

Fundamentals of marketing and dairy business management

A training guide for small-scale dairy farmers, milk traders, transporters and processors in Eastern Africa



A Programme of the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA)



FEBRUARY 2006

MODULE 6

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transporters and processors in Eastern Africa



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Printing: Regal Press Kenya Limited, Nairobi

ISBN: 92-9146-193-8

Correct citation: Lore, T.A., Kurwijila, L.R. and Omere, A. (eds). 2006. *Fundamentals of marketing and dairy business management: a training guide for dairy farmers, milk traders, transporters and processors in Eastern Africa*. ILRI (International Livestock Research Institute), Nairobi, Kenya.



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Acknowledgements

The Dairy Development Authority (Uganda), the Kenya Dairy Board, the Rwanda Animal Resources Development Authority and the Tanzania Dairy Board thank the following individuals and institutions whose untiring efforts led to the successful compilation of this training guide:

- National resource persons nominated by the aforesaid institutions for collecting information that helped in drawing up the harmonised generic training guide and curriculum:
 - Mr Isha Muzira (Uganda)
 - Dr Philip K Cherono (Kenya)
 - Dr Michel Ngarambe (Rwanda)
 - Mr Obed Ndankuu (Tanzania)
- The Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) through its Programme for Agricultural Policy Analysis (ECAPAPA) for funding and providing leadership to the two-phase project on *Rationalisation and harmonisation of policies, standards and regulations in the dairy industry in Eastern Africa* from 2002 to 2005.
- The International Livestock Research Institute (ILRI) for collaboration through its research theme on market-oriented smallholder dairy.
- Prof Lusato Kurwijila of Sokoine University of Agriculture, Morogoro, Tanzania for sharing his technical expertise and knowledge of the dairy industry in Africa that was instrumental in developing the harmonised training guide and curriculum.
- Dr Amos Omoro (ILRI) for coordinating the work of the national resource persons and facilitating dialogue and exchange of experiences in improving the quality of milk sold in the informal sector.



- Ms Tezira Lore (ILRI) for editing, proofreading and designing the layout of the guide.
- Ms Lilian Ohayo for providing illustrations.
- US Agency for International Development (USAID), Regional Economic Development Services Office for East and Southern Africa, for financial support.

It is our desire and hope that the use of this guide in training programmes will contribute to the improvement of milk quality along the marketing chain and provide income generation opportunities for those involved. We look forward to continued collaboration with the above institutions as we strive to strengthen the dairy industry and cross-border trade in the region.



Foreword

As a small-scale dairy farmer, milk trader, transporter or processor you know very well how important it is for you to carry out your business activities in a profitable manner. For this reason, you need to be equipped with basic skills in business management and planning. Towards this end, the following training guide was developed through collaboration between dairy regulatory authorities in Kenya, Rwanda, Tanzania and Uganda; the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) through its Programme for Agricultural Policy Analysis (ECAPAPA) and the International Livestock Research Institute (ILRI).

The guide is intended to give you some basic concepts of business management and marketing that you can apply in your dairy business. The aim of this guide is to help you become competent in the following areas:

- Carrying out a feasibility study
- Preparing a business plan
- Distributing and retailing of dairy products
- Record keeping and credit management

The guide is designed to be used during residential, on-site or outreach training conducted by a business development service (BDS) provider. After the training, you will undergo a theoretical and practical test to evaluate your level of competence in marketing and dairy business management. If you pass the test, you will be awarded a **certificate in basic marketing and dairy business management**. This certificate is however not mandatory for licensing of small-scale dairy operatives



to handle or process milk. However, there are separate training guides that have been developed to cover the minimum competencies for hygienic milk handling and processing, whose certification is a prerequisite for licensing.

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INTRODUCTION

Running a successful dairy business requires both technical and business management skills. Before starting out, you must carry out a thorough feasibility study to find out if your business will be profitable. A business plan is also needed to guide the project through its beginning stages. As you run your business, you need a variety of skills in marketing, distribution and record keeping, among other areas. This manual highlights some basic business management skills that you can apply to help you to run your small-scale dairy business successfully.

FEASIBILITY STUDY

Before establishing any business, a thorough feasibility study must be carried out in order to explore if the venture is viable and avoid the disappointment of your business failing. The different types of businesses and some of their advantages and disadvantages are shown below.

Type of business	Advantages	Disadvantages
<p>Sole proprietorship</p> <p>Owned and controlled by one person. The business owner cannot be legally separated from the business, which can be registered in the owner's name or in a different name.</p>	<ul style="list-style-type: none"> ● Business owners are their own bosses thus have total control. ● Personal contact enhances customer satisfaction. ● Initial capital requirements are usually low. ● Business owner keeps all the profits. 	<ul style="list-style-type: none"> ● Difficult to raise high capital requirements alone. ● Unlimited liability. ● Skills and abilities limited to one person. ● Business ceases to exist when owner dies.
<p>Partnership</p> <p>A group of two to twenty people who pool their resources and abilities in order to carry out a business for profit. Partners share profits equally, unless stated otherwise in the partnership agreement.</p>	<ul style="list-style-type: none"> ● More money may be available. ● Losses and risks can be shared. ● Partners plan together and discuss problems or issues before making decisions. 	<ul style="list-style-type: none"> ● Partners share in control of the business. ● Profits must be shared by all partners. ● Partners are jointly responsible for poor decisions made by one partner.
<p>Cooperative society</p> <p>A group of persons who voluntarily come together to start a business to produce or supply goods or services in order to promote the wellbeing of the members.</p>	<ul style="list-style-type: none"> ● It is easy to raise money. ● Liability is limited to the business. ● Profits are shared based on individual contributions. ● The business may employ managers with relevant experience and qualifications. 	<ul style="list-style-type: none"> ● Control of the business is shared. ● All members must accept the decisions of the board of directors.
<p>Limited company</p> <p>A body corporate, formed by two or more people, that is recognised by the law as being distinct from its owners.</p>	<ul style="list-style-type: none"> ● Stockholders have limited liability. ● The business has a perpetual life. ● It is easy to expand and transfer ownership. ● It may be applied to both large and small businesses. 	<ul style="list-style-type: none"> ● It is an expensive venture. ● Capital stock tax is involved.



Principles of conducting a feasibility study

After selecting a business opportunity or enterprise, the activity that follows is a feasibility study to determine whether the proposed project is a sound business idea. Because putting together a business plan is a significant investment of time and money, you want to ensure that there are no major roadblocks facing your business idea before you make that investment. Identifying such roadblocks is the purpose of a feasibility study.

A feasibility study looks at three major areas where key questions must be addressed:

1. Market analysis
2. Organisational and technical analysis
3. Financial analysis

Market analysis	Organisational and technical analysis	Financial analysis
<ul style="list-style-type: none"> ● What is the current or projected demand for your proposed products or services? ● What are the target markets for this product or service? ● What demographic characteristics do your potential customers have in common? ● How many of them are there? ● What is the projected supply of the products or services needed for your project? ● What competition exists in this market? ● Can you establish a market niche that will enable you to compete effectively with others providing this product or service? ● Is the location of your proposed business likely to affect its success? If so, is the identified site the most appropriate one available? 	<ul style="list-style-type: none"> ● What is the right organisational structure for your project? ● Who will serve on the board of directors if any? ● What qualifications are needed to manage this business? ● Who will manage the business and what are the other staffing needs? ● What are the technology needs for the proposed business? ● What other equipment does your proposed business need? ● Where will you obtain this technology and equipment? ● How does your ability to obtain this technology and equipment affect your start-up? ● How much will the equipment and technology cost? 	<ul style="list-style-type: none"> ● Start-up costs: These are incurred in starting up a new business and include capital goods such as land, buildings, equipment etc. The business may have to borrow money from a lending institution to cover these costs. ● Operating costs: These are the ongoing costs, such as rent, utilities and wages that are incurred in the operation of a business. ● Revenue projections: How will you price your goods or services? What is the estimated monthly revenue? ● Financing: Which bank or other lending institution can you approach for financing? ● Profitability: Will the business break even, lose money or make a profit? How can profits be increased?



PREPARATION OF A BUSINESS PLAN

If the feasibility study indicates that your business idea is sound, the next step is a business plan. The business plan continues the analysis at a deeper and more complex level, building on the foundation created by the feasibility study. A business plan minimises the risk associated with a new business and maximises the chances of success through planning.



A business plan helps to increase the chances of your business succeeding

Basic elements of a business plan

A business plan can be divided into four sections:

1. Organisational plan
2. Management plan
3. Marketing plan
4. Financial plan



Organisational plan

In this section, provide a detailed description of your business. An excellent question to ask is: “What business am I in?” and in answering this question, include your products, market and services as well as a thorough description of what makes your business unique. This section can be divided into three parts: the business description, the product or service you are offering and the location of the business.

Business description

- Form of ownership and organisation: sole proprietorship, partnership, cooperative, etc.
- Business type: merchandising, manufacturing or service?
- What licences and permits are needed?
- Is it a new independent business, a takeover, an expansion, a franchise?
- What are the growth opportunities for the business?
- When will your business be open?
- Who will manage the business?

Product or service

Describe the benefits of your goods and services from the perspective of your customers:

- What are you selling?
- How will the product or service benefit the customer?
- What is different about the product or service your business is offering?

Business location

Your business location should be considered with your customers in mind.

- What kind of space will you need?
- Why is the area desirable?



- Is the location easily accessible by public transport?
- Does the location provide a sense of security?

Management plan

Your management plan should answer questions such as:

- How does your background/business experience help you in this business?
- What are your weaknesses and how can you compensate for them?
- Who will be on the management team?
- What are their strengths/weaknesses?
- What are their duties?
- Are these duties clearly defined?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- How are you going to remunerate your staff?

Marketing plan

The key element of the marketing plan is to know your customers—their likes, dislikes and expectations. By identifying these factors, you can develop a marketing strategy that will allow you to meet your customers' needs. The marketing plan should also address your pricing strategy and how you will deal with business competition. Here are some questions you can consider:

- Who are your customers (target market)?
- Are your markets large enough to expand? Are they growing, steady or declining?
- Is your market share growing, steady or declining?
- How will you attract, hold or increase your market share?



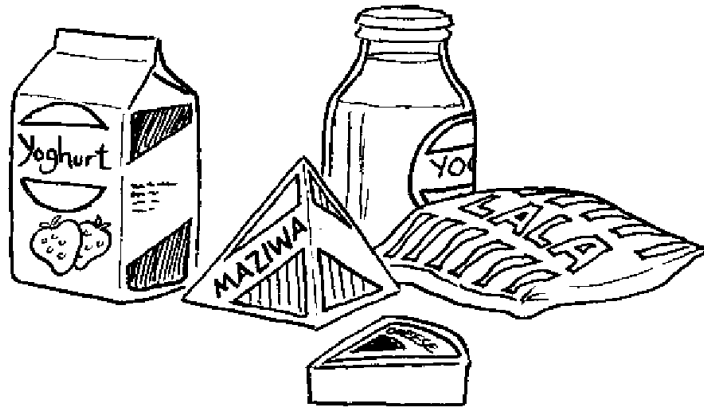
Financial plan

This is the heart of the business plan. Sound financial management is one of the best ways for your business to remain profitable. To effectively manage your finances, prepare realistic budgets by determining the actual amount of money needed to open your business (start-up budget) and the amount needed to keep it open (operating budget). You will need to address the following questions:

- How much money do you have? How will you secure funding?
- How much money will you need for start-up?
- How much money will you need to stay in business?
- What type of accounting system will you use?
- What are your projected sales and profits for the coming year?
- What will be your break-even level of production?
- What will be your monthly cash flow during the first year?
- What kind of inventory control system will you use?



DISTRIBUTION AND RETAILING OF DAIRY PRODUCTS



Price your dairy products well so that your products are affordable and your business makes a reasonable profit

Costing and pricing

Setting product prices is not so easy. However, the following guidelines may be useful:

- **Consider costs:** Decide on the lowest price you are prepared to consider. There must be a minimum price below which sales are simply not worth pursuing. However, this is the only stage at which costs enter the price-setting equation.
- **Watch the customer:** Prices should be related to demand in the market place and not just to costs. Try to take account of the non-price benefits that your customers will gain by using your products or services, and estimate what they will be prepared to pay for them. If possible, obtain field research information from potential customers, but treat the findings with caution since surveys on buying intentions can be hard to interpret.



- **Watch the competition:** Weigh the good and bad points about your product and compare them with others on the market. Then decide on where to position your product on the market and where its price should be, relative to others.
- **Do not under price:** If you are offering a better product than others on the market, you charge a premium price for it. It is much easier to set prices relatively high to start with and reduce them later.

Marketing skills

Marketing of dairy products is an important component of dairy-oriented businesses. The aim is to get the best price possible. Marketing of raw milk may not present much of a problem especially where there are processors ready and willing to buy the produce. However, marketing of processed dairy products presents more of a challenge due to competition from several products in the market.

To promote the demand of your products in the market, here are some points to consider:

- **Quality:** The quality of your products/services should be consumer-driven. Your business should be associated with high quality.
- **Value addition and product diversification:** You can add value to raw milk by processing it into products like yoghurt or cheese. If you diversify your products you are likely to get better returns and capture more market.
- **Know your customers:** Understand the needs and purchasing power of your customers in order to produce products that meet their expectations at a price they can afford.
- **Pricing:** The prices of your commodities should be competitive.
- **Packaging:** Packaging should be attractive, convenient, protective to the product and well-labelled. It should carry the necessary nutritional information and, above all, be cost effective.



- **Branding:** Proper banding of processed milk products will help customers to easily identify your products.
- **Customer care:** Always respond promptly to customer complaints and maintain good relations with your customers. Happy and satisfied customers will always return and thus keep your business going.



Maintain good relations with your customers

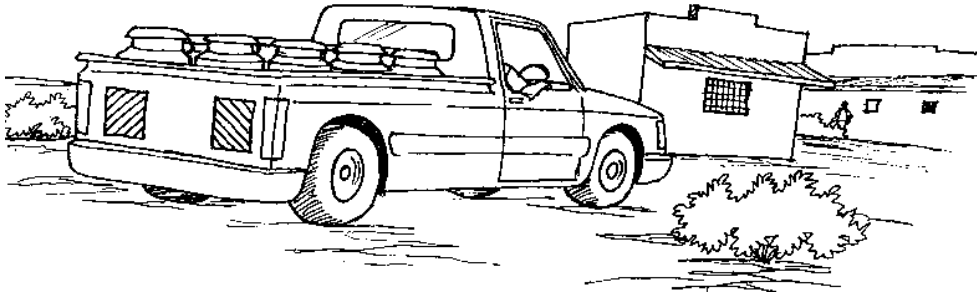
Distribution skills

The main distribution channels for milk and milk products are:

- Producer—consumer
- Producer—cooperative society—processor—distributor—consumer
- Producer—milk trader—consumer

The distribution channel you choose will depend on several factors such as: the level of demand for raw vs. processed milk products; the presence of large processors or a functioning cooperative; the quality of road infrastructure; distance to outlet centres and the nature of regulations on marketing of raw milk .





Ensure that milk and dairy products are transported to the market quickly

Whatever distribution channel is in place, there are certain factors that need to be observed by small-scale dairy operators:

1. Always ensure that milk and dairy products are transported to the market quickly and efficiently. Since raw milk and dairy products are highly perishable, you should deliver them to the point of sale as fast as possible.
2. Distribute your products as close as possible to your potential customers.
3. Train your distributors on how best your products should be handled and stored to avoid contamination and spoilage.



RECORD KEEPING AND CREDIT MANAGEMENT

By keeping proper records, you will be able to track the sales, expenses incurred, profits made and other issues of concern to your business. Well-kept records will also help you to make sound decisions geared towards a well-managed business that makes high profits.

Types of records

Farm records

Some of the records that should be kept at the farm level include:

- Milk delivery card indicating the quantity of milk delivered per day
- Cash flow records (showing income and expenditure)
- Schedules of artificial insemination and deworming

The following is an example of a milk delivery card:

Milk delivery card				
Name:				
Membership number:				
Amount of Milk Delivered (kg)				
Date	a.m.	Signature	p.m.	Signature



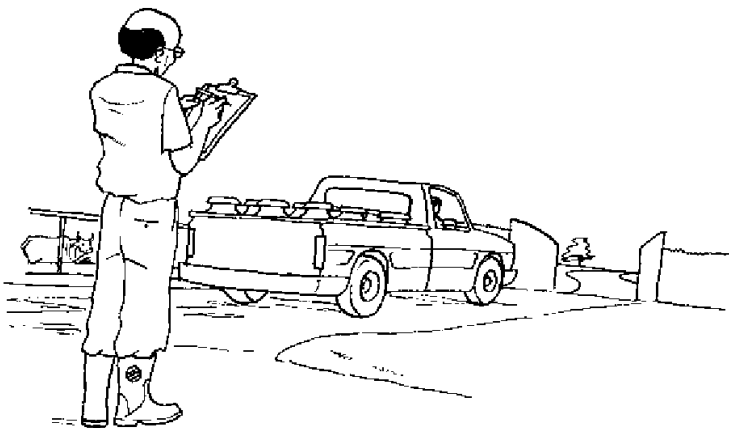
Farmers' groups should record in a milk journal the quantity of milk collected from individual farmers. This helps in calculating the payments for milk supplied, assessing the performance of various business activities and sharing profits.

The milk journal should bear the following details:

- Name of the group
- Code/ name of the farmer
- Amount of milk delivered
- Signature of collecting clerk

Here is an example of a milk journal for a milk producer group:

Milk journal					
Village milk producer group					
No.	Name of Producer	Amount delivered (kg)			Signature
		a.m.	p.m.	TOTAL	
1.					
2.					
3.					



Keep a record of milk collected from individual farmers



Milk collection centre records

Milk collection centres need to keep records of milk supplied by farmers, milk delivered to processors and payments made. An example of a milk supply record is shown below.

Milk supply record					
Date	Farmer name	Milk received (kg)	Price per kg	Amount paid	Signature

Milk trader and transporter records

Milk traders and transporters should keep a daily record of milk supplied by farmers or cooperatives. This record should indicate the name of the supplier, volume of milk supplied, date and time the milk was supplied and the price paid for the milk. Also needed are records of milk deliveries and maintenance schedules of transportation vehicles (bicycles, pick-ups, lorries).

In addition, the following measurements and basic quality tests may be carried out on raw milk and the results recorded by the milk transporter:

- Temperature of the milk
- Density of the milk
- Organoleptic test
- Alcohol test



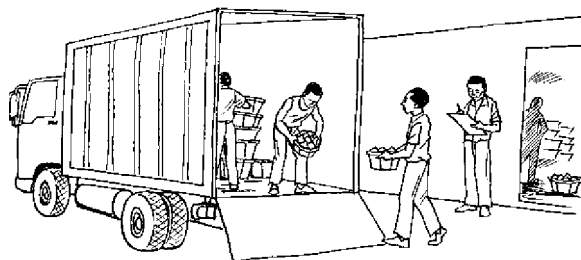
Upon delivery to the point of sale (milk bar or shop) or processing factory, the following details should be recorded in a daily milk delivery sheet as below:

Daily milk delivery sheet						
Customer Name	Time of delivery	Quantity delivered (kg)	Milk temperature	Milk density	Organoleptic test	Alcohol test

Milk processor records

Aside from records for specific dairy products, one important record to be maintained by milk processors is the daily milk intake record. An accurate daily record of the weight of milk received from each supplier is necessary for the calculation of monthly payments. A sample monthly payment record is shown below:

Monthly payment record					
The Milky Cow Dairy Ltd					
Month _____					
Supplier no.	Milk delivered (kg)	Milk grade	Price/kg	Payment	Signature
Total					



Whether you are a farmer, milk collection centre operator, milk transporter, small-scale milk trader or processor, here are some important things to remember when keeping records:

- Enter information accurately in the relevant record books every day. Some record books are available in bookshops but you can design and adapt your own. The important thing is that you **must** keep correct and up-to-date records.
- Keep your records safe and make sure you can access them easily whenever you need them. If your business has two or more people, you may appoint a specific person to be responsible for some records.
- Make monthly summaries of your records.
- When in doubt about how to keep or interpret records, you can contact your nearest business development service provider for advice.
- It is good to keep a copy of the records you are giving out so that you can remember details of the information going out.

Credit management

As a small business owner, you may at some point find that you have to extend credit to your customers. Most customers will pay on time and you will probably never get into the credit management process with them. However, some of your customers will not be so prompt in settling their debts, so an efficient debt collection system becomes very important.

Here are some tips to help you manage slow paying customers and collect your debts.

Prevent debts from becoming overdue: Review your customer accounts each month to quickly identify those that are late in paying. Track your clients on a 30-60-90 day basis or on a control sheet.

Collect overdue debts before they are seriously late: Once 45 days have elapsed, call your customers or send out reminders to follow up outstanding payments. Remember to treat your customer with courtesy at all times, despite the inconvenience you may be going through because of the late payment.



Possible legal action: After a 90-day credit period, if no payment is forthcoming, you may speak to a lawyer about your rights and how you should proceed with the debt collection process.

For more information on how to manage your small-scale dairy enterprise, please contact the Business Development Service provider or micro-finance institution nearest to you.



REMEMBER!

- ➔ **A successful small-scale dairy enterprise needs a combination of technical and business management skills.**

- ➔ **As the saying goes: “When you fail to plan, you are planning to fail”. A good business plan will guide you through on your road to business success.**

- ➔ **Accurate records are essential if you are to maintain control of your business affairs.**

- ➔ **Always treat your customers with respect because without them, your business would not exist. “The customer is king”.**



APPENDIX

Training curriculum on dairy business management for small-scale dairy farmers, milk traders, transporters and processors

Target Group	Course Title	Type of course & location	Course units (sessions)
Small-scale farmers, milk traders, transporters, processors	Fundamentals of marketing and dairy business management	Residential/on-site/ outreach	Feasibility studies and business plan preparation

Subunits	Objectives (Competency sought)	Course content	Duration		Training method/materials	Evaluation	Award
			Theory	Practical			
1. Feasibility study	Dairy operators knowledgeable on fundamentals of feasibility study preparation	Types of businesses (sole proprietor, cooperative society, partnership, limited company)	1 hour		Lectures Discussions Questions & answers Participatory adult learning techniques	End of course theoretical written or oral test End of course practical test	Pass or fail
		Principles of conducting a feasibility study	1 hour				
2. Business plan preparation	Dairy operators knowledgeable on fundamentals of business plan preparation	Basic elements of a business plan	½ hour		Lectures Discussions Questions & answers Participatory adult learning techniques		
		Organisational plan	½ hour				
		Management plan	½ hour				
		Financial plan	½ hour				
		Marketing plan	½ hour				
3. Distribution and retailing of dairy products	Dairy operators knowledgeable on costing and pricing, distribution and retailing of dairy products	Costing and pricing of dairy products	1 hour		Lecture Discussion Demonstration		
		Marketing skills	½ hour				
		Distribution skills	½ hour				
4. Record keeping	Dairy operators knowledgeable and skilled in record keeping and credit management	Types of records: - Farm records - MCC records - Milk transporter records - Milk trader records - Milk processor records - Milk distributor/retailer records	2 hours		Lecture Discussion Demonstration Overhead projector Flip chart Chalk board Felt pens etc.		
		Credit management	1 hour				
			9.5 hr		End of course theoretical (1 hour) and practical (1 hour) test	Certificate in basic marketing and dairy business management	







