

Al Ain Dairy: market expansion

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Shashi Kumar Menon, the chief operating officer of Al Ain Dairy was at their launch of the new product Long Life Juice in Dubai on 16 July 2010. To a room full of media and interested stakeholders, he explained the company's upcoming six month plan. Al Ain Dairy was UAE's largest dairy company by market share but now wanted to replicate their success in dairy in both the regional market and the fruit juice market. There were challenges: increasing production capabilities; product innovation (increasing shelf life); the supply chain management (dairy especially needs to be transported at a 4°C condition and there is a need for access to a steady supply of fodder); and brand building in newer markets. Shashi needs to prioritise what new products they want to move into (options include related lines like cheese); assets they need to acquire (manufacturing); and what future skills they need to develop to meet the regional challenge. There is a three to four year time frame to prioritise these objectives as the markets are still in recession. Shashi says about their vision for the future:

We are very much a local company and would like to be seen as regional at least in the Khaleej [GCC Countries], if not beyond . . . With the introduction of long-life juice, the whole world is a market for us because these products have a shelf life of nine months and unlike fresh products we don't have limitations on time.

Al Ain Dairy: a Government of UAE initiative

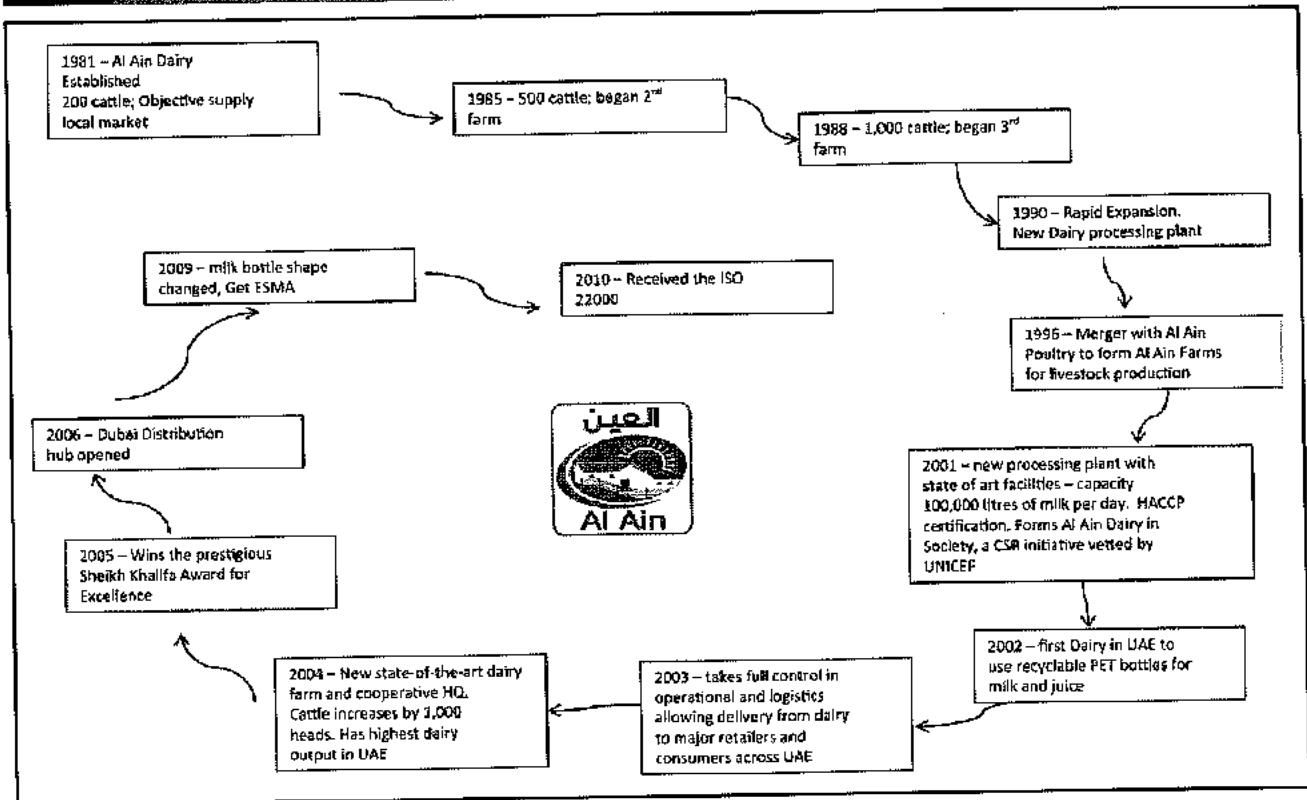
Catering to local demand

Al Ain Dairy began in 1981 as the first dairy farm in the UAE. It was set up under the directives of the late H.H. Sheikh Zayed Bin Sultan Al Nayhan. At that time they had only 200 head of cattle, all imported from Australia. Al Ain Dairy's challenge was to provide consumers with an alternative to powdered milk or recombined canned milk. A milk processing plant was commissioned the same year, and for the first time consumers in the country were able to purchase locally produced fresh pasteurised milk and yoghurt from their supermarkets. The 1990s were a period of growth (see Figure 1). In 1996, Al Ain Dairy was merged with Al Ain Poultry to form Al Ain Farms for Livestock Production with a paid up capital of AED140 million (1 USD = 3.68 AED). Under the directives of the UAE President, almost 54 per cent of the shares of the newly-formed company were distributed freely to 7,600 low income UAE citizens including widows and orphans.

Today they have a healthy cattle-breeding program. Over the last five generations, they have not imported a single cow. Today, Al Ain Dairy has 5,000 heads of cattle in three farms. Shashi says: "They were all bred here locally. So these cows have acclimatised to the weather and still give good yield." Al Ain Dairy also has over 230 camels.

This case was written by Dr Melodena Stephens Balakrishnan at University of Wollongong in Dubai. It was prepared using company information and interviews and its intention was to provide material for class discussion through publication. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

Figure 1 Al Ain Dairy milestones



The company growth has been healthy: Al Ain Dairy grew in double figures by 12 per cent. This is remarkable as the rest of the world struggles with recession and the organic market prediction for growth this year was only 6 to 7 per cent, organic growth. Al Ain Dairy sources 70 per cent of the milk from its own local farms and 30 per cent from local farms. The farm currently produces 210,000 litres of milk and up to 80,000 litres of juice per day.

The company values

There are four basic values that guide the company leadership. The first is about people. The value states:

Recognise that the recruitment of competent people and providing training is crucial to the future of the company. The success of Al Ain Dairy depends on the conduct, professionalism and responsible attitude of all employees and its leadership.

Today the Board Executive Committee (BEC) comprises five professional key executives responsible for shaping the main strategic issues facing Al Ain Dairy. The BEC falls under the chairmanship of H.E. Mohammad Saif Al Suwaidi. The CEO of the company, Mr Abdullah Saif Al Darmaki reports to the BEC. The COO, Mr Shashi Kumar Menon reports to the CEO. In 2003, the BEC issued the directive No. 6 on empowerment, delegating full autonomy to heads of divisions in the management of respective units. Relationships between BEC and operational leadership were confined to review of strategic plans, budget review, and policies and procedures.

The second value is about customer relationship. The value states:

Recognise that without customers, Al Ain Dairy will not exist. Therefore, we must strive to offer consumers a wide variety of choice and high quality and safe products.

According to Kingston Fernandez, the head of sales, the economic downturn affected sales with the company experiencing a 15 to 20 per cent drop in sales in the quarter litre and half

litre milk and juice packs category. These categories are normally consumed by low-income groups like the construction workers. The current 12 per cent growth is coming because of the "high salary families" consumption of the 2 litre and 1 gallon fresh milk and juice packs. Lots of these customers are from MENA, Asia and Europe. In response to market findings that customers are becoming more and more health conscious and especially in UAE, which is said to have one of the highest incidences of type 2 diabetes, new products are being formulated. New varieties of milk-like calcium enriched and low-fat varieties have also been added. So far due to the extensive market surveys they have not had one failure in their new product launches. Communication with customers is mainly through mass media such as television; radio; print media such as newspapers, magazines; outdoor media such as lamppost, mupis, buses, and security gate branding; and online media such as Dubizzle.com, uaewoman.net and face book flyers. In fact the web site was recently redesigned.

The third value is about business conduct. The value states:

Conduct all business with integrity and fairness, and expect the same high standards from reputable and recognised suppliers.

Today normally, 30 per cent of its raw milk is sourced from ten independent local dairy farms. Al Ain Dairy was instrumental in the formation of the UAE Dairy Association in March 2000. This voluntary agreement works towards standardising trade prices for fresh milk, laban and yoghurt and the alleviation/elimination of all tactical and consumer promotions. In 2004, the dairy association enlarged its product category to include juices. The company's executive management interacts regularly with the key suppliers and expects a delivery of innovative and quality products on time and at competitive costs.

The fourth value is about commitment to the environment. The value states:

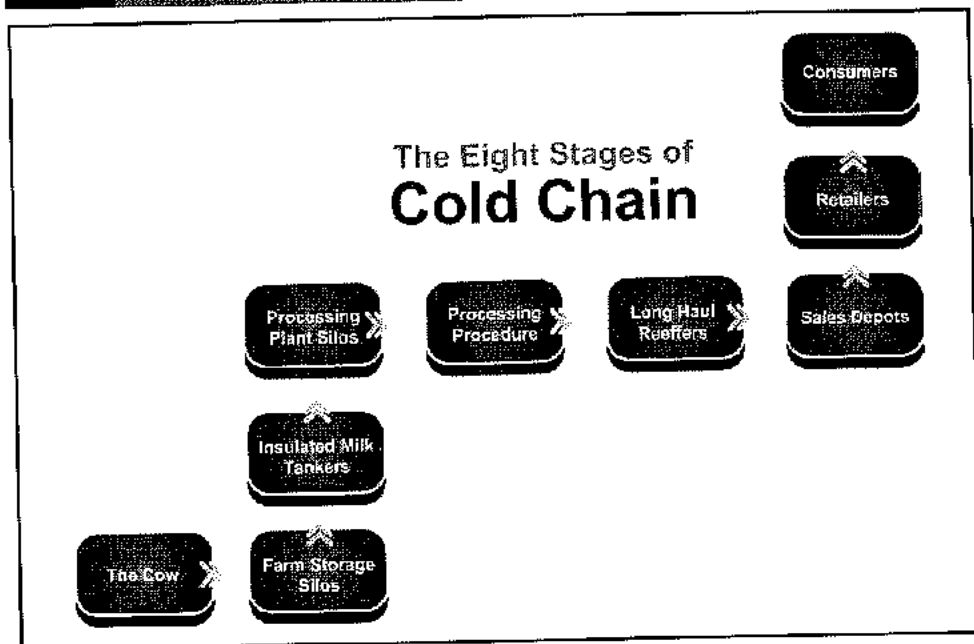
Commit to invest in protecting the environment, especially with regard to responsible water management.

Al Ain Dairy has an ISO 22000/2005 certificate. They monitor waste, water and emissions working with local stakeholders like the Al Ain Municipality. In fact they were one of the first companies to introduce recyclable PET bottles in the UAE. Since UAE is a desert, water conservation is very important and photosensors are used for shower and ranch cooling that only turn the water on when they sense a cow approaching them. To control their carbon footprint, they worked on reducing fleet, factory and staff housing emissions. They are also committed to human and knowledge capital development, not only working actively with the Abu Dhabi Chamber of Commerce, Ministry of Education and UAE universities and colleges for training agricultural students, but also to identify and employ UAE nationals. To facilitate educational trips to Al Ain Dairy, they have invested in a luxury 30-seater branded bus. Al Ain Dairy actively supports health awareness and sports activities. Some activities are for preserving local culture (camel racing) and others are recreational (local football, handball and cricket matches, marathons) or even to help showcase events in Al Ain like the Al Ain Aerobatics show.

Logistics in the fresh milk and juice business

Understanding the cold chain in the supply chain process is an important part of delivering safe milk and juice. The pulp for the juices comes from various countries. For example apple and orange pulp from USA, mango pulp from India and pineapple pulp from Thailand. For milk, the starting point is the dairy itself. There are eight basic steps for milk as outlined in Figure 2 that gets the milk from cow to the consumer. The objective is to provide safe milk to the consumer by keeping bacterial contamination to the minimum. Bacteria growth is dependent on temperature: the higher the temperature, the higher the growth of bacteria. Al Ain Dairy has incorporated various controls during the movement of produce to ensure that the temperature is kept at a constant of 4°C. Quality checks are at various stages, the first being when the raw milk is examined at the processing plant. This milk is then collected into silos and pasteurised to destroy harmful bacteria present in the raw milk. Then the milk is subject to homogenisation, a process that distributes the milk fat

Figure 2 Stages of the cold chain



evenly across the milk to give the milk a creamy taste and prevent it from collecting on the sides. Then the milk is packed or formulated into other dairy products before storage prior to distribution. The milk is immediately distributed within three hours. The cows are milked every six hours so the processing plant continuously operates through the night. The milk is then transported to the sales depot using a fleet of specially cooled vehicles. There are five depots – Al Ain, Dubai, Abu Dhabi, Sharjah and Northern Emirates. From there vans move the SKUs to the retailers. Each van used to make 20 calls, but now average around 40 calls. Their job is not just to ensure sufficient stock, but to also ensure and monitor that the retailers maintain the required temperature for the stock. There are 125 vans distributing the milk to 6,000 customers. The maximum life of fresh milk is four days. Al Ain Dairy got the HACCP certification in 2001 as a reflection of their adherence to the highest standards of hygiene and products safety.

Product portfolio

Al Ain Dairy considers itself primarily active in the dairy and juice market (see Figure 3). This market is divided into two categories based on expiry life of product. The first category is the fresh milk and fresh juice category, which has a market share of 60 per cent for milk and 40-45 per cent for juices. In the case of milk, consumers tend to believe (through there is no scientific evidence to prove the same) that fresh milk retains its nutritive qualities and it is much better than long life. The UAE milk market size was valued at USD 254 million in 2007.

One of the reasons consumers tend to prefer long-life juice is that it is often consumed as a snack, especially for children. The weather in the Middle East often crosses 40°C, which makes the product instable. When temperatures reach 45 to 50 degrees (especially the summer), the exposed product does not become safe to drink. The long life juice remains stable even in temperatures higher by 25 degrees hence families and mothers have the comfort of knowing they are giving a safe product to their children. Further the shelf life of the product increases from a few days to nine months. Al Ain Dairy hopes with the launch of the new Long Life Tetra Pack Fruit Juice and the potential increase in production capacity they will grab an additional 10 to 15 per cent of the local market.

Figure 3 Al Ain product portfolio and advertisement



Since 1992 Al Ain Dairy has mainly focused on three major categories of dairy and juice products. These are:

1. *Dairy products*: all types of milks, laban (a popular regional yogurt based drink), stirred yoghurts, set yoghurts, drinking yoghurts and camel milk. These are produced in various forms of full fat and low fat.
2. *Juice products*: pasteurised juices with various flavours, including orange, mango, apple and mixed fruits.

3. *Chilled dairy desserts*: this is a newly developed product range which includes various flavours of layered stirred yoghurts as well as chilled desserts such as custard crème and crème caramel.

Al Ain Dairy also has another associate company called Al Ain Poultry. Al Ain Dairy has its own exclusive retail outlets. Currently there are four of them at major local markets. The retail outlet is branded "Farm Fresh".

Targeted customer

Although the GCC has a larger market size of 30 million customers and is the focus of most competitors, Al Ain Dairy is currently focussing on the UAE market which has a size of 5-6 million residents. In total 77 per cent of UAE is urbanised with only 24 per cent local nationals, 35 per cent Indian or Pakistani expatriates, and 26 per cent Arab expatriates. Those remaining are from Europe or other Asian countries; 50 per cent of the UAE population does not speak Arabic. Al Ain Dairy's is proud of its UAE heritage and tries to reinforce it with its targeted audience. The target audience is mostly mothers from 20-40s as well as young children for juices and flavoured milk and teenagers and young adults for their morning drink, including the Cappuccino or Morning Drink (a muesli-based yogurt drink). Al Ain Dairy believes that it is the brand image that keeps the company in its no. 1 position.

Competition

In 2009, there were 26 operating cattle farms in the UAE; this translates to over 15,000 cows which produce 167,000 tonnes of fresh milk annually. Still this is insufficient to meet local market needs and dairy needs to be imported. UAE imports a significant quantity of food and is net importer. According to the Department of Economic Development, Al Ain Dairy meets 56 per cent of the UAE's dairy demand (in 2009) and holds 38 per cent of the market share according to the latest AC Nielsen market report. Al Ain Dairy currently controls 14 per cent of the juice market. For a competitive share analysis see Table I. Other competitors than those mentioned below are as follows:

- For dairy products: Nestle and Rainbow.
- For juices: Tropicana.

Al Ain Dairy, after an internal review of its competitive strengths, decided that these are things they do reasonably well: market share, financial performance, product range and distribution network, and they are superior in new product development. The following areas need focus: price competitiveness, product and service quality, customer satisfaction and

Table I Fresh milk analysis

	Volume	Value	Country of origin	Product categories
UAE total	Share	Share		
Al Marai (www.almarai.com) – largest integrated dairy food company in the world	24.3	23.5	KSA	Dairy liquids, juices, kids products, home snacks, culinary, yogurt and desserts, bakery
Al Ain Dairy (www.alaindairyuae.com)	33	33.3	UAE, Al Ain	Short life milk, short life juices and yogurt
Al Rawabi Dairy Co. (www.alrawabidairy.com)	29.6	28.4	UAE, Dubai	Diary products (milk, flavoured milk, laban, yogurts and health drinks), juices
Marmum Dairy Farm	3.1	3	UAE, Dubai	Diary products (milk, flavoured milk, laban, yogurts and health drinks).
United Kaipara Dairies Co. (www.unikafoods.com)	0.7	0.8	UAE, Dubai	Brand: Unikai – dairy products (milk, flavoured milk, cheese, yogurt, laban, lassi), ice creams, frozen products
NADEC (www.nadec.com.sa)	1.5	1.5	KSA	Milk, juices, fruit and vegetables
Gulf & Safa Dairies Co. (http://gulfsafadairy.com/)	5	6.4	UAE	Dairy (milk, laban, yogurt), juice
National Food Product Co. MILCO (www.nfpcgroup.com)	1.6	1.7	UAE, Abu Dhabi	Import brands like Arla, Lactar and Milco

Source: Al Ain Dairy Company Data – A.C Nielsen (March 2009)

marketing effectiveness, increasing GCC operations, training of staff, service support, environmental awareness and management information systems.

Future investment plans

The company plans to develop itself through both backward and forward integration. Through backward integration they are expanding their farms in Al Ain. Over the next one year, Al Ain Dairy is investing in cattle (1,200 new heads of cattle) and new infrastructure (three more filling lines, two more chilled warehouses). They are also planning to invest in new camel sheds and milking parlours. To ensure the best international quality, Al Ain Dairy chooses elements suitable for the local/regional needs from those countries with a strong reputation in the dairy industry work like Sweden, Denmark, the UK, France, and Australia.

One idea they are considering strategically, is to lock their own source of agro produce which accounts for up to 90 per cent of cost. UAE has no access to fodder domestically. By acquiring their own source of grass and alfalfa, hay and feed corn, Al Ain Dairy would reduce costs. This means identifying areas in countries that are more fertile and cheaper to operate, and building a secure supply source. Al Ain is researching increasing milk yields of their animals. They have found for instance that bright colours, loud noises and unfamiliar faces can make camels refuse to yield milk. Hamad Zabousi, the manager of Al Ain Camel Farm said the new camel milk processing facility will increase production of camel milk from 2,000 litres to 10,000 litres per day in the next six months.

In terms of forward integration, their focus is market-facing assets like chillers, display counters and vending machines to enter new markets. Al Ain Dairy began focussing on small groceries. In terms of expanding the distribution outside the UAE, there has been some interest from regional importers from countries like Jordan, Syria, and some inquiries for Iraq. The priority is local markets, and then lower Gulf markets, like Bahrain, Kuwait and Qatar, since there is a lot of existing goodwill the brand carries in these markets.

In terms of products, Al Ain Dairy is looking at the possibility of diversifying into the cheese market and more products that reflect the changing consumer trends and needs. Shashi says:

We are also developing and innovating new product lines like Slim Zero which claims to be having zero calories and we are also working on health or lifestyle products like "morning" or "sabaho" which is muesli plus low-fat yoghurt and fruit.

Shashi's dilemma

Al Ain Dairy needs to prioritise its investments for the next few years. Without production, they cannot meet demand, without creating demand they will lose market share and future revenues. He needs to predict market growth for the Middle East North Africa region not only in terms of product preference, but also in emerging consumer trends. They also have an increasing portfolio of products and though "Al Ain Dairy" is the master brand, it is a good time to work out brand architecture. Shashi feels now is the time to optimise their supply chain looking at backward and forward integration. Help Shashi create a forward thinking strategic plan.

Further reading

Yousef, D.K. (2010), "Al Ain Dairy eyes regional exports", *Gulf News*, 16 July, available at: <http://gulfnews.com/business/opinion/al-ain-dairy-eyes-regional-exports-1.654961>

Yousef, D.K. (2010), "Al Ain Dairy eyes export market with long-life juices", *Gulf News*, 30 June, available at: <http://gulfnews.com/business/general/al-ain-dairy-eyes-export-market-with-long-life-juices-1.648064>

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