



We are focusing on branded products to maximise Amul's profits: RS Sodhi

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RS Sodhi is a man with a long mission. The managing director of Gujarat Co-operative Milk Marketing Federation, which owns Amul, is helping the brand spread its wings across various states of Rajasthan, Haryana, UP, West Bengal, Maharashtra, MP and most recently, Punjab. It is expected to close the current financial year with a massive 22-23% increase in annual turnover at around Rs 22,000 crore. Over the 68 years of its existence, Amul has set a huge entry barrier by keeping the standard high. Even as Amul grows into world's leading milk brand, it faces several challenges at the ground level, Sodhi tells Anto T Joseph in an interview.



How is the [Amul](#) experiment different from other players?

Unlike in other businesses, we have to buy raw material (80% of our cost is milk) at the highest price possible because we are buying it from our owners. And sell the finished product at a reasonable rate to keep expanding the consumer base. Whatever milk we sell, 86% of the sale price goes to milk farmers. For other value-added products, where packaging and other duties come in, it may be as high as 80%. This means that if we sell milk at Rs 50, Rs 43 goes to the farmer. If you compare it with the developed world, which boast about its efficiencies, [farmers](#) get much

lower. In the US, milk farmers get only 38% of what the consumer pays. In UK, it is only 36%. While one-third goes to the retailer (modern trade) and another one-third for processing, only the remaining one-third goes to the milk producer. This is because we have a cow-to-consumer chain in place. Our corporate philosophy is value for many (for 3.5 million milk farmers or owners) and value for money (for millions of Amul's consumers).

When international milk price is on a steady decline, how do you keep up?

In the international market, prices have crashed by half over one year. The price of skimmed milk powder has dropped to \$2,400-2,500 per tonne from over \$5,000. Last year, New

Zealand farmers were getting \$8.5 per kg for milk solids, and now they have dropped it to \$4.8. In the world market, there is a slowdown in demand, because of drop in demand from China. But production has gone up. I foresee in the next two years, the prices are going to be stable the world over. In April 2015, the production quota would be abolished in Europe. Today, each milk producer in [Europe](#) has a quota. Production in EU will now go up. In India, private producers have reduced their milk procurement, but procurement by cooperatives has seen growth. We procure 175 lakh litre per day, 18% more than last year.

In 1970s (before Operation Flood), India's per capita consumption is 112 gm per day as against WHO's recommendation of 276 gm. Today, per capital consumption is 300 gm, above the WHO's recommendations. While milk production has gone up seven times, India's population has gone up manifold. In India, we have seen an increase in the price of milk. Cow milk (3.5% fat) costs Rs 29 per litre when bought from co-operatives and Rs 25-26 when bought from farmers. Price for fat has gone up from Rs 500 per kilo to Rs 550-560.

Given that you have to buy from all milk farmers, how do you manage surplus?

We can't refuse to purchase milk from farmers. We, in fact, encourage them to improve productivity. Whatever they produce, we have to procure. In any other company, they procure and produce as per market demand. In our case, it works the other way round. We have to keep developing markets, keep innovating and making new products, keep going into new geographical areas.

Is short shelf life of your products a deterrent?

We have products that are of two-day shelf life, and others of one year. Whenever there is surplus, we convert them to commodities, which are used when the milk production is low. Commodities such as skimmed milk or white butter or ghee can be re-combined to produce whatever products at a later stage. But this commodities [business](#) is only 5% of our total business. Today, 50% of our production goes into liquid milk. There, we keep adding new markets.

What are your advertising strategies and costs?

Amul brand was invented in the fifties. The five-decade old ad campaign revolving 'Utterly Butterly Delicious' and 'Amul – Taste of India' shows the consistency. We have given full freedom to the advertising agency. Our advertising cost is less than 1% of our turnover (last year, it was 0.8%) as against 10-20% spent by multinational food majors. Amul's quality products are our advertisements.

How did you move to other states?

Till 2010, we were procuring milk only from Gujarat farmers and selling products all over India. Then we realised that most of our products were going outside Gujarat much faster than the local milk production. We found a gap there. We knew that if we were to expand in future, we need more milk. This led to the start of milk procurement from outside Gujarat – from Rajasthan, Haryana, UP, West Bengal, Maharashtra, MP and most recently, Punjab. Now, 15-20% of total milk comes from outside Gujarat. Today, our strategy is 3E – first E stands for expansion in milk procurement, second E for expansion in processing and manufacturing capacity, and third E for marketing and distribution.

Tell us about your recent expansion in processing and manufacturing plants.

Amul has 50 manufacturing plants across the country. We have five new plants in Gujarat and around seven outside Gujarat. We are also adding capacity at the existing plants. In UP, we are setting up three plants at Lucknow, Kanpur and Varanasi, with an investment of Rs 200 crore for each. UP is India's largest milk producing state with 7 crore litre per day, much ahead of Gujarat's total 3 crore litre per day production. But the cooperative in UP was procuring less than 1% of the state's total production. We are collecting around 5 lakh litre per day and expanding quickly. In Maharashtra, we have plants at Tarapur, Boisar, Virar, Nagpur and Pune.

Which are your important product categories?

Revenue-wise, first comes milk. Second is infant milk food. Amul Spray infant milk food is a Rs 4,200 crore brand. Other important product categories include butter, ghee, ice-creams and cream. New categories include cool beverages, tetra-pack milk, chocolates. If you see our product portfolio, it is a wide range. To maximise our profits, we need to sell branded products, and not commodities. Our focus on commodities is negligible. We sell commodities (just as skimmed milk powder and white butter) only during winter when we have surplus.

How big is the Amul brand today?

This year, we (the Federation) will close at Rs 22,000 crore of turnover, 22-23% increase over Rs 18,143 crore reported last year. In 2009-10, it was just Rs 8,005 crore. When we talk about Amul, its turnover is actually much higher at around Rs 28,000 crore. Our products are produced by 17 district unions (under the Federation), and some products are marketed and sold directly by them, which are not accounted for by the Federation.

Would your entry into other states mean more competition?

Almost every state has its own milk brand. For instance, Karnataka has Nandini and Kerala, Milma. They all have butter, ghee, butter milk. After Amul, the second largest is Nandini. It procures is 60 lakh per day. When we entered some key markets in the North, there was some initial apprehension. But then, the competition put everyone on their toes. For instance, after our entry into Rajasthan, the milk procurement by the Rajasthan Co-operative Dairy Federation (Saras brand) has gone up tremendously. So the competition between farmers' co-operatives has brought good news to them as well as consumers.

Has Amul created a big entry barrier?

In the dairy industry, the easiest thing is to set up dairy plant and machinery. Building brand is difficult. But with money and the media, one can do it in two-three years. The other important thing is to build distribution network for fresh, chilled and frozen dairy products. It requires setting up cold storages and other infrastructure. There you need volumes. If you don't have volumes, your partners' overheads will be very high. So you will not be able to compete with [brands](#) like Amul. The fourth and most difficult thing that nobody realises until one enters the sector is milk procurement. Procuring quality milk in consistent quantities is extremely difficult. Amul has been growing year after year, and competition is not able to catch up. Everyone knows how to make butter, cheese and ice-cream. But nobody can come anywhere close to Amul because the value for money Amul gives to the consumer. We are not replacing expensive natural ingredients with cheap synthetic ingredients or chemicals, like

many other manufacturers do. For instance, in ice-cream, we add dairy fat. But some manufacturers who want to make a quick buck may compromise the quality by replacing dairy fat with vegetable fat and make frozen dessert which is similar to ice-cream. As per Indian rules, you can't sell it as ice-cream. In the corporate world, there is always a hunger for more profits and they start replacing expensive ingredients with less-expensive ingredients. In butter, we now have around 90% market share. Butter manufacturing is not difficult, anyone can do. But nobody can give the kind of butter that Amul produces and sell at our cost because of our volume game. Also, maintaining a cold chain and a huge network of outlets is not easy. Verghese Kurien has taught us: 'Please consider your customer smarter than you. Don't think that you can tinker with the ingredients or weight. If you employ short-term marketing strategies, your customer will lose faith in you. We are growing thanks to Amul's value system.'

What are the challenges today?

Enhancing productivity is a challenge. In India, average productivity is around 3 litre. (cow is 1.5 litre and buffalo – 4.5 litre, cross breed – 8 litre) where in developed countries it is anywhere between 25 and 30 litre. Reason: Very low input and hence very low output. We feed our animals what is left over crop residues. Secondly, conversion factor is also low. Breed is also important for enhancing productivity. Another big challenge is how to motivate the next generation of milk farmers, educated youth continue in dairy farming. To make this business lucrative, contemporary, glamorous option. In this business, you have to get up at 4'o clock, milk cows, clean the farm, etc. It is round the year, and no holidays. I have seen people now unwilling to marry their daughters to milk farmers. What is required is to encourage commercial dairy farming. It means 25-30 or more animals. Then you can afford to have milking machines. It makes the business a bit glamorous. Most importantly, Amul has become what it is today thanks to the fusion of selfless and dedicated leadership of Tribhuvandas Patel and committed and honest professionals like Verghese Kurien. In India, dedicated leadership is lacking. However, Amul has been lucky to have good support from political leadership. We do not face any political interference from governments while fixing the milk price. But other cooperatives are not that lucky. What is required now is constant support from the government, irrespective of the political parties.