

UHT milk “coming of age” in India

(A periscopic commentary on the evolution of UHT milk in India)

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My tryst with UHT

Dairy liberalization in India is around 18 months younger than our organization. The journey which began in 1990 has seen the growth of the Indian dairy industry from the liquid milk market perspective. Milk powder and other commodities were never the center stage activity for our organization at Suruchi Consultants. We have been tracking the liquid milk business very closely and UHT attracted our attention somewhere in 1996 when we got active at Nepal with our operations. We liked the concept and after coming back had lengthy discussions with various stakeholders. Interestingly, we observed that one of the major players in Nepal was using UHT milk process as an implicit positioning for their milk to have better shelf life without even displaying this advantage on the packing. The UHT madness and, that too, in paperbound packaging was becoming the topic for corner room discussions at established dairy plants by the turn of the century. I got the first close mega view of this technology at a trade fair at Cologne , Germany in 2000. I was impressed with the technology, speed, benefits , etc which this could give to the customer. By customer I mean even the intermediaries, large stores, logistics providers and other elements of the supply chain. By that time I was living with a conviction that “packaging is something that adds some value to a given product by adding a little of cost and it also protects the product and the customer from any kind of quality deterioration. The great words from one of the leading international players in UHT and aseptic packaging transformed my way of thinking ; the golden words were that a package should save more than what it costs.

For the first time I understood the benefit of this technology at a macro . Though

global warming and environmental issues did not make inroads in our society at that time but today those benefits only add on to the other savings which it provides in the whole of supply chain.

It is only UHT milk technology which has the capability to take on any quantity of raw milk at the time of the flush season thus motivating farmers to grow more and more. In 2006, I did a market research for London and nearby markets and observed that pasteurized milk (being pasteurized around 72.6 degrees Centigrade) was offering a 9 day shelf life but refrigeration was a must. In 2007, I became an Institutional development expert with the Government of Netherlands and began to understand the importance of environmental friendly measures at each stage of the supply chain from farm to fork. I found that the cold chain was acting as the main culprit in all those hot gas emissions, thus leading to global warming. Still, it was getting very difficult for me to understand how we could make this technology work for mini dairies and for small farmers. I remained in a state of confusion over the utility of UHT technology for mini dairies(from 1klpd to 20klpd) in India and other developing countries till I visited China in early 2011.

The changing paradigm

I found that China probably has the largest number of UHT establishments (close to 2600) as reported by one of the key players in that market. They have UHT systems starting from 1000 lph(batch type) to any large size, made to order, capacity. A large number of small dairy owners are even packing this milk from mini UHT plant in poly packs and selling it in the name of pasteurized milk and by default getting the benefits of extended shelf life. China somehow lives with a fragmented eco system, similar to that of India. I visited various UHT manufacturer plants and found out that my dream of bringing this so called state-of-the-art technology to the door steps of small dairy plant owners in India is no more a dream. Now we are focusing on these technologies and offering cost effective solutions in India. There are certain constraints in terms of quality of milk, availability of packaging (poly pack to start with) but there are now possible

solutions for tackling these..

Changing Consumer Behavior in China (A research case study)

I studied the growth of UHT milk in Chinese markets and found some interesting consumer patterns contributing to the growth of sales of UHT dairy products in large stores. There are mainly four factors contributing to this growth and, interestingly, these factors are extremely relevant in the Indian context, too.

The following findings are from the consumer behavior research conducted by Kantar World panel, being a part of their spotlight on China . The team could be contacted at kantarworldpanel@ctrchina.cn .

1. Market expansion driven by premiumisation

According to Kantar World panel, with household penetration stable in 2010, the UHT milk market, which makes 87% of total liquid milk in China, was driven mainly by price inflation and consumer demand growth. In the meantime, rising affluence and changing consumer taste helped to transform the market. It was recorded in a study that premium milk and kids' milk are two main segments that shaped the market expansion in 2010. High end and specialized products apparently command a higher margin which will contribute to the healthy growth of the industry.

2. Regional brands slowed down in face of market consolidation

The UHT milk market continues to show signs of consolidation. Although some regional brands still hold certain advantages in local markets, their market share declined compared to 2009. Yili and Mengniu combined increased their share from 64.5% in 2009 to 65.6% in 2010 at the national level. In contrast, Sanyuan, the key regional player in the North, saw its share drop from 9.2% to 8.5%, and

Bright Dairy dropped from 16.7% to 14.1%. The extensive distribution network, aggressive national market campaign, as well as brand building activities can explain the continued success of Mengniu / Yili in various regional markets.

3. Besides Modern trade, Gift channel still grew its importance

Like many other FMCG categories, Modern trade, Hypermarkets and Supermarkets account for close to 50% of the market spend, yet what is unique to the milk market is that the Gift channel is still an incredibly important channel for consumers. In 2010, **the** Gift channel represented 25.3% of the market spend; an almost 2 points increase compared to 2009. The Gift channel became even more seasonal. The key period is the Chinese New Year where the Gift channel share reached 36.7% in Q1 (period including CNY in 2010). This was heavily driven by consumers buying premium milk gift packs for visiting friends and family members, together with chocolate and confectionery. Understanding how to make the best of milk as a gift is critical to marketing. The challenge is to ensure a successful festive season that will boost the full year profits

4. Developing Lower Tier Cities

Like many other FMCG categories, the UHT milk market also shows substantial room for development in the lower tier cities. In terms of household penetration, the category only reached over 80% families in capital cities, while in counties there are still 28% families who have never bought UHT milk in the latest quarter. If the penetration of UHT milk in the lower tier cities can reach the level of capital cities, the market will expand easily by another RMB 1 billion. Ultimately, domestic Chinese dairy companies must develop affordable products and different approaches for less-affluent lower tier cities where per capita consumption for milk is even lower.

The Chinese dairy industry continues to experience challenges, with

defamation cases and product quality scandals still haunting the healthy market development in 2010. Product quality is seen as the ultimate driver of brand success.

The lessons to be learnt from this case relevant to the Indian context are that UHT gift packs, the concept of premiumization and deeper penetration in tier 2 and tier 3 cities in India will create a true foundation for UHT growth in the country.

The Indian Scenario

UHT Milk currently accounts for less than 1% of the total liquid milk market in India. The product's high shelf life and convenience, however, has been driving this market exponentially in the last few years. A recent study by IMARC Group, one of the world's leading research and advisory firms, expects the Indian UHT Milk Market to more than triple its current size during 2010-11 and 2016-17.

Findings from the report suggests that UHT milk has a very high shelf life and unopened packs can last for several months without being spoilt. This makes them extremely popular in areas having milk scarcity and which lack a proper cold chain infrastructure. The report also suggests that increasing urbanization and women work participants will increase the demand for safe, convenient and ready – to - drink milk in India. With UHT milk being safe and ready - to drink - without the need of boiling, its popularity among urban households is expected to increase significantly in the near future.

The early 1980s saw the upsurge in packed milk segments and an urban shift in the mindset from doodhwala milk to pasteurised milk in bottles and plastic packets . This was a clear case of value addition; it combined hygiene with convenience.

In 2006 , the total UHT milk market was estimated to be around 2,44,000 liters per day as per the CEO of a leading brand at that time. At around 96 million MT of milk production per annum in 2006 it was accounting for around 0.1 % of the total milk produced. Considering a 20 % YTY growth it is estimated to have currently reached around 6 lacs liters of milk per day. If we consider this at the current milk production level it accounts for around 0.2 % of the total milk produced or 0.6% of the total milk processed (considering this as around the 35 % level as on date). The installed capacity, however, seems to be more than this and further heavy expansions are on their way in this sector.

To my surprise one of my clients from the North East told me that the demand for UHT milk is surpassing that for conventional liquid milk formats by a large margin.. This was validated when one of the leading companies in India stated that it is reaching to even the dhaba level, but otherwise, they're barely skimming the market's surface. Prices always remain at a premium for regular packet milk . Recently, one of the regional players has launched their UHT milk at around Rs 90 a liter for the upper niche of a metro in India.

The Road ahead

A current report by the leading global player in the UHT space in their Tetra pak dairy index 2011 have stated that India and China will steer global consumption of liquid dairy products (LDP), which is set to rise by 30% to 350 billion litres by 2020 . The fourth dairy index report, which forecasts a 30% surge in global liquid dairy products' consumption, says rising prosperity and urbanization in Asia, Africa and Latin America will fuel the growth.

A wide spread concern for quality and convenience, and the buy it ,fill it and forget it, psyche of the young generation for their requirements of dairy and foods with an unstoppable increase in disposable incomes are laying the foundation

for growth of this sector in the Indian dairy industry.

We should also not forget the role being played by media in affecting the consumer behavior on consumption of foods and, particularly, dairy. A recent study being published in the media has raised a lot of questions on the bacterial quality of pasteurized milk available even under leading brands.

The road however is not so smooth since the availability and quality of raw milk, existence of processors and milk producers in different silos and skill to handle this state – of - the - art technology are still the major constraints. On one hand,, this technology could create opportunities for millions of farmers to get a better price for their produce, while on the other, it could give a genuine reason for the marketer to charge a premium.. The upsurge in departmental stores and improved logistics and supply chain to tier 2 and tier 3 cities could also act as a catalyst for the penetration of this technology at a small scale.

India's pyramid structure is turning out to be a diamond now. With this increasing middle class, a price justification for the premium charged on UHT milk in carton pack is required in small towns and cities. The key questions to be answered is : Do you think that the customer should subsidise the cost inefficiencies which are occurring due to the high cost of the technology ?

Even premiumization has a limit and all the stakeholders are accountable for their actions in this regard. At Suruchi Consultants, we are just taking the middle path as preached by the Buddha to create a trade - off for both farmers and customers by offering mini UHT plants in a cost - effective manner.

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