

## **MARKETING**

Generally, informal milk outlets absorb most of the milk from smallholder farmers accounting for over 86% of the total milk sold, while formal market handle 14% of all the total milk produced. Brokers, traders/hawkers, transporters, co-operatives and farmer groups are the most important participants at the rural markets. Cooperatives remain the main channel for collecting milk destined to the formal market..

Trading blocks for milk and milk products include regional markets (EAC, COMESA), EU-African-Caribbean-Pacific/Lome Convention and the African Growth & Opportunity Act (AGOA).

Kenya has potential to export dairy products, having the largest and well-developed dairy herd in Sub-Saharan Africa. Kenyan dairy products are currently being exported to Zambia, Tanzania, Uganda, Democratic Republic of Congo, Rwanda, Burundi and Saudi Arabia among other countries

Dairy cooperatives have played an important role in the development of the Kenyan dairy sector as markets have become competitive and farmers have to be efficient in order to access markets for their dairy products.

### **Marketing and Pricing of Milk and Milk Products**

The price of a product in the market is an important factor influencing consumer demand. Hence to be marketable, a dairy product must be competitively priced. This implies that the costs involved in raw material procurement, processing, packaging, storage, marketing and distribution must be kept as low as possible. Generally the price of a dairy product will involve the following costs:

- a. Cost of raw milk
- b. Cost of raw milk collection and transportation
- c. Cost of processing
- d. Cost of packaging
- e. Cost of marketing and distribution

- f. Taxes and tariffs
- g. Profit margins at each stage of the marketing channel (Collection, Processing and marketing margins)

In order to arrive at a realistic costing of a product, all those elements involved at each stage must be carefully calculated on a unit basis. This is known as Cost Accounting. The table below shows some of the essential cost elements:

**Table 9: Elements Essential in Costing Milk**

<b>Market function</b>	<b>Cost element</b>
1. Raw milk procurement	Cost of raw milk; labour; materials etc.; collection margin
2. Transportation	Transport cost; labour; materials and equipment; transport margin
3. Processing	Raw materials; machinery and equipment; labour; packaging; energy; taxes; marketing and distribution; processing margin
4. Marketing and distribution	Transport; labour; materials; rent; retail margin

The cost can be broadly categorized as fixed costs and variable costs. Fixed costs include things like depreciation of equipment and buildings while variable cost includes direct expenses such as raw material; marketing expenses; overhead costs [labour and personnel expenses It is important that all the cost elements are included in the calculation of the market value of the product.

Overpricing can lead to uncompetitiveness of the product while under pricing can cause financial loss and eventual collapse of the business.

The demand and supply projections indicate that the current milk production will rise from the current 5.2 billion litres (2014) to a high of 12 billion litres by the year 2030 while the consumption will rise from 4 billion litres to 11 billion litres during the same period.