

Spill the Milk: The Economic Secrets of Amul's Success

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Introduction

Amul is an Indian dairy cooperative founded in 1946. The brand is managed by the Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF), which is, in turn, jointly owned by 3.6 million milk producers from Gujarat. More than a brand, Amul is a cooperative movement empowering farmers by ensuring fair prices and assured returns. Its wide range of products encompasses milk, butter, cheese, ice cream, and other dairy-based items. Its commitment to quality has turned Amul into a household brand in India.

Besides its main objective of producing dairy products, Amul engages in rural development activities to develop the livelihoods of its members. In addition to investment in dairy research, animal husbandry, and other related aspects of training, Amul sustainably promotes rural development and contributes to further improvement in the lives of farmers.

Amul is the ultimate farmer-owned cooperative that effectively combines a strong brand image with innovative marketing and a pledge for quality and sustainability to position itself for further growth. The Amul story is about economic success, social gain, and a lasting impact on India's dairy industry.

From Milk to Money: Understanding Amul's Revenue Model

The revenue model for Amul works under a unique cooperative structure of the company, whereby it has been able to manage the dairy supply chain with cost optimization and, therefore, was able to achieve huge revenue growth on that in various categories of products. Here is how the revenue model at Amul works and performs:

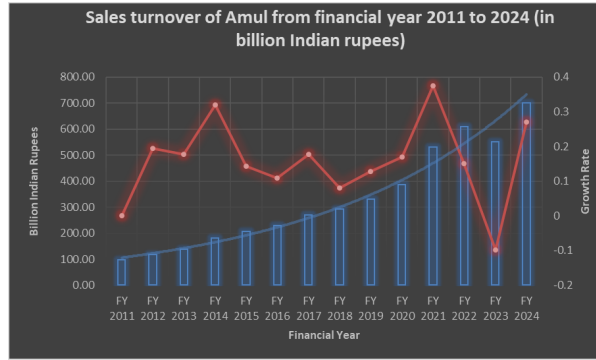


Figure 1: Sales Turnover

The Co-operative model

The Amul Model of dairy development is a three-tier co-operative, joining village dairy societies with district milk unions and federated state unions through the Gujarat Co-operative Milk Marketing Federation Ltd. It ensures that ownership of milk producers at all levels—assured procurement, processing, and functional management by professional management. The model thus provides a continuum from the farmer to the consumer, bypassing intermediaries and ensuring maximum returns for the farmers.

Village societies are the basis of the structure of Amul, where local farmers come into groups and organize production, collecting, and selling milk. Such societies operate on democratic lines whereby every farmer can participate in the management and obtain a reasonable return per litre for the milk they supply. Societies also arrange milk collection, testing, and timely payment activities with the help of Amul’s Village Societies Division.

Operational Efficiency and Market Reach

Amul emerged as a vast conduit of societies, unions, and societies scaling briskly to distribute its products across India. The lean operations and cost-based advantage due to a cooperative meant prices could stay competitive while returns for farmers were maximized. Amul has 79 factories nationwide, whose hubs exist in main cities. Economies of scale help Amul since it is among the world’s largest producers of dairy products. The cost of production decreases considerably per unit with such high volumes. With an extended network of farmers, centralized procurement, and efficient logistics, economies are achieved, maintaining competitive prices despite large production volumes.

Amul’s cooperative model effectively balances consumer and producer surplus by aligning the interests of farmers and consumers. Through direct procurement, Amul eliminates intermediaries, allowing farmers to receive a higher price for their milk, thereby increasing producer surplus. For consumers, Amul’s scale and streamlined operations help keep product prices affordable, enhancing consumer surplus. This model exemplifies how Amul maximizes value across the supply chain, ensuring equitable benefits for producers and affordability for consumers—a foundational principle of its cooperative legacy.

Moo-nopoly or Competition? Analyzing Amul's Market Position!

Amul enjoys the advantage of concurrently competing as a very effective monopoly in certain regions while facing monopolistic competition in others. It has a cooperative structure with rural farmers owning the brand; the model maximizes their collective benefits, reducing each farmer's risk.

These are why the cooperative model of business, especially popularized by Amul in the Indian dairy business, developed into a real powerhouse. Explaining further, while a few large players give the market in some aspects an oligopolistic structure, for the most part, in many regions, Amul competes more largely in a monopolistic competition framework. Given this unique cooperative setup owing to the ownership of a million farmers, Amul has been able to harness the scales with efficiency like any large corporation while still maintaining deep connections with rural communities.

Market Type:

The market strength of Amul is different for various product categories within the dairy segment, reflecting strategic positioning:

- **Milk:** Amul enjoys almost 75% of the market share in milk in India; while being a regional monopoly in some regions, it faces monopolistic competition chiefly.
- **Butter:** Amul holds a huge market share of 85%, and its operations show monopolistic competition and oligopoly characteristics, as it competes with other strong brands while maintaining a leading edge concerning brand loyalty and quality.
- **Cheese:** With a market share of 66%, Amul invokes differentiation to meet diverse consumer tastes and to combat monopolistic competition.
- **Infant Milk:** Balancing between the role of a trusted provider and competition from global players, Amul enjoys a 63% market share in the infant milk category.
- **Dairy Whiteners:** Amul operates in a space that combines competitive pricing and brand reliability, with a 45% share.
- **Oligopoly in the Ice-cream segment:** In some products like ice cream, Amul operates in a near oligopolistic market along with other major brands like Vadilal, and Kwality Walls.

Here is how Amul fits into the oligopoly profile

Few Companies: Only a few well-known brands operate in the Indian market, creating a competitive yet integrated environment. While ice cream may seem homogeneous, Amul stands out from other brands with its unique taste, local variety, and cooperative members. Distribution logistics create high barriers to entry, preventing new players from entering the ice cream space. Amul operates in a monopolistic competition environment for dairy products.

Amul's approach fits into this business model as follows:

- **Multiple companies:** While Amul has a leading business, other brands like Mother Dairy, Nestlé, and many regional players have also entered the game.
- Amul differentiates its milk and dairy products by its quality, collaborative support, and local reliability.
- **Protection:** Despite the competitive market and distribution, small brands can still enter the local dairy market. However, Amul's partnership model makes it profitable by providing a wide network.

The Ultimate Dairy Collection: Amul's Variety

Product differentiation thus has been Amul's multi-faceted approach, integrated with traditional strengths and state-of-the-art innovations across a broad range of consumers. Strong overtones of health, variety, and affordable prices turned Amul into a worldwide leader in probiotics—adding health-enhancing microbes to popular items like its pouched chaas and choco bars. Selling 3 million litres of probiotic chaos every day, Amul meets the increasing demand for health-oriented products and cements its position as a reliable contributor to nutrition.

Value-added Dairy Products and Diversification

Value-added dairy products such as probiotics, ghee, paneer, and flavored drinks from Amul show its responsiveness towards emerging consumer preferences for high-value packaged options. Moving to sweets, Amul today has over 35 varieties, which is a large diversification from its earlier portfolio and caters to its consumers' everyday and gifting needs. This large portfolio is supplemented by a continuous pipeline of 122 new products and another 50 currently under development, which testifies to Amul's commitment to choice and customization.

Over the last three to four years, Amul has embraced diversification into non-dairy products like frozen parathas and French fries. Amul tries to reduce costs by leveraging the existing distribution network and infrastructure it uses in common for the category, such as deep freezers installed across its network for ice cream. This adaptability furthers the cause in fighting seasonal variability in most of its product categories to ensure year-on-year revenue stability.

Amul Innovates, from millet-based products to organic qualifications, keeps pace with the fast-increasing interest of consumers in traditional and nutritious food varieties.

In turn, economies of scope—which have helped Amul reach the leading position in India's dairy and wider food business since the White Revolution began—take a core part of its ability to efficiently offer such a wide array of products at low costs. Economies of scope are cost advantages enjoyed by Amul's ability to make a range of products using shared resources, infrastructure, and distribution networks. Due to diversification, Amul can reap not only the advantages of shared resources but also reduce the average cost of each of its products since it will make as much use as possible with every building block down the supply chain.

For instance, the storage freezers at retail points of sale that Amul uses for its ice cream today double as storage facilities for its growing range of frozen foods such as French fries and parathas. Co-utilization fulfils two purposes: firstly, it reduces the need

to create separate storage facilities and equipment for each product line. Secondly, it facilitates new product launches with minimal incremental investment.

Distribution Power across Multiple Product Lines

The strong distribution network that Amul developed to move its milk products to the marketplace serves just as well for its non-dairy products: transport-insured, cold storage, and retail placements across urban and rural markets. Riding on the same supply chain for milk, cheese, and ice cream, sweets, or even snacks in packets, Amul reaches millions of consumers at low costs. This integrated scheme allows Amul to move new products along the same distribution lines without necessarily incurring high costs, enabling each new product to be more profitable than it otherwise might have been.

Cross Utilization of Raw Materials and Byproducts

Economies of scope: One product extracted from raw material results in several end products. With volumes of milk sourced directly from the farmers and in large quantities, many products can be made from one base product: butter, cheese, ghee, and paneer. Amul manages to create the maximum value out of every litre of milk, leaving little waste behind, thereby commanding economies in terms of the per-unit cost of each product line.

Moo-ney Matters: Amul's Smart Pricing for Every Pocket

Amul follows the price discrimination strategy, hence segmenting the products in such a way that they appeal to a different customer group based on paying capability and also on variation in price elasticity. Amul offers its products in a wide range so as to maximize revenue from every category while keeping a presence in both premium and mass markets.

Third-degree price discrimination is the practice followed by Amul, where different segments of consumers are the targets. For premium customers, the product mix would comprise an almond and chocolate confectionery for Rs 250, and cold coffee at Rs 100 in glass bottles for those customers who would pay that little more for exclusivity. In fact, the Amul Ice Lounge epitomizes this with its gourmet flavours, such as English Apple, available at Rs 200 a scoop in order to attract consumers with relatively low price sensitivities. Amul sells more reasonably priced products to the mass market. For example, Kool in a Can is targeted at servicing coffee lovers at cheaper costs to reach larger masses that are very price-sensitive.

Besides price segmentation, Amul also differentiates products to reflect different levels of price elasticity. For consumers who have inelastic demand, a premium offering would be something like that in the Amul Ice Lounge, to which they would pay more for a differentiated experience. However, Amul's widely available ice creams are always priced appropriately to attract customers whose demand is more price-elastic, thus appealing to them based on affordability and value for money. This strategic product differentiation enables Amul to meet the diverse needs of the customer base without alienating one segment or another.

Tech-Tastic Dairy: Amul's Use of Innovation in Manufacturing

Amul effectively used technology for ease of operation and value addition to enhance the quality of the products and respond to changing market environments. During the pandemic, advanced technology at Amul continued the promise of leadership in the dairy industry during lockdowns and disruptions in supply chains: it continued supplies of essentials continuously.

The other main technological change in which Amul has been involved is the introduction of milking machines, which will have a much more significant impact on efficiency and hygiene within dairy farms. These machines reduce dependency on labour and help to assure consistency in quality. The milking, thus automated and streamlined, assures that milk is collected and processed quickly to maintain freshness and safety.

Amul also taps into IBM's AI-powered systems for supply chain management that can monitor and optimize in real time. Fully equipped with demand prediction, inventory management, and ensuring timely delivery of products to consumers without delays during the trying circumstances of the lockdown, the navigation bar studded with data analytics and AI has empowered Amul to make informed decisions and reduce wastages to meet both rural and urban market requirements.

While most companies experienced production stops and disruptions in supply chains, it was due to Amul's strategic use of IBM's technological solutions and its operational framework that helped the organization sustain itself and grow even when others were uncertain about recovery, further reinforcing its value as a trusted brand across India.

Amul's Marketing Magic

Amul's promotional campaigns changed how Indian ads reached their audience, especially through the iconic "Amul Butter Girl." Their ads, which started in 1966, rank among the longest-running and most successful anywhere in the world, moving with the times and alongside political changes yet retaining freshness almost akin to ageless. This campaign succeeded because of its catchier lines and topical humour, which has been used intelligently to help the brand persist in people's minds for decades.

Amul has gone one step further in sponsoring international events like the ICC Men's Cricket World Cup and FIFA World Cup, not for India but for countries like Afghanistan, Sri Lanka, and South Africa. This reveals the brand to be shrewd in targeted marketing. With this sponsorship of regional teams, Amul entered virgin markets where cricket and football were followed with great passion. This works well and is cost-effective, as it would be based on the intrinsic values of the brand, which the company could present to larger and more varied groups in geographically different locations. This gesture typifies Amul's commitment to sports and creates an emotional connection with sports-viewing audiences.

Since India is a linguistically diverse country, Amul has to plan its marketing campaigns with 14 different languages, including Sanskrit, Sindhi, and Arabic, in mind for the Middle Eastern markets. This way, Amul's adverts primarily reach appropriate local audiences, developing substantial rapport with the consumers through the length and breadth of India and elsewhere worldwide.

Recommendations

Enhanced Strategic Partnership

Strong partnership with e-commerce giants like Amazon, Flipkart, and BigBasket to expand Amul's reach in areas where its retail presence is limited. Exclusive online offers, discounts, and membership benefits will attract the rapidly growing online customer base. Optimize the website for better marketing, faster loading times, and improved navigation to encourage direct purchases from the Amul online store. This will allow Amul and customers to view product and delivery time estimates, increase reliability, and ensure prompt delivery during disruptions.

Product Expansion and Market Availability

Traditional flavors, premium ice creams, and butter bakery products to enhance Amul's competitive position in the region. Increasing the availability of Amul packaging in local grocery stores will appeal to consumers who prefer the convenience of shopping nearby.

Community Engagement and Regional Relationships

Building relationships with communities in different regions through a carefully planned degree program will help Amul foster stronger connections with diverse customer bases.

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