

Sri lankas economic development: the dairy industry

[Environment](#), [Air](#)



The dairy industry has immense potential to contribute considerably to Sri Lankas economic development. A traditional industry surviving thousands of years, milk production also plays an important role in improving nutritional poverty in all age groups. And it is a source of wide-ranging employment opportunities.

This study is on Lucky Lanka Milk Processing Company Limited which is well-known as “ Lucky”. This is an organization which has many opportunities to spread their products over Sri Lanka. Lucky has experienced staff, fresh milk, and use vast technology in their production. With all these Lucky has been able to capture 18% of the dairy market which is comparatively low. In this paper the author will seek the possible opportunities for them to capture the market share and put forward recommendations for enhancement to promote the business among the Sri Lankan consumers.

In this paper, the author endeavor to analyses the role of dairy products in enhancing the standard of health and nutritional intake of Sri Lankan of all ages.

INTRODUCTION

In 1991, Lucky Lanka Milk Processing Company Limited was established as a small scale business under the brand name “ Lucky”. This is a dairy products manufacturer, currently manufacturing yoghurts and pasteurized milk. They are in the forefront of innovating nutritious products in diverse tastes and flavours. Their product range includes vanilla yoghurt, chocolate yoghurt, strawberry yoghurt, treacle yoghurt, low fat yoghurt, fresh Fruit yoghurt, fruit jelly yoghurt and pasteurized milk bottles and milk packets. With a vision of “

Creating of healthy generation towards prosperous future in Sri Lanka”, mission of “ To be the leading dairy suppliers for Sri Lankan consumer by year 2015” and their objectives as follow;

To provide the best quality, highly nutritious, all natural and certified products

To make our consumers and milk producers aware on the value of protecting the environment and of supporting family farmers, sustainable and productive farming methods

To serve as an environmental friendly business model which is sustainable and being socially responsible that will also be profitable

To provide a healthful, productive, enjoyable and pleasant workplace for all employees, accompanied by skills development and career advancement

To recognize and fulfill our obligations towards the stakeholders and lenders by providing an excellent return on their investment

In order to be the market leader, Lucky should clearly identify its competitors; develop new products and timely introduction of new products to the market to take advantage of opportunities.

SITUATIONAL ANALYSIS

Sri Lanka is largely self-sufficient in most animal products apart from dairy. The consumption of dairy products increased dramatically since the country adopted open economic policies in the mid 1970s. The dairy industry has a

potential in contributing to the development of the economy of Sri Lanka. Milk production has been a traditional industry which has survived thousands of years, playing a key role in infant feeding and alleviating nutritional poverty in all age groups.

ANALYSIS AND EVALUATION OF EXTERNAL ENVIRONMENT

According to Johnson, Scholes & Whittington, (2008), “ External environment means of survival for organization”. Environment scanning is very vital to recognize threats and opportunities in the environment. Lucky Lanka Milk Processing Company should foresee changes in the environment, and then investigate opportunities to prepare for threats. In identifying or scanning the environment, Lucky Lanka Milk Processing Company can use frameworks such as SWOT, PESTLE analysis, and Market Segmentation.

3. 1 SWOT ANALYSIS FOR LUCKY

According to Armstrong (2004), “ SWOT analysis a strategic planning technique used to appraise the strengths, weaknesses, opportunities, and threats concerned in an activity or in a business venture”. Author has used the tool to understand the inside of Lucky and to analyses the internal environment of the organisation.

Strengths

Awarding farmers on obtaining best quality high milk yield

Introducing Farmer insurance scheme (investment in all areas of the supply chain ranging from top grade cattle to year round supply of quality grass.)

Well-qualified staff ensures the quality of incoming raw materials and the final products through continuous inspection, monitoring and laboratory testing including chemical & microbiological testing of each batch (Product quality is maintained according to the Sri Lankan Quality Standards [SLS])

Technical expertise and the technical assistance are always upgraded through national and international expertise on dairy technology (Lucky seven flavors are presented in an attractive Ready To Serve and single serving package system)

Continuous in-house research & development activities are undertaken in order to expand the existing product range simultaneously

Weaknesses

Lack of supply of raw materials, the average Sri Lankan dairy farmer owns two to three cows, with milk production used to supplement main incomes

Quality of incoming raw materials (Milk)

Affordability and storage limitations

Dairy production also makes poor economic sense to local farmers

Opportunities

As the local dairy industry has failed to keep up with a growing population of 19.5 million in early 90's, the Dairy market was opened for new entrepreneurs to start up new business.

World Health Organization recommends around two glasses of milk each day, which equals to 146 liters per capita annually and the Sri Lankan per capita milk consumption falls below to 25 liters per year in 21st century.

Growth in high nutritional foods and high medicinal valued food demand.

Wide knowledge of people about getting healthy foods was increased and they used to add natural, neutrinos products to their meals which is well packed and can be used instantly. Also milk is fulfilling the above consumer demand by providing protection to the human body against different diseases.

Milk provides the best favorable media for microbial growth, greater care should be provided throughout the manufacturing process of these products

Threats

Strong Competitors in the market such as Newdale, Highland and Kothmale

Potential health issues

Major prolonged economic depression

3. 2 PESTLE ANALYSIS

A PEST analysis is used to identify the external forces affecting an organization . This is a simple analysis of an organization's Political, Economical, Social and Technological environment. A PEST analysis incorporating legal and environmental factors is called a PESTLE analysis.

William and Green (1997) emphasized that the PESTLE elements will lead to

better understanding of how the six elements might affect to an organization and how strategies could be formulated.

POLITICAL

With the enhanced political stability and encouraging the local manufacturers to develop productivity while safe guarding the domestic manufacturer by the government would definitely have positive effects on the current business situation in the country. The future of business is very promising and therefore prospects to branching or invest in the dairy business would be protected.

ECONOMICAL

The stability of the economic state of the country investors will identify Sri Lanka as a secure place for their investments. Stage of a business cycle, current and projected economic growth, inflation and interest rates, unemployment and supply of labor, labor costs, levels of disposable income and income distribution and impact of globalization also effecting the organization.

SOCIAL

Consumer's knowledge about using nutritious food has increased by the awareness programs. Therefore, they trend to use fresh and quality products. The targeted segment's expectations are high, so the organization will have to ensure that they deliver their social needs as well.

TECHNOLOGICAL

In the fast moving world the technology is rapidly growing. Along with these advancements the company would be able to use high technology to improve on the production capacity and to produce dairy products at a competitive cost.

LEGAL

Legal factors could affect organisation with changes to legislation. This may impact employment, access to materials, quotas, resources, imports exports and taxation.

Especially as an organisation dealing with wooden products, as part of social responsibility commitments the organisation ensures that every precaution is taken in the manufacturing process to ensure minimal impact on the environment.

INDUSTRY ANALYSIS – PORTER’S 5 FORCES

According to Johnson, Scholes & Whittington (2008, p. 77), “ economic theory defines an industry as a ‘ group of firms producing the same principal product `or more broadly ‘ a group of firms producing the products that are close substitutes for each other”.

The competitiveness or the profitability potential of the firms within an industry is well explained by Porter’s Five Force framework, where Porter identified five competitive forces which determine the nature and extent of competition within an industry.

<http://i.investopedia.com/inv/articles/site/IndustryHandbook1x.gif>

Competitive rivalry within an industry – Medium

It is important to know the organisation's direct competitors. If there are more competitors and competitors deliver similarly attractive products, then the organisation most likely to have a very little power in the industry. As far as " Lucky " is concerned there are three direct competitors such as Newdale, Highland and Kothmale. However generally there is a stiff competition in the industry. If customers or suppliers don't get a good deal they would go elsewhere and get a better deal.

Bargaining power of suppliers – High

The bargaining power of suppliers is high as there are selective suppliers who have the quality standards that the organisation expects. Also the raw materials (milk) are purchased by a few selected suppliers. The cost of switching from one to another would come in to effect in the longer term run if there are complaints with other supplier products.

Bargaining power of customers – High

The bargaining power of the customers stays at high level, since there are relatively higher branded quality products available in the market.

Threats of new entrance – High

Significant barriers to entry in to market is due to the bargaining power of supplier being high, also this involve a high investment in industry so that it would not be an easy task to enter into the market.

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Threats of substitutes -Medium

This lies at a medium level as there are few quality brands dairy products are available, although substitution is easy and viable in the industry.

MARKETING OBJECTIVES

The marketing objective of Lucky is to cover the entire Sri Lankan provinces by year 2015. The main objective is to capture the markets in North, East, and coconut triangle cities like Gampaha, Kurunagala and Putthlam.

Therefore, they are planning to build the next factory in North Central (Anuradhapura). The main reason behind this is that the climate and other environment evidence which really suites for dairy market. Milk is produced in all districts of the country, with the lowest being in the conflict-affected Northern districts. According to the 2002 Census of Agriculture, the largest cattle populations are reported from the dry and in the intermediate zones. The wet mid - and up-country areas are often perceived as the main dairy producing areas of Sri Lanka. The dry and dry intermediate zones produce 50% more milk than the wet and wet intermediate zones.

Lucky aim to start up distribution centers in all districts and indirectly this will support the Sri Lankan. And also, Lucky want to be market oriented considering product, price, place and promotion. In order to achieve 30% of market share they will keep the unit sale volume of LKR 20. Lucky aim to organize awareness programs for farmers to increase the effective cattle base.

<http://www.smiletemplates.com/screenshots/5/02485/w/b1.jpg>

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Specific: The specific marketing objectives are to reach out to potential markets as accurately as possible and use minimum time.

Measurable: They intend to achieve the measurable objectives in terms of the sales revenue earned soon after the launch.

Achievable: The fixed cost must be covered by effective use of marketing skills to maximize sales and profits.

Relevant: Fits if perfectly with the marketing objectives of Lucky.

Time: Objectives need to be achieved within three years after the launch of new factory.

MARKETING ORIENTATION

The concept of the production is to increase the production of the dairy products and to reduce cost. The product concept focuses on making superior products and improves them over the time period adding more quality and innovative features. Generally selling concept gives high attention to the market place and marketing concept looking at the marketing process in a holistic manner. The final outcome would be to achieve profits through customer satisfaction.

6.1 LUCKY ORIENTATION

Lucky is basically a sale oriented organisation. They mainly consider about high quality and high price. Therefore the organization must undertake an aggressive selling and promotion efforts. The purpose of marketing is to sell more objects to more consumers more often for added money in order to

make more profit. They are able to sell 200, 000 yoghurt per day and their daily income comes around LKR 5, 000, 000.

Figure – Market Share of Dairy Industry

MARKETING STRATEGIES

Current marketing strategies of Lucky is to motivate both sales representatives and consumers, therefore, Lucky use push and pull strategy. According to Albaum et al (2006), Pull strategy is pre-selling the product so that buyers seek it out or ask for it at the point of purchase. Push strategy is working with resellers or assisting them in selling the product at the point of sales. Lucky uses push strategies for sales representatives by providing them with commissions, foreign tours and selling targets. They use pull strategy for consumers by providing reasonable price, high quality and different flavors.

TARGET MARKET

Sri Lankan target market for dairy industry consists of lower income, middle income, upper middle and upper class consumers. Lucky market their products especially for the middle Income level and lower middle income. Their segmentation approach will be general strategy, although mass marketing creates low costs, high volumes and margins. Segment Marketing will create a finer tuned product offering and price for the target segment.

Target Market can be further separate out on basis of Demographist, Geographic, Psychographic, and Behavioral Characteristics.

MARKET SEGMENTATION

Market segmentation is to understand the customers, provide them with what they exactly want, build strong relationship with them and communicate through highly targeted promotions.

Chocolate Yoghurt

No Sugar Chocolate

Geographic

Urban, sub urban and rural

Region: Entire country

Urban, sub urban and rural

Region: Entire country

Demographist

Age: 5+

Gender: Male/Female

Income: Over LKR 10000

Occupation: Employees and non employees

Social Class: Lower income, Middle income, Upper middle and upper class

Age: 35+

Gender: Male/Female

Income: Over LKR 10000

Occupation: Employees and non employees

Social Class: Lower income, Middle income, Upper middle and upper class

Psychographic

Life Style: Outdoor

Personality: Ambitions/ comparative

Life Style: Health conscious

Personality: Ambitions/ comparative

Behavioral

Emotional / functional

Emotional / functional

Current segmented market of Lucky Lanka Milk Processing Company is lower income, middle income, upper middle, upper class families and individuals.

These products have selected to market its products demographic attributes of the target market. Demographic segmentation consists of dividing the market into groups on the basis of variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race and nationality. Demographic segmentation variables are amongst the most

popular bases for segmenting a customer group as it is easier to measure customer needs and wants and usage rates. The product and brand preference are often associated with demographic variables. Relating demographic segmentation to Lucky product distribution takes into consideration facts such as age groups, income as well as the social class of the consumer.

POSITIONING

According to Kotler (2000), “ positioning as the act of designing the company’s offer so that it couples as distinct and valued place in the target customer’s mind”. Therefore, positioning is the act of designing the company’s offering and image to occupy a distinctive place in the minds of the target market. Positioning leads to successful creation of a customer focused value proposition a cogent reason as to why the product should be bought by the customer. Lucky position their products as innovative, environment friendly and elegant products with brand offering.

PRODUCT MIX FOR LUCKY

Product

The high quality milk is selected for production, in compliance with all applicable law and regulations. Lucky products are made with pasteurized, organic skimmed milk, live active *Bulgaricus*, and *Thermophilus* cultures like yoghurt cultures.

7. 2 Price

There can be many factors that have to be considered when pricing a product. Relating factors to the product and taking into consideration the raw materials, labour, rent and technological costs incurred in manufacturing, Lucky yoghurt the pricing will be done accordingly. The product's quality and the service also have to be absorbed when giving a branded product.

7. 2 Promotion

As the most important factor, the promotional method used to create awareness among customer base is by media advertisements, display boards and annual food exhibitions.

7. 4 Place

Their products are available in their own outlets, super markets and other grocery shops.

(Please refer appendix II)

RECOMMENDATION AND CONCLUSION

The strategic plan defines Lucky's over all mission and objectives. Within each business unit, marketing plays a role in helping to accomplish the overall objectives. Target consumers stand in the middle and goal is to build strong profitable connections with the consumers. Lucky, first identify the total market, divides it in to smaller segments, select the most promising segments and focuses on serving and satisfying these segments. It designs a marketing mix made up of factors under to control product, price, place and

promotions. To find the best marketing mix, and put into action, Lucky engages in marketing analysis, planning, implementation and control. Through these activities, Lucky should watch and adapt to the marketing environment.

Lucky must analysis its markets and marketing environment to find attractive opportunities and to avoid environment threats. It must analysis strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. Chocolate and vanilla yogurts are in good demand while others are less preferred. Can we popularize new brands, like “ Kithul”? (Please refer Appendix III, IV) As marketers we must continually plan our analysis, implementation and control activities. (Please refer Appendix V)

Lucky marketing strategies consist of specific strategies for target markets, positioning, the marketing mix and marketing expenditure levels. Marketing implementation is process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives such as reaching the target sales of each kind of yogurts in different districts. Implementation involves day to day, mouth to mouth activities that effectively put the marketing plan to work.

Employees of Lucky must work together to implement marketing plans and strategies. Marketing managers make decisions about target segments, branding, packaging, pricing, promoting and distributing Lucky products.

Successful marketing implementation depends on how well Lucky blends its people, organizational structure, decisions and rewards systems and company culture into a cohesive action programs that supports its strategies. Therefore, Lucky employees must needed skills, innovations, motivation and personal characteristics. Lucky, formal organization structure plays an important role in implementing marketing strategy, so do its decision and reward systems.

Finally, to be successfully implemented, Lucky's marketing strategies must fit with its organization culture, the system of values and beliefs shared by people in the organization. For Lucky to be successful " employees must share such a strong vision that they know in their hearts what's right for their company".

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