
APPENDIX 1: TERMS OF REFERENCE

STUDY TO IDENTIFY VIABLE BUSINESS PROPOSITIONS FOR THE DAIRY INDUSTRY TARGETING LOWER INCOME CONSUMERS



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1. Preamble

SNV Netherlands Development Organisation (SNV) is an international not-for-profit development organisation that provides capacity development services to nearly 2,500 organisations in over 36 countries worldwide. SNV engages with stakeholders at different levels in local economies and agricultural value chains, with the ultimate objective to have positive impact on the livelihoods of poor families and to capacitate them in the fight against poverty. SNV is dedicated to a society where all people enjoy the freedom to pursue their own sustainable development.

In the East & Southern African region, SNV operates in 9 countries: Ethiopia, Kenya, South Sudan, Uganda, Tanzania, Rwanda, Zambia, Zimbabwe and Mozambique. In Kenya, SNV focuses on horticulture, dairy and extensive livestock, water and sanitation and renewable energy (biogas). In the dairy sector SNV Kenya is implementing the Kenya Market-led Dairy Programme (KMDP).

These terms of reference are for consultancy work to conduct a study on current and potential business models for sales and distribution of milk and milk products, to urban lower and middle income consumers. The study will also look at Base of the Pyramid (BoP) models or concepts for enhanced access to safe processed milk (-products), including fortified or enriched products. The study will be contracted in the framework of the Kenya Market-led Development Programme (KMDP).

2. KMDP programme background

The Kenya Market-led Dairy Programme (KMDP) is a 4.5 year programme funded by the Embassy of the Kingdom of the Netherlands. The programme started 1st July 2012 and is implemented by SNV Netherlands Development Organisation in collaboration with stakeholders in the dairy industry.

The overall goal of KMDP is to contribute to the development of a vibrant dairy sector with beneficiaries across the value chain. KMDP acknowledges and appreciates that the dairy industry in Kenya is private sector driven. The programme will aim to work with all value chain actors to enhance growth and efficiency that will eventually lead to increase in production, incomes and employment across the chain.

KMDP has two pillars also termed as project objectives:

***Objective 1:** Stronger more efficient, effective and inclusive value chains in the private sector both vertically and horizontally.*

Under this objective, the project will work in milk sheds, with processors and farmers' Collection and Bulking Enterprises (CBEs), willing to invest in extension, improved input and service provision, milk quality and building strong mutual business relations by honouring milk supply contracts. KMDP will also work with input suppliers and service providers with an aim to promote inclusiveness and sustainability.

Objective 2: Industry associations and other institutions have increased their capacity to influence/address systemic issues that hamper growth in the sector.

Under this objective, KMDP will seek to improve the enabling environment for value chain operators by building capacity in selected industry associations and other organisations for enhanced efficiency of operations at the sector level and to positively influence the policy and regulatory environment.

Enhanced access to safe and nutritious milk products for the lower income groups is part of KMDP's Systemic Issues agenda (Objective 2). It is related to policy issues, competitiveness of the formal dairy industry, and its ability to invest in new products and distribution models for the Base of the Pyramid (BoP).

KMDP's interest in promoting the BoP agenda is two-pronged:

- (a) access to nutritious and safe milk for the low income groups, and
- (b) expansion of the market for processed milk as a pull factor for the supply chain.

KMDP will be implemented in two phases. The first phase (1st July 2012 – 28th February 2013) will comprise industry/sector studies aimed at providing implementation recommendations for phase two - the implementation phase. The second phase is expected to start 1st March 2013 to implement the recommendations of the various studies.

3. Context

It is estimated that in 2011 Kenya produced in excess of 5 billion litres of cow milk mainly by smallholder farmers. About 50-60% of this volume or 2.5-3.0 billion litres are marketed. Out of this, 70-80% is sold through the informal market, mainly in raw form. The remaining 20-30% (appx. 500 million litres/year) goes through the formal market channel and is processed.

Per capita consumption of milk in Kenya is about 110 litres which, though importantly higher than in other East African countries, is still below the WHO recommended per capita consumption of 200 litres.

Milk is an important component of a balanced diet. It is considered one of the world's most 'complete' foods and the richest dietary source of calcium; it contains over 10 essential nutrients. Increasing consumption levels of good quality processed milk (- products) enhances nutrition and food safety and is also a pull factor for the industry to invest in production and value added extended shelf life products.

In Kenya lower income groups in urban areas are being supplied mainly by the raw milk market. However part of these consumers develop preferences for processed milk and milk products, in view of growing food safety awareness. Besides, there is growing pressure on the government from various stakeholders, to enforce legal provisions in the law that forbid the selling of raw milk in urban areas. This may change the landscape of milk sales and distribution during the coming years drastically.

In view of this, there is potential and need to enhance access to processed milk products for the lower income consumers in urban areas. In addition, the lower income groups

increasingly have been acknowledged by the formal private sector – at a global scale and in Kenya - as an interesting market for consumer goods, including “food and beverages”.

In general the BoP represents a huge market which in many countries has not been fully exploited due to various reasons. This includes lack of innovative models for reaching the BoP, lack of awareness of the needs of the BoP, and a general lack of appreciation of the potential of the BoP as a profitable market segment.

Mostly the lower income market segments – and this seems to apply to Kenya as well - have been looked at as a market for cheap low-quality products. Yet the first step to unlocking the commercial potential of the BoP is to start viewing low income groups as value conscious customers.

Particularly the food and beverage industry could take advantage of growing consumer awareness for food safety, especially with regard to infants and young children. In this regard milk is probably more than any other beverage and food products associated with health. This opportunity for the dairy industry needs to be accompanied by strategies that maximize affordability, accessibility, appropriateness and acceptance by the target market.

BoP business models are being developed and successfully implemented by various sectors and for different products and services in many developing countries, including Kenya (e.g. micro finance, mobile telephone services, and soft drinks amongst others). For milk and milk products literature often points at successful models rolled out in India, Indonesia and Vietnam. Perhaps Kenya can learn from locally and internationally successful BoP models and borrow from these.

Despite the success of these models in other sectors or countries, companies need to adapt them for different markets and (policy) environments. There is need to consider each market as unique including various challenges at the BoP, including cash poor consumers, limited product awareness and understanding, weak physical and institutional infrastructure, and longer timeframes to realize profits.

4. Consultancy objectives

For the purpose of this study “BoP” is understood as the lower income groups, including the lower middle class. KMDP’s interest in promoting the BoP agenda is two-pronged:

- a) enhanced access to nutritious and safe milk for the low income groups, and
- b) expansion of the market for processed milk as a pull factor for the supply chain.

The immediate objectives of this consultancy are to:

- Get a deep insight and understanding of the Kenyan milk market (formal and informal) and the business models that supply the lower income groups.
- Benchmark this with BoP models in other sub-sectors in the Kenyan food and beverage industry for learning and borrowing.
- Benchmark this with successful BoP models and products in international dairy markets for learning and borrowing.
- Identify viable business propositions for dairy reaching the lower income groups.
- Give recommendations for sector and project support under KMDP for the development of conducive policies and business propositions.

5. Consultancy activities and sub-activities

The study looks at current and potential (new) business models for supply of milk and milk products to the BoP in Kenya's urban market, including but not limited to:

- Source (informal raw milk market or formal processors).
- Distribution model.
- Processing technology.
- Packaging.
- Contractual arrangements between wholesale and retail.
- Marketing including branding and pricing.
- Consumer preferences and awareness of nutrition and food safety.
- Attention shall also be paid to the policy and regulatory environment.

Under this study the following sections shall be covered:

5.1 Policies

- a) Assess to what extent government policies – fiscal and regulatory - offer incentives or disincentives for industry investments in processed milk (-products) targeting the BoP.
- b) Identify/assess to which extent (if and how) the Ministry of Health pro-actively promotes awareness of nutrition and food safety amongst the BoP target group, in particular related to dairy products.
- c) Describe and analyse what are the policies related to food and milk fortification, both fiscal (VAT or zero rated) and regulatory.
- d) Describe and assess the policies and strategies of the Kenya Dairy Board to enhance access to safe milk products for the lower incomes groups or BoP.
- e) Describe and analyze the policies, strategies and initiatives of the Kenya Dairy Processors Association to expand the market for processed milk and milk products towards the BoP, including the generic milk campaign.
- f) Give inspirational examples of conducive government policies for dairy BoP models in other countries or in other food and beverage sectors.
- g) Make recommendations for policy changes/support.

5.2 Supply side

- a) Determine on basis of clearly described sampling techniques and methods, the approximate size of the raw milk market in Nairobi, Nakuru and Kisumu (volumes).
- b) Do an inventory of the different suppliers of raw and processed milk (-products) in selected sampling areas in Nairobi, and describe outlets, products, volumes, packaging, prices and competition strategies.
- c) Make an inventory of processors that have targeted products and business models to reach the BoP and describe the specific products, technologies and models.
- d) Inventorise and analyse trends in business models and technologies on the supply side, which point at moving from raw milk to pasteurized milk, whether packed or unpacked (e.g. batch pasteurizers, pasteurizing services, dispensing technologies and different business models around it).

5.3 Demand/consumer side

- a) Collate, analyze and summarize existing studies and reports on milk (-products), sales, distribution models and consumer preferences for Kenya's urban lower income groups.
- b) Assess consumer awareness and perceptions of quality, nutritional value and safety of raw milk versus processed milk in the sampling areas.
- c) Identify main reasons for low income groups in sampling areas to buy processed milk (-products) instead of raw milk.
- d) Identify special or targeted market segments and customer bases for processed milk or milk products within Kenya's institutional market (schools, hospitals, hospitality and catering industry, army, prisons, etc.).

5.4 BoP and other sectors

- a) Make an inventory of successful business models in Kenya's beverage and food industry to reach BOP consumers.
- b) Describe and analyse some of these business models in-depth, incl. sourcing, processing, packaging, distribution, marketing strategies etc., and give suggestions for learning and borrowing by the dairy sector.
- c) Identify products in the market with milk ingredients that have potential for BoP models (e.g. chocolate, ice cream, whey drinks) and can work as a pull factor for the dairy value chain.
- d) Identify products in the market with a health claim that could be targeted by the dairy industry for competition.

5.5 International benchmarking

- a) Bring in inspiring ideas and success-cases of products and business models for lower income groups in global markets, e.g. Asia, Latin America, Africa.
- b) Carry out a market review or inventory of processed products available for the lower income groups in a number of countries in the East and Southern African region (including RSA), and identify possible new products for the Kenyan market.
- c) Identify the success factors of the models and products under (a) and (b) and benchmark these against the Kenyan dairy industry.

6. Key deliverables

The consultancy shall result in a report or reports addressing all activities and sub-activities listed under sections 5.1 – 5.5 of this ToR.

In addition the consultancy shall give recommendations regarding:

- Policy and regulatory issues that impact upon access of low income groups to processed milk products, and the ability and willingness of the private sector to invest in new products and BoP models.
- Modalities to link up BoP concepts and models to KDPA's generic milk campaign.
- Potential to scale up current business models, products and technologies that target the BoP with processed milk or milk products.
- Business potential for targeting special segments within the BoP – as individuals or through institutions.
- Identify viable business propositions that borrow from successful BoP models in other food and beverages industries, or from international BoP dairy markets .

7. Methodology

- Review of secondary information like studies and reports on the BoP, relevant milk distribution and business models, consumer preferences, policies etc.
- Collection and analysis of primary data in sampling areas.
- Structured interviews with value chain actors (consumers, retailers, processors) and technology providers.
- Key informant discussions with policy makers, regulators, industry associations, donors and research institutes.
- Consultation of international dairy experts in product development and marketing.
- Structured interviews with international BoP experts/researchers.
- Present findings, including ideas for viable business propositions, in multi stakeholder workshop.

8. Key qualifications consultant

The consultant or consortium shall demonstrate the following qualifications and expertise.

- Strong research background in marketing and consumer behavior.
- Working knowledge of BoP business concepts and models in Kenya's food and beverages industry.
- Deep knowledge of the Kenya dairy industry, particularly regarding product development, marketing and the policy environment.
- Excellent networks in the international dairy industry and research institutes for product development and marketing, including for BoP.

9. Consultancy time lines

The consultancy, including submission of reports and dissemination of findings in a multi-stakeholder workshop, will be for a period of maximum 12 weeks from the signing of the contract.

10. Framework of analysis and preference for consortium

This consultancy shall develop and use a common framework of analysis and reporting that allows for alignment, comparison and extrapolation of research findings from the international context to the national context and vice versa.

It is therefore preferred that the sub-studies are carried out by a consortium of national and international experts (or key informants), with a local Kenyan based lead consultant. The team shall contain or have access to, all expertise required for the proper implementation of this consultancy.

Proposals for this consultancy shall be accompanied by a clear and coherent general framework of analysis capturing amongst others:

- Definitions of concepts used under sections 5.1 – 5.5 such as BoP, business model, distribution model, (formal) markets and market segments, processed versus raw milk, packed versus unpacked milk etc.
- Research methodology in terms of the various dimensions to be looked at in researching business and distribution models, consumer preferences, market segments, product development, policies and other concepts that are important for the desired outcomes of this study.

The consultant or consortium that may be awarded a contract for this consultancy, will refine this framework of analysis and shall present - as a first deliverable - a final version of the framework and work plan for approval in an "Inception Report". This report should be submitted not later than two weeks after the start of the consultancy work.

The development of the Inception Report shall be done in consultation with SNV.

If applicable the consultant shall accept directions from SNV as regards the research framework and work plan, in order to capture desired information not covered by the initial framework. On condition that these directions and the work involved are equitable and reasonable in the context of these Terms of Reference, and in as far as (extra) workload and costs are involved.