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Marketing of Liquid Milk: A Case Study of Ahmedabad Milk Market

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I

INTRODUCTION

Indian dairy industry can be divided into two types of enterprises: Liquid Milk and Milk Products. In the procurement and marketing of liquid milk, there is strong presence of co-operative and traditional private channels though the organised sector private enterprises also exist. The packaged liquid milk market alone is of the order of Rs. 12, 000 crore and has been growing at the rate of 10 per cent annually (Sodhi, 2005). On the other hand, in the marketing of (western) dairy products, there are only organised large co-operative, multinational and domestic private sector enterprises. The orientation of the large private dairy sector has been, historically, towards milk product marketing. The private domestic and multinational enterprises are attracted to dairy product manufacturing because of the ease of profit making through brand marketing by reaching to high income consumers, SNF (Solids Not Fat) surplus and lesser hassles in marketing (Shah *et al.*, 1995). The price realisation per litre of milk is higher in the case of western milk products. There are a few organisations which are into both liquid milk as well as milk products. These two categories differ in terms of their ownership, size of business and profitability. Whereas liquid milk business is dominated by co-operative or private Indian firms, the milk product business is largely in the hands of multinational corporations (MNCs). The presence of private dairies in liquid milk is confined only to certain cities and regions (Promar International, 2001).

This paper examines the profile of organised private sector in liquid milk business, its growth, performance, business and marketing strategies and prospects, with special reference to Gujarat state and the Ahmedabad milk market. This study is based on the secondary data and the interviews with the dairy unit owners and managers to obtain qualitative information. The interaction with private dairies was restricted only to Ahmedabad city and mainly focused on liquid milk, as Ahmedabad is one of the most competitive milk markets in the country with more than 25 brands of liquid milk being marketed in the city. Four private dairy owners, who are significant and emerging players in Ahmedabad milk market, were interviewed. In Section II, the nature and dynamics of the Ahmedabad milk market are analysed.

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Section III examines the marketing strategies of various types of players. The conclusions of the study are stated in the final section.

II

THE AHMEDABAD MILK MARKET: PROFILE OF DEMAND AND COMPETITION

Gujarat is one of the relatively grown and matured milk markets in India both in terms of supply base as well as demand pattern due to the culture of milk consumption, urbanisation and industrialisation which made milk an industrial product soon, and the long presence of milk processing and marketing entities including that of the co-operative sector. Ahmedabad, Baroda, Surat, and Rajkot are some of the established milk markets in the state with strong presence of co-operative dairies and more recently many private sector players who are homegrown.

Ahmedabad is the largest milk market after Mumbai in Western India with total sales of about 12 lakh litres of milk everyday out of which 60 per cent is sold in the eastern part of the city. Out of this, the share of co-operatives is about 45 per cent who altogether (Amul and Uttam) sell 5.5 lakh litres. On the other hand, the private dairies sell about two lakh litres per day and the major ones include Gayatri, Shresht, Royal and Samrudhh, besides some 25 small time brands. The remaining (five lakh litres) is sold loose by local private dairies and milk vendors (NDDDB State Office, Ahmedabad). Abad and Uttam have been two of the co-operative brands in Ahmedabad milk market since the mid-1980s. In 1986, Amul made an entry into this (packaged and branded milk) market realising its growing size, and has been able to capture a very substantial part of the packaged milk market. In the early 1990s, many private players like Gayatri, Samrudhh and Zarf also made their entry. Whereas Amul has grown, the other two co-operative brands have more or less failed, with Abad getting closed altogether and Uttam selling only 70-80 thousand litres per day now. In 1992, private brands accounted for about eight per cent of the total milk market in Ahmedabad of which 58 per cent was catered to by the unorganised sector. In the packed milk market, the share of private brands was 20 per cent in 1992 with Amul, Abad and Uttam accounting for 32, 27 and 20 per cent each. The shift from loose milk to pouch milk was of the order of 7 per cent per annum (Manaktala, 1992). There were five types of milk available in the market and the private dairies were selling about two lakh litres of milk in 1996 with the major player being Gayatri (12 per cent), Royal (13 per cent), and Sardar (16 per cent). Shresht was another important brand with almost 10 per cent share followed by Dairyfield, Samrudhh and Anmol which had eight, five and five per cent shares respectively (Shah, 2000).

At present, there are 29 private brands selling in Ahmedabad city with sales ranging from as low as 500 litres to as high as 24000 litres per day. This makes for total sales of 2.16 lakh litres per day by the private players. The major ones include Gayatri, Gamdiwala (Shresht), Zarf, Avkar, Suntiwalala and Poonam (Shah, 2000). So far as the size of Ahmedabad milk market is concerned, Royal Dairy estimates that

Amul sells about four lakh litres, Uttam one lakh litres and private dairies altogether about two lakh litres accounting for seven lakh litres of pouch milk in the city. About four-five lakh litres is the size of the loose milk market. The Ahmedabad milk market has been growing at the rate of 5 per cent per annum and the ratio between pouch and loose milk (60:40) remains more or less constant. Another study (Bhatnagar and Mishra, 2001) also reports Amul and Uttam's share in the market to be about 50 per cent with 15 -20 per cent being with the private dairies and 30-35 per cent as loose milk market. It reports that mostly, milk was bought once a day in the morning and the average milk purchase was 1-2 litres per household with home delivery prevalent only in case of 10-15 per cent of the total households.

Another important aspect of Ahmedabad milk market is that there is no exclusive distribution. All retailers sell multiple brands. The distribution system is more or less the same across brands. The brand loyalty is also not very high. On the other hand, what matters is shop or retailer loyalty. It was found that whereas Amul was being sold by almost all the retailers, Uttam and Shresht had 30 per cent retail penetration and Royal and Gayatri about 20 per cent. Another major difference between co-operative and private brands was that whereas the former sold only on cash and carry basis, the private brands offered one day credit to the retailers at least, and sometimes, upto a week. Most of the milk is also sold from the roadside outlets. So far as loose milk market, which accounts for almost one-third of total milk market in Ahmedabad, is concerned, only about 10 per cent of it is catered to by the organised sector players. About one-third each of this market is with Kalapur milk market and the private vendors. The rest of the market is with unorganised sector players.

Profiles of Major Players

Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF) is the state level federation of 13 district level milk co-operatives in the state. The average procurement of the members of GCMMF touches 75 lakh litres per day of which 29 lakh litres is sold as liquid milk (Sodhi, 2005). It markets the Amul range of products including liquid milk. It has a milk processing plant at neighbouring Gandhinagar to process 10 lakh litres milk per day to cater to the Ahmedabad market. It sells 4.8 lakh litres of milk in Ahmedabad. Amul milk was launched in Ahmedabad city in August 1986 with an average daily sale of about 2000 litres. Amul was the first one to launch standardised milk in Ahmedabad market. By 1987, sales had grown to 19,000 litres per day which increased to 50,000 litres by 1990 and further to 1.3 lakh litres by 1991. Amul has been able to capture a market share of 40 per cent within 10 years with the help of more than 100 distributors.

The Uttam (a district level co-operative) brand has 657 primary dairy co-operatives of which only 490 are functional. It introduced packaged milk in 1984 under the brand name of Purna which was later changed to Uttam. In 1993, it used to sell about 70, 000 litres a day and had a good name for reliable supply. Uttam, which

has been in existence since 1985, is the second largest player now with 7 per cent market share. Uttam has only 29 distributors in the city. Abad, an enterprise of GDDC, was the pioneer in introducing pouch packs of milk in Ahmedabad. In 1983, it converted its bottle system to pouch system. It used to sell around three lakh litres per day at that time. In 1989, when Amul entered Ahmedabad milk market, Abad was the largest player followed by Uttam. By 1993, Abad sales had declined to 80,000 litres a day. Later on, Abad even hired out its outlets (1000 in number and an important strength) to Pepsi as it was hardly selling any milk and has been closed down. Though there are a large number of players in Ahmedabad milk market, only a few are selling significant quantities of milk in the local market (Table 1).

TABLE 1. A COMPARATIVE PICTURE OF MAJOR PRIVATE DAIRIES IN AHMEDABAD

Aspect (1)	Gayatri (2)	Samruddh (3)	Shresht (4)	Royal (5)
Stint in business and background	60 years, earlier in loose milk selling	65 years, earlier in loose milk selling	75 years, partnership firm, loose milk sales	7 years, earlier part of Gayatri
Caste	Patel	Desai	Patel	Patel
Procurement base	165 societies	10 societies and agents	15 societies	50 societies
Capacity	Pasteurisation – 15,000 litres, storage – 1.1 lakh litres, chilling centers – 2	Pasteurisation – 35,000 litres, chilling center – 1	Pasteurisation – 20,000 litres, chilling centers – 2	Pasteurisation – 40,000 litres, storage – 55,000 litres
Sales/day(in litres)	35,000	18,000	22,000	18,000
Distribution system	Direct distribution by company, home delivery by 80 hawkers with Rs. 0.3/500 ml. and retailers with Rs..3-5/crate comm.	40 hawkers with Rs. 0.35/ 500 ml. commission, retailers with Rs.4/crate commission	62 hawkers with Rs.0.30/500 ml. commission, retailers with Rs. 5/crate commission	Distributors, retailers with Rs.7/crate commission and 40 hawkers with Rs.0.35/500ml. commission.
Promotion	Sales girls, pamphlets and local media	Pamphlets and local media	Sales girls and own outlets	Sales girls and own outlets
Strategies	Quality, home delivery and own distribution	Quality, small time operations	Quality, FCM milk focus and home delivery	Home delivery, quality and replacement

Source: Interviews with private dairy owners.

Competition and Marketing Mix

Ahmedabad is one of the most competitive milk markets in the country with 25 companies, 27 brands and 35 brand names. There is also very high level of competition in packaging in terms of design changes and design copying, and in securing distribution outlets and manipulating retailers. Due to the immediate sales realisation in liquid milk and low investments involved for small scale milk processing and distribution, the barriers to entry are low. The market is highly differentiated in terms of types of milk and type of outlets. There is a high emphasis

on selling driven by sales persons. This involves high margins to trade, retailer push, and innovative sales promotion mechanisms like home delivery of milk free of cost and use of sales girls (by Gayatri, Shresht and Royal) to generate sales leads by household visits and free samples.

Most of the private dairies sell three or four types of milk, i.e., full cream milk, standard milk, toned milk and double toned milk (DTM). Further, the commission offered to the distributors varies from Rs. 2.5/- per crate to as much as Rs. 7/- per crate. The retailer margins also range from a minimum of Rs. 5/- per crate to as high as Rs. 15/- per crate. This is despite the fact that the retail price to customer is same across brands for a given type of milk. The most selling type of milk across brands is double toned milk followed by toned milk. But, there are some brands like Shresht, Gayatri, Royal and Best which have significant sales of Full Cream Milk (FCM). The FCM milk which is about one-third of the packaged milk market is dominated by Amul which also dominates the standard and toned milk categories. Similarly, the other co-operative brand (Uttam) also has its highest sales in FCM milk with the remaining being largely in standard and toned milk in equal proportion. Amul was almost absent from double toned milk until recently whereas Uttam has a share of about 10 per cent (NDDDB State Office, Ahmedabad). Another interesting aspect of the Ahmedabad milk market is the introduction of 200 ml. packs by Amul and the private dairies which are mostly in toned or double toned milk category. The sales of milk take place from as diverse outlets as parlors, shops, milk booths and roadside vendors. The proportion of home delivery was 60 per cent in the case of private brands as against only 30 per cent in the case of Amul. In fact, home delivery came next only to quality so far as reasons for purchase from private brands were concerned. Free home delivery by private brands is an important factor which Amul lacks. Brands like Gayatri, and Royal have been practicing home delivery quite aggressively. The customer awareness of private brands, when aided, was found to be very high. Another major factor in marketing was the high margins offered to the retailers by the private brands (Gupta and Kumar, 1996; Bhatnagar and Mishra, 2001).

The share of local co-operative brands in Ahmedabad was already taking a beating by the mid-1990s when it came down to 62 per cent in 1994-95 from 70 per cent in 1992-93. Abad dairy which was the market leader selling three lakh litres per day in the late 1980s, was reduced to 50,000 litres by the mid-1990s. Another co-operative brand (Uttam) sold about 75,000 litres in 1995. Shresht and Gayatri emerged as important private players during this period mainly due to retailer push which included higher margins to retailers and home delivery of milk (Gupta and Kumar, 1996). Amul's sales in Ahmedabad were 3.18 lakh litres per day in 1995. A total of 23 private brands accounted for almost one-third of the total sales of packaged milk in Ahmedabad though none of them alone accounted for more than 2 to 3 per cent of the market. In 1996, there were 32 private brands compared to only 23 in 1992.

III

MARKETING STRATEGIES OF CO-OPERATIVE AND PRIVATE BRANDS IN AHMEDABAD

Amul's strategy in Ahmedabad was based on two major dimensions: market segmentation and quality availability of the product. Amul was the first one to start four different types of milk containing different fat in order to cater to different segments of the market. It also went in for tapping new markets by creating a strong distribution network. Along side variety in product, it also introduced variety in packaging, in terms of smaller packs, to cater to small quantity demand effectively. It had a very effective campaign to make milk available from 8 a.m. to 8 p.m. at the same price. It also undertook deliberate customer education and information programmes to focus on quality and brand image. In terms of customer satisfaction, quality assurance along with replacement for spoilt milk was a major plank. Besides, the brand also focused on corporate goodwill building through involvement of school children and other local bodies in promotional campaigns and on sponsorship of various local events.

On the other hand, the strategies of private brands included launch of full cream milk to cater to high quality-high price market. They also relied heavily on retailer push and trade penetration under which they offered (and still offer) very high margins to retailers. Credit facility to retailers which varies from one day to one week, and an effective replacement policy further consolidated the retailer and consumer base of these private players. They re-emphasised their quality image through word of mouth, pamphlets, and home visits. The variable price policy in terms of lower prices in winter also played a major role in roping in new customers. Advertising and sales promotion through local media, and retailer and consumer schemes also became a hallmark for some of them due to increasing competition. Some of them undertook, very innovatively, home delivery of milk. In 1996 itself, it was found that almost 50 per cent of the retailers were undertaking home delivery of milk with a majority of them doing it both for co-operative as well as private brands. In some areas, people were not buying Amul milk as it was not home delivered. This issue was being attended to by Shresht which maintains a good home delivery facility with an additional charge of only Rs. 0.25 per 500 ml. pouch (Gupta and Kumar, 1996).

The private brands were very sensitive to competition and took quick and bold decisions. Lower overheads of these private dairies due to their small size, informal operations, own vehicles, etc. helped them give higher margins to retailers or lower prices to the customers. Further, niche markets which were based on old loyalties, special types of milk, e.g., full cream milk, small packs, and DTM for tea shops and institutions also proved very sustainable for these enterprises. They have also targeted institutional marketing wherein they catered to the demands of local institutions and intermediate users of milk like ice cream makers. Some of the leading private dairies supply frequently to these kinds of industries. Thus, they have

successfully tried and benefited from intermediate markets. The private dairies looked seriously at brand segmentation. They went in for different brands for different types of milk and could clearly establish brands in the sub-segments of liquid milk catering to special needs. Some of them also resorted to unfair trade practices like luring the retailers of competitors, and cheating the customers with fake packs and designs looking similar to those of Amul. In fact, some of them, like Zarf dairy, have been packing under three different brand names, i.e., Anmol, Taaza and Karnavati. Amul has filed cases against three of them – Khodiyar, Satyam and Zarf in local courts, two of whom have stopped producing and one (Zarf) had gone to high court and got stay order. Anmol was found to have copied the pack design of Amul and also its sub-brand name (Taaza for Amul standardised milk) which is used for toned milk (Gupta and Kumar, 1996).

IV

CONCLUSIONS

The above analysis of the dairy industry and milk market in Ahmedabad shows that it is only the small scale and traditionally well entrenched unorganised sector players who have been able to move to the organised and branded market in milk due to various factors like understanding of the local market, lower overheads, innovations in marketing and selling, and small size. The others who went in for large plant capacities failed due to procurement problems. The private dairies have been able to move from vendor and contractor based procurement to informal or private group or society based procurement as seen in the case of four major players in Ahmedabad market. This has helped them to cope with the competition in the market. This is evident in that most of them have grown over time in their milk sales volumes. In general, the private operators in the organised and unorganised dairy sectors in India use a range of strategies to build competitive advantage like making timely cash payments to producers; by linking milk supply with advances provided by the big contractors to small ones who in turn have long term tied contracts with the milk producers; by offering higher price than the co-operatives in summer and lower price in winter; by operating an efficient and tight collection and transport system. The private unorganised sector adopted strategies like differential procurement price, diversified procurement channel, and selective selling channel even before delicensing (Vijayalakshmi *et al.*, 1995).

So as far as emerging competition in liquid milk is concerned, the new variants like flavoured milk and Ultra-High Temperature (UHT) milk are important entry points for MNCs like Britannia and Coca-Cola. The competition in the market is going to be more between brands and not products of different players as products are more or less the same and are sold at the same price. The MNCs are likely to have an edge over local players because the branded markets require investments in marketing which only they can afford. Further, it has been found that the processing and marketing sectors in Indian dairying are the ones which suffer from high costs

and lack of competitiveness, not the milk production sector *per se*, though the average milk yields in India are the lowest in the world. The cost of milk production in India is the lowest in the world compared with the major players like Canada, EC, Japan, US and Australia (Shah, 2000). But, the prices of dairy products are among the highest in the world, e.g., prices of butter and whole milk powder are 130 per cent of their international prices (McKinsey and Co., 1997). Therefore, it will be important to continuously monitor and cut costs in procurement and processing without losing quality edge, even in the domestic market. In the branded milk segment, procurement policy and quality are extremely important factors. The major factors which will determine competitiveness in dairy business in India will be efficient network for liquid milk procurement, value added products, marketing especially retail penetration and brand building, marketing research and, of course, low cost production. But, there is no doubt that quality control and upgradation are a must for further development of Indian dairy industry.

Added to this is the environmental dimension as milk processing and manufacturing of milk products is highly polluting and most of the units especially in the private sector do not have adequate mechanisms to tackle the pollution problem.

Another important issue is that of export orientation v/s domestic market orientation and most of the private sector units are already focused well on the domestic market as it suits their localised operations and small size. Even competitiveness studies point to the home market focus. This means that home market competition will be further heightened due to this realisation and import of some milk products into the country. Finally, due to the proposed integrated food law for the country which will be compatible with the new trade regime, the private dairy sector will have better procurement options in terms of choosing to procure from any milkshed. This will further enhance their competitiveness.

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