trade in the global market affecting market expansion and development which in the long run affects competitiveness of the Kenyan Tea in the global market. Further, currency sanctions imposed by countries on inflow and outflow of foreign currency affect market development. The Kenyan Tea is traded in hard currency (US dollar). The sanctions imposed by export countries limit the quantities sold to such countries erodes competitiveness of the Kenyan Tea resulting to diminishing markets.

Regression analysis was conducted to verify whether strategic market development was a significant determinant of competitiveness of Kenyan tea in the global market. From the model summary in Table 3 the coefficient of determination R2 and correlation coefficient (r) shows the degree of association between the independent variable and competitiveness. The adjusted R2 was 0.490 and R=0.520

| Model | M | R | Sq. R | Adj. R Squ. | Std. Error of Estimation | Change Statistics | Durbin-Watson | Sig. F | Sig. F Change | Change |
|-------|---|---|------|-------------|--------------------------|------------------|-------------|-------|---------------|--------|
|       | 1 | .28 | .52  | .490        | 1.15                     | 2.05             | 385         | .00   | 1.40          | 61     |

a. Predictors: (Constant), Strategic Market Development
b. Dependent Variable: Competitiveness

The predictor model as shown in the Table 2 indicates that Strategic Market Development and Competitiveness had a strong positive relationship of 49.0%. This further means that 49% of the Competitiveness can be explained by Strategic market development. Therefore, further research should be conducted to investigate the other factors.
that influence competitiveness of Kenyan tea in the global market.

Table 3 Strategic market development

| Model          | Unstandardized Coefficients | Standardized Coefficients | 95.0% Confidence Interval for B |
|----------------|-----------------------------|---------------------------|---------------------------------|
|                | Std. Err. | Beta | t     | Sig. | Lower Bound | Upper Bound | 95.0% |
| 1 (Constant)   | 0.76     | 0.57 | 1.32  | .08  | -0.37       | 1.90        | 0.19  |
| 2 Market       | 0.58     | 0.13 | 0.228 | 0.00 | 0.80        | 0.85        | 0.00  |

Y=0.766+0.583

The strategic market development coefficients are presented in table 3. From the table the following predictor model was derived; Y = 0.766 + 0.583 .This indicates that a change in the strategic market development practices by 0.583 units results in a unit increase in the competitiveness of Kenyan Tea in the global market. The predictor variable Strategic Market Development was significant at p-value of 0.000. This leads to the conclusion that Strategic market development significant influences competitiveness of Kenyan Tea in the global market. The study findings are in support of a study conducted by Sanga, (2011) which noted that the strengths of Kenya’s tea industry was as a result of favourable climate, technical skills base, worldwide reputation, the presence of research and development (R&D) institutes, and the best quality but was eroding its competitiveness globally due to lack of strong brands, lack of traceability of Kenya’s Tea in the shelves of international markets as well as low levels of product and market diversifications and value added products in the markets.

Table 4 Regression Model Coefficients

As illustrated in Table 4, there was positive and significant effect of Strategic Market Development on competitiveness ($\beta = 0.507; t = 3.156; p < 0.05$). The study found a positive relationship between competitiveness of Kenyan tea and strategic market development, as indicated by a coefficient of 0.507. This is an indication that a 1% change in Strategic Market Development increases competitiveness of Kenyan in the global market by 0.507 units. This is further supported by the t-statistic of 3.156 which was greater than the tabulated t-value of 1.962. The study findings agree with Asnoff (1993) who observed that Strategic Market development practices increase competitiveness of a given product through adoption of market penetration, market segmentation, and market diversification strategies which in the long run results to new customers in new segments as well as expansion of the potential market. This study was consistent with study findings conducted by Mbuu (2015) who found out strategic management approaches in Kenyan tea subsector through market promotions, partnerships, product diversification,
cost leadership and technological innovation would eventually expand the Kenyan Tea market globally hence increasing its competitiveness.

CONCLUSION AND RECOMMENDATIONS

Strategic market development practice was found to be statistically significant in explaining competitiveness of Kenyan Tea in the global market. It is possible to conclude that for any firm to remain competitive it must focus on market development strategies. The study concludes that there was overreliance of the traditional markets such as Pakistan, Egypt and UK which poses a great challenge especially when the countries are not politically stable. Therefore, there is a need to diversify markets and establish more market segments to accommodate the emerging consumer needs, tastes and preferences in the global market. The study conclusion conforms with A study conducted at Sri Lanka on Strategies for Competitive Advantage in Value Added Tea Marketing by Herath and SilvA (2011) who emphasised on the importance of change from bulk tea exports to value added tea products to fit in the world tea market which of late registers rapid grow with emerging customer needs.

From the examination made in the course of this study, it is recommended that the Kenyan Tea industry should invest more to enhance the image of Kenya’s tea which is fairly strong in the global market. This would create new markets for the existing product as well for new teas hence expanding proportion of the Kenyan tea drinking population in the world. This can be achieved through aggressive and creative marketing. In addition, in order to boost the exports of this commodity, good local and international marketing strategies have to precede the act of exportation.

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