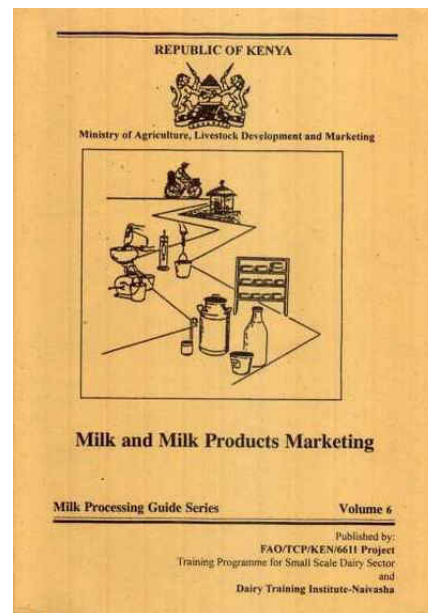


MILK AND MILK PRODUCTS MARKETING



Milk Processing Guide Series

Volume 6

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**Training Programme for Small Scale Dairy Sector and Dairy Training
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1. Introduction

Until recently the dairy industry in Kenya was characterised by one major processor, the Kenya Co-operative Creameries (KCC). Before liberalisation of the dairy industry in 1992, KCC enjoyed a near

monopoly of the Kenya Dairy market. With the emergence of numerous small scale to medium scale dairy processors, the market has become more competitive. In this competitive market, KCC is facing a challenge from the new manufacturers while the new manufactures have to compete first against a well established and large processor like KCC and secondly between themselves for a slice of the same market: the Kenya consumer.

The survival of individual dairy processors will very much depend on how successfully they can win consumer confidence in their products. this calls for knowledge and skills in marketing techniques Most of the newly established small to medium scale dairy processors have very little or no experience in milk marketing.

In order to assist them improve their marketing skills, the training programme for small scale dairy sector under project GOK/FAO/TCP/KEN/6611, has prepared this guide on Milk and Milk products marketing to be used for training and by the private small scale dairy processors. The emphasis is on practical approaches to marketing taking into account the real situation existing in Kenya at the present moment.

2. Marketing

2.1 What is marketing?

Marketing may be defined as "the performance of all business

activities involved in the flow of goods and services from the producer to the consumer".

This implies that there are several categories of key players in the marketing chain each with its own vested interests. Consumers want to get what they need at the lowest price possible. producers on the other hand are interested in getting the highest possible return for their milk. Between them, there are market intermediaries or middlemen who perform various marketing functions such as transportation or retailing. Their interest is to make the highest profit possible from their particular business operation.

2.2 The milk marketing channel

A study of the milk marketing system in Kenya has shown that there are at least 8 different marketing channels as shown below:

Milk Marketing Channels	Number of intermediaries
Producer-consumer	0
Producer-milk hawker-consumer	1
Producer-processor-consumer	1
Producer-processor- retailer-consumer	2
Producer-dairy co-operative -processor- retailer consumer	3
	3

Producer-milk transporter-processor - retailer-consumer	2
Producer-milk trader-processor-retailer- consumer	3
Producer-dairy coop - milk transporter- processor-retailer-consumer	4

The number of intermediaries involved will have a bearing on both producer and consumer milk prices. The shorter the channel the more likely that the consumer prices will be low and the producer will get a higher return.

A notable omission in the milk marketing channel obtaining in Kenya is the absence of wholesalers. Retailers obtain their dairy products directly from processors.

From the consumer point of view, the shorter the marketing chain, the more likely is the retail price going to be low and affordable. This explains why, following the liberalisation of the dairy industry, direct sales of raw milk from producers to consumers (channel 1) or through hawkers (channel 2) has been on the increase despite the public health risks associated with the consumption of untreated milk and milk products. Milk producers may not necessarily benefit from a short marketing chain i.e. milk processors in channels 5 - 6 may be paying farmers the same price as hawkers. However, farmers sometimes prefer selling milk to hawkers because other factors such

as prompt payments and inaccessibility to formal market outlets such as producer co-operatives or lack of near by milk processing factory. The biggest disadvantage of direct milk sales to consumers by hawkers is the total lack of quality control and the frequent rate of adulteration of milk with (dirty) water, which is illegal. An efficient milk marketing chain is one which enable farmers to receive at least 50% of the retail price of milk.

3. Marketing and Pricing of Milk and Milk Products

The price of a product in the market is an important factor influencing consumer demand. Hence to be marketable, a dairy product must be competitively priced. This implies that the costs involved in raw material procurement, processing, packaging, storage, marketing and distribution must be kept as low as possible. generally the price of a dairy product will involve the following costs:

- a. Cost of raw milk***
- b. Cost of raw milk collection and transportation***
- c. Cost of processing***
- d. Cost of packaging***
- e. Cost of marketing and distribution***
- f. Taxes and tariffs***
- g. Profit margins at each stage of the marketing channel
(Collection, Processing and marketing margins)***

In order to arrive at a realistic costing of a product, all those elements involved at each stage must be carefully calculated on a unit basis. This is known as Cost Accounting. The table below shows some of the essential cost elements:

Market function	Cost element
1. Raw milk procurement	Cost of raw milk; labour; materials etc.; collection margin
2. Transportation	Transport cost; labour; materials and equipment; transport margin
3. Processing	Raw materials; machinery and equipment; labour; packaging; energy; taxes; marketing and distribution; processing margin
4. Marketing and distribution	Transport; labour; materials; rent; retail margin

The cost can be broadly categorised as fixed costs and variable costs. Fixed costs include things like depreciation of equipment and buildings while variable cost include direct expenses such as raw material; marketing expenses; overhead costs [labour and personnel expenses (see Appendix 1 for complete list of expenses¹)].

It is important that all the cost elements are included in the calculation of the market value of the product. Overpricing can lead

to uncompetitiveness of the product while under pricing can cause financial loss and eventual collapse of the business.

1 Technoserve, 1995. Mala Manual: A Guide for Establishing and Operating Small Scale Enterprises for the Production of Cultured Milk.

4. Marketing Information System and Research

Information is required at all levels in the marketing channel. Before you decided to process and market any dairy product, it is important to know the potential market for each particular product. This is important to enable the processor to know which types and when, where and how much of each product to manufacture and market. It is very crucial because unless goods can be supplied in the right form, place and times, consumers may not be able to buy. This then requires securing and utilising market information.

Marketing information should address the following:

- ***Area to be covered***
- ***Price information (Price variations, price for premium quality discount price etc.)***
- ***Number and type of consumers (market segmentation)***
- ***Current and future product supply levels***
- ***Type and number of competitors***

In the absence of comprehensive marketing information system such

as is the case in many developing countries it may be necessary for each individual processor or through their organisation to organise the gathering and dissemination of such information. Short market survey and/or Consumer studies are useful tool for gathering such information.

5. Feasibility Study for Milk Marketing and Processing

Before one decides to invest in the business of milk marketing and/or processing one should carry out a feasibility study to establish the economic viability of the planned business. this should include a realistic business plan.

5.1 The essential elements of a feasibility study

The essential elements of a feasibility study should include:

- ***Establish the amount of milk produced, both in the morning and evening, at the proposed site, throughout the year***
- ***Identify the current market outlets available for milk products in the area***
- ***Determine the average fresh milk and various milk products prices being charged by local producers.***
- ***Test various product samples for taste to determine acceptable products being produced in the proposed area***
- ***Locate sources of energy (fuel-wood, charcoal, electricity, etc. and water)***

- **Determine the capital investment required (be sure to include land, building, equipment and power).**
- **Draw up a clear business plan that will establish the viability of the proposed milk marketing or processing enterprise.**

5.2 Guidelines for business plan preparation

In planning your business, you must examine four major areas:

1. Description of the business.

- a. What type of business are you planning?**
- b. What product will you sell?**
- c. What type of opportunity is it (new, expansion, seasonal, year round?)**
- d. What are the opportunities for growth?**

1. Marketing plan.

- a. Who are your potential customers/**
- b. How will you attract and hold your share of the market?**
- c. Who are your competitors? How are their businesses prospering?**
- d. How will you promote your sales/**
- e. Who will be your suppliers?**
- f. Where will the business be located?**

1. Organisation plan

- a. Who will manage the business?**
- b. What qualifications will you look for in a manager?**
- c. How many employees will you need/**
- d. How will you manage finances?**
- e. How will you keep records?**
- f. What legal form of ownership will you choose and why?**
- g. What licences and permits will you need?**
- h. What regulations will affect your business?**

1. Financial plan

- a. What is your estimated business income for the first year?**
- b. What will it cost you to open the business?**
- c. What will be your monthly cash flow during the first year?**
- d. What sales volume will you need in order to make a profit during the first year?**
- e. What will be your break even level of production?**
- f. What will be the capital value of your equipment/**
- g. What will be the total financial needs?**
- h. What will be the potential funding sources?**
- i. How will you secure loans?**

References:

- 1. TECHNOSERVE, 1995. Mala Manual: A Guide for Establishing and Operating Small Scale Enterprises for the Production of Cultured Milk. Publ. Technoserve, Inc. 1995.**

2. IDF/FIL, 1990. Handbook on Milk Collection in warm Developing Countries. IDF Special issue No. 9002. 1990.

Appendix 1: A suggested schedule of accounts (Technoserve)

CODE	ACCOUNT TITLE	ACCOUNT SUB-TITLE
101		Milk Product(s)
102		Milk Wastes
OTHER INCOME		
111		Interest Income
112		Other Income
DIRECT EXPENSES ACCOUNTS		
DIRECT MATERIALS		
201		Fuel
202		Water
203		Dairy board cess
204		Cultures
205		Fresh Milk
206		Packaging
207		Milk
208		Sugar

MARKETING EXPENSES		
211		Transport
212		Samples
213		Leakages and Spoilage
214		Advertising and promotion
215		Other marketing
216		Staff Subsistence
217		Vehicle hire
OVERHEAD EXPENSE ACCOUNTS		
SALARIES AND WAGES		
301		Technicians
302		Accounting
303		Security
304		Supervisor
305		Casual labour
PERSONNEL EXPENSES		
401		Staff Travel
402		Uniforms
403		Staff Subsistence

601		Repairs and Mantainance
602		Security
603		Other costs
DIRECTORS EXPENSES		
701		Travel
702		Subsistence
703		Allowance
DEPRECIATION		
801		Equipment
802		Furniture
803		Machinery
804		Water System
805		Building(s)
806		Formation Expenses
807		Land and Improvements
808		Vehicles
FIXED ASSETS ACCOUNTS		
FIXED ASSETS		
901		Equipment

902		Furniture
903		Machinery
904		Water system
905		Building(s)
906		Formation Expenses
907		Land and Improvements
908		Vehicles