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## **Chania Feeds: You Can't Cheat Chicken**

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### **Introduction**

Rosemary Kirika the CEO of Chania Feeds Manufacturers Ltd had just reported to her office one Monday morning in 1994. As she went through the In Tray, her eyes fell on documents titled 'The Status of Animal Feeds in Kenya' from the Ministry of Agriculture. This was of interest so she spent time going through the document. The report gave details of the grim situation faced by livestock farmers due to shortage of raw materials for manufacturing animal feeds. Rosemary wondered how her company was going to compete in a very competitive market. Rosemary looked around her scantily furnished office and wondered what would give Chania Feeds Manufacturers a competitive advantage.

### **Chania Feeds Background**

Chania Feeds manufactured feed concentrates that were blended into rations by livestock farmers to meet the nutritional requirements of their livestock. The main livestock feeds consist of roughages, concentrates, minerals and vitamins. Chania Feeds used cereals such as maize, wheat, barley, oats and millet in the manufacture of the concentrates. They also used legumes and oilseeds such as soybeans, cottonseed cake and animal by products such as fish meal, blood meal, meat and bone meal. In 90s livestock feeds in Kenya account for between 60-80 percent of the production costs in livestock farming. Thus the cost of commercial feeds was of great concern to farmers, government and animal feed manufacturers since it affected the competitiveness of the livestock sector both locally and internationally.

Chania Feeds Ltd was established by two families who were poultry farmers as way of getting a solution to perennial shortages of poultry feeds. The company was legally registered in 1994 and started business in rented premises in Thika town. Mr. James Kirika and his wife Rosemary

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Gidraph Nduati, Assistant Professor of Management prepared this case with the assistance of Professor Barbara Jamieson of Edinburgh Business School, Heriot Watt University U.K as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. United States International University (USIU) acknowledges the support of Global Business School Network (GBSN and financial support from Bill & Melinda Gates Foundation) in the preparation of this case study.

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owned 50% of the share capital while Mr. Wilfred Kamami and his wife owned the other 50%. The four directors unanimously appointed Rosemary Kirika to be the Chief Executive of the company. She was to ensure that the necessary machines were imported and the necessary human resource was recruited. Mrs. Kirika was also supposed to oversee the day to day operations of the company.

Rosemary Kirika, a graduate of Kenyatta University in Bsc in Botany and Zoology, had no skills in feed manufacturing or business management. The only experience she had was managing the poultry farm which she jointly owned with her husband but even then they had employed a full time manager, so her management role was limited to overseeing the activities of the manager and to organize feed procurement and marketing of eggs. Nevertheless Rosemary was very confident that she would manage her new role provided she had qualified staff.

Rosemary's first role then was to gather information regarding the requirements for establishing a feed manufacturing plant. She contacted people she knew who had established feed manufacturing plants and got advice to recruit an animal nutritionist who would help in determining the machines that needed the raw materials and the manufacturing process. Rosemary recruited a university graduate in animal nutrition who was very instrumental in the establishment of Chania Feeds Manufacturers Ltd. The machines were imported, human resources recruited and the poultry feed processing commenced. The production of feed products went on well and the two families were able to get quality feed for their poultry. Although the initial idea was to produce poultry feed for own use, Rosemary found that Chania Feeds had capacity to produce for sale. She therefore entered a new phase in the management of Chania Feeds Manufacturer Ltd, that of producing for sale in addition to their own use. She soon realized that there was intense competition in poultry feed processing and one needed strategies to enhance survival, she was however confident that she had the capacity to develop such strategies.

Although the company was doing very well and everyone was feeling satisfied that the idea to establish the business was bearing fruit, the Kamami family decided to sell their shares to the Kirika family. Thus in 2001 Chania Feeds Manufacturers Ltd became a family business with Rosemary taking full control. The family found it necessary to shift the production plant from rented premises to their own premises. They took a loan of Kshs.45 million to finance the construction a building to house the manufacturing plant on a plot they had acquired in Thika town. The construction was soon complete and Chania Feeds moved into their own premises. Now they had bigger space to work in and were no longer going to pay rent. However they had a loan to pay and the fluctuation of the US dollar was a big problem.

## **Industry Background**

The use of manufactured feed and feed supplements had been on an upward trend in Kenya since 2001. The manufactured feed industry produced approximately 400,000 tonnes. This quantity was not sufficient to meet the demand of the livestock industry. The main problem was attributed to the shortage of the supply of raw materials.

The management of Chania Feeds Manufacturers has been facing serious challenges concerning the scarcity of raw materials. According to Rosemary maize and wheat had been a big challenge due to periodic droughts causing crop failure and scarcity of the grains in the Kenya.. The periodic droughts had an immense effect on production of animal feeds because the manufacturing process mainly depends on agricultural materials. This scarcity invariably led to the escalation of costs for materials and thus high prices of the animal feeds. As a result many animal feeds manufacturers were driven out of business, while many farmers abandoned livestock farming.

### **Competitive Strategies**

Chania Feeds Manufacturers Ltd was a small enterprise and operated in a market with firms which had been in business for a long time. For Rosemary survival of Chania Feeds Manufacturers was critical and she had no alternative other than to succeed. ‘This is a family business my husband and I and our children depend on it how then can I succumb to failure?’ she wondered. “I must decide on how I can compete in this market in spite of all the challenges”.

### **Pricing Strategy**

Rosemary had the option to compete through the pricing mechanism where she would fix prices lower than the competitors. She was however conscious of the fact that Chania Feeds Manufacturers was a very young company and did not have the capacity to charge lower prices than the competitors. Rosemary was also aware of the high cost of raw materials which had gone up by 35%. Competing on price was therefore not a viable option according to Rosemary. However on a second thought she reasoned that price would attract customers because most farmers were looking for low prices.

### **Promotion Strategy**

Rosemary reflected on what intensive promotion would do to attract customers to the company’s products. She thought that promotion would influence the demand of Chania Feeds. However a majority of feed manufacturers had also embarked on advertising and personal selling. “But do we have a budget for promotion activities? Promotion required the brand to be strong, was Chania Feeds Manufacturers brand strong enough to attract customers purely on basis of promotion?” Rosemary wondered

### **Distribution Strategy**

Distribution was a strategy that Rosemary could use to compete. She was convinced that this strategy would enable Chania Feeds Manufacturers to effectively get the feeds to the customers. Rosemary found this to be a very viable strategy and felt that it was the best strategy to give the company competitive advantage. Rosemary argued that most of their customers were poultry farmers who they had helped to establish and who they would easily access. However it was not lost to Rosemary that this strategy presented challenges to her. There was the need for setting-up distribution outlets closer to the customers and a fleet of vehicles to ensure effective delivery. The poor road conditions were another challenge that Rosemary had to contend with if she chose this strategy. The road network to the farms in most parts of the Chania Feeds target market were impassible during the rainy seasons and this was going to be a great set back of this strategy.

### **Product Quality Strategy**

The product is the market offer and Rosemary was of the opinion that this would also be a good strategy to use in gaining competitive advantage. Customers are interested in quality animal feeds because the output of their chicken was dependent on the quality of what they eat. In deed no one can cheat chicken; “if it is fed on low quality feed, it will produce low quality eggs and meat”. Rosemary therefore knew that production of quality feeds was a strategy that would keep her ahead of the competition. Quality makes money but money does not make quality- so argued Rosemary. She also argued that she could not compromise the quality of the feeds because the primary purpose of establishing Chania Feeds Manufacturers was to supply feeds to their own poultry farm. The more Rosemary concentrated on the benefits of this strategy the more she was convinced that it was the best strategy. However production of quality feeds has a cost implication. To produce high quality feeds many thing had to be in place: high quality raw materials had to be procured, the production process had to be perfect in respect to the ratios of the feed ingredients, and the staff had to be well trained. Would customers would customers be willing to pay a premium price for the high quality feeds? Rosemary pondered.

To Rosemary survival of Chania Feeds was critical to the survival of the family poultry farm and the sustainability of a venture they had worked so hard to establish. A loan of kshs.45million was to be repaid. Rosemary saw her image at risk if she failed in sustaining Chania Feeds Ltd.