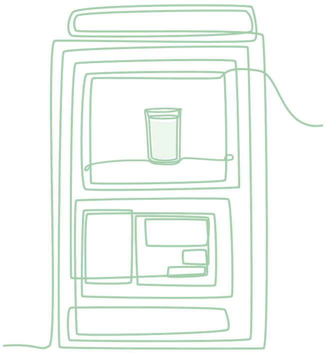


Business Model Adaptations for Dairy Products

BUSINESS MODEL FEATURES FOR REACHING LOWER-INCOME CONSUMERS WITH NUTRITIOUS FOODS

The **GAIN Business Model Research Project** aims to identify promising business models to reach lower-income consumers with nutritious foods. This series of briefs summarises the results of the project's systematic review of existing research and evidence to identify these approaches.

Serving lower-income consumers: the business and nutrition opportunity

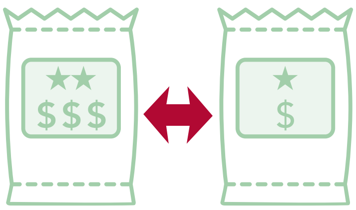
Lower-income consumers represent a large market, estimated at 4 billion people worldwide. Many low-income consumers' diets are lacking in food diversity and quality. There is a business opportunity for private companies to help improve this by providing safe, nutritious foods that meet customers' needs at an affordable price – as long as they do so in ways that are profitable and financially sustainable for the company.

WHY DAIRY

Dairy products can be sources of high-quality proteins as well as essential micronutrients like calcium, zinc, and Vitamins A and B12. They can play a positive role in bone health, cardiovascular health, and, for fermented dairy products like yoghurt, digestive health. However, dairy products are often under-supplied and relatively expensive in many low- and middle-income countries.

WHAT ARE SOME APPROACHES USED IN THE DAIRY SECTOR?

Cross-subsidisation – One product is sold with a larger margin, with excess profit used to subsidise another product sold at a smaller margin. Firms can sell the same product to different consumers (e.g., export, institutions, supermarkets), or different product lines to different consumers, at different prices.

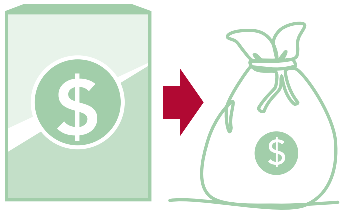


Example:
Danone Milkaut, Indonesia – Marketed a premium fortified milk-based beverage in an appealing, tiger-shaped bottle; those profits enabled selling a basic version at about half the price (with a smaller margin).

Use of waste products – By taking food that would otherwise be wasted and repurposing it into something than can be consumed (or can be an input into something that can be consumed), firms may be able to create a more affordable product, given that 'waste' is usually available cheaply or for free. This can have the added benefit of reducing the environmental impact of the local food system by cutting food waste.

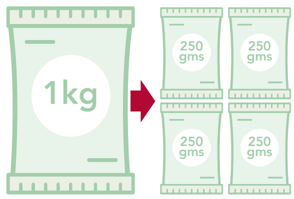
Example:
Raybanpac, Ecuador – Whey (protein left over from cheese production) has historically been dumped into rivers, which is harmful to the environment. Reybanpac began using this whey to create a low-sugar fortified yoghurt.

Cheaper ingredients – Replacing ingredients with cheaper alternatives or cutting unneeded ingredients altogether can cut costs. Success depends on achieving customer acceptability and finding replacement ingredients that are similar to the original ingredient in key ways – including nutritional content.



Example:
Promasidor Cowbell, South Africa – In their powdered milk, the company replaced milk fat with vegetable fat, creating both a cheaper product and a more shelf-stable one.

Small package sizes – This widely used strategy helps customers manage very low or variable levels of income. It can also enable low-risk experimentation with a new product. However, it often entails higher per-unit costs and can generate excess waste.



Example:
Nestlé, global – Created 'popularly positioned products': small servings of foods, like dried milk, sold for as little 5 cents.

Sell in flexible quantities – This approach allows customers to purchase only as much as they need (i.e., 'purchase and pay as you can'), as opposed to in set package sizes or quantities. It allows for buying very small amounts (at lower cost) and not having to pay the costs of packaging. It can also make it easier for customers with limited or no access to (home) refrigeration to access refrigerated products by buying a quantity that can be consumed within a short time span.

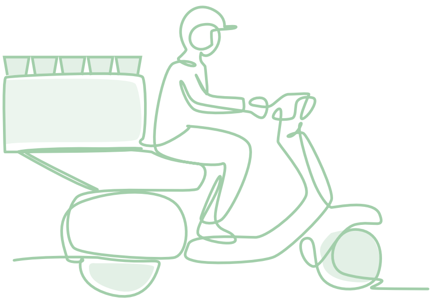
Example:
Example: Tarakwo Dairies, Kenya – Used 'milk ATMs' filled with pasteurised, refrigerated milk that allowed customers to choose the amount of milk they want and pay accordingly.

No or reusable packaging – By removing packaging or using reusable packaging, companies can eliminate or reduce packaging costs.

Example:
A dairy company, Kenya – Distributed its pasteurised milk to low-income neighbourhoods in large jugs or jerry cans, enabling consumers to bring their own reusable containers to the store to fill up.

Distribution hubs – Aspects of distribution are grouped together instead of done separately, to improve efficiency and cost-sharing, reducing costs overall.

Example:
Copia, Kenya – Rural customers purchase various food and non-food goods through local sales agents, paying in cash or with mobile money and obtaining assistance as needed. Each order is grouped with others in the area to be fulfilled in one shipment to the agent.



Bespoke last-mile distribution network – A new last-mile distribution network, specific to a company or product, can be created to reach lower-income consumers. This involves recruiting and training a new workforce of distribution/sales agents; equipping them; and providing appropriate pay, incentives, and supervision.

Example:
FanMilk, West Africa – Sold frozen dairy desserts through about 25,000 mobile street vendors who reach lower-income urban and peri-urban areas, including customers who do not have freezers and thus could not store such frozen foods at home.

Support existing retail networks – Retailers can be supported through micro-distribution models, capacity building, marketing support, or access to financing. This can incentivise selling a new product and improves capacity to do so.

Example:
Alqueria, Colombia – Targeted retailers in small towns and remote areas by deputising a local resident as a distributor, using his/her home as a warehouse for its milk, and financing a small delivery vehicle adapted to rural conditions.

Direct sales in underprivileged areas – Undertaking retail sales directly can help cut out the costs of intermediaries and allow companies to more directly control pricing. When done in low-income settings with limited access to affordable nutritious foods, this can help to reach lower-income consumers.

Example:
Nestlé, Brazil – Created a barge that can sell its products in remote parts of the Amazon that cannot be reached by road.

WHAT ARE SOME SPECIAL CONSIDERATIONS FOR THE DAIRY SECTOR?

Dairy products are highly nutritious and exist in diverse forms, which makes it more feasible to apply many of the strategies named above. However, they can also pose food safety risks, so firms should be careful when applying new business model features to ensure these do not compromise safety.

Dairy products' distribution and retail can be restricted by limited access to refrigeration along the value chain, at points of sale, and within consumers' households. Firms should thus consider how new approaches could be leveraged to either extend shelf stability or strengthen access to cold chain technology.

Finally, the nutritional content of dairy products varies widely; companies should seek way to increase nutrient content (for example, though fortification) and not add ingredients that would reduce their positive nutritional contribution (like excess amounts of added sugars).

To Learn More:

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While we hope this offered useful advice, users should always consider their company's circumstances when adopting new approaches – and make sure that they are used as part of a broader viable business model. The examples cited come from a 2022 document review and may not be fully up to date.

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