Historical background of the company milkpak

Milkpak was part of a family group of businesses, known as the Ali Group, which also operated businesses in textile industry, had major holdings in the vegetable and soap industries among others. One of the Ali Group's leading companies was called Packages Limited, established in Lahore in 1956. This company supplied packaging materials to a variety of industries and also provided technical assistance to packaging plants overseas.

In 1976 a review of Packages Ltd showed that one of its machines, the Tetra Laminator, was very under utilized. This machine was designed for making packaging material for long-life milk or UHT milk. Milk packaged in this way had a shelf life of up to three months without refrigeration. Thus, following this review, Milkpak was established to create a market for the packaging materials produced by Packages Ltd. The company then found one milk plant in Pakistan which was suited to produce sterilized milk. It leased the plant and launched a pilot project, which turned out to be a success.

Milkpak was therefore incorporated in January 1979 and began commercial production in November 1981. In 1984 Milkpak started marketing the Frost line of fruit juices which had been introduced a few years earlier by Packages Ltd. Soon after, Milkpak bought the Frost brand name from Packages and in 1986 it accounted for 9% of Milkpak's total sales. In 1985 the company launched its own butter, and in 1986 it launched a sterilized cream product called ' balai' and also a cooking oil called ' Desi Ghee.' These products were sold under the brand name of Milkpak.

Situation Analysis

The environment in which businesses operate is dynamic, never static, that is it keeps changing. It is increasingly turbulent due to the era of change and uncertainty in which we live and is never stable. The pace of these changes is accelerating, which requires continual response from the business organization.

In this section we will discuss some of the external factors and internal factors that influenced Milk Pak operations:

Vision Statement of Milkpak

The strategic priorities of Nestle Milkpak are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long term growth. Improvements in profitability will be achieved while respecting quality and safety standards.

In line with this objective, Nestle Milkpak envisions to grow in the shortest possible time into the number one food company in Pakistan with the unique ability to meet the needs of consumers of every age group – from infancy to old age, for nutrition and pleasure, through development of a large variety of food categories of the highest quality.

Nestle Milkpak envisions the company to develop an extremely motivated and professionally trained work force, which would drive growth through innovation and renovation.

It aspires, as a respected corporate citizen, to continue playing a significant role in the social and environmental sectors of the country.

SWOT Analysis

When making decisions it is very important for the business to consider the external environment as well as the firms existing resources. The SWOT analysis helps the management to set objectives and make plans to build up on the strengths, rectify the weaknesses, avail the opportunities and counter the threats.

Strengths

Milkpak had a high market share.

Milkpak Ltd product line included diversified products.

The strength of Milkpak is its identity.

Extensive and continuous supply of milk from different sources.

Milkpak distribution network grew rapidly between 1981- 1986. Within few years of its establishment it had sales offices in major cities of Pakistan.

Milkpak had a reputation for consistent high quality for both consumers and the trade.

Milkpak limited was owned by one of the leading industrialist of Pakistan i. e. Ali Group.

Milkpak had a shell life of up to 3 months and did not require refrigeration.

Milkpak also catered to low income consumers.

Milkpak taught it supplier’s scientific methods of livestock care and breeding. This made it milk supplies more reliable and of high quality.

Weaknesses

The total processing cost was around 25% of the total product cost.

Packaging material which were heavily taxed by the government lead for another 26%of Milkpak production cost.

Milkpak limited lacked required technical knowledge and expertise to expand the business.

New “ brick pak” was introduced in 1986, this required extra packaging material and therefore lead to an increase in Milkpak cost.

Opportunities

Government fostered the UHT milk industry by removing duties on import of machinery for dairy products.

An opportunity of a joint venture with a foreign company.

Training of Milkpak employees if Milkpak had a joint venture with Nestle’ or Friesland.

Threats

Government sanctioned a number of additional plants which lead to the possibility of substantial overcapacity in the market.

Chaudhri Industries entered the market in 1986 with a competitive advantage i. e. brick packaging.

Because the industry risked facing overcapacity, it was important for Milkpak to increase its market share. If it did not, its competitors could have dominated the market.

Many companies were planning to enter the dairy industry.

Between 1960- 1970, 23 dairy processing plants were establish out of which at least 15 plants closed due to lack of poor management and infrastructure, lack of milk supply and extensive refrigeration requirement.

A joint venture with a large multinational might dominate

Strategy of Milkpack

In Pakistan, one of the major problems facing all milk producers and distributors was the discrepancy between the demand and supply of milk. There was a marked seasonal demand for milk, which peaked during the summer and slowed during the winter months. In contrast, the production of milk was highest during the winter months i. e. December to May, also known as the ‘ flush season’ and was lowest during the ‘ lean season’, i. e. from May to August.

To alleviate the problems brought about by the seasonal mismatch between supply and demand for milk during summer, the Pakistani government adopted liberal policies toward the import of milk products. This meant that Milkpak now had to compete with foreign markets alongside local milkmen who supplied ‘ raw’ milk. Milk powder became a popular import and by 1986 was making up 30% of all milk supplies in Karachi.

The problem of seasonality meant that during the lean season Milkpak faced a shortage in demand, and during the flush season the company had to refuse milk supplies. The company needed to gain some knowledge and insight regarding how to operate in an environment where demand and supply were so seasonal. Furthermore, Milkpak marketing managers were reluctant to promote Milkpak heavily during the flush season for fear of creating demand in the lean season which they would not be able to satisfy. Although they were committed to increasing UHT milk sales, the UHT business was a very high volume and low margin business, where the technology for manufacturing UHT milk was considered very expensive. To counter the problem of milk shortages during the lean season it was possible to add milk powder to increase overall output volume. However, since the milk powder itself would be imported, this was an expensive option which also resulted in providing competitors with business.

Milkpak also encountered some difficulties in marketing its product. A major challenge which the company faced was in positioning the milk. It was difficult to introduce the idea of long-life milk to their target market, especially since this milk did not require any refrigeration. At that time the market was mainly accustomed to buying small amounts of ‘ raw’ milk on a frequent basis, which needed to be stored in cool conditions. Another concern which consumers had was that the Milkpak brand contained preservatives, or were perhaps not genuine because it contained no cream.

Milkpak's success with UHT milk encouraged a number of other competitors to enter the market. Some of these competitors were short lived and left the market soon after facing financial difficulties. Others were more sustained, such as Milko, Pakistan Dairies and Chaudhuri Dairies. All these competitors had some advantages over Milkpak, either in terms of more experience, better distribution networks, or more convenient packaging. Furthermore, the government was now encouraging companies to enter the market by making exemptions on the import of machinery for dairy plants and by providing low cost financing by several government agencies. The government had also sanctioned a number of additional plants which would be in working condition soon. The concern now was that the UHT milk industry would be facing a substantial overcapacity.

It was thus decided that finding an appropriate joint venture partner would be a viable solution to the problem of growth for Milkpak. As it would provide Milkpak with the opportunity to obtain new capacity, expertise and technological knowledge which was very much required. And also that Joint venture with any of the competing firms would possibly wipe off the competition from the market.

In assessing Nestle as a joint venture partner, there were many advantages to both Milkpak and to the Pakistani industry as a whole. However, the company still faced certain drawbacks. Both companies were likely to be concerned about management control of the operation. Another point which needed to be settled was what products were to be manufactured and where they would be produced.

Mission statement

" Nestlé's mission is to provide the best food to people throughout the world".

Objectives and core values

Lead a dynamic motivated and professional workforce – proud of its heritage and bullish about the future.

· Meet the nutritional needs of consumers of all age groups from infancy to old age, from nutrition to pleasure, through an innovative portfolio of branded food and beverage products of the highest quality.

· Deliver shareholder value through profitable long-term growth, while continuing to play a significant and responsible role in the social, economic and environmental sectors of the country.

Development of strategy

There are many models for the development of strategy i. e. Potters generic strategies. There are 3 generic strategies of potter

Cost leadership

Differentiation

Focus

Anssoff Matrix Provides the basis for an organization's objective setting and sets the foundation of directional policy for its future' (Bennett, 1994).

The best selection for Milk pack is cost leadership. For this purpose Milk pack needs to outsource it non core activities.

The major risk of outsourcing is that you may not be building the value of your company in terms of personnel, in-house knowledge, and infrastructure. In this case, the value of an outsourcing agreement with a provider will be less effective than an internal department.

Implementation plan for strategy

“ Strategy making needs person with vision whereas strategy implementation needs a person with administrative ability”

The implementation plan can be divided into many parts

Project Implementation requires the management to have a firm grasp of the strategy to be implemented. Project management involves recognition of critical success path. With all the activities lying in the critical success path will then be given significant importance. If a project needs to be implemented in time, then all the activities lying on the critical success of must be performed on time.

Procedural Implementation means that milk pack has to bring change in its value chain. The value chain describes all the core activities of the business. After all the core activities of the business have been recognized, support activities can be removed or restructured.

Resource Allocation is the most important part of the strategy. If proper allocation of the resources is not made the strategy might not be implemented. Before choosing a strategy for implementation the company carefully analyses all its resources and then allocates some resources for implementation of the strategy. For the strategy of outsourcing to work it is necessary that Milkpak is able to find a suitable company to outsource. This requires a lot of time and effort, appropriate resources and time allocation needs to be made.

Structural Implementation is necessary if the company requires a change in structure to support the strategy. Without the proper structure for the strategy, the strategy is bound to fail.

Functional Implementation means the division of objectives of strategy into functional achievable and goals i. e. budgets. This is the implementation of the strategy at grass root level.

Behavioral Implementation suggests a change in the culture of the organization. The people of the organization need to accept the change in strategy. If the people are working hard to implement the strategy then there is a good chance that the strategy will be successfull

Conclusion

This case study shows how a relatively small company in a developing country made an error by choosing a wrong strategy and powerful and aggressive joint venture partner. Milkpak wanted to retain control and majority ownership of the joint venture but Nestle, although having an initial stake of only 49%, managed to increase it by forcing new technologies and acquisitions into the partnership. The Ali Group could not keep up with these expenses and Nestle thus raised its participation to 67%, relegating the Ali family to the role of spectators. Friesland would have been a much better partner due to its smaller size. They efficiently co-operate with local companies in many countries, letting them to conduct the operations without trying to take over their partner. Unfortunately, they committed some important mistakes during the negotiations, like not allowing the Milkpak management to see their milk powder factory, thus leading Milkpak to believe that they were trying to hide technology from them. On the other hand, Nestle swiftly sent one of its vice presidents to Pakistan, showing respect for Milkpak. This senior executive proved to be very familiar with this kind of operations and he flattered Milkpak, admiring the quality of their products. Thanks to this smart negotiation, both emphasizing their experience in operating milk powder factories in Asia and showing deference to Milkpak, Nestle won the deal. This shows how much it is important to know the culture of the persons you are negotiating with, in order to be able to adapt. Failure to do so may lead to an unfortunate outcome.