

The dairy industry of pakistan marketing essay

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The dairy industry of Pakistan is a very competitive industry and has huge potential. Unfortunately, dairy processors in Pakistan still have miles to cover before they can exploit full benefits of this industry. The milk production of the country has not been up to the mark and as a result the demand for dairy products outweighs the supply. Traditionally, people living in urban areas preferred to consume fresh milk delivered to their homes by Gawallas. However with the passage of time, as people became more and more health conscious there was a shift towards the consumption of UHT milk and its demand has been increasing ever since. In the UHT milk segment, firms like Nestle Pakistan Limited and Engro Foods Limited have emerged as leading market players. These firms with their bundle of financial resources have made huge investments in getting state of the art technology, manpower and strengthening their promotion efforts. Despite the fact that local dairy processing industries have been able to match the quality standards of Nestle and Engro to a greater extent, these firms lack in their marketing efforts. Noon Pakistan Limited is one such firm which is being effected due to poor marketing efforts and has not been able to reap the benefits of the industry in which it operates.

Noon Pakistan Limited is a venture of the Noon Family and has been marketing its products under the brand name of Nurpur. The firm enjoys market leadership in the category of butter. Initially when the firm launched its UHT milk the market response was good. However with the passage of time, the brand performance of Nurpur UHT milk has deteriorated due to mismanagement of marketing efforts. While management claims that they are able to sell whatever they produce, the market survey results prove that

the prevailing performance of the brand has not been up to the mark. The firm relies on the selling concept which is a short term approach and little emphasis is being given to the concept of brand building. It is the need of the hour that Noon Pakistan Limited adopts a long term strategic approach if it wants to secure its position in the market for years to come.

To study the issue being faced by Noon Pakistan Limited, a rigorous Literature review was conducted followed by interviews with employees of the firm, retailers and consumer surveys. Financial analysis and comparison with Nestle and Engro was done. Even though Noon Pakistan Limited does not match the financial strength of its competitors, there are many ways in which the firm can improve its position in the market.

The first step in building strong brands is to ensure that the brand has a high salience. The brand should have top of the mind recall and recognition. Unfortunately the survey results analyzed using SPSS software proved that Nurpur milk is not the first brand which comes to the mind when a consumer wants to purchase UHT milk. Majority of the respondents could not even recall any advertisements of Nurpur milk. A major proportion of the respondents also highlighted the fact that Nurpur milk was occasionally short in the market. The results of the retailer interviews also prove that Noon Pakistan Limited has to improve its trade promotion schemes as majority of the retailers were not satisfied with current distribution practices of the company. The retailers highlighted the fact that the company should improve its promotion activities so that consumers start demanding Nurpur milk.

Companies such as Noon Pak Limited, those fail to expand, eventually move to the phase out or withdrawal stage. This is because expansion ensures the continuity of profitability, brands, innovation and progress. It also creates employment opportunities and contributes to the growth of economy by improving the GDP. Noon Pakistan Limited however is not expanding and considering the intense competitive environment that prevails in the dairy industry, if they fail to expand in future; the company might have to face a stark fortune of a complete phase out and therefore should start redesigning their marketing and management strategies accordingly.

Due to weak financial resources, Noon Pakistan Limited should utilize alternative strategies to maintain its position in the market. The firm needs to invest in consumer promotion activities like in store sampling and taste trials. The firm also needs to focus on its BTL activities in order to strengthen the perceptual positioning of the brand in consumer mind. The firm needs to revise its payment policies with retailers and start providing goods on a credit basis to those retailers who have a good reputation in the market. In short, Noon Pakistan Limited should revise its current practices and operations. The firm should let go its old concept of selling and instead focus on building the equity of its brands if it wants to strengthen its position in the market for the future.

2. 0 Introduction

2. 1 The Noon Group

The Noon Group of Companies is being managed by the Noon family. The group has qualified and experienced professionals. The Noon Group of

Pakistan strives to improve its profitability and safeguard its stakeholders interest while maintaining highest quality standards and serving the community¹

The Noon Group of Companies has various business ventures and Noon Pakistan Limited is one such profitable venture of the Group. Apart from Noon Pakistan Limited a brief description of the other business ventures are as follows:-

1. Noon Sugar Mills Limited

This venture was incorporated in 1964 and manufactures white sugar. Initial crushing capacity was 1500 MT of sugarcane which has been increased to 4000 MT over the passage of time. ²

2. Pioneer Cement Limited

Pioneer Cement Limited was incorporated in 1985 with a total investment of Rs. 2660 million and production capacity of 630000 tons per annum. The plant is situated in Chenki, Khushab. ³

3. Noon International Private Limited

Noon International Private Limited is a trading company which was established in 1972. The company employs 43 people including a team of 15 professional sales engineers. This firm represents various international companies of repute in Pakistan and markets their equipment in the fields of textile, power generation, sugar, fertilizer, chemical, steel, cement, food and milling⁴

4. Textile Technics Private Limited

Incorporated in 2004 with a total investment of Rs 100 million, Textile Technics is a joint venture between M/S Blue Reed of Spain and Noon International Private Limited. The project has a production capacity of 22000 meters of reed per annum⁵

5. Textile Services

Textile Services was established in 1994 and provides services to over 200 customers of Sulzer Textile Projectile Weaving Machines. The company employs 32 people and provides training, technical service and spare parts for clients⁶

2. 2 Noon Pakistan Limited

Incorporated in 1966 with a total investment of 553 million, Noon Pakistan Limited produces various products namely Butter, Cheese, UHT milk, HCLF, Pasteurized milk, Flavored milk, Juices, Water, Desi ghee, Honey and Jam. Installed capacity of the plant is 72000 Liters/2 shifts and there are 700 employees. Noon Pakistan Limited has been marketing its products under the brand name of Nurpur. The plant is located in Bhalwal, Sargodha while the head office is situated in Lahore⁷

The year 2011 was a challenging year for Noon Pakistan Limited. Energy Crisis, security situation coupled with devastating floods had exerted significant pressure on the economy and cost of living. Higher inflationary trends continued impacting their key products particularly related to fresh milk when shortages led to a cost increase of 16% compared to last year.

Additionally, higher growth of their products led to severe filling capacity constraints and the market demand could not be met fully. Due to reduced buying power, trend in the market is changing fast as consumers are looking for cheaper products in small packages. Therefore the management at Noon Pakistan Limited has made plans to reassess the market requirements and also further improve their production efficiency⁸

2. 3 Vision

The vision statement of Noon Pakistan Limited is as follows:-

“ Our vision at Nurpur is to be a transformative force in our community and world at large and to serve as a model of a sustainable business alternative that nurtures social and economic well being in an environmentally sensitive manner” ⁹

2. 4 Mission

The mission statement of Noon Pakistan Limited is as follows:-

“ Nurpur is committed to supplying the consumer and customer with the finest, high quality products and to be a leading industry in healthy and nutritious products. Nurpur supports these goals with a corporate philosophy of adhering to the highest ethical conduct in all its business dealings, treatment of its employees, and social and environmental policies” ¹⁰

2. 5 Core Values

At Noon Pakistan Limited, consumers are at the forefront of everything they do. The core values of the company include the generation of Ideas that can be constantly challenged to develop next generation solutions, to conduct

business openly and fairly while competing fiercely at the same time, to encourage teamwork with individual flairs, to set tough goals that can be challenged and beaten, to value preservation of the environment and ensure sustainability of organic agriculture, to value mutually supportive relationships among members of local and global communities¹¹

2. 6 Awards and Certifications

Noon Pakistan Limited has won many prestigious awards and certifications which are “ First dairy company in Pakistan to be certified under ISO 22000: 2005, Brand of the year award (2006-07) in the category of Butter, Brand of the year award (2007-08) in category of Butter, Cheese and flavored milk and Brand of the year award (2008-09) in the category of Butter¹²

2. 7 The Purchase Department

To study the operations of the Purchase Department, two interviews were conducted with the Purchase Manager. The findings of the interviews have been utilized to describe the function of the Purchase Department.

The purchase department is responsible for purchasing all materials required by the head office and plant other than milk which is purchased at the milk collection centre in Bhalwal. Materials which are purchased by the department range from ordinary items like office and plant stationary to complex materials like Flavors, Spare parts for plant equipment and transportation vehicles, Chemicals, Fuel and everything related to the manufacturing process, Logistics and day to day operations. Demand for requisition comes from the factory and approval has to be given by the Managing Director. The purchase department currently has 4-5 employees.

The department uses a manual system of keeping records and storing files. The purchase department always keeps 3 copies of requisitions and delivery challans. One copy is sent to the plant, one copy is maintained with the purchase department and one copy is kept by the Purchase Manager. The major suppliers of Noon Pakistan Limited are SMC, Sitara Chemicals , Jason Foods and Danisco. Payments to suppliers are made either on cash or credit through the head office. Credit terms depend on contacts and relations with suppliers and can range from 15 days up to a month. According to the Purchase Manager, Noon Pakistan Limited believes in maintaining healthy relations with Suppliers and this is one of the key strengths of the department The Purchase Manager also stated that in case of materials needed from local suppliers, the purchase department is given no time and purchase has to be made immediately. However when imported materials are required from foreign suppliers, the Purchase department is informed in advance as shipping takes time. There is no fixed pattern of purchases made throughout the year and it all depends on plant and market requirements. The quality of materials purchased is checked at the plant and if there are defects the merchandise is returned to the supplier. 13

2. 9 The Marketing Department

To study the operations of the Marketing Department of the firm, two interviews were conducted with the Marketing Manager.

Marketing research activities are outsourced. The Marketing Department purchases monthly reports from different marketing research agencies like AC Nielson and Tetra Pak. In this way the marketing department stays in

touch with the latest trends and competitor activities. Some of the agencies with which the marketing department works are SABB Marketing, Time and Space, Orient, HRK Communications, Aura Communications, TOPAZ Communications and ADZ Communications. These agencies prepare designs of print ads and commercials. The brand manager discusses the various designs with the Marketing Manager and after making necessary amendments and recommendations approval is given to Marketing agencies. The Marketing Strategy of Noon Pakistan Limited is Differentiation strategy. However the strategy to be adopted for each brand depends on the market performance and competitor activities. Since UHT milk is difficult to differentiate, the current strategy being adopted is to position it as a milk which is enriched with vitamins needed for healthy growth and development. The target market of UHT milk is Housewives and working females as well as males. Different SKU's are being used to target different Socio Economic Classes like the 1000ml pack is targeted for SEC-A while the 200ml and 250ml packs are targeted towards low income households. The main competitor brands of Nurpur Milk are Olpers, Milk Pak, Good Milk and Haleeb. The marketing department does not go for an offensive strategy because Nestle and Engro are huge giants with bundle of resources. Noon Pakistan Limited can be classified as an "Analyzer" because it is operating both in a stable and dynamic market. Another reason for not adopting an offensive strategy is that volumes are low. The main weakness of the Marketing Department is that very little attention is being paid towards building brand equity. The department is focusing on increasing sales which is a short term approach rather than focusing on building their brands 14

2. 10 Organizational Chart of the Marketing Department

Figure 3 Organizational Chart(Marketing Department)

Source: Internal Company Documents

The Brand Manager is responsible for dealing with various Marketing Agencies and reports to the Marketing Manager. The Marketing Manager reports to the General Manager of Sales and Marketing¹⁵

2. 11 The Sales Department

Two interviews were conducted with the Sales Analyst of the firm to get insights regarding the operations of the Sales Department.

The organizational structure of the Sales Department comprises of the General Manager of Sales and Marketing, National Sales Manager, Regional Sales Manager, Area Sales Manager, Field Managers and Sales Officers. Territories have been assigned according to location and comprises of Central Zone, Southern Punjab zone and Northern zone which includes RWL/AJK, Hazara belt and Pakhtoon. K belt. The process of forecasting yearly sales is that last year's closing sales are doubled and the amount is set as the Sales Target for the next year. There are more than 280 distributors all over the country and each Sales Officer has to monitor and look after three to four distributors. If targets set in the year 2012 are met, the entire Sales Team will go on a vacation to Dubai on the company's expenses. Noon Pakistan Limited has also started exporting its products to countries like England, Kenya and Afghanistan. 16

2. 12 Marketing Mix of Nurpur UHT milk

Nurpur UHT milk has been positioned as a milk which is enriched with vitamins needed for healthy growth and development. 17 The milk is packed in Tetra Aseptic Packaging which allows long lasting storage and shelf space. Currently three SKU's are available in the market which are 200ml, 250ml and 1000ml. Initially the pricing policy adopted for Nurpur milk was market penetration pricing, which means prices were low compared to competing brands. Recently the pricing policy has been changed and now the pricing policy is competitive pricing policy as shown :-

Product Packing

Unit/Ctn

Retailer Margin

Trade Price

Consumer Price

1. UHT MILK

Ctns

Units

Ctns

Units

1000ml

12

6.09%

1018

84.83

1080

90

200ml

24

4.35%

391

16.29

408

17

250ml

27

5.97%

586

21.7

621

23

Table 3 Price List of Nurpur UHT milk

Source: Company Internal Documents

Due to low volumes produced the company has adopted the policy of selective distribution. The company offers various discounts to retailers to push their products into the market¹⁸. The indirect distribution channel being used is shown below:-

Figure 5 Distribution Channel

Source: Company Internal Documents

2. 13 SWOT Analysis

Strengths

Market leadership in selected product categories

Strong and Experienced Sales Team

Strong Supplier relationship

Brand Loyal Customers

Strict adherence to Quality Standards

First dairy company in Pakistan to be certified under ISO 22000: 2005

Weaknesses

Weak coordination among departments

No emphasis on building brand equity

No formal HR Department

Centralized Decision Making

No policy of recruiting fresh blood

Selective Distribution

Opportunities

Exporting products to foreign countries

Increased demand for dairy products due to urbanization and increasing population

Ensuring availability in untapped markets

Launching innovative products for health conscious consumers

Going for backward integration

Threats

Reliance on few suppliers

Rising prices of sugar

Rising prices of oil increasing transportation expenses

Energy and Power Crises

Procurement of Quality Milk as milk production fluctuates

Rising Inflation decreasing purchasing power of consumers

3. 0 Literature Review

Pakistan has been classified as the third largest milk producing and consuming country in the world. There is a huge potential for liquid dairy products because 94% of the total population still consumes unpackaged milk. Dairy Processors in Pakistan are coming up with innovative products. An example is Tea Creamer which has been quite successful because drinking milk with tea accounts for 32% of total milk consumption in Pakistan. Consumption by low income consumers in developing markets is forecast to increase by from about 70 billion liters in 2011 to 80 billion liters in 2014 and many of these consumers are expected to switch in coming years from drinking loose milk to packaged milk¹⁹

“ According to Tetra Pak, global consumption of liquid dairy products is set to rise by a compound annual growth rate (CAGR) of 2. 9% in 2011-2014, accelerating from 2. 5% growth in 2008-2011, led by buoyant demand in Asia, Africa and Latin America. Asia, Latin America and Africa are all expected to record higher growth rates in consumption in 2011-2014 than in 2008-2011. Asia is forecast to consolidate its position as the world’s biggest market for liquid dairy and dairy alternatives, while Latin America is forecast to overtake Western Europe as the world’s second biggest market by 2014,

the research shows. Demand in Asia-Pacific is forecast to rise by 4.6% (CAGR) in 2011-2014 to some 165.3 billion liters” 20

The research shows that there is a huge potential for dairy processors and demand for dairy products especially UHT milk is likely to go up in future years to come. This demand for dairy products will not only exist in Pakistan but also in developing countries abroad. The demand for milk in neighboring countries also provides huge opportunities for dairy processors and they can expand their operations in those countries by either exporting their products or setting up plants. This research by Tetra Pak provides sound evidence that the future for dairy processors is bright if they can overcome certain issues of availability, quality of milk and reduce operating expenses.

Pakistan's milk and dairy products industry has already reached \$26 billion as of March 2012. Engro is the market leader in the UHT milk segment with a share of over 44%²¹

A major issue being faced by the dairy industry of Pakistan is that the total production of milk in the country is not fulfilling domestic needs. While human population and consumption per capita has been increasing at the rate of 3% annually, milk production in the country is not increasing at the same pace²²

In Pakistan, Buffalos are the main source of milk production with a contribution of 66%, followed by Cows with a contribution of 32% and Goats and Sheep which contribute 2% of the total milk produced. The major Buffalo breeds are Nilli-Ravi and Kundhi, while Sahiwal and Red Sindhi are dominant

cow breeds. A majority of small holding farmers, who fulfill 90% of the total milk requirements of the country are not linked to the formal dairy market. The reasons which have been attributed to low productivity of animals are low genetic life of cattle, delay in puberty, scarcity of feed resources, high disease incidence, disorganized marketing system and traditional farming practices. The low production of milk in the country places a huge burden on dairy processors and in the year 2008-09, dry milk products worth Rs. 1.1 Billion had to be imported due to shortfall of milk production²³

This article provides information regarding the major sources of milk in the country. It also clearly indicates a major issue being faced by dairy processors in the supply chain, which is procuring quality milk for further processing. Milk is the major raw material for dairy processors and insufficient milk production means that dairy processors have to operate with constrained capacity and cannot expand into new markets to meet future demands of milk. As the article highlights that not only is the productivity of animals low but majority of farmers do not have access to the formal dairy market.

In Pakistan, 97% of milk produced is consumed by producers in far flung areas and only 3% is being processed and marketed through formal channels. Demand for milk is present not only in Pakistan but neighboring countries like Iran, UAE, Saudi Arabia, Malaysia and Philippines which can be harnessed to advantage. Apart from bacteria of tuberculosis and hepatitis that naturally occur in milk, the Gawala adds many more impurities specially contaminated water for milk dilution. Other impurities like ice slab, soda

bicarbonate, and formalin are added to prevent the milk from intense weather. Improper marketing channel is one of the major constraints being faced by the dairy sector. The informal private sector comprises of various agents in the supply chain each performing specialized roles. These comprise of producers, collectors, middlemen, processors, traders and consumers. Seasonal fluctuation hampers milk production and consumption in Pakistan. Milk production is maximum in the months from January to April due to availability of green fodder and reaches minimum in months of May to August. Alternatively milk consumption is high during summers and low in winters. Cold storage facilities are limited in Pakistan due to high cost of operations and shortage of electricity. Dairy processors like Nestle are looking at options to reduce or eliminate their reliance on small farmers due to milk adulteration and delays in getting the quantity of milk which hampers production. Dairy processors should vertically integrate their activities by Corporate Farming and offer additional services and support to medium and large farmers in order to get bulk quantities of milk from them²⁴

This article highlights that opportunities exist for dairy processors to export their products in neighboring countries. It also explains how milk is collected and various contaminations which are added to raw milk. Procuring bulk quantities of milk is a big issue for dairy processors and their viable options are to reduce their dependence on small farmers. The constraint of seasonal fluctuation and ensuring quality standards is also a prime concern for dairy processors since all these factors hamper production and ultimately sales.

The milk marketing chain in Pakistan can be classified into an informal marketing chain and a formal marketing chain. The informal milk marketing chain is highly unorganized and milk is delivered under unhygienic conditions. The formal marketing chain on the other hand is more organized and utilizes Cold Storage Tanks to deliver milk from collection centers to processing units²⁵

The informal marketing chain provides the end consumer with low price dairy products at the cost of poor quality standards and unhygienic conditions. The formal marketing chain on the other hand is more conscious towards meeting health standards. However consumers also have to pay more for purchasing their products²⁶

The demand drivers of the dairy industry include increased spending on healthy dairy, increasing nuclear families and working women, increase in demand for functional dairy, organized retail and private label penetration, changing demographics and rise in disposable incomes and increasing urbanization. The challenges being faced by the dairy industry are that milk productivity is still too low, R & D is low, human resource challenges have to be addressed, supply chain hindrances have to be minimized and quality standards need to be improved²⁷

The processing of UHT milk involves six steps. In the 1st step fresh milk from cows enters into the UHT process at 39. 2 degrees Fahrenheit and contains 50 kinds of bacteria most of which are harmful to health. In the 2nd step the milk flows through pipes in which the temperature gets hotter and hotter until it reaches a holding tank and bacteria gets killed as the milk flows

through the pipes. In the 3rd step the milk is heated to 278 degrees Fahrenheit for 3 seconds which kills 99.9 % of the bacteria. In the 4th step the milk is quickly cooled down to 39.2 degrees Fahrenheit which preserves essential nutrients and vitamins. In the 5th step the UHT milk is packed in Tetra packing within seconds to prevent bacteria from entering again in closed pipes and tanks. Finally in the last and 6th step the packed UHT milk is ready to be transported²⁸

Tetra Pak is the pioneer in aseptic packaging. In this type of packaging the product and the package are sterilized separately and then combined and sealed in a sterile atmosphere²⁹

The reason why dairy processors like Noon Pakistan Limited use Tetra Packages is because it allows products to be stored for up to a year without refrigeration which increases shelf life of milk.

Branding is one of those marketing concepts which has immense importance since times immemorial. This is because it is the distinguishing feature between various goods and services. Customers perceive a concept of brand as something with which they can easily associate attributes of a product and to build a strong trust over time. This in turn results in brand equity which is long lasting and is a result of effective marketing efforts on the part of management of the company. With the advent of technology and trends of packaged products, branding is no more a source of identification of a product but way more than that. It is now used for building emotional attachments to both the companies and the products. Apart from the mere identification of the product there are other attributes of branding such as

customers involvement, stress on higher quality and standards and other intangible attributes which are related to the brand name and in particular its' symbol. Branding helps in creating images in the minds of consumers so that they can be ensured that their product is unique and different from the rest. Therefore, it can be said that a brand can only be recognized as a strong entity if it continues to provide attributes that it has been promising and are provided consistently.

This shows the importance, growth and need for branding a product and service in recent times. This is because initially, consumers associated the brand with something that can be used for identification purposes only. However, now we can see that branding is way beyond that and is concerned with perceptual positioning of a product more than a distinguishing feature alone. Also a brand can emerge as a strong and well established brand only if the consumers are able to experience consistent delivery of attributes that have been promised by the company. Therefore, no brand can survive in the market if it is unable to fulfill its " brand promise" and this is a new phenomenon towards which we are seeing a paradigm shift in the market³⁰

The concept of brand awareness is all related to the mind of the consumer. If a brand has a strong presence in the mind of the consumer he is said to be aware of it³¹ . It is also defined as

“ a measure of the percentage of the target market that is aware of the brand name” 32

In order to create brand awareness in the mind of consumers³³ , companies can take use of advertising by marketing their product again and again which will create a few competitive advantages to them. For example:

Brand familiarity

Name familiarity will prove commitment to the brand

If a brand isn't recalled during the point of purchase it is of no use and brand salience ensures that

Brand awareness will be the most durable intangible asset

According to Aaker, companies can generate brand awareness through two steps by firstly broadening the sales base and then by improving their skills beyond the regular mediums of advertisement³⁴ . There are several ways to measure the brand awareness of a company and these attributes are described below:

Brand Recognition: Brand recognition in simplest terms refers to the brand identification when consumers are provided with merely a cue about the brand prior to the actual exposure. This means, that this brand can be easily differentiated from others based on previous knowledge about the brand³⁵

Brand Recall: Brand recall basically refers to the aptitude of the consumer for remembering the brand from the mind's memory when provided with category of a product or any other cue³⁶

Top of mind Brand: The brand which is named by the consumer first when provided with the product category or classification is known as top of mind brand³⁷

Dominant Brand: When asked from the consumers, if a brand name is recalled by the majority of the respondents then that brand is said to be the dominant brand³⁸

Therefore from the above research it can be analyzed quite easily the significance of the brand awareness. A brand which is able to achieve maximum brand equity and becomes a dominant brand can undoubtedly become the largest market share holder amongst the competitors. Building brand awareness however, is a challenge that is faced by the companies and they need to make their marketing efforts strong in order to ensure that among a huge pool of consumers, the brand awareness of their brand is most dominant as it will provide both economical and perceptual benefits to the compa