

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

Agriculture play a very important role on the economic development of country. It is the backbone of an agricultural country like Nepal. Nepal's prosperity depends upon agricultural prosperity. It is for this reason, the agriculture marketing has become part and parcel of modern agriculture production.

Agriculture marketing involves many operations and process through which food and raw materials move from the farm to the final consumers. Agriculture provides products (goods) for consumption and exports as well as for manufacturing sectors.

Similarly, Marketing management is an important functional area of business management. Different writers have defined it differently. However it is generally accepted as conscious effort to achieve desired exchange out comes with target market. In a broader sense it is viewed as the process of planning and executing the conception, pricing, promotion and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organizational objectives. Marketing management is essentially demand management.

Marketing is considered to be the beating heart of any business organization as it is the business activity that directs the flow of goods and services from producers to consumer. The accomplishment of the

organizational objectives is not possible without the marketing potentiality and effectively marketing system.

The process of distribution consists of the set of activities and functions arrived at facilitating the movement of goods and services from producer to consumer. In a logical sequence distribution channel is considered as the route or path through which the movement of goods and services from the producer to consumer and services from the producer to the consumer is facilitated in order of effect exchange process. It is also viewed as sets of interdependent organizations involved in the process of making a product or service available for use or consumption. A number of intermediary institutions are involved in the gap between manufacturers and users of its products or services. Therefore, distribution channel is also considered as a system of relationship that exists among institutions in the process of buying and selling, in focuses on he process of buying and selling, ownership and physical transfer of commodities, products and services. Distribution channel management broadly involves decision a design channel and implementation and control of channel system. The design of channel system within involves variety of decision such as the number of channel, member, characteristics and location channel members in each layer and terms and conditions for working with channel members. Again, the major decision relation to implementation and control of channel system. The design of channel system within involves variety of decision such as the numbers in each layer and terms and conditions for working with channel members. Again, the major decision relation to implementation and control of channel system are selection, motivation and evaluation and control of channel system is decided a

company has then to implement there policies through selection channel members.

Another important activity of function of distribution is also an aggregate term of various activities such as transportation, warehousing, inventory management and control, order processing and material handling Stanton defines physical distribution as "the activities concerned with the movement of the right products to the right place at the right time." The various components of physical distribution have to be managed effectively in order to insure smooth delivery and better customer service.

Distribution management is therefore one of the critical decision area in the field of marketing. Its importance can also be visualized in the fact that it has considerable impact on other managerial decisions in the field of product lines pricing, sales force and various other decision areas. Smooth functioning of the distribution system is a vital link in the firms' Total marketing effort.

### ***1.1.1 History of Dairy Development in Nepal***

The production of yak cheese had been started in Langtang in 1952. But formally the dairy development activities in Nepal has been started in Tusal, a village of Kavre District in 1954 on experiment basis with a small scale milk processing under the department of agriculture. In the year 1956, as the initiative of Dairy Development Board, the central dairy plant was established and started milk collection at the rate of 500 lt/hr in processing and marketing department. The first five-year plan stressed upon the need of development modern dairy industries in public sector. As the demand of milk and milk product was increased day by day. Dairy Development Corporation was established in 1969. It

has been difficult for DDC to fulfill the increase demand of people; hence private dairies have been started in 1980.

### ***1.1.2 Brief Description of Biratnagar Milk Supply Scheme***

During a visit of late King Mahendra in the town of Utecht, the Netherlands, citizens of that town made a gift of a dairy plant for the children of Nepal. The people had donated certain funds, which was supplemented by the Government of Netherlands. The fund was used by DDC to build a milk plant at Kanchanbari, Biratnagar with 2000 liters per hour production capacity. The mayor of Utrecht laid foundation stone 1971 the plant come into operation in June 1973, this plant was named as Biratnagar Milk supply Scheme (BMSS). The main objectives of this Scheme are:

- i. To supply fresh, wholesome and processed milk and milk products to the urban consumer at reasonable price.
- ii. To uplift the economic status of rural milk producers by providing a remunerative price for their produce and
- iii. To develop marketing network of milk produced by rural milk producers.

After the establishment of this project, the milk producers of Morang, Jhapa ,Sunsari, Saptari, Ilam and Therathum district have got a regular market and consumer of the urban areas of Morang and Sunsari districts are getting hygienic milk products regularly.

## **1.2 Focus of the Study**

In Nepal there has been enormous growth of public Enterprises (PE) during the past plan periods and they have contributed in various ways in the development process of the country. Despite the pronounced role of PE's in terms of their capacity. Numerous factors may be responsible

for unsatisfactory performance of PE's but weakness in marketing management is also considered as one of the prominent ones contributing to inefficiency. It is strongly held that distribution channel management decision is accorded least priority in Nepali PE's.

The activity of DDC/BMSS involves the collection of raw milk from various dairy farmers, its processing and distribution to the end consumers. BMSS does not only supply pasteurized milk but the surplus are converted to various dairy products like Yogurt, ice-cream, butter, cheese etc and marketed for consumption. The focus of the study of this research is only concerned with the distribution management of milk and its allied dairy products to the consumers after the raw milk collected from the former is processed. The focus area for the research of this study concentrates only on Biratnagar and Dharan.

### **1.3 Statement of the Problem**

Like an every business organizations, BMSS is also established to earn certain amount of profit. Mostly success is measured in terms of profit. To earn desired level of profit, it is to be planned and managed. Performance of Nepalese industries cannot be considered as satisfactory. Poor performance is the outcome of poor planning, controlling and decision-making. It observed the most of the PE's in Nepal do not have sufficient information about the factors that are essential in managing distribution system effectively and BMSS is no exception. It is therefore, quite likely that a lack of understanding of relevant aspects could lead to appropriate design of channel for a new company and non-adaptability of channel system to changing conditions for running company .

An inappropriate channel system has several undesirable consequences. It might result in loss of market share, product failure and loss of

contribution so far as output is concerned. However, the first signs of inappropriate channel system appear in terms of unhealthy inter and intro channel competitions, deterioration in customer services and loss of channel members interest in company products and promotional programmed.

It is believed that most of the PE's are facing similar types of problems due to inappropriate channel systems both in terms of design and design implementation. The present study is an effort to explore and appraise the various facets of distribution management of Biratnagar Milk supply scheme.

To elaborate, the study in the first place intends to point out the design of distribution channels adopted by the PE's. This covers the identification of the types and number of individual channel members appointed by them. Further the terms and conditions devised by BMSS for the channel members and support provided to them have also been examined. The selection of channel members is an important job in distribution channel management. Therefore the recruitment procedure also been analyzed.

Similarly, development of channel member's capability is an integral part of distribution channel management. Effort therefore, has been made to explore the nature and extent of distribution development activities conducted by BMSS. Further evolving procedures for working channel management. Effort therefore, has been made to explore the nature and extent of distribution development activities conducted by BMSS. Further evolving procedures for working with the channel members are indispensable in the context of channel management. The procedures and practices followed by BMSS in this regard have also been investigated. Finally, the system and procedures

relating to physical distribution of goods have also been covered. A channel system cannot claim to be effective and efficient so long as it does not insure smooth movements of goods and services from the producer to the consumer.

In brief, the present study is an effort to investigate the policies, strategies, procedures and practices adopted by BMSS for managing their distribution channels. An appraisal of the distribution system has also been done accordingly.

In the above light, the study attempts to answer the following research questions.

- a. What is the marketing performance of BMSS?
- b. Is the BMSS practicing scientific Distribution system analysis for its marketing activities?
- c. What are the major difficulties faced by DDC/BMSS in the application of Marketing management?

#### **1.4 Objectives of the Study**

The main objective of this study is to examine “Marketing management System of Dairy Development corporation with reference of Biratnagar Milk Supply Scheme”. To achieve this, the following objectives have been carried out:

- a. To analyze and evaluate the marketing performance of Biratnagar Milk Supply Scheme
- b. To examine the problem face in the way of marketing with the help of marketing activities.
- c. To analyze the strength and weakness of the present marketing system.

- d. To analyze and evaluate the design of distribution system adopted by 'Biratnagar Milk Supply Scheme'
- e. To make recommendations to improvement of the marketing strategy of 'Biratnagar Milk Supply Scheme' on the basis of study result

### **1.5 Significance of the Study**

Nepal has followed the mixed economy. Accordingly both public and private enterprises have been given opportunity to participate in the industrialization of the country up on the nature of industry.

Dairying is a part and parcel of Nepalese way of life. Cattle and buffaloes contribute to about 77% of the livestock sector. GDP of the total GDP 6% is contributed by milk and milk products. People of all categories to benefit from its nutritional values consume milk and its allied dairy products. BMSS has been significantly contributing to the growing needs of the consumer of this region. In this modern age when the level of consumer awareness is increasing the purchasers of considers it their right to demand for high quantity products at a reasonable price, which can be purchase conveniently. As BMSS, a part of DDC is a public Enterprises wholly owned and managed by the government the marketing and distribution management does not seem to be significant. Till, recently, BMSS enjoyed complete monopoly but nowadays, private dairy entrepreneurs have also started marketing milk and dairy products in this region. In view of the past insignificant marketing strategies adopted by BMSS and the recent advancement of private diary entrepreneurs in the markets of this region, the study of the distribution management of milk products of BMSS will surely play a vital role.



Developing countries like Nepal are characterized with the problem of low level of output aggravated further by insufficient distribution mechanism. The concerned manager has to work in a very difficult and sometimes conflating situation. He/She is expected to distribute the goods and services at the lower costs with highly satisfactory level of service. Similarly, distribution network have to reach for and wide, yet a close control of these activities is desirable. It becomes therefore a difficult task to make a balance between such conflicting considerations and come up with optimal distribution arrangement.

Distribution, a part of marketing is not a single element but a mixture of various consolidated function whose proper use determines the success of business. Proper utilization of the various channels of distribution and forms of physical distribution will help in decreasing the distribution cost which will increase the profitably of the products. The study matter of this research the distribution management of milk products of DDC, with special reference to BMSS is an important one as it will be beneficial to understand the distribution system PE's in Nepal. There has been little systematic study made previously regarding distribution management of public Enterprises in Nepal. Therefore, the study will be helpful to be used as reading material in the Nepalese context especially for all marketing personnel and student of research. The analysis of data available and the interpretations for effective solution of the distribution problems will surely help DDC/BMSS to aggressively market their products and challenge their competitors. All of the above mentioned facts make this study important.

## **1.6 Limitation of the Study**

This study consists of some limitations, which can be presented as follows:

- a. This study is only related to one scheme of Dairy Development Corporation i.e. Biratnagar Milk Supply scheme and it does not cover all the aspects of marketing but focuses only on marketing management of milk and others dairy products.
- b. The focuses limit over the availability of data and sufficient literature.
- c. Analysis is concentrated in some managerial, financial and Marketing aspect and it does not cover all the areas of enterprises.
- d. The comprehensive and the accuracy of the study are based on the data available from the management of BMSS.
- e. Being a researcher as a student and due to the limited resources constraints, the study is neither comprehensive nor extensive.
- f. The research is purely based upon the secondary and primary data.
- g. This Study is also based upon the distribution channel adopted by BMSS

## **1.7 Organization of the Study**

This whole study has organized into five different chapters. Each chapters and unit will be on the prescribed format of thesis writing to the partial fulfillment of MBS program. Each unit gives the clear picture or road map of the study.

## **CHAPTER- I**

### **[Introduction]**

Deals with the subject matters of the study consists introduction and background of Dairy Development Corporation, statement of the problems, objectives of the study, Significance of the study and limitation of the study.

## **Chapter- II**

### **[Review of Literature]**

Deals with review of literature. It includes a discussion on the conceptual framework on Distribution management. It also reviews the major studies relating with marketing activities of several authors and from the several books and journals.

## **Chapter- III**

### **[Research Methodology]**

Explain the research methodology used to evaluate marketing activities of Biratnagar Milk Supply Scheme. It consists of introduction, research design, selection of sample, sources of data collection and method of analysis tools.

## **Chapter- IV**

### **[Presentation and Analysis of Data]**

Chapter four fulfills the objectives of the study by presenting data and analyzing them with the help of various marketing tools followed by methodology.

## **Chapter- V**

### **[Summary, Conclusion and Recommendation]**

States summary, conclusion and recommendation of study. Bibliography and Appendixes are also incorporated at the end of the study.

## CHAPTER - II

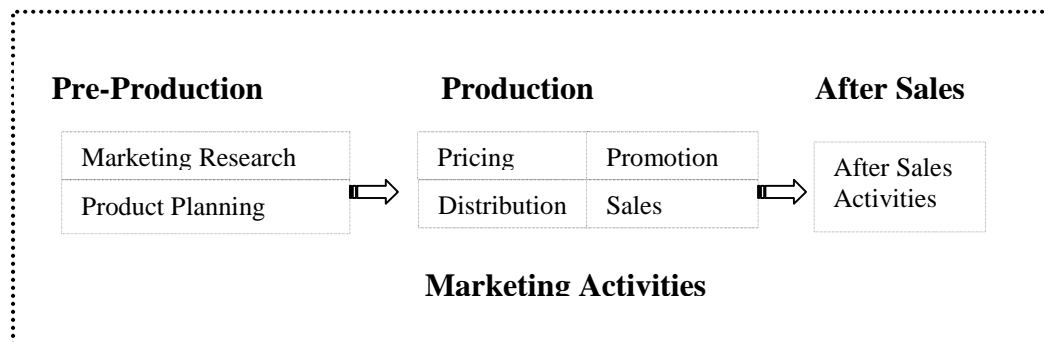
### REVIEW OF LITERATURE

In this chapter the researcher has been reviewed the related literature form different books, journals, previous studies and other reliable sources. As for this study concern, journals of account, previous thesis, related books, reports and related research works has been briefly reviewed.

#### 2.1 Conceptual Framework and Fundamental of DDC

##### 2.1.1 Theoretical Framework of Marketing

Different authors and experts have given different definitions of marketing. There is not a single definition of marketing which is universally acceptable to all. The main reason is that marketing is a most developing science. Traditionally, marketing has been defined as the performance that directs the flow of goods and services from producer to consumers. By this the scope of marketing is limited to physical distribution, sales promotion and selling of products. Hence, the functions of marketing begin after the production and end after sales of that product. This traditional concept is based on the assumption that the product produced will be acceptable to the consumer. In this way, the producer is concerned only with the production of goods without taking into account the need, choice or behaviour of the consumers.



The traditional concept is not appropriate in modern business because it totally ignores consumer needs and satisfaction. It does not include the after sales services, which is also an important function of marketing. In the cut-throat competitive environment of today, products have to be designed and developed keeping in view the wants and tastes of consumers. The reward goes to them who can best understand customer wants and deliver the greatest value to their target consumers.

The modern concept of marketing is a consumer oriented which emphasized on the satisfaction of the consumers. It represents a distinct philosophy of business. Marketing is the business processes by which transfer of ownership are affected. A comprehensive definition of marketing covering all the ingredients of marketing has been provided by Stanton in the following words. "A total system of business activities designed to plan, price, promote and distribute want satisfying products to target markets in order to achieve organizational objective".

Marketing is a complex business process, and marketing experts often disagree on what marketing is and what it consists of. To avoid this controversy, we can use the official definition of marketing provided by American Marketing Association :Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives".

According to this definition, firstable, marketing is viewed as a process of planning and executing which suggest that marketing is a managerial process. Second , this managerial process involves conception (i.e. thinking of or deciding what idea, good or service to market ) and the pricing, promotion, and distribution of ideas, goods, and services.

Third, the managerial process is directed at creating exchange that satisfy individual and organizational objectives.

A key point of this definition of marketing is that it views marketing as an exchange process. Exchange is the act of obtaining a desired object from someone by offering something in return. Exchange is the core concept of marketing. For an exchange to take place, five conditions are necessary.

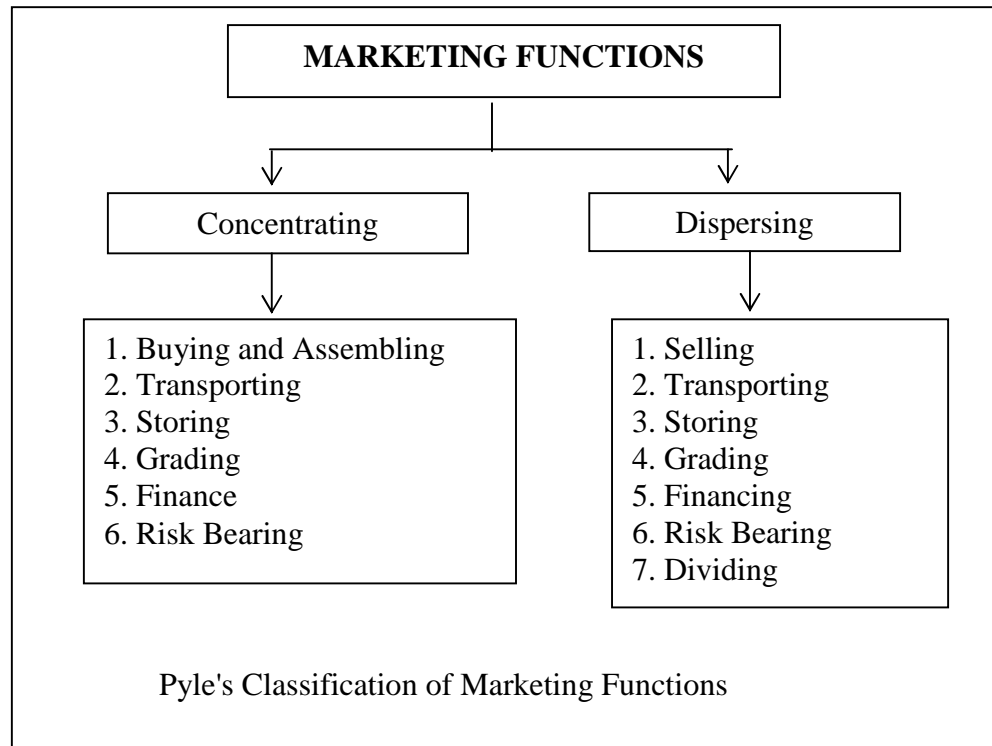
- i. There must be at least two parties .
- ii. Each party must have something that could be of value to the other.
- iii. Each party must be able to communicate and deliver.
- iv. Each party must be free to accept or reject the offer.
- v. Each party must want to deal with the other party.

These conditions simply make exchange possible. Whether exchange actually takes place depends on the parties' coming to an agreement. It gives consumers more consumption possibilities. (*Shresha; 2064:2-4*)

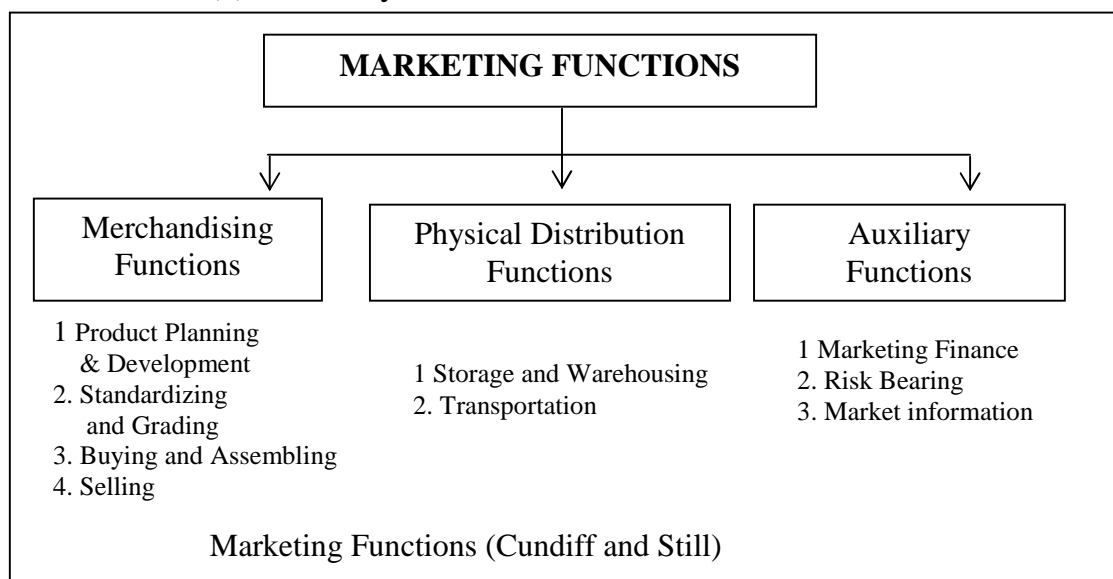
### ***2.1.2 Function of Marketing***

The modern concept of marketing is based on the important philosophy of business that all the business activities of the organization should be customer-oriented. Thus, marketing is made up of a number of activities known as marketing functions. The marketing function links the producer and the ultimate consumer. The function of marketing involves a number of operations to be performed while transferring products and services from producer to consumer. There is no unanimity amongst the authors about the classification of marketing functions. For instance *McGarry* has given the list of six marketing functions: (1) Contractual; (2) Merchandising; (3) Pricing; (4) Propaganda; (5) Physical distribution; (6) Terminators.

*Prof. Pyle* has classified marketing functions broadly into two groups: (a) Concentration (b) Dispersing. This classification contains duplication of transporting, storing, grading, financing and risk bearing functions as shown below.



The most widely accepted classification of marketing functions is given by *Cundiff* and *Still*. They have classified the marketing functions under three major heads: (a) Merchandising (b) Physical distribution functions, and (c) Auxiliary functions as shown below.



### ***2.1.3 Concept of Distribution***

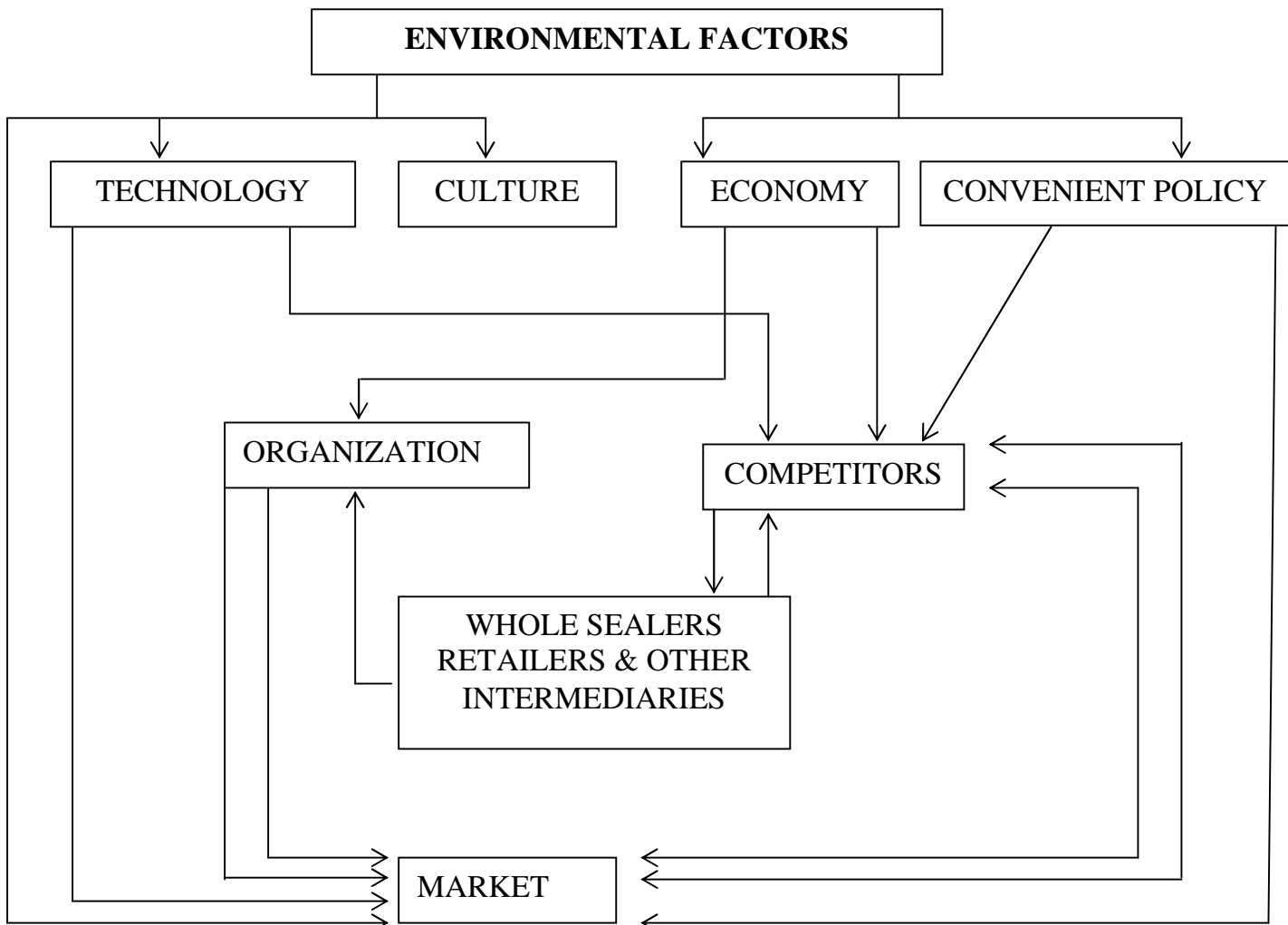
When manufacturer produce goods or when products are ready for the market, the need for channel arises to bring products into the hands of the final consumer. Channel of distribution is the route taken by the right of ownership of the goods as they move from producers to consumers. This is the path through which goods and services move to ultimate targets and not selecting the proper channel of distribution the expenses of producers will increase and hence the efforts of the manufactures will be wasted. So there is a need to pay more attention to the distribution management so as to utilize the channel operation in a very satisfactory and effective way.

"A marketing channel is identified as involving a series of relationship among organization and final users to whom marketing effort directed" (*Seth and Garet, 1986:25*)

Goods that are produced by a manufacturer are often not sold directly to the end users. Most producers work with marketing intermediaries to bring their products to bring their products to the market." Within the scope of marketing, distributing is concerned with all the business activities centering on the problem of getting merchandise from the producer to the final consumer." (*Koirala, 1995:146*) Distribution may be defined as on operation or a series of operation, which physically brings the goods, manufactured or produced by any particular manufacturer into the hands of the final consumer or users." (*Daver, 1977:400*) The term "distribution" is sometime loosely sued to mean more or less the same are marketing by saying distribution includes all activities which brings a product from the manufacturer to the hand of the final consumer. (*Daver, 1977:401*)



## A Modern Marketing System and its Sub System

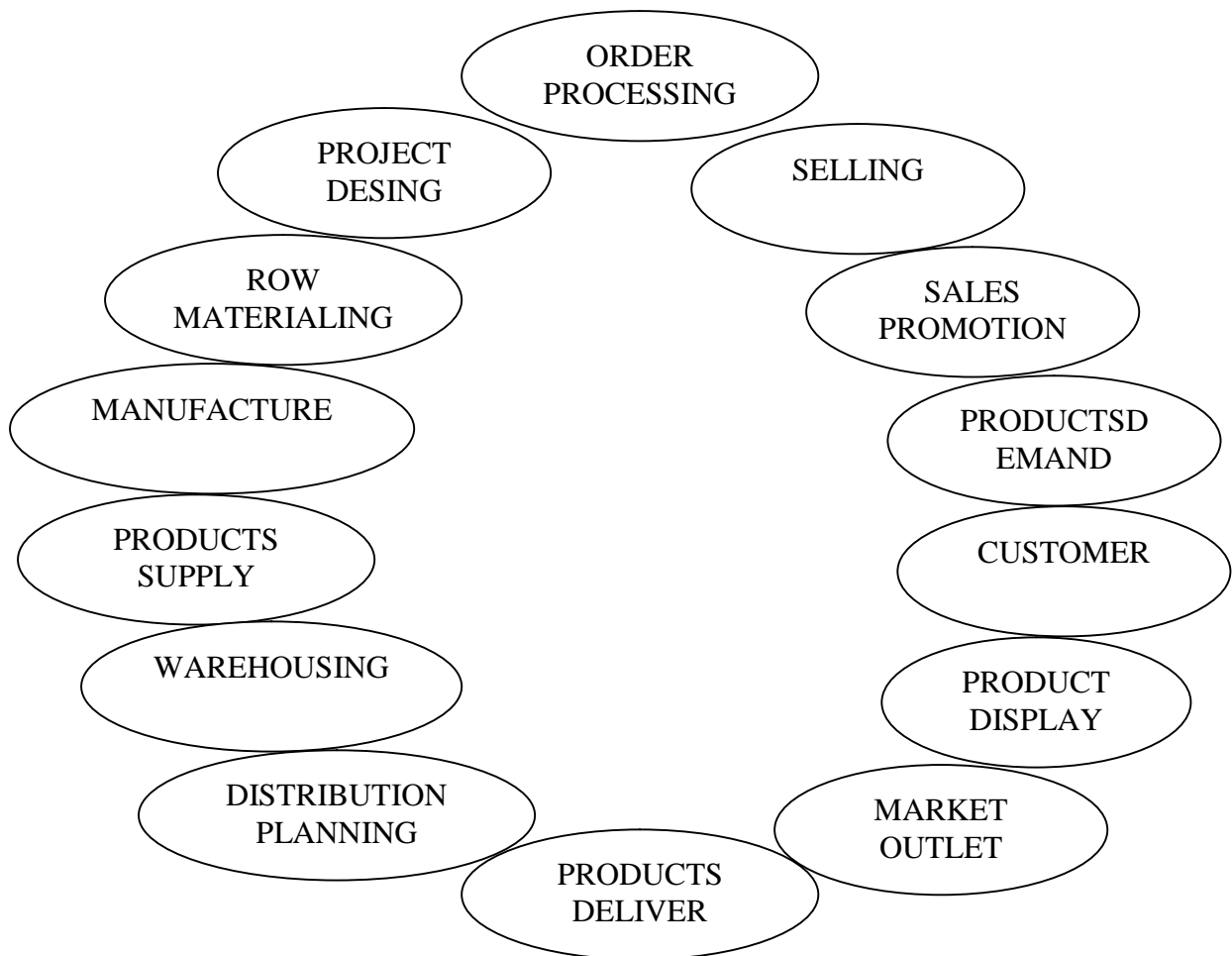


**Source :** *GON Performance of PE's of Nepal, a Managerial Analysis CCC & ISC, 1980, P. 64*

After determining the product policy strategies and strategies and setting the price of the product, the next step involved in marketing is the establishment of distribution strategies which is also known as the place variables. Distribution deals with two aspects of product movement:

1. Distribution Channel and,
2. Physical Distribution Logistics

## Distribution Chain



**Source :** Peter R. Attwood, *Planning and Decision System*, Grower Press ltd. Great Britain, 1971, P. 2

### **Distribution Channel**

A Distribution channel is the link between producer and consumer and it indicates routes of pathways through which goods and service flow. The process of ownership transfer of goods and services is the main focus of distribution channel. Marketing of output is not possible without marketing channel as it plays a vital role in making the products available in the right time at the right place and in the right quantity. The use of importance of marketing intermediaries which make up the distribution channel is highlighted as they communicate

information, create utility, save, time and labour promote indirect allying and produce specialization. Intermediaries smooth the flow of good and services from the producer to the consumer. This producer is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the consumer discrepancy results from the fact that manufacture typically produce a quantity of limited variety of goods whereas consumer usually desire to limited quantity of wide variety of goods.

A channel of distribution (also called trade channel)for product is the route taken by the product and it moves from the producer to the ultimate consumer or industrial user. A channel always includes both the producer and the final customer for product, as well as middlemen involved in the title transfer. Even though agent milkmen do not take active title to the goods, they are included as part of a distribution channel as they play an active role in the transfer ownership. (*Stanton & Charles, 1988:314*)

A channel of distribution is a group of individuals and institutions that direct the flow of market of products from producers to consumer's. The fundamental task of any marketing channel is to provide more goods and services in an efficient manner. The marketing channel such as suppliers (who supply raw materials finance, manpower and machines to the manufactures and individuals users) manufacturers and industrial users, agent and brokers, wholesalers, industrial distributions retailers, consumers are industrial users.(*Koirala,1995:146*)

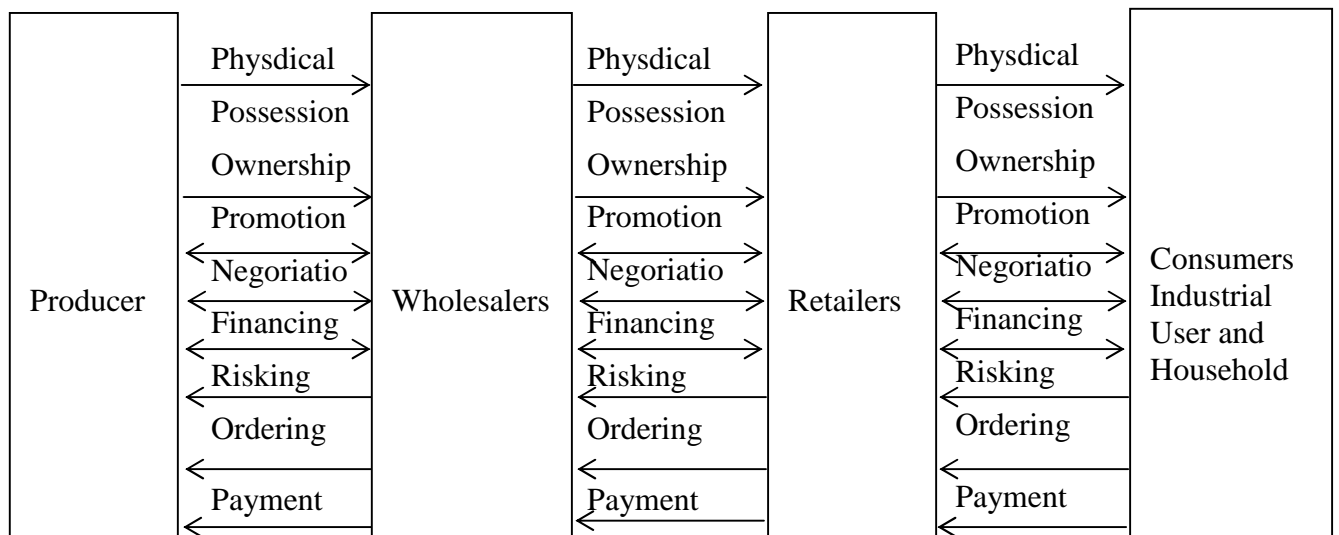
In today's economy most producers do not sell their goods directly the final users, between them and the final users stand a host of marketing intermediaries performing a variety of functions and bearing a variety

of names. The marketing institutions considered as channel components are:

All kinds of merchant middlemen, such as wholesalers and retailers who buy, take title to and resell the merchandise.

1. all kinds of agent middlemen, such as commission agents, brokers, manufactures representative etc who search for customer and may act on their behalf.
2. all other facilitating agency such as transportation companies, independent warehouse, banks, advertising agencies, etc, who assist in the performance of distribution but neither take title to goods nor negotiate or sales.

The above mentioned channel are linked in the marketing system by one or more of the marketing flows or movements such us forward flow, backward flow and Two- way Flow:



Marketing Flows in Channel

**Source :** Lowis W. Stern; Adel I-EI- Annet T. Coughlan, *Marketing Channel*, Fifth edition, Prentice Hall of India (Pvt.) ltd. New Delhi - 11001,1998 P. 10

1. Forward Flow includes Physical flow, Title flow and Promotional flow. A physical flow result from movement of raw material, supplies and finished products. Most of the channel members participate in the physical flow. The title Flow. The title flow results out of the actual transfer of ownership fro one channel member to another. The title flow in many instances may take a different route from the physical flow. The promotion flow represented by the dissemination of persuasive communication, such as advertising and sales promotions between the channel members.
2. Backwards Flow includes ordering Flow and Payment Flow. Ordering flow is represented by the back ward communication of buying of intentions by the channel members. Payment flow is represented by a flow of money from sale the channel members to the manufacture.
3. Two- way Flow includes Negotiation Flow and Information Flow. In Negotiation Flow the channel members negotiate and bargain over prices, delivering terms and delivery dates. Information Flow is represented by the marketing information flowing backward from the market to the manufacturer through the channel members and the following forward from the manufacturer to the market the channel members. (*Koirala, KD., 1995:147*)

In the field of marketing channel of distribution indicated routes or pathways through which goods services flow or move from producer to consumer and in this route various individual and institutions are

appointed to perform marketing task. These intermediaries or channel of distribution tend to be used for several reasons such as:

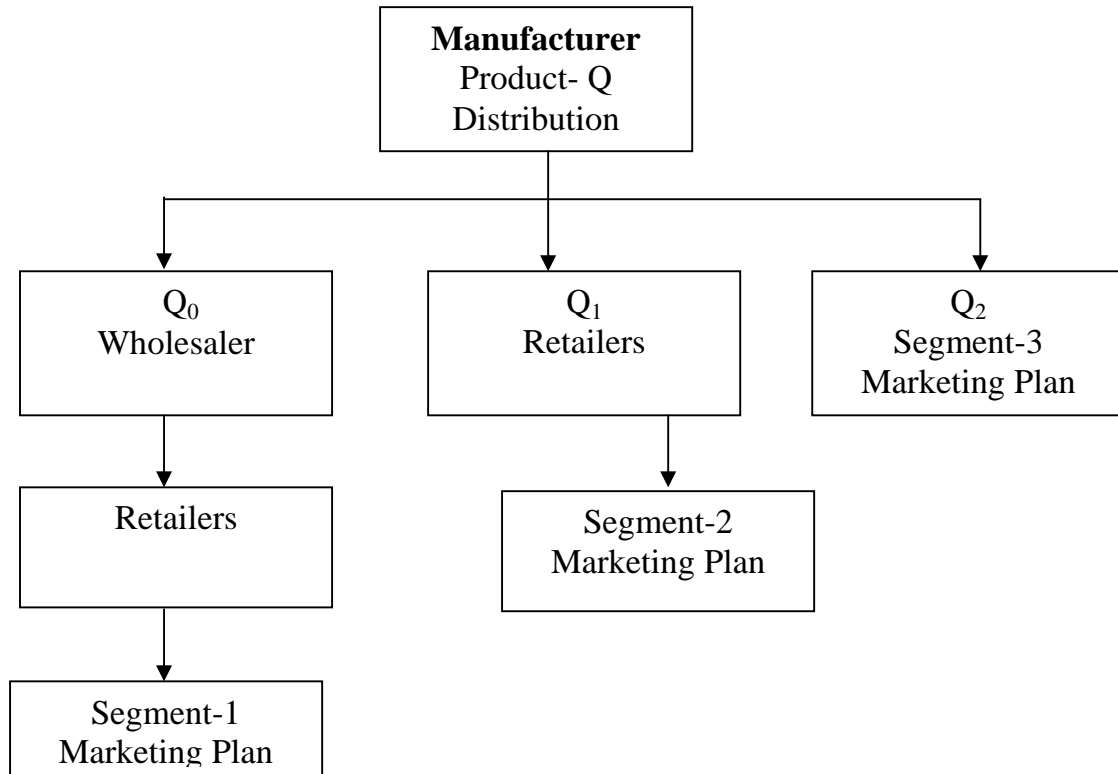
The number of sellers and buyers and the distance of product movement are relatively large;

1. The frequency of purchases is high.
2. The lot sizes needed by end users are small.
3. Markets are decentralized. (*Shrestha, K. 1992:133*)

Middlemen in distribution channel facilitate the process of exchange and create time, place and possession utilities through matching and sorting process. Sorting enables meeting or matching the supply with consumers demanded.

Distribution involves the physical of products to ultimate consumers providing complete satisfaction. It has so many methods and ways to perform its functions and is critical task. It is not only simply a matter of moving products in to the hands of consumers; it involves a products movements through out all stages resources pronouncement to final sales. Intermediaries may generally performs these functions more effectively. So, the manufacturer's first and most basic distribution problems is to decide, if he should use intermediaries or middlemen or not. The outcome of this decision depends upon the firms marketing plans. The marketing oriented firms design its products to fit the needs of a particular group of potential customers. The distribution system must efficiently implement this marketing planning. The producers present the products the product different to different market segments. The different market segment programmed is concerned with the availability of product to potential customer. The producers would like to establish a distribution system that will achieve the optimal marketing programmer in each market segment so that he will generate

the maximum profit. The system should include middleman whenever they can increase the manufactures profitability by performing distribution function at lower cost.



### Hypothetical Channel System

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the major time, place and possession gaps that separate goods and service from those who would use them. Members of the marketing channel perform a number of key functions. *(Kotler Philip, 1987:539)*

- 1. Information:** The gathering of information necessary for planning and facilitation exchange.
- 2. Promotion:** The development and dissemination of persuasive communication about the offer.

- 3. Contact:** The searching out and communicating with prospective buyers.
- 4. Matching:** The shaping and fitting of the offer to the buyer's requirements. This includes such activities as manufactures, grading, assembling and packaging.
- 5. Negotiation:** The attempt to reach full agreement on price and other terms of the offer so that transfer of ownership of possession comes to be effected.
- 6. Physical distribution:** The transporting and storing of the goods.
- 7. Financing:** The acquisition and dispersal of funds to cover the costs if the channel works.
- 8. Risk-taking:** The assumption of risks in connections with carrying out the channel work.

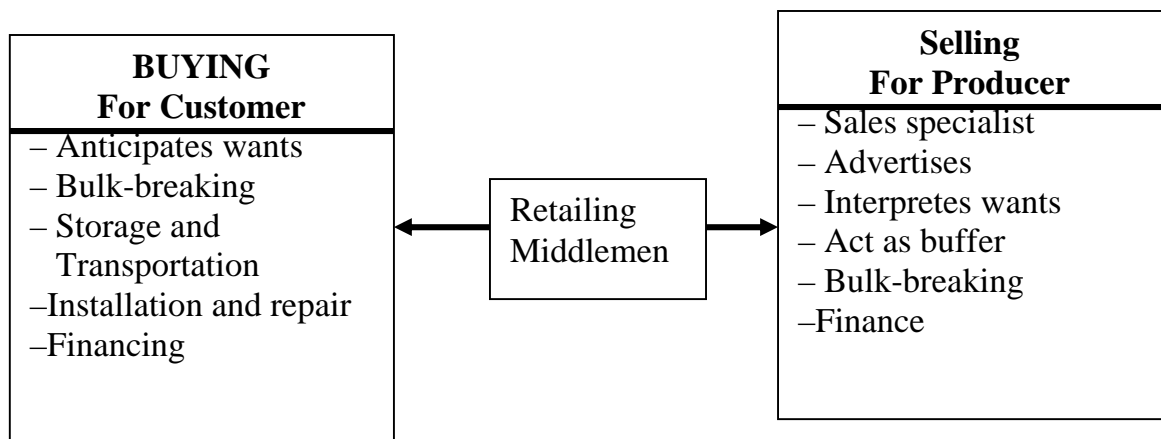
The first five functions help consummate transactions; the last three helps fulfill the completed transactions.

The question is not whether these functions need to be performed. They must be but rather who is to perform them. All of the functions have three things in common; they use up scare sources; they can often be performed better through specialization; and they are shift able among channel members. To the extent that the manufactures cost go up and its price trend to be higher, when some functions are shifted to middleman, the producers costs and prices are lower, but the middleman must add a charge to cover their work. The issue of who should perform various channel tasks is one of relative efficiency and effectiveness.

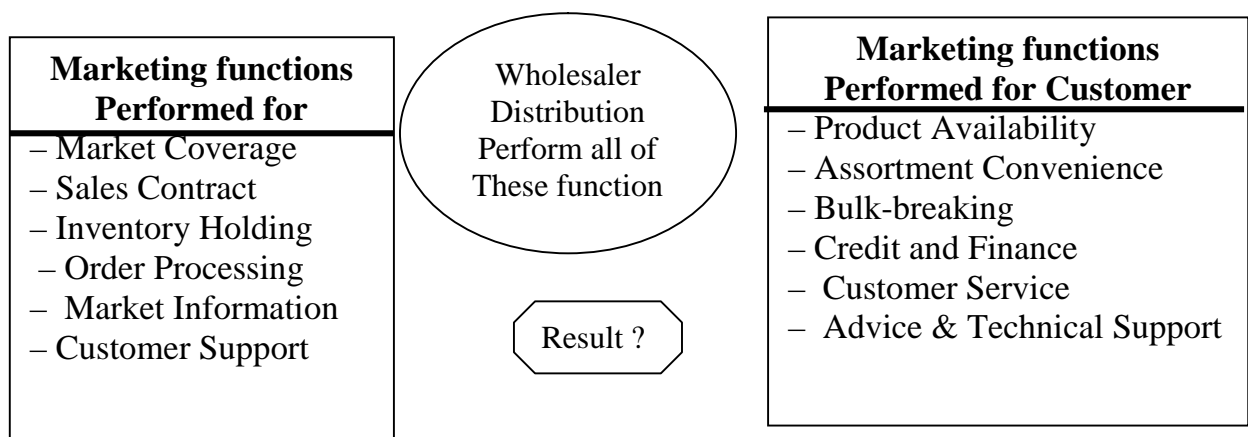
Middleman are very important in many cases in fact in virtually all cases where consumers are involved. That is an old saying in marketing



that "You can eliminate their function (activities) but you cannot eliminate them." Someone has to perform those activities, if not the middleman then the producer of final customers. Middleman serve as purchasing agents for their customers and as sales specialists for their suppliers and their bulk breaking activities (dividing large shipment into smaller quantities for resale),and the market information, they provide benefit to supplier and the customer alike.



The retailers provides services for customers on one hand, and for producers and wholesalers on the order.



**Source :** William J. Stanton and Charlees Futrell, *Fundamentals of Marketing* McGraw Hill, 1998, P315

The wholesaler's services to retailers is as follows: retailers have no need to hold large stock of varied goods, prompt delivery of good,

benefits of specialization, announcement of new products, grant of credit.

Except the function described above, middleman perform other two types of functions, which is described below:

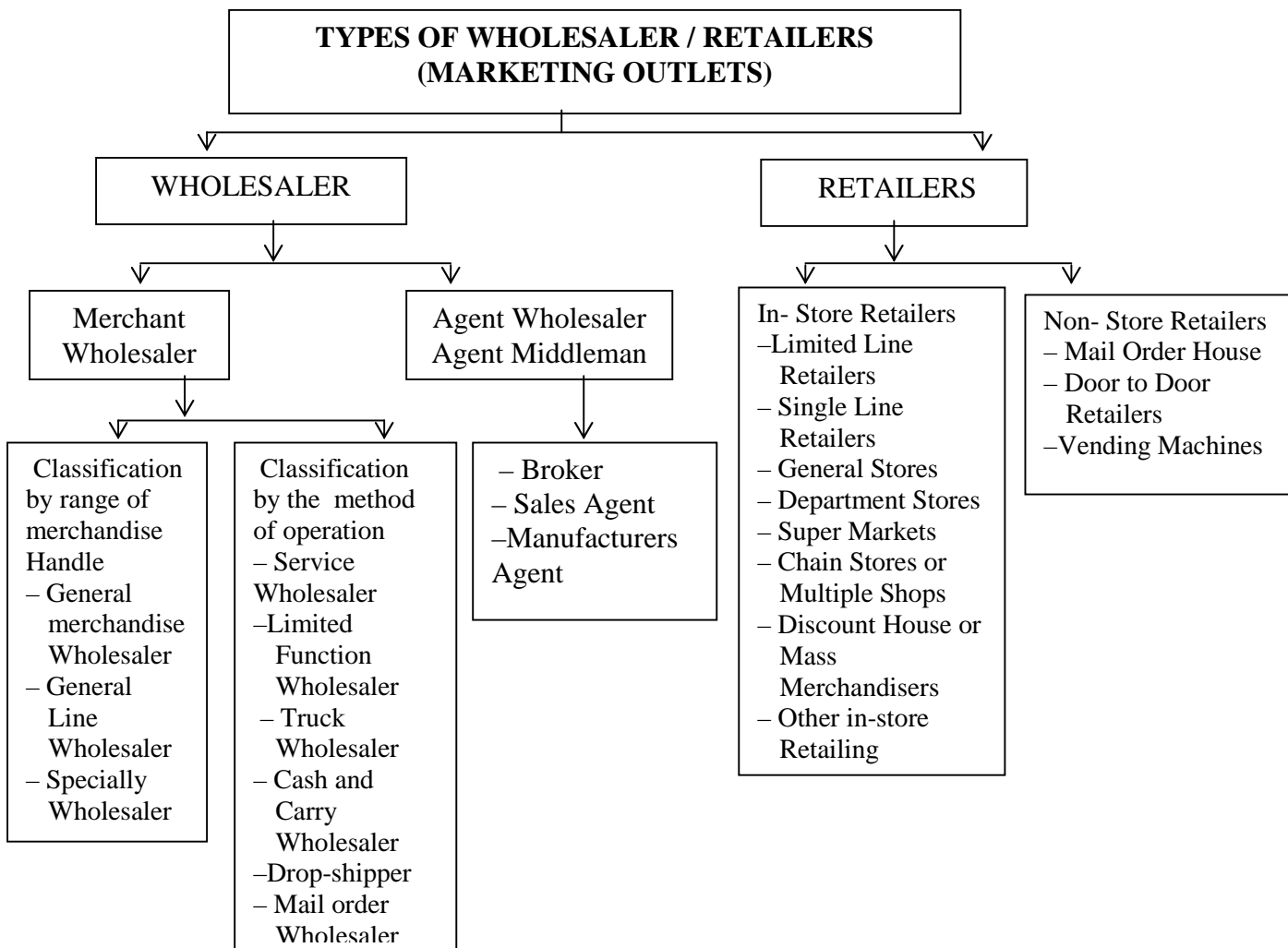
- i) Concentration, Equalization, Dispersion
- ii) Creation of Utility

The job to be done involves (1) collecting or concentrating the output of various producers, (2) subdividing these output into the amount desired by customers and then putting the various items together in the assortment wanted are called equalizing and (3) dispersion of the assortment to customers or industrial buyers. A specialist in concentration, equalization and dispersion is needed and this is the middleman.

Middlemen aid in the creation of time, place and possession, utilities. In classical economy theory, production is defined as the creation of utilities and several types of utilities are organized. One is form utility, which results from chemical or physical changes that make a product more valuable, when lumber is made into furniture or flour into bread, form utility is created. Other utility are equally valuable to the final user.

Manufacturer produce product at one or some place but its users are scattered in large geographical area. A product located at factory warehouse is of little value to people living far from it., transporting products from its factory area to users territory increase its value –place utility is added. When producer produces products user does not use immediately. He buys product when he needs. Storing it from the date of manufacture to before its use and another value time utility, possession utility is created when user buys products.

After a company has chosen a channel alternatives individual middlemen must be selected, motivate, developed and evaluated.



#### 2.1.4 Selection of Channel members

Selection of channel members is an integral part of distribution channel management. Need for channel member selection could arise in case:

- ▶ Setting up an entirely new channel,
- ▶ Opening of new markets,
- ▶ Inadequate coverage of existing market,
- ▶ Replacement of existing channel members for a variety of reasons, and,

- ▶ Major policy changes in company distribution set-up e.g. dropping and adding of a new type of intermediaries in the existing channel (*Jain and Vora, 1980:7*)

The first step in selecting procedure of channel members is the generating of interested dealers. These are different sources that can be used for generating them. The important sources, however, are members is evaluating criteria's to be used for selection. The general criteria which could be useful in the selection of channel members are:

- a. Coverage strength,
- b. Product line handled,
- c. Sales strength,
- d. Ability to perform task,
- e. Sales strength,
- f. Inventory and warehousing,
- g. Management ability and succession,
- h. Reputation and.
- i. Attitude (*Dangle, 1978:37*)

Motivation of channel members and developing of channel member's capabilities :

Middlemen must be continuously motivated to do their best job. The terms that lead them to join the channel provide some of the motivation, but continuous supplement these. The producer must sell not only through the middlemen but also to them. Stimulating channels members to do performance must start with the manufacturers attempting to understand the needs and wants of the particular middlemen.

Developing of channel members capabilities is no less an important aspects of the distribution channel management. Needs for developing one or more dealers could arise because of the variety of changes. The first such change could be in the realignment to task to be handled by dealers for which they are not capable. The second could be change in management (succession, etc). A third and probably the most important reason could be deterioration in managerial practices. A company could easily stop major changes, which require it attention for drawing up a dealer development program.

The more important reason, however, are unfamiliarity of the dealers with additional tasks to be performed by them, failure to perform the assigned tasks satisfactorily likely retirement of top person managing the dealer organization and lack of reasonable profit for the individual dealers from the company business.

The important area in which the dealers need development help are buying and selling practices, management of working capital, management of their staffs and office promotion planning for their sales. It becomes imperative, therefore, for an efficient distribution management to explore the reasons as well as the areas in which the channel members need development help. In order to assess dealer's capabilities and identify development needs, their operational problems have to be diagnosed. The dealers have to be persuaded for diagnosis of their operations in the light of the hope that if such investigation is carried out, they would be able to improve upon their performance. Some qualification of the cost and benefits to the dealers and the company would ease the task of persuasion. Further, appropriate organizational arrangements would have to be made in order to carry out the program of development. There may be either a regular

department or a person entrusted with responsibility of organizing these activities.

Further, dealer development activities can be conducted in various ways, the important ones on the job training by company staff, training in vocational schools, counseling by company staffs, organizing short term workshops, conference and specialized training, the program for development conducted by the companies has to be further evaluated and control in order to assess its effectiveness as well as improving the development of such program in future.

### ► **Evaluating Channel Members**

The producer must periodically evaluate middlemen's performance against such standard sales quota attainment, average inventory levels, customer delivery time treatment of damaged and lost goods, cooperation in company promotional and training programs, and middlemen services owed to the customer.

The producer typically sets sales quotas for the middlemen. After a period ,the producer should check the sales quota performance of each middlemen. Diagnostic and motivational as well as developmental efforts should then be focused on the under achieving middleman.

A channel system actually is together to achieve common goals. In channel system, there is high degree of mutual dependence among the channel members. The channel members benefits only when they perform their role a co-operative atmosphere. However conflicts often arises within channel members.

No matter how well channels are designed by the marketers, there may exist some conflicts among the channels. There are several reason for channel conflicts some of the major are as follows.

- a. Differences in goals of channel members such as profit margin, goodwill.
- b. Poor communication between the channel members;
- c. Unclear roles and rights of channel members;
- d. Difference in purchase terms and conditions;
- e. Lack of knowledge regarding the levels of channel control.

► **Channel Conflicts**

Channel conflicts arises within the channel, conflicts is viewed as a situation in which one members of a distribution channel perceives another member as an adversary engaged in behavior designed to injure, thwart or gain scarce at its expenses.

**i. Horizontal conflicts:** Horizontal conflict occurs between intermediaries at the same level such as conflict between two or more retailers, conflict between two or more wholesalers handle the same type of products or similar products.

**ii. Vertical conflict:** Vertical conflict occurs between channel members at different levels such as conflict between two manufactures and wholesalers and retailers . retailers and manufactures, who handle similar product.

iii. When a conflict situation arises within a channel system, some channel member must take a leadership role to resolve the conflict.

Although channel conflicts can be resolved through various means, an atmosphere of co-operation is highly essential and perception of channel members. Conflicts resolution is possible through one of the following methods.

a) **Problem solving :**Problem solving involves mutual consultation among channel members to sort out their difference.

- b) Persuasion : Under persuasion method, a powerful channel leader persuades the dissident channel members to work for the benefits of the channel.
- c) Bargaining : Under bargaining method, the members in conflict negotiate with each other to arrive at a new agreement.
- d) Politics : Several channel members from an associate with a view to change the current channel power structure.

All channel members have the same general objectives, profitability access to products and services, efficient distribution and customer loyalty. The quest of every firm is to maximize its own profit and control its strategy. However, the successful channel members will be able to expand their co-operation and minimized conflicts.

Channel of marketing or intermediaries participating in the distribution channel may be broadly divided in two parts namely, merchant intermediaries.

**A. Merchant Intermediaries:** Merchant intermediaries are those channel members who take both title to and possession of goods from the preceding members and channels them to subsequent members in the channel sequence. Merchant intermediaries are both buyers and sellers of goods sold.

1. **Wholesalers:** A merchant may be defined as that intermediaries buy goods on bulk from manufacturers and sells them largely to subsequent intermediaries participating in the channel, namely, semi-wholesalers and retailers and sometimes to large consumer in relatively smaller lot. Merchant wholesalers may be further divided into three parts ;full function wholesalers, converter, wholesalers and drop skipper.



- a. **Full-function wholesalers:** A full function wholesaler is that type of intermediary who buys and sells products in his own account, carries stock, organizes selling, extends in bulk, sells in smaller lots and renders counsel and advice to his buyers. He renders a number of services to manufacturers, including financial assistance when needed. Thus, here is an intermediary who practically performs all functions of a merchant.
  - b. **Converter Wholesalers:** Converter wholesaler is that full function wholesaler who buys products and sells them to subsequent channel members after having processed them.
  - c. **Drop-skipper:** A skipper is that merchant wholesaler who neither stores products nor delivers them to buyers from his own stocks but he books orders and directs manufacturers to dispatch products to buyers at the place and times indicated in the orders so booked. He takes delivery of products only when buyer fails to honor his contracts.
- 2) **Semi-wholesalers:** A semi-wholesaler is that merchant intermediary who buys products largely from wholesalers and at times from manufacturers in lots smaller relative to wholesaler consumers after assembling various lines of products of different manufacture as per their requirements.
- 3) **Retailers:** A retailer may be defined as that merchant intermediary who buys

products from preceding channel members in small assorted lots and sells them to consumer in still smaller assorted lots to suit individual consumer requirements. Retailers are the final components in the distribution channel that links a manufacturer with consumers. His contact with the consumer is constant and living. The retailer may be

further divided into two parts ,such as institutional and non institutional.

The institutional retailers, who often have ample opportunities for establishing vertical and horizontal distribution channels, include consumer co-operative stores, fair price shops, departmental stores, chain stores and mail order houses. Non institutional retailers include the floating population of street sellers, peddlers and hookers. Institutional retailers are as follows:

- a) **Consumer co-operative stores:** These are retail stores owned by consumers. They buy goods from wholesalers in the co-operative and private sectors and sell them to consumers usually in the area served by them. These stores add their service charges in the cost of goods while determining the price. The profit earned is distributed among members by way of dividends. Right now, it is the most favored component of the public distribution system and a contingent channel of essential articles in short supply.
- b) **Fair Price Shops:** these are retail outlets established by the manufactures and state selling products at prices, which are fair. The objectives of these stores are to ensure regular and equitable supply of essential commodities at fair prices usually to the weaker section of society.
- c) **Departmental stores:** A departmental stores is a big retail stores with many departments under one roof. It offers a wide range of products so as to suit different consumer tastes and preference. But unlike consumer co operative stores , fair retail shops and street corner shops, these types of stores usually cater to the higher income groups of consumer.

- d) **Chain stores or multiple shops** : Chain stores or multiple shops owned and are operated by a manufacturer or an intermediary. In this system there is centralized manufacturing procurement and decentralized selling through these shops. The shops have identical merchandising strategies with identical products and display. The objectives is to carry products at the consumer doorstep.
- e) **Mail- Order House** : The are retail outlets who sells goods by mail only and there is no live contact between procures products advertises them and expects prospective buyer to send offers usually with some advance money. The products sold are sent through ordinary post or value payable post as the case may be. The mail order houses have become attractive advertisement about consumer prizes and the like to gullible buyers.
- f) **Distribution Dealers** : Distributors and dealers are the two words often used while discussing distribution channel in marketing. Although these are used, interchangeably and their meaning has not been standardized, these two are merchant intermediaries who deal in the product lines of a manufacturer under exclusive franchise agreement which usually incorporate restriction regarding territories and market served and products handled and lay conditions in respect of resale prices ,inventory carrying and the payment etc. Nevertheless, distributor's nature of operations usually resembles with those of a merchant wholesaler, while those of dealers with that of a retailer. Thus, exclusiveness of assignment is the distinguishing characteristics of these intermediaries.

**B. Agent Intermediaries:** Agent intermediaries are those channel components that never take title to and usually do not take

possession of goods but merely assist manufacturers, merchant intermediaries and consumers in carrying out transactions of sale and purchase. Therefore, unlike merchant intermediaries, they do not buy or sell goods on their own account but merely bringing buyers and sellers together in order to strike a transaction. There exists an agency relationship between an intermediaries and manufacturer where the former acts as an agent and the latter as his principal. Such agent intermediaries solicit order, sometimes with discretion in fixing prices and determine the terms of sale with buyers. They are usually compensated for their services by commission on the value of sale affected through them or on any other basis mutually agreed upon.

**1. Sole Selling Agent:** Sole selling agents are those agents intermediaries who are given exclusive franchise to channel the whole or substantially the whole of a manufacturers production without any territorial restrictions on the agency agreement stipulated. The crux of the relationship is that the sole selling agent underwrites the "stipulated sale of production " and relieves the manufacturer of the selling botheration.

**2. Selling Agent:** Selling agents are those agent intermediaries who are given exclusive franchise only for a limited market segment. These differ from sole selling agents in terms of restriction imposed with respects to the territorial operation, products handle and |or consumer served. They work solely for the company in so far as the assigned territory product or consumers are concerned.

**3 Commission Agent:** these are those wholesale drop shippers who combine the function of an agent do not buy and sell goods in their account but work as manufacturers extension . They book orders from

buyer and send indents to manufacturers for confirmation and dispatch of goods to buyers at the places and time indicated there in. They perform a host of functions including financial underwriting of sale recovering dues from buyer and market investigation.

**4. Brokers:** brokers are those agent intermediaries who do not themselves buy or sell products but act only as contact persons for perspective sellers and buyers in participating in the distribution channel. They take absolutely no risk and get compensated by way of brokerage only whenever transaction is stipulated.

#### ***2.1.4 Physical Distribution***

Physical distribution is concerned with the management of physical flow of goods from the points of supplies to the points of purchase.

Stanton defines physical distribution as "the activities concerned with the movement of the right amount of the right product to the right place at the right time." Cravens, Hills and Woodruff define physical distribution management, as "the process of strategically managing the movement and storage of materials, parts and finished inventory from suppliers between enterprise facilities and to consumer.

Physical distribution involves handling and moving of raw materials and finished products from producer to consumer. It comprises the set of tasks involved in planning, implementing and controlling the physical flow of materials and final goods from points of origin to points of use or consumption to meet the needs of the consumers at a profit. Physical distribution creates time and place utility, which maximizes the value of the products by delivering them to the right customer at the right time and right place. In other words, its objective is to "put the products within an arms length of desire", by

administering its physical flow from the organization to the customer at the time and place where they want them at the reasonable cost. Management of physical distribution is equally important in the distribution channel management. Distribution has to be planned effectively and efficiently in a such a manner that it can ensure the continuous flow of goods and services from the point of origin to the consumption and the cost of distribution can be kept at the minimum possible level. "The set marketing intermediaries involved in bridging the gap between the producer and the user of its products and services is called marketing channel. These intermediaries or agencies bear a variety of name such as sole-selling agents; marketers; wholesalers; franchised dealers; retailers; authorized representative; brokers; commission agent. These agencies negotiate sales transaction and direct the physical movement and storage of the products so as to place it ultimately in possession of final buyers where, when and in what quantity they want. Evidently, every marketing channel contains one or more transfer points at each of which there is either an institutions or a final buyer. Thus , "marketing channels paths that goods and title to them, follow from produced to consumer, Distribution, therefore, is a very important function ,which helps the ultimate attainment of the purpose of production by linking the produces with the consumers.

Marketing guru, Peter Drucker contends," Both the market and the distribution channels are more important than the products."

The channel –designed management is considered to be one of the most difficult problems faced by the management.

The design of distribution channel is closely related to a firm's corporate and marketing objectives. Channel objectives strategies and structure of an enterprise are therefore set in tune with its corporate and

marketing objectives. Channel objectives are spelled out in various ways. They may be cost minimization i.e. economic, control on channel members, independence, image building and retaining customer loyalty. Channel objectives must be stated in specific operational terms which can be used to identify and select among alternative channel structures, such as

- i. Expected sales and profitability by period
- ii. Desired market coverage
- iii. Required sales and support service support
- iv. Required physical distribution support and
- v. Desired return on investment.

► **Channel objectives Guide the Channel Strategies and Structure.**

Channel strategy is the basic plan for achieving channel objectives. Strategy has been defined as the schemes whereby a firm's resources and advantages are managed in order to surprise and surpass competitors or to exploit opportunities. The channel strategy comprises decisions regarding intensity of distribution, appropriateness of direct or indirect channels plans for gaining desired intermediaries in each geographic area and finally implementation of those decision. Different alternative strategies may be employed simultaneously to achieve the channel objectives. However , the most commonly used channel strategies are ( 1) Pull (2) Push (3)Functional Spin Off and or Absorption and (4) Distribution Expansion.

Once channel objectives and strategies have been established the manufacturer must identify the alternative channel structures and select the most desirable one(s). Selection of channel structure can be made on the basis of operational requirement or performance considerations

such as evaluation of captive or independent outlets, geographic differentiations or product differentiation.

The main objective of physical distribution is getting the right products safely to the right places at the right time at the least possible cost. More specifically, the objective of physical distribution is

- i. To provide customer service
- ii. To distribute goods more safely
- iii. To minimize the total costs, and
- iv. To supply goods to the right largest market.

Philip Kotler:- "Physical distribution involves planning implementing and controlling the physical flows of materials and final goods from points of origin to points of use to meet customer needs at a profit.

Efficient physical distribution can lead to:

- a. Cost saving: Heavy cost of distribution can be reduced.
- b. Consumer satisfaction : This be improved
- c. **Competitive Effectiveness:** This can be faced. One major deficiency of traditional logistical management was a failure to develop an integrated treatment. Traditionally, management of individual parts of logistics has been under the direction and control of various departments within an organization. Such division of responsibility often resulted in duplication and waste and sometimes in hindrance of achievement of objectives. Such an objective for the logistical system might be neither the lowest possible cost nor the fastest method of product delivery. Under the system approach, basic acknowledgement is given to the importance of all elements include in the system. These elements are also called the sub-system. Each specific sub-system functions to accomplish towards attainment of the basic objectives of the total system. The system theory holds that sub-systems linked



together as a system can , on a combined basis ,produce an end result greater than that possible by individual performance. A large number of tasks are involved in physical distribution. The first task is sales forecasting, on the basis of which the company schedules production and inventory level. The production plans indicate the materials that the purchasing department must order. These materials arrive through inbound transportation, enter the receiving area, and are stored in raw materials inventory. Raw materials are converted into finished goods. Finished goods inventory is the link between the customer orders and the company's manufacturing activity. Customer 's orders bring down the finished goods inventory level and manufacturing activity build it up. Finished goods flow off the assembly line and pass through packing in plant warehousing, shipping -room processing out bound transportation, field warehousing and customer delivery and servicing. A physical distribution system consists of a set of interrelated function with specific boundaries. The interrelated functions include the following elements:

1 ) **Transportation** is the element of the physical distribution system that links geographically separated markets and facilities. Markets need to take an interest in their company's transportation decisions. The choice of transportation carries will affect the pricing of products on time delivery performance and the condition of the goods when they arrive, all of a transport capability. First it can have its own private fleet of equipment. Second, specific contract may be arranged with firms and individuals who are transport specialist to provide a contract movement service. Third, it can use the common carrier that offers point-to-point transfer at specified charges. Four factors are of primary importance in the establishment

of the transport capability : 1 ) cost of service , 2) speed of service, 3) consistency of service, 4)security.

There are many transportation options available for movement in the logistical system . The five basis transportation modes are road, rail, water, air and pipeline. The distributing firm has select from among these five modes of transportation. Each mode transportation has its own characteristics its own merits and demerits. the transportation need of each firm in each product also varies. In this situation, the firm has to tally its need of transportation with the relative characteristics of each mode of transportation.

**2) Warehousing:** Every company has to store its goods while they wait to be sold. A storage function is necessary because production and consumption cycle rarely match. Many agricultural commodities are produced seasonably while demand is continuous. The storage function overcomes discrepancies in desired quantities and timing. Warehousing decision determines the number, size and location of storage facilities needed to service customer demand. Developing effective warehousing strategy includes the decision regarding the following elements:

- Determining the type of warehouse i.e. private or public warehouse.
- Evaluate developments in warehousing.

**3) Inventory management and control :** Inventory management is one of the risky decision areas in the modern business enterprise. Inventory planning is critical to manufacturing operations shortage of raw materials can disrupt the production schedule and shortage of finished product may force the sellers to turn down their customer. On the other hand , excessive and over stocked inventories increase cost

and reduce profitability as a result of added cost of warehousing, capital tie-up, product deterioration, excessive insurance and product obsolescence. Therefore, the inventory management seeks to achieve a balance between shortage of stocks and an excess of stock.

Inventory decision-making involves knowing when to order and how much to order. As inventory draws, management must know at what stock level to place a new order. This stock level is called the order or re-order point. The order point should be higher than the order lead time, the usage rate and the service standard. Re-order point can be computed by using this formula.

$$\text{Re - order level} = \text{Safety stock} + (\text{lead time daily consumption})$$

The other decision is how much to order. The larger the quantity ordered, the less frequency an order has to be placed. The company needs to balance order processing costs and inventory carrying costs because if ordering cost increases, the carrying cost decreases and vice versa.

The EOQ (Economic Order Quantity) model is helpful to answer how much to order. EOQ means the size of the order that will result in the lowest total of order cost and carrying cost for an item of inventory. The cost required from goods ordering to goods receiving is known as ordering costs and the carrying costs are the costs which are required for holding an inventory for a specified period of time, i. e. warehousing expenses, interest on investment, losses due to spoilage and pilferage, inventory taxes and so on.

The EOQ can be determined by using the formula :

$$\text{EOQ} = \sqrt{\frac{2AO}{C}}$$

The EOQ = Economic Order Quantity

- A = Annual requirement
- O = Order cost per order
- C = Carrying cost per unit

EOQ is the size of an order of an item to be placed in inventory that result in minimum total cost, talking into account the order costs and the costs of carrying the item in inventory.

**4 ) Order Processing:** Still, another part of the physical distribution system is set of procedures for handling and filling order. This should include provision for billing, granting credit, preparing invoice and collecting past due account. Consumer ill will can result if a company makes mistakes or is slow in filling orders. As information demands become more complex companies are increasingly turning to computers to implement their order processing activities.

The cost company and customer benefits when these steps are carried out quickly and accurately. Ideally sales representatives send in their orders, which are processed and dispatched as early as possible. Bills go out as soon as possible.

**5. Material Handling:** Material handling also called the physical handling of goods is an activity that is important in inventory, warehousing and transportation. The characteristics of a product determined to a large extent how it will be handled.

The selection of the proper equipment to physically handle products is an important aspect of physical distribution management. Proper equipment can minimize losses from breakage, spoilage and theft. Efficient equipment can reduce handling costs as well as the time required for handle.

### ***2.1.5 Role of Marketing In Industrial Development***

Marketing has a critical role in the economic development of a nation . Therefore, the development of an efficient marketing system is essential for rapid industrialization. Marketing can accelerate the pace of industrialization in various ways. Without a marketing system, which facilitates the mass distribution of goods and services, it is indeed very difficult to reach the stage of development. Without high mass consumption, a development country can never hope to achieve the high standards of living. High mass consumption acts as a powerful catalytic force for mass production.

Further, mass consumption, which encourage mass production ultimately, leads to economics of scale in production. These economics scale can benefit consumers in the form of lower prices. However, people in the developing countries are often deprived of enjoying lower prices in absence of efficient marketing system. Hirsch stresses the need for improvement in the methods or scope of distribution very eloquently by saying that such improvement can lead to a more efficient use of production resources and also encourage their generation.

The absence of an efficient marketing system limits the size of market to small areas surrounding the points of production, which in turn, inhibit investments, raise the costs of production and make it difficult for local manufacturing to compete with imported goods.

The benefits of better distribution and advertising are manifested in various other ways. By collectively creating large markets these activities encourage manufacturers to concentrate on developments of new products or modification of existing products in order to better serve the needs of their customer. The spirits of innovation and

willingness to invest in research and development is promoted considerably. This transformation from a production oriented to customer orientation is a crucial step in the process of industrialization. Further, underdeveloped economics are characterized by the inability to organize economic efforts and energies to bring together resources, wants and capacities and to convert a self limiting static system into a creative, self-generating organic growth. Marketing plays a significant role in this context and convert a self-limiting static system into a creative, self generating growth. Marketing plays a significant role in this context and can quicken the process of development considerably. It has both multiplier and motivational effects.

## **2.2 Fundamental Concept of DDC**

### ***2.21 General Background of Agriculture in Nepal***

Development of economic and social infrastructure started from a negligible base. Arable land is scarce and population pressure is among the highest in the world. On average 7 people are dependent for their livelihood on each hectare of arable land. Population pressure is even higher in the Hills (300-3000m above sea level) and in the mountains (above 3000m) which has forced people to migrate to the low lands, the Terai, where the previously dense forest has been cleared for settlement of the mountain and hill population. Today the Terai has about 45% of the population, the hill 47% and the mountains 8%.

The agriculture data over the last twenty years indicates that the overall ACDP growth has actually declined from 3.23% during 1980-90 to 3.3% during 1991-99. The growth in milk production during the last 10 years did not improve significantly and remained slow at 2.6% per year. Growth in overall livestock sector GDP actually declined compared

with the previous decade. The decline in agriculture growth is basically due to fall in growth is mainly due to eroding supply of fertilizer inputs. Livestock sector growth is slowed down because of its integrated relation with cereal sector. Milk production growth stagnated also due to marketing problems. Recently, over the last two years, growth in agriculture has started picking up due to policy reforms and improved weather. Among the ecological belts. Terai region has higher growth of AGDP and also the production of milk than in the hills because of its better infrastructure position.

**Table No-2.1**

**Annual Growth Rates in Agriculture over Last two Decades**

<b>Sub- Sector</b>	<b>1980-1990/91(%)</b>	<b>1990/91-1998/99(%)</b>
Fields Crops	2.68	2.74
(Cereals)	2.30	1.73
Horticulture	4.90	4.70
Livestock	4.76	2.58
(Milk)	2.5	2.6
Fishery	16.88	8.10
Forestry	1.78	1.50
Total	3.23	2.28

Sources : *C.P. Pokhrel and R.N. Shresth :Agriculture Statistics of Nepal- Revised Crop Area Series 1994 and Economics Survey 2000.*

A dual Economics character has been emerging in the country. Though small, the urban sector has distinctly different economic pattern with fast increasing commercial character. Almost all the facilities are concentrated mainly in the urban areas. Income and consumption pattern also are different. While rural area faces problem of the market for its products, urban area imports large amount of commodities both

the modern as well as agriculture (such as fruits, fresh vegetables, milks powder, cheese, etc.) from abroad and this gap is widening.

There is only few specialized focus in Nepal-mainly around the urban markets. The majority of Nepalese farm households produce primarily in order to satisfy the food requirements of the household. The production pattern and mix depend on the agro- ecological condition as determined by altitude (temperature), rainfall and soils. The large variations in altitude, rainfall and population pressure has generated a multitude of different production and farming system within a relatively small geographical area.

A common feature of the many diverse system in the interaction of crop production, livestock and forestry/pastures is sustaining the rural household. The relative importance of crop production, livestock and forest/pasture differ among the agro- ecological Zones and sizes of holding. In the terai, which has less population pressure and a food - grain surplus, crop residues represent the major sources of feeding the livestock. In the Hills, most farms are too small to support the family with food grains and the livestock with crop residues. The Mountains, have limited crop production and livestock is fed on pastures during summer and in lower altitude forests during winter.

### ***2.2.2 Livestock and Dairy Processing***

Livestock rearing has always been and integral part of the crop agriculture. Cows and buffaloes are raised for producing draft animals, manure and the supply of animal protein (Cow for milk and buffalo for both milk and meat.)



National average of per farm family livestock holding is 3.6% cattle, 2.4% buffaloes, 4.1% goats and 8.8% poultry. More than three fourths of the farmers hold cattle and about half hold also buffaloes. The yearly productivity is however very low with 397 kg and 830kg of milk per milking cow and buffalo respectively. Their productivities are several times lower ( 10 to 15) in case of milk compared to developed countries.

In the livestock sector, there is significant scope also for import substitution. Milk powder alone is improved worth Rs 1 billion a year (study estimate). APP has considered livestock sector as demand driven product and aims at attaining annual growth of 5.5% in dairy sector during the next 10 years of APP.

### ***2.2.3 Marketing Management In Nepal PE's***

Marketing in Nepal has remained relatively a neglected aspect in the business environment. It has tended to be enveloped in the traditional concept, which focuses on profits through increased sales volume. The marketing concept of customer oriented does not seem to have been able to spread much root in the Nepalese marketing environmental milieu.

Marketing management has therefore, remained the area of least concern to management in Nepali PE's. The traditional dominance of seller's market perpetuated by prevalence of monopoly, oligopoly and monopolistic market situation has chiefly been responsible for the neglect of market function.

The public sector enterprises of Nepal have so far remained indifferent to the modern tools and concept of marketing. Marketing is considered simply as a function of buying and selling goods. Numerous other

related and important aspects such as customer satisfaction, distribution channel, promotional strategies, service operation etc. have been virtually neglected. Consequently no well-defined and articulated marketing objectives, policies and strategies have been formulated in Nepali PE's.

Most PE's lack long term marketing planning, similarly the organizational aspect of Marketing Division is neglected. In most of the PE's no thought seems to have been given for improving the distribution channels once they are set. In most of the PE's, the Marketing Research and Information wing is non-existence and even in enterprises where it does exist; it has virtually failed to justify its existence. Similarly, the PE's have remained passive in promoting their goods and services in general. Most of the enterprises have hardly taken up any promotional activity aimed at increasing their sales and service and education their consumer. The decision making process in the PE's is highly centralized. It is very likely that in marketing too. Most of the decision come from the top in the absence of two-way traffic in information flow. It is but natural in this situation that decision is generally effected without the guidance of proper feedback.

#### ***2.2.4 Marketing of Dairy Product***

DDC and to some extent private dairies have in the past given negligible attention to the marketing and distribution of their dairy products. As the demand for their products in most periods have exceeded the available supply they have not felt it necessary to invest in marketing and distribution. The consumer have to come the sales outlets, usually in the early morning and queue up in order to get their milk. DDC often sets an upper limit on how much milk an individual

consumer can buy at a time. Thus, buying of pasteurized milk is often time consumer exercise for the urban consumers.

The supply in particular of pasteurized milk is subject to considerable seasonal variation following the seasonal fluctuation in raw milk intake and sales promotion campaign would therefore be futile as dairies in the lean season would not be able to satisfy demand. With the establishment of SMP production in Biratnagar, the seasonal fluctuation has been reduced to the benefit of consumer and processors.

Government has so far not supported the export of butter not been involved in any exception of few minor contracts for export of butter not been involved in any export. The major export has so far been done by the informal sector, which export ghee, and khuwa to India. There is probably a relatively large export potential for DDC cheese and butter and for the informal sector ghee and khuwa, which is not being utilized.

DDC in the early 1990's started to plan the establishment of a proper marketing division. The role purpose of this division is to develop and improve the marketing and distribution of DDC's dairy products. While establishment of DDC's marketing division will improve the marketing and distribution of DDC's basic product i. e. pasteurized milk DDC will consider to contract private companies to undertake the marketing of some of the more specialized products, such as ghee, cheese and butter.

### ***2.2.5 The Dairy Industry In Nepal***

Government of Nepal began dairy development activities in Nepal in 1952 with an experimental production of cheese. It led to the establishment of yak cheese factory in Langtang of Rasuwa district under Food and Agriculture Organization (FAO) assistance in 1953. In

1954, a Dairy Development Section was established under the department of Agriculture (DOA) and also a small-scale milk processing plant was started on experimental basis in Tusal, a village of Kabreplanchowk district in the central region. In 1956, a central Dairy plant with an average milk processing capacity of 500 lph was established in Lainchaur with the financial assistance from New Zealand and technical assistance from FAO. Around the same time, a second mini-milk processing plant was established at Khaivipati in Bhaktapur district. The plant started milk processing and marketing activities from 1958. In the process, prior to 1960, two additional cheese factories were also established under DOA. In 1960, a cheese production and supply scheme (CPSS) was also launched.

A Dairy Development Commission was formed in 1955. The first five year plan (1952-1957) has stressed the need for developing a modern dairy industry. The Dairy Development Commission was converted to the Dairy Development Board in 1962. In order to meet the growing milk demand in Kathmandu, the board was converted to Dairy Development Corporation (DDC) in July 1969 under the corporate act 1964.

DDC established more Milk Supply Schemes gradually to meet the growing demand for processed milk and milk products. Established were Biratnagar Milk Supply Scheme (BMSS) in 1973, Heatauda Milk Supply Scheme (HMSS) in 1974, Kathmandu Milk Supply Scheme (KMSS) in 1978, Kathmandu (renamed to CPSS) and Pokhara Milk Supply Scheme (PMSS) in 1980. In order to increase the participation from milk producer farmers in an organized way, DDC initiated Milk Producer Association (MPA's) from Biratnagar in 1981. Later these MPA's were transferred into milk producers Co-operatives (MPC's).

In 1989, many DDC schemes were rehabilitating under DANIDA assistance. After the rehabilitating, the plant capacities increased from about 74,000 lpd to 180,000 lpd. In 1990. Ten year Dairy Development Plan (1991-2000) (TYDDP) was designed and approved as blueprint for the dairy sector development in the country. As recommended by the TYDDP, a skim milk powder (SMP) plant of 1,000 MT per day capacity was established in Biratnagar in 1991. in its early years, the SMP plant relieved DDC from their problem of "Milk Holiday" ( the word coined to refer the days which milk was not procured from the farmers by the process plants due to excess production) and also helped it to utilize the surplus milk flush season to supplement the deficient in collection caused by less production during the lean season. But presently, the capacity of the SMP plants is too small to handle the surplus milk during the flush season. In 1992, government established National Dairy Development (NDDDB) for assisting dairy development in the country under a separate act.

The private sector started getting involved in the dairy processing sector from the later part of 1970's with very small scale operations in Kathmandu. Today, there are many private dairies of various sizes both within and outside the Kathmandu valley. Similarly, cheese production by private sector is growing and has exceeded the amount produced by DDC.

Donor assistance has played significant role in the development of the dairy sector in Nepal. The assistance started from FAO and New Zealand and was continued by Switzerland, USAID and Denmark support from Denmark date.

## **Role of Dairy Sector in Economic Upliftment**

89% of Nepal's population being rural and large percentage of it being poor, agriculture is pivotal for poverty reduction and economic upliftment. Even within agriculture, dairy sector is more attractive for the following reasons:

- a) It can provide income everyday.
- b) Employment is immediate and the sector has high employment content.
- c) Land holding is not necessary a constraint.
- d) Weather has less negative impact compared to crop and if managed well, income is sustainable.
- e) It supplies both meat (in case of buffalo) and milk and,
- f) This sector draws cash from urban areas, which are distributed, even to poorest of the poor in the rural areas.

### ***2.2.6 Government Policy "Ninth Plan" ( 1998-2003)***

Ninth five-year plan in execution from 1997/98 has fully embraced APP targets in agriculture. Ninth plan document has fully accepted the privatization of public corporations and are key to reduce government subsidy led distortions in the market and paving the way for increased private sector participation. Dairy Development Corporation (DDC) has also been enlisted to be privatized. The privatization of public corporation has been a continued and strong endorsed policy of government since the implementation of the 8<sup>th</sup> plan (1992-1997). During 8<sup>th</sup> plan period, 16 corporations were privatized. In the ninth plan document, 30 companies are enlisted for privatization among which DDC is one of them.

Government dairy policy implementations are still vague. Unlike other agriculture commodities, the dairy sector is highly politicized by interest groups. Despite of being in the agenda for last several years. DDC privatization has been difficult due to political pressure and employee lay off issues. However, government has already put hold any additional investment in DDC.

► **Subsidies and Taxes**

Farmers are not charged for the animal health and extension services provided by DLS. There are no direct subsidies given to the farmers.

**Export Tax:-** It is only 0.5% on the export value. Regarding export to India, Nepal will have no barrier to entry to India and will face, no import tax. But, in reality there are some non-tariff complications related to produce verification.

**Import Tax:-** Tax ranges up to 10% in maximum in the dairy sector. There is an import tax of 10% for milk products. The parallel duty in India is much higher. The tax rates on both export and imports in general in Nepal are lowest in the region. With the adaptation of liberal market economy, the tax has been reduced gradually. Many of the import taxes at present are 10% of less. Average tax rate is around 14%.

**Value added Tax:** There is no value added tax (VAT) on fluid milk and yogurt. All the other products are charged the VAT of 13%.

Though Nepal does not have much direct subsidy to entrepreneurs, the large India market produced by high tariff against the imports and at the same time special concession of no tariff and no barrier to entry to the products from Nepal, opens up significant potential for new investment including joint venture prospects between India and Nepal.

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## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1 General**

The present study is a research to identify and analyze the present Marketing Management system of DDC with special reference to Biratnagar Milk Supply Scheme and to recommend the appropriate scientific distribution system.

#### **3.2 Research Design**

For this study the researcher has been used both the analytical and descriptive research design for the purpose under the study. Descriptive design has been used for the conceptual development, scientific and systematic framework of the research. And the analytical design has been used for the systematic interpretation of the numerical data used in this study.

#### **3.3 Nature and Sources of Data**

The study is based on both primary and secondary sources of data. However, the use primary sources of predominant. Primary information



and data were generated through the questionnaire and interviews. The secondary data has been used in this study. Basically, secondary data has been collected from the records of DDC/ BMSS, DDC's publications, books and journals/magazines, booklets and Internet etc. Thus, secondary is the main source of data and other necessary information has been obtained throughout the research from authorized staff of BMSS, Kanchanbari, Biratnagar, Morang. Some of these data were published while other was unpublished.

### **3.4 Population and Sample**

The DDC and its personnel are population of this study. BMSS is taken as sample for study because it is one of the biggest Dairy Industry operating in Biratnagar. Which produce wide range of Dairy goods used in daily life and has huge sales turnover.

### **3.5 Process of Data Collection**

The research has been done within three months. The first one month has taken for the data collection, next month for analyzing the collected data and last one month for the preparing of the research report more prescribed and systematically.

Collection of data has been made on the basis of the structured questionnaire, interviews and observations.

### **3.6 Data Processing Procedures and Tools Used**

Relevant data of this study are collected through secondary sources. Tables, charts and graphs have been used as per requirement. Non statistical (marketing) tools is also used to analyze collected data.

## **CHAPTER – IV**

### **PRESENTATION AND ANALYSIS OF DATA**

The main objective of this study is to examine the application of "Marketing Management System of in Biratnagar Milk Supply Scheme". For accomplishment of this objective, a definite course of research methodology has been followed, which is described in forth chapter. In this chapter, secondary data, as well as primary data have been used to accomplish basic objectives

The presentation of data is the basic organization and classification of the data for analysis. The analysis of data assists to interpret the facts and fulfill the objectives of the study by using different tools and techniques.

Collected data have been explained and analyzed to clear the objectives of the study. Basically, following two techniques are used to explain the collected data.

- a. Descriptive Techniques
- b. Quantitative Techniques

Under this, following tools

#### **4.1 Analysis of Marketing Activity of DDC**

##### ***4.1.1 Organization Aspect of BMSS***

The project Manager is the senior most officer under whose management the BMSS functions. There are 3 departments namely

Quality control. Marketing and Computer Development under him and Assistant Project manager is also under him. The Assistant project Manager guides and controls the activities of the administrative, accounts, processing, production, collections, engineering, chemical and Biological Testing Laboratory and Distribution Department. (see Appendix For Organization Chart of BMSS)

#### ***4.1.2 Production Aspects of BMSS***

The capacity of BMSS at present is 5000 liters/hour i.e. 15000 liters/shift of 5 hours. The infrastructure facilities associated with BMSS are that there are 11 chilling centers with holding capacity 90000 liters per day spread over 6 Districts of Eastern Development Region. To make up the milk supply to the chilling centers a network of 144 co-operative has been established.

Under this milk supply scheme, there is a cheese production center at Pashupatinagar, Ilam establishment in 1986, which turn 2500 liters of fresh cow milk into semi-hard cheese. Under BMSS, skimmed milk powder plant is currently running at Kanchanbari, Biratnagar. This SMP plant started its commercial production the Dec 1994 and was inaugurated on 26<sup>th</sup> Feb 1995. The production capacity of this plant is 2000 liters of skim milk per hour or 176 kg of skimmed milk powder per hour or a maximum of 40000 liters per shift of milk processing with an output of 3 M.T. of skimmed milk powder.

In keeping with the DDC's objectives of diversity and providing different milk and milks product to the consumer. BMSS produce the following:

**Table No. 4.1**

**Products Capacity of BMSS**

<b>S.N.</b>	<b>Products Name</b>	<b>Capacity</b>
1.	Milk (processing)	5000liters/hour
2.	Yogurt (Dahi)	1000 liters/day
3.	Butter	2000 liters/day
4.	Ghee	2000 kg/day
5.	Cheese	250kg/day
6.	Ice-cream	1500 cups/day
7.	Fresh Milk	500 bottle pack

**Source:** *Biratnagar Milk Supply Scheme, 2009*

The marketing network of BMSS consists of 2 sales counter at Kanchanbari and Mahendra Chowk, Biratnagar, and 30 dealers in altogether.

At present there are 140 administrative and technical staff out of which officer rank technical staff is 48 and 4 in the administrative section while in the assistant level, the technical staff are 83 and 5 in the administrative section.

**4.1.3 Distribution Aspects of BMSS**

The loading of milk in the delivery van start at 10:00 pm the previous day and the delivery van start leaving the factory gate 3:30 am early in the morning. The delivery van that has to go to distant route leaves the factory premises first followed by the nearer booths van. The exit of delivery van from the factory premises is maintained in such a way that its objective of delivery the milk at the last milk both of each route by

5:30 am in the morning is achieved. The maximum number of milk pocket that the delivery van carry 14000 or 700 crates for trucks and 8000 or 400 crater for mini trucks. It is the policy of BMSS to avail in such milk booth for one hour to two hours during the morning and afternoon. Depending upon the route and the road network delivery van begins to pick up unsold milk, damaged packet, damaged milk and empty crate either from the last point after the elapse of the set time duration.

The delivery van is provided with two staff for taking care or delivering the milk at each booth as per the dispatch format. They pick up the unsold milk pocket, damaged pockets, damaged milk and milk pocket, received the cash from the milk booth operator for the milk sold after deducting them commission @0.75 paisa per pocket. The milk operator sales milk on cash basis. There in no provision to sell milk on credit, BMSS guarantee to take back unsold milk pocket and damaged milk pocket. At present KMSS sells two types of milk in the market. Such as standardize pasteurized milk and pasteurized whole milk.

The current daily dispatch of milk to different milk booths and dealers 16000 liters out of which 10000 liters are distributed in Biratnagar, 4000 liters, in Dharan, 2000 liters, 2000 liters in Inaruwa and negligible quantity in Duhabi and Itharai.

An attempt has been made to analyze the collected data on the basis of the purpose of the study .

The types of distribution network of BMSS are as follows:

- 1 ) Distribution through own network or self-distribution
- 2) Distribution through others network or through middlemen

#### 4.1.4 Distribution Through Own Network or Self-Distribution

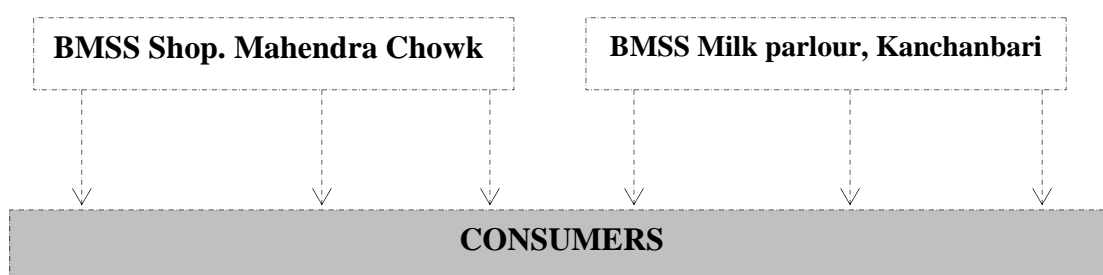
For the supply of milk products, the status of BMSS's own shop is as follows:

**Table No. 4.2**  
**Distribution Through BMSS's Network and its Status**

Phase	Place	Year of Operation	Year of Closing
I	Mahendra Chowk	2048/2049	Running
II	Jaljala chowk	2048/2049	2049/2050
III	Kanchanbari	2048/2049	2049/2050
IV	Jaljala chowk	2051/2052	2052/2053
V	Kanchanbari	2053/2054	Running

Source: *Biratnagar Milk Supply Scheme*

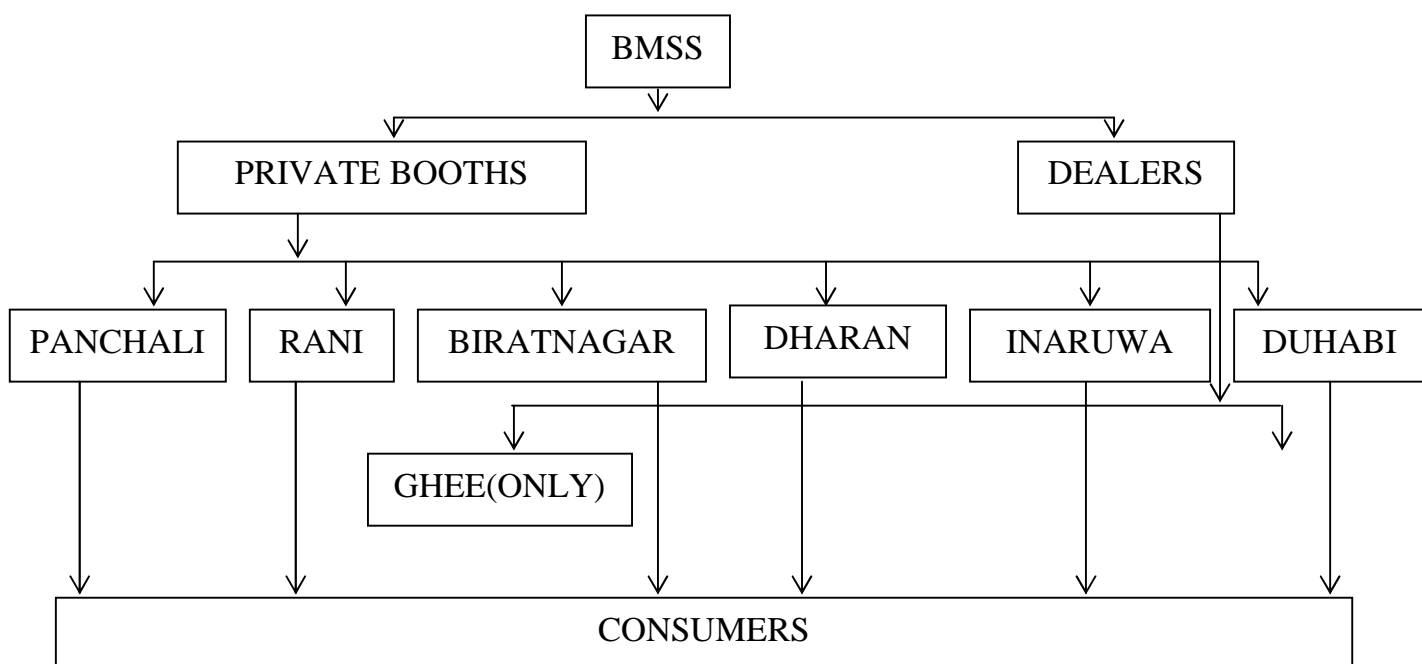
The above status can be diagrammatically shown as under:



According to the above table and diagram, BMSS has adopted self-distribution through its own shop and milk parlour which is zero level channel or direct channel.

#### **Distribution through Others Network or through Middlemen**

At the present there are a total of 250 booth man and 30 dealers. The understand diagram (2) below indicate the distribution through boot men and dealers according to their geographic location .



According to the above chart, BMSS has appointed booth men (250) to sell milk only and dealers (30) to sell milk and other dairy products. Thus it has adopted one level and two level channel of distribution or the indirect channel.

#### **4.1.5 Physical Distribution**

##### 1) Transportation Ownership Status

**Table No.4.3**

**Transportation Facilities and its Status**

<b>Vehicle Type</b>	<b>No.</b>	<b>Status</b>	<b>Capacity</b>
Truck	1	Own	14000 packet
Mini Van	3	Own	8000 packet
Truck	1	Hired	14000 packet

**Source :** *Biratngar Milk Supply Scheme, 2009*

According to the above table (4), BMSS has a total of 5 vehicles to distribute milk and milk products, where 1 truck and 3 mini van are self own, whereas 1 truck has been hired.

## 2) Warehousing Facilities

**Table No : 4.4**

### **Warehousing Facilities of BMSS**

No. of Storage Plant -3		
<b>Product</b>	<b>Capacity</b>	<b>Storage</b>
Milk	30 MT.	12 hours
Butter	30 MT	12 hours
Curd	10 MT.	12 hours
Ghee	30 MT.	12 hours

**Source :** *Biratnagar Milk Supply Scheme, 2009*

According to the above table, there are 3 storage plants, where 30 MT. of milk, 30 MT. of butter, 10 MT. of curd and 30 MT. of ghee can be stored. A storage of time of 12 hours is maintained for all products.

The warehousing facilities with 3 storage plants at present and with storage time of 12 hours is sufficient for the products that are manufactured and distributed.

## 3. Inventory Management and Control

**Table No.-4. 5**

### **Inventory Management and Control**

<b>Product</b>	<b>Quantity</b>	<b>Remarks</b>
Milk	70000-100000	During festival season
Ghee	5000-15000 Kg	-
Curd	-	As per demand
Paneer	-	As per demand

**Source :** *Biratnagar Milk Supply Scheme, 2009*

According the above table , milk is stored as per the demand , whereas during festival season 70000-100000 liters of additional milk stored.



The storage of ghee is between 5000-15000 kg at all times. Curd, paneer and other dairy product are stored as per the demand of the market.

The returned milk are re-pasteurized for distribution in the market unsold re-pasteurized milk are discharged. However this situation prevails rarely.

#### 4. Order Processing

**Table No.4.6**  
**Order Processing System of BMSS**

<b>Particulars</b>	<b>Order time</b>
Booth men	12 hour prior everyday
Dealers	12 hours prior everyday
Customer (Direct)	3 days in for large quantities and anytime for small quantity

**Source :** *Biratnagar Milk Supply Scheme, 2009*

According to the above table , a both men's order accepted 12 hours before delivery every day and the same rule follows for the dealers also. If a consumer wants to purchase milk and any other dairy products directly through its own shop or parlour, he/ she has to do so 3 days in advance for bulk quantities, whereas order is accepted and processed immediately for the small quantities.

## 5. Material Handling

Table No. 4.7

### Material Handling Biratnagar Milk Supply Scheme

Particulars	Packaging	Remarks
Milk	Plastic pouches & crates (food grade)	a. Processing done automatically. b. Distribution (Loading Unloading done manually)
Other dairy products	Plastic pouches , Plastic Jars , Cups (Food grade ) Paper Packaging , Crates and Cartoons	c. Processing done automatically d. Distribution (Loading Unloading done manually)

Source : *Biratnagar Milk Supply Scheme, 2009*

According to the above table. BMSS has been packaging milk in food grade plastic pouches and dairy products like ghee and ice-cream are packed in plastic jars , pouches and cups. The material handling process for all processing and packaging is done automatically, whereas as the loading and unloading are done manually. The earlier losses that used to occur due to breakage and spillage of bottles has been relived after the introduction of plastic pouches and at present is negligible loss due to spillage.

### 4.2 Cost Plan of BMSS

Cost planning and controlling is necessary to maintain reasonable costs level to support objectives and planned programs of the organization. The organization should not focus itself on decreasing the costs only rather it should be for better utilization of limited resources. It should focus to establish the relationship between expenditures and the benefits derived from those expenditures. The organization can reduce

costs temporarily but it may bring many difficulties like break down of machines, inefficiency in works etc. In this study, all fixed and variable costs are categorized by cost of goods sold, administrative cost and distribution cost.

Cost of goods sold is also called production cost. Raw materials, production salary and wages, fuel and lubricant costs, electricity cost, water cost, lab chemical cost etc. are the example of cost of goods sold.

Administrative costs and management costs are those costs, which are not directly related with production. Administrative costs are salary and wages, allowances and incentives, donation, depreciation, interest etc.

Similarly, selling and distribution costs are those costs, which occur in selling activities of any organization such as transportation costs, promotional cost, advertisement etc.

The costs are segregated under administrative and distribution categories as per the view of BMSS's staffs, intuition judgments and nature of expenses. Like the transportation cost expenses for administrative purpose are categorized under variable administrative cost and the transportation cost expenses for selling and distribution purpose are categorized under variable selling and distribution cost. Hence transportation cost is segregated as 30% variable administrative and 70% selling and distribution cost. In the same way, telephone charges and miscellaneous expenses are categorized as 60% variable administrative and 40% selling and distribution cost. Salary given to administrative staffs is categorized under variable administrative cost and salary given to sales boy is categorized under variable selling and distribution expenses.

### 4.2.1 Variable Cost Analysis

Variable costs are based on activity. The variable costs should be zero activity. They change directly with change in activity level in a responsibility center. Therefore, if output is doubled, variable expenses is to be doubled, if output increases by 15 percent, the variable expenses also increased by 15 percent, if output is zero, the variable cost also is zero. But variable cost per unit might be changed due to increase in price of material, labor and inventory costs etc.

**Table No. 4.8**

#### Variable Cost Sheet

S/N	Particulars	2060/2061	2061/2062	2062/2063	2063/2064
1	Collection expense	154,630,908.35	145,750,586.28	150,451,551.29	163,231,463.68
2	Processing expense	35,889,818.70	36,947,198.13	43,831,723.78	47,491,322.29
3	Selling expense	3,792,613.85	4,270,590.68	6,118,943.68	7,867,533.98
4	Adm. expense	25,163,224.68	24,750,505.89	29,810,461.31	31,705,355.83
5	Running Capital	249,285,254.25	250,424,041.71	250,251,491.88	250,281,733.29
6	Staffs Adv. personal	9,085,739.91	10,364,742.48	10,251,733.29	12,337,400.00
7	Staffs Adv. off. Purp.	165,975.73	262,989.36	911,868.02	927,200.88
8	Miscellaneous	408,240.88	512,082.15	36,816.98	37,461.68
9	Sales (return)	(123,048.01)	78,341.06	0	0.00
10	Deposited withdrawn	110,950.,00	110,950.,00	110,950.,00	121,433.71
11	Store expense	9,210,378.98	10,795,730.96	14,035,382.03	17,831,222.70
12	Cash in Bank	77,002,021.06	5,750,037.76	12,148,237.21	13,122,232.34
13	Cash in Hand	324,354.00	33,050.50	180,664.88	184,323.40
14	Inter branch purchase	46,527,057.39	41,613,107.37	59,934,470.43	61,323,435.34
15	Carriage outward	162,834,743.93	172,499,854.09	187,662,435.71	190,232,403.25
16	Tax paid	108,753,919.81	111,467,934.38	119,578,989.34	120,818,522.38
17	Opening Sock	20,378,685.85	7,105,915.00	4,288,923.00	6,231,915.00
	<b>Total</b>	<b>834,319,020.38</b>	<b>822,737,657.82</b>	<b>889,604,642.83</b>	<b>923,744,959.75</b>

**Source :** Biratnagar Milk Supply Scheme, 2009

The above table no. 4.7 reveals all variable costs, which are used to produce dairy products in terms of cost of sales, administrative or operating costs and selling and distribution costs. It also depicts the trend of cost. In the above table, FY 2060/61 is taken as a base year. The cost of sales is in increasing trend. The highest increment is in FY 2063/64 by 923,744,959.75. The reason of increase in cost may be attributed to high increase in collection, processing, selling, administration, store expenses and running capital etc. To reduce the cost of sales, BMSS should try to control in wastage of raw materials, milk powder expenses, and ice-cream con. The highest administrative cost is in FY 2063/64 and is lowest in FY 2061/62. The reasons for increase in administrative cost are higher expenses in telephone charges, transportation and various miscellaneous items. Similarly, selling and distribution expenses cost is also in increasing trend over the study period. The highest selling and distribution cost is in FY 2063/64 and is lowest in FY 2060/61. It shows that BMSS doesn't have control over costs which proves that it is not using effective planning tools for cost control.

### **4.3 Major Findings of Marketing Activities of BMSS**

The overall marketing strategy of DDC is solely based on production concept and BMSS follows the same till today. The market mix is explained as follows:

#### **1) Product Strategy**

In keeping with the corporation objectives of diversifying and producing different dairy products to the consumer of the country, DDC/ BMSS manufacturing and markets dairy products such as standardized pasteurized milk, pasteurized whole milk, skimmed milk, butter, ghee, yoghurt and ice-cream.

## **2 ) Distribution Strategy**

The DDC/ BMSS distribution liquid milk such as standardized pasteurized milk and pasteurized whole through a network of milk shops run by BMSS itself and milk booths operated by milk vender on commission basis in Biratnagar, Duhabi , Itahari, Dharan and Inaruwa.

The milk is made available in such milk booths for few hours during the early morning , and afternoon . The milk shop is open throughout the day and sells milk products . There are 2 milk shops run by BMSS.

The other strategy undertaken by BMSS for its distribution of milk and milk products is "Dealers ". Dealers may be either sole distributor or only authorized dealership without any sales territory demarcation . Dealership are provided with fixed commission based on the dairy products they have purchased but there is once condition attached to the dealer holder to purchase minimum quantities of various milk products per month . Some of the dealership also undertakes distributing fluid milk under the same commission basis as applicable to milk booth. The skimmed milk is distributed only to other milk supply schemes.

Any individual or business who wishes to become dealer of DDC/BMSS has to deposit a certain amount of earnest money is as follows:

**Table No. 4.9**

**Distribution Strategy and its Earnest Deposit money**

S.N	Name of Dairy Products	Earnest deposit money
A	Milk (booth man)	1000
B	Milk Products (dealer)	3000
C	Ghee+ Makhan	5000
D	Total	9000

**Source :** *Biratnagar Milk Supply Scheme, 2009*

### **3. Pricing Strategy**

BMSS being the part of DDC, the pricing strategy for BMSS is as per the price fixed by the DDC under the approval of Government of Nepal. Proposal to revise prices are prepared by Ministry of Agriculture (MAO) in consultation with DDC private dairy representative, National Dairy Development Board (NDDB), farmer's representative organization consumer's forum, etc and submitted to cabinet. In 1987, MOA instituted a permanent body, Milk Pricing Policy Review Committee (MPPRC) to review the prevailing milk pricing policy on a regular basis and to make appropriate recommendation to the government.

The main approach used by MPPRC in formulating its price recommendation is cost plus pricing. But this approach is constrained by lack of reliable data on farmer's milk production cost and difficulty in ascertaining the opportunity cost of various input and output factors in milk production. In any case, assessment of demand and supply situation does not come to play any role in fixation of the milk price.

Pricing strategy have been directed to satisfy conflicting and contradictory objective of

- ❑ Providing remunerative prices to milk producers farmers to encourage them for more milk production and adoption of commercial dairy farming.
- ❑ To make available to general public milk products at a reasonable price.

These opposing antagonist approach to each other have been balanced to some extent leaving very limited margin or nor margin to DDC to cover up its operational cost.

The price paid for raw milk by DDC to milk producer farmer are based on composition of milk such as milk fat and milk solid non fat (MSNF) and total solid (TS). The price per unit of milk fat and milk solid non fat is same for all farmers of a particular supply scheme . But the price paid per unit of total solid varies from place to place within the same supply scheme depending upon the distance, it is located from the main processing plant; local topography structure, mode of transport system available and prevailing opportunity cost for various factors involved. In order to encourage farmers to produce more milk during lean season farmers are paid extra rupee 0.50 per liter of milk beside the price paid as per the pricing structure. Price fixation of other dairy products such as cheese, yogurt, ghee, butter, ice cream, paneer etc. is now within the jurisdiction of internal management of DDC. But DDC's flexibility in setting the price of these dairy products though free from government influence is indirectly controlled by the government since its price fixation derives heavily on the price fixation of the raw milk.



The booth man and dealers sell product on a commission basis which is as follows:

**Table No. 4.10**  
**Presentation of Product Sales Price and its Commission**

	<b>Product</b>	<b>Quantity</b>	<b>Rs.</b>	<b>Commission</b>
1	Packet Milk (std)	500ml	17	Rs 0.75
2	Whole Milk (red)	500ml	19	Rs 0.75
3	Fresh milk	200ml	15	Rs 1.50
4	Yogurt (Cup)	200ml	15	Rs 1.50
5	Yogurt (ltr)	1 lt	50	Rs 3.40
6	Ghee	1 kg	350	Rs 15.00
7	Ice-cream	1 cup	15	Rs 3.00
8	Butter	100 gm	35	Rs 3.00
9	Cheese	1kg	350	Rs 18.75
10	Paneer	500gm	250	Rs 19.50

**Source :** *Biratnagar Milk Supply Scheme, 2009*

#### **4. Promotion Strategy**

DDC does not include regular or target oriented promotional program in its yearly plan and program. There is a fixed sale target set for each dairy product to be achieved by its supply scheme but it is silent on its promotional strategy to achieve target. When there is stock build up, personal contact approach is most frequently in application to ward off the situation. Only in few occasional cases it resort to advertisement through TV, radio and national daily newspaper for the promotion of its products. The total budget allocated is meager in contrast to the total revenue involvement in milk and milk product business.

Some of the promotional activities undertaken by DDC in on and off basis through very insignificant in comparison to its scale of operation can be summarized as follows:

- ▶ Documentary of overall activities on TV and special feature on the occasion of anniversary day.
- ▶ Interaction programme and work shop with farmers, milk booth owners, dealers and consumer for problem solving.
- ▶ Publication of yearly progress report and its free distribution
- ▶ Establishment of stall in Dashain bazaar in BRT.
- ▶ Advance order acceptance of its products.
- ▶ Manage and run own shop.
- ▶ Cash prize and medal distributed to outstanding performance booth men, dealers and milk producers.
- ▶ Product advertisement in its milk transport tanker and delivery vehicles.
- ▶ Credit sales to institutional members such as school, hospital, hotels and government institution like army and police on revolving security deposit.

#### ***4.3.1 The Milk Market of BMSS***

BMSS mainly caters its milk and milk products to middle and high income level segment of urban centers like Biratnagar , Itahari , Dharan and Inaruwa . Most of its consumers comprise of general household segment and the hotels . Almost all the products being produced is targeted for mass consumption and there is no product differentiation as regard to the different segments.

The estimated sale per day of milk is around 10000 liters, of which 8000 liters is consumed in Biratnagar, 1600 liters in Dharan, 400 liters in Inaruwa and negligible amount in Itahari and Duhabi

## **The Sources of Supply of Milk the Region Around Biratnagar**

Two sectors namely organized and unorganized sector are the sources of supply in the region around Biratnagar and Dharan.

### **Organized Sector**

BMSS and Nobel Dairy in Biratnagar, Ram Janaki Dairy in Duhabi, Kamdhenu in Tarhara, Sunsari, Namo Dairy Dharan, Shree Krishna Gaushala in Biratnagar and various milk cooperative established in Biratnagar, Ithari, Dharan and adjoining regions are the organized sector of the dairy industry. The Private dairies have HTST (High Temperature Short Time) pasteurization plant that meets the norms and standard set.

### **Unorganized Sector**

The unorganized sector of the dairy industry mainly constitutes the farmer selling milk to households and hotels. These farmers reside in the rural areas, own livestock and sell a larger portion of the milk produced to DDC and other private dairies. However they are also involved in selling raw milk to the consumers of urban areas through personal contacts.

As regards to the hygienic standards, the farmers do not adhere to the norms as their milk containers are either aluminum tins, galvanized iron or plastic which are hard to clean. However, in the recent years due to the rise in the formation of milk products association and milk products co-operative (MPC) the hygienic standards have improved and so has the bargaining power of the farmers.

### ***4.3.2 Milk Production and Supply Status***

Nepal produces 1.07 mt. of milk or approximately 2.8 million liters per day. Approximately 50% of the milk products is in the districts within the existing DDC grid. Current chilling capacity in the milk grids is

approximately 3,00,000 lpd. The formal sector (private and public) collects about 10% of the milk produced in the existing for milk sheds namely. East (EMS), Central(CMS), West (WMS),Mid-West (MWMS). The milk sheds have about 900 milk producer co- operatives (MPC) and 100 milk producers association (MPA)with approx.1,00,000 producers. There is many as 75000 farm families supplying 214,000 lpd to chilling centres through co-operatives. Each farmer supplies about 3.4lpd.

The DDC has an installed processing capacity of 182000 lpd. and processes in the peak season with an average processing of 173 thousand lpd. The private sector including co-operative has installed capacity of 399,200 lpd. (twice as DDC) but it is utilizing 174,000 lpd. in peak seasons with average processing of about 156,000lpd. Processing capacity in the private sector in not being utilized fully. This is due to various reasons, firstly, DDC does not have aggressive marketing program to maintain the leadership is enjoyed until a few years ago. Secondly, DDC's equipment are not constantly upgraded to keep up with increasing demand of market and thirdly, the private sector with its modern equipment an aggressive marketing is increasing its market share rapidly.

### **Fluid Milk Purchasing Behaviour of Household in Urban Areas.**

#### **Households Consuming Fluid Milk in the Urban Areas**

In Nepal, about 88% of the urban households consume fluid milk regularly and 70% occasionally and the Eastern region also follows some what the national trend. The percentage of household consuming fluid milk has increased by 6% over the fluid are mostly the dairy animal owners.

## **Purchase Quantity Distribution Pattern of Milk Consumption**

The average quantity purchased is 1.03 liter per day per household with 1.1 liters in hills and 0.9 liters in the Terai. The distribution pattern of milk consumptions indicates that about a third purchase only half liter and three fourth consume only up to one liter a day in a family size of 5.96. A disturbing fact is that the milk consumption per household has remained stagnant over the decade.

## **Habit of Drinking Milk Regularly**

The habit of drinking milk regularly has not yet been developed in the urban cities of Nepal. The household using milk for regularly drinking by the family members has not exceeded 20% as yet. Even among the children under 6, the regular consumer of milk is as low as 18%

Uses of milk for various purpose, the use of the milk for tea is very popular in the urban areas of about 94% of the households and plain drinking about 60%. The other usage of milk is very small.

## **Mode of purchase**

Consumer purchase milk from multiple sources as the availability is not smooth. The popular purchase are DDC, private dairies farmers and tea shops. The estimated market share in terms of the regular purchases is about 85% and 15% are swing buyers.

### ***4.3.3 Analysis of Consumer Preferences of Milk***

The preference analysis indicates that the mode of retail purchase is preferred by largest section (40%) followed by home delivery (31%) milk from DDC leads the brand choice, which is preferred by 42% followed by milk, by farmers (36%). Although the brand of private

dairies milk, which is a new entrant is preferred but is very less at preferred mode of purchase, brand, packaging and size the present but is rising steadily. The plastic pouch packing used by most of the dairies is the preferred packaging and the half liter size is considered optimum with very few responding wanting 1 liter packaging.

A trend which has been rising, is the shift in the place of purchase by consumers. Earlier, consumer bought their milk in DDC booths/sales centers. Nowadays, majority consumers purchase often from booth men/ vender of retail shops the nearest convenient place for both DDC milk and private sector dairies.

### **Consumption and Utilization Preference**

Milk consumption in this region is not limited to single purpose. The uses of milk order of importance are milk for tea, to drink plain milk, Dahi/yogurt and milk mixed with other foods like rice. It has been found that nearly all households use boiled milk the reasons being better taste by majority safety reason and longer shelf life by about a third, indigestion of raw or cold milk and traditional habit by about 15%.

### **Perception of Better Quality and Ranking to Major Attributes**

On the basis of indicators of good quality reported, the fat content and good taste was the attribute desired by more than two thirds of the consumers. Pure unadulterated milk was the attribute given by half and freshness by two fifths of the consumers.

The rankings for other attributes other than good taste and fact context, like shelf life, availability and hygienic quality supplied were also determined. It was fixed that farmers milk was ranked good in terms of

taste and hygienic quality by a majority of consumers but if only directly supplied and un adulterated. DDC's milk was also given high priority by the consumers but the milk of private dairies was being purchased with great caution. Ranking good on availability was only about 35% in case of farmers and DDC alike. The overall perception regarding the quality of milk supplied and the sources of supplies by DDC and private dairies did not appear good.

While analyzing it was found that about two fifties reported preferring high fat milk while the health consumers type preferred low fat milk. Those consumers preferred with high fat context were even willing to pay higher prices to farmers who supplied them.

### **Price paid by Consumers**

It was been found that the price paid by consumers varied between Rs 34 and Rs 38 per liter depending on the quality of milk sold. The consumers are at present paying Rs 34- Rs 38 per liter (about 75% of consumers) for milk purchased from dairies. Higher prices are being paid by the consumers for milk being bought from the informal sector.

Higher prices were paid reasons like purity, higher fat. In the case of cow milk people are willing to pay higher price due to religions beliefs as it is used for offering rituals and due to the feeling that cow milk is best suitable for children and old people.

### **Willingness to Pay**

Many of the consumers do not wish to pay higher price at the present as they feel the price they are paying at the present should also be reduced. Very few people were of the opinion that they would pay a higher price

if there was purity, quality improvement, added service like home delivery.

Institution customers are of the opinion that larger or bulk packaging would be cost effective but individual's customers are satisfied with the present  $\frac{1}{2}$  liter packing in plastic pouches as it is expansive .

#### **4.3.4 BMSS: Assessment on the Basis Of (SWOT Analysis)**

##### **A. Strengths**

- a. BMSS is the market leader and price setter among other dairy industry in this region and staff with organizational and managerial capabilities in running the industry.
- b. It has a large team of technical manpower .
- c. The milk collection and distribution network is the best among all others .It has a large infrastructure facility and a state of the art skimmed milk powder plants, which provides an opportunity to process excess milk during surplus for use in the scarce season.
- d. BMSS enjoys the trust, faith and goodwill of the public as it is the oldest and a reputed public enterprise.

##### **B) Weakness**

- a. BMSS's sales are declining whereas it should be increasing due to the rise in urban population. Thus, it has not been able to cater to the growing milk market.
- b. BMSS, being a part of DDC has to follow its direction, which is contradictory. DDC lacks corporate vision and its management is unstable due to frequent appointments and removal.
- c. The decision making process is slow.
- d. Employee union creates political interference.



- e. BMSS lacks proper marketing department and an effective consistent marketing strategy is not formulated.
- f. Advertisement and promotional activities is very less compared to the newly entered competitors.
- g. Very poor in R&D activities and product spread is small and there is very over staffing compared to production and sales.

**c) Opportunities**

- a. The dairy sectors is one of the priorities sectors of Nepal Government. National Dairy Development Board (NDDB) has been formed in this regard and various research works has been performed.
- b. The demand for homogenized milk and other milk products is on the rise due to the increase in the level of consumer awareness.
- c. The constant rise in urban population and their indifference towards livestock farming has added an advantages for milk market boom.
- d. There is export potential to neighboring country for milk and other allied milk products.

**D) Threats**

- i. Private and co- operative dairies with substantial investment have been established around this region that will surely create competition and provide an alternative choice to the buyer.
- ii. The bargaining power of milk farmers have been increased due to organization and establishment of other private dairies that demand higher price for milk.
- iii. Political instability and indecision in regard to privatization of DDC or autonomy to the milk supply scheme.
- iv. Highly skilled manpower attracted by private dairies.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary/Conclusion**

Marketing management is a greater helpful in managerial decision-making, especially pricing, selection distribution, advertising, promotion and profit planning. It provides attention-decision making and problem solving backgrounds for important planning decisions, such as selecting distribution channels, pricing, special promotion and personnel hiring. “Know your cost” is an essential theme for any managers.

The study is completely related with the marketing activities of the Biratnagar Milk Supply Scheme as a tool of Marketing management. DDC/BMSS aims to be the leading Dairy and food processing industry in country. It has been successfully introducing varieties of dairy products harmonizing with the changing taste of upcoming generation. It is firmly committed to high quality production of world-class standard at most reasonable price and giving consumer’s services of high satisfaction. The company’s Marketing position is not satisfactory. So, the company couldn’t run in a remarkable sales and profit.

BMSS was established in 1973 A.D. with the objective of developing marketing network of milk produced to supply fresh, wholesome and pasteurized to the urban consumer at reasonable price. It is the pioneer in the field of milk production and distribution in the region. However it is still facing multiple challenges in marketing of milk and other dairy products effectively and efficiently. The present study has been

conducted with the objective of pointing out the existing marketing activities and structures put into practice by BMSS and to suggest effective marketing management.

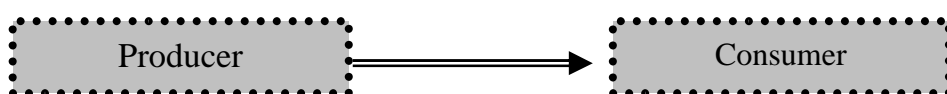
BMSS has not used Marketing tools for planning and forecasting. So the company is not able to earn a large. There is not perfect sales policy or sales planner; as a result the company is not able to meet the largest sales. The top-level management makes the decisions and policies. Target sales are always greater than actual sales. The major problem faced by the company is increase in the variable operating cost because it has adopted neither the cost control system nor the systematic and scientific plan for classification of cost.

On the other hand, BMSS has been found to be running at a loss during the study period. Power inventory management of milk and milk products and high administrative, distribution, production and collection cost are among the major reasons for negative profitability.

The marketing channel for fluid milk is fairly short for BMSS as is the case with overall DDC policy. BMSS has been practicing three level of channel structure, viz.

i) Zero Level

The zero level channel is directly supplying goods to the consumer through its own shop and milk parlor. Its overall sale in comparison to the one level channel for milk and two level channels for other dairy products is relatively small.



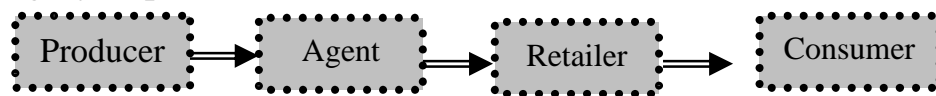
ii) One Level

The one level channel structure comprises of the boothmen who sell milk and its products as regards the selling is the highest.



### iii) Two Level

The two level channel structures comprises of the dealers who sell dairy products and it also has the highest market share in regards to its category of products.



Transportation facility plays a vital role in the success of distribution management. At BMSS, vehicles used for collection exceeds the vehicle for distribution. At present the number of vehicle it owns is greater than it hires from time to time.

It mainly markets pasteurized milk through the various booths and dealers and some through its own shop. Booth holders are appointed on a route basis. A booth "may be just a fixed spot on the street. In front of a small shop. Milk is delivered to the booth holder from about 5:00 am to 6:30am in the morning and between 1:30 pm in the afternoon. The distribution truck drops off milk on set route to the booth holders and at the end of its delivery returns over the milk. It is also collects the empty crates and cash payment for milk. It is also collect leaking pockets and gives credit for these. In addition, BMSS has appointed a number of dealers who have a shop with refrigeration facility and they provide not only milk but other milk products also. BMSS also operates its own shop where all DDC products are on sale through out the day. BMSS has allocated specified different locations for its booth and dealers to sell the milk and milk products.

BMSS at the present produces around 10,000 liters of pasteurized milk per day. The actual production is less than the target or the installed capacity. The sales of BMSS in the study period's last year decreased due to various factors such as entry of private dairies, low commission to booth men and dealers, unattractive packaging and very less promotional activities as well as lack of consumer orientation.

BMSS has geographically short channel structure and it has market segmentation based on its vicinity. Thus, it has developed market according to city i.e. Biratnagar, Dharan, Inaruwa, with sub-route in Biratnagar such as Panchali, Rani, etc. At present there are 250 boothmen and 30 dealers but their appointment procedure is not well defined. BMSS is ignoring motivation of channel members. Development of channel members' capabilities is not given any importance. The boothmen and dealers do not give due attention to market development.

BMSS Being part of DDC, a government undertaking has no authority as regards to policy formulation. It requires to follow the set guidelines determined by the central office. The government determined the price of milk whereas the price of other products is determined by the central office and is followed by BMSS. Similarly, promotion strategy is all centrally determined. BMSS enjoys

## **5.2 Recommendations**

To solve the problem regarding the marketing activities analysis the following points are recommended. BMSS must improve its profitability through the improvement of greater efficiency and effectiveness in the marketing performance for which some suggestions have been stated as follows:

- a. It is suggested to the BMSS for practicing the modern marketing system analysis as a tool of marketing activities for improving business performance.
- b. BMSS should introduce scientific inventory management to ensure regular and uninterrupted supply of raw material as well as finished goods. The problem of over and under stocking can be tackled if such technique are used.
- c. Although the overall policy as regards to pricing, promotion and distribution are centralized, BMSS should demand a certain degree of autonomy in order to develop and implement an appropriate marketing mix/distribution strategies on the basis of the local competition and the desire of the consumers.
- d. Order processing function should be based on company's analysis of demand and also on the basis of the orders given be dealers, booth man, and shop. The frequency of order placed by the dealer should also be considered in demand forecasting.
- e. BMSS should follow one level channel for the distribution of milk and dairy product.
- f. BMSS must improve the middlemen capacity in order to strengthen and bring efficiency in the distribution network. Control such as financial capacity and distance etc. should be developed in choosing its middlemen like dealer or booth man should be taken into consideration. Other factors such as sales performance product handling ability, proximity to target consumers etc. should also be considered when selecting them.

- g. BMSS should established warehouses in other cities also on the basis of demand so that the supply chain can be maintained even during adverse condition like strike, calamities
- h. Cost plan in BMSS has not been maintained systematically. BMSS must establish a cost control program for maintaining a remarkable discipline on cost control by controlling wastages of raw materials, milk powder expenses, ice cream, chemicals, printing and stationary, director remunerations etc.
- i. The variable cost has been found very large in BMSS. So, the company should reduce the variable cost by searching the economic resources of material and using the advance technology in production. Similarly, The management should follow regular supervision, inspection, evaluation and monitoring.
- j. BMSS should follow the new business strategies for exploring the economic, effective and efficient resources and improving the quality of working life of its employees.
- k. BMSS should encourage free competition. A periodic SWOT analysis must be done to assess its performance and increase the capacity of milk marketing.
- l. BMSS being a public enterprises of Nepal Government should fulfill its social responsibility for example use of biodegradable plastic in its packing, livestock fairs, veterinary check up, promotion benefits of milk etc.
- m. The self owned BMSS's shops are costs disadvantageous in the view of commission given to booth man and other for the goods they sell. BMSS should establish milk parlor of it own not only to lessen the middlemen exploitation but also to meet social

obligations. However, the cost of running its own shop has to be drastically minimized.

- n. BMSS should not increase the direct commission but should provide incentives to the channel members such as contests conference, prizes, ect. A suitable promotion mix must be implemented. On the basis of minimum criteria of sale or other such conditions for promotion bulk sale, incentives like providing refrigerators of cool box etc should be provided.
- o. Financial and non financial incentives are an essentials part of motivation of distribution channel members bys DDS should start activities and consider motivation of channel members. They should be assigned some role in sales promotion and should be actively involved by providing additional support in order to promote sales be it bulk discounts or cash discounts or organizing workshop, seminar on retailing and distribution.
- p. BMSS should develop a culture for reviewing its activities to control worthless task and developing the valuable strategies.



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# APPENDIX

## *Questionnaire*

To study of the **Marketing Management System of Dairy of Dairy Development Corporation [With Reference to Biratnagar Milk Supply Scheme]**of the respondent of DDC/BMSS, Middlemen (Boothmen/Dealer) Consumer and farmers.

### **Designation**

*Please answer the following questions putting a tick mark at the appropriate space or as other where required in specific question. I realize that some question may not tend there sales to short answer. However even practical information no matter how brief it will be great value to my study.*

### **Respondents:**

Name of Respondent:

Address:

Name of shop :

Please tick in the group you belong to:

Middlemen (Boothmen/dealer)

Consumer (Milk Consumption Habit.)

Organization

**1. Does your organization use "Modern Marketing Activities"?**

Yes  No

**2. What policy does your organization follow in respect of sales?**

a. Credit Sales

b. Cash Sales

c. Cash and credit sales

**3. How long have you been selling milk and milk products as a dealer of BMSS?**

below 1 year ; 1-3 years ; 3-5 years ;

Above 5 year

**4. On an average, how much quantity of milk and milk products do you sell ?**

a. milk [ ] packets per day

b. Yougurt [ ] cups per day

c. Ice- cream [ ] cups per day

d. Butter [ ] packets per day

e. cheese [ ] kg per day

f. paneer [ ] kg per day

g. Ghee [ ] kg per day

**5. To whom you sell the products ?**

a. Household consumer [ ] [ b. Hotels/ restaurants [ ]

c. Ten stall owners [ ] e. Others [ ] specif.

**6. What percentage of quantity you sell to.**

a. Household consumer [ ] [ b. Hotels/ restaurants [ ]

c. Ten stall owners [   ]    e. Others [   ]

**7. How do you rate the demand situation of milk and milk products in you area.**

Very high[            ];      High[            ];      Average [            ];  
];  
Low [            ];      Very Low [            ]

**8. How do you rate the appealing features and quality attributes of DDC milk product ?**

**a. Quality & standardization**

Very high[            ];      High[            ];      Average [            ];  
Low [            ];      Very Low [            ]

**b. Price**

Very high[            ];      High[            ];      Average [            ];  
Low [            ];      Very Low [            ]

**c. Packing**

very attractive [            ]; Attractive [            ]; Average [            ]  
]; Unattractive [            ]; Very attractive [            ]

**d. Band Name**

Very reliable [            ]; Reliable [            ]; Average [            ]  
];  
Unreliable [            ]; Very reliable [            ]

**e. Supply status**

Very good [            ]; Good [            ]; Average [            ]; Not good [            ]  
];  
Poor [            ]

**f. Benefits and perks**

Very sufficient [            ]; Sufficient [            ]; average [            ]  
];  
Not sufficient [            ]; Poor [            ]

**9. How do you rate the quality of DDC products in comparison to**

**a Import**

Very good [            ]; Satisfaction [     ]; Average [            ]; Poor [            ]

**b. Other Private dairies/ Cooperative**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**c. Farmers**

Very good [            ]; Satisfaction [     ]; Average [            ]; Poor [            ]

**10. What do you think should be the basis of selecting channels of distribution?**

Market access [     ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**11. How do you rate the distribution system of DDC?**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**12. How do you rate the behavior and attitude of the employees of BMSS;**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**13. How do you rate the following distribution system of BMSS;**

**a Transportation**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**b. Storage**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**c Advertising & Promotion**

Very good [            ]; Good [     ]; Satisfaction [     ];  
Average [            ]; Poor [            ]

**d Credit & Finance**

Very good [            ]; Good [        ]; Satisfaction [        ];

Average [            ]; Poor [            ]

**e Market Survey**

Very good [            ]; Good [        ]; Satisfaction [        ];

Average [            ]; Poor [            ]

**f Market exploration & expansion**

Very good [            ]; Good [        ]; Satisfaction [        ];

Average [            ]; Poor [            ]

**g. What is the main problem faced while selling milk.**

**14. What suggestion would you like to give for further improvement in distribution system?**

**Household Size:**

Male [            ]; Female [            ]; Children ( 10 years younger)

**Household Income**

Below 2500 p.m. [            ]; Rs 2500-5000 [            ]

Rs 5000-10,000 [            ]; Rs 10,000 & above [        ]

**1 What is the different types of milk that you consume?**

Liquid milk [        ]; Powder milk [            ]; Condensed Milk [            ]

**2 If you consume liquid milk from market which type of milk do you consume?**

DDC milk [            ]; Private dairies [            ]; Farmers [            ]  
]; Co-operatives [            ]

**3 If not, please specify**

Own Livestock [            ]; Powder milk usage [        ],

**4 What are the different sources from where you purchase milk?**

DDC Outlets [                    ]; Private dairy outlets [     ]; Fresh milk farmers [     ]; Teashops [                    ]

**5 How much milk do you buy in a day? ..... liters**

**6 What time of the day do you usually buy the milk?**

In the morning [     ]; In the afternoon [             ]; In the evening [                    ]

**7. What is your expenditure for milk and milk products in a month Rs. ....**

**If you consume DDC milk, fill in the questions from 8 to 20, or else go the question no. 21.**

**8. Which DDC milk do you prefer ?**

Standardized milk (Blue packet): [             ]

Whole Milk (Red packet) : [             ]

**9. What quantity do you purchase ?**

Packets [     ] or Liters [     ]

**10. From where do you usually buy DDC milk ?**

Private booth [             ]; Milk parlour (shop) [                    ]

**11. What size of DDC milk do you prefer to buy ?**

5 litres [     ] 2 lit. [     ] 1 lit. [     ]  $\frac{1}{2}$  lit. [     ]

**12. If you pay higher price than normal price, Why ?**

Easy availability [                    ]; Home service [             ]; Premium for storage [             ]; others [             ]

**13. Why do you buy DDC milk ? (circle as many desired)**

Pure [     ]; Tasty [     ]; Hygienic [     ]; Cheaper [             ]; Accurate Weight [                    ]

**14. Is the supply of DDC milk regular ?**

Very regular [     ]; regular [             ]; irregular [             ];





**22. What size of milk packet/ bottle produced by private dairies do you prefer to buy ?**

5 Ltr. [     ]; 2 Ltr. [     ]; 1 Ltr. [     ]; <sup>1</sup>/<sub>2</sub>Ltr. [     ];

];

**23. Why do you prefer private dairy milk ?**

Pure [     ]; Tasty [     ]; Hygenic [     ]; Cheeper [     ];

Accurate Weight [     ]; Easy Available [     ];

**24. Is the supply of DDC milk regular ?**

Very regular [     ]; regular [     ]; irregular [     ];

**25. Do you get regular supply of desired milk and other product.**

Yes [     ]; No [     ];

**26. Are you get regular supply of desired milk and milk products.**

Yes [     ]; No [     ];

**27. If not, which product.**

Milk [     ]; Butter [     ]; Cheese [     ]; Ice- cream [     ]; Yourt [     ];  
Paneer [     ]; Ghee [     ];

**28. In the given scale, how do you rate the quality DDC milk in the following aspects.**

Very good [     ]; Good [     ]; average [     ]; satisfactory

[     ];

poor [     ];

**Rating:**

Tasty [     ]; Flavored [     ]; Thickness [     ]; Long-lasting [     ];

Adequate fat content [     ]; Nutritious [     ]; Doesn't [     ];

];

need to be boiled [     ]; Does not smell [     ];

**29. How is the behavior / attitude of the boothman/dealer who provide you milk products .**

**If you consume farmers milk from fill the question from 30 to 35.**

**30. What price doyou pay for 1 litre of milk supplied by farmers?**

.....

**31. How do you purchase farmers milk ?**

farmer delivers at home (            );

have to go ownself to farmers house (            );

hired someone to collect milk farmers place (            );

others (            ); specify.

**32 Why do you buy fresh milk instead of pasteurized dairy milk ?**

Fresh milk is tastier than pasteurized milk [            ];

Fresh milk is cheaper than pasteurized milk [            ];

Fresh milk is easily available than pasteurized milk [            ];

Supply of fresh milk is regular [            ];

**33. How do you categorize the quality of milk produced by farmer.**

Very good [    ]; Good [    ]; average [    ]; satisfactory [    ]; poor [    ];

**34. Do you get regular supply of desired milk ?.**

Yes [    ]; No [    ];

**35. Is the supply of farmers milk regular ?**

Very regular [    ]; regular [    ]; irregular [    ];

**Income Statement for the Ended From 2060 to2064**

S/N	Particulars	2060/2061	2061/2062	2062/2063	2063/2064
1	Sales of Milk & its Product	110,542,988.48	109,499,113.98	117,962,366.12	117,997,311.74
2	Misc. Income	1,139,614.00	837,022.51	852,084.81	853,044.35
3	Payable	6,740,266.85	7,717,799.15	13,577,478.70	13,600,005.83
4	Deposited Payable	789,856.12	803,355.62	695,847.90	696,355.64
5	Gratuity	24,862,089.38	25,661,726.05	32,927,003.31	32,928,500.98
6	Holiday Allow	4,616,401.13	5,294,708.23	7,094,055.35	7,120,192.70
7	Depreciation	135,352,837.06	148,169,491.12	158,263,687.84	158,585,323.83
8	Suspense A/C	15,355.54	15,355.54	15,355.54	15,355.54
9	Sales (internal)	178,121,287.80	146,474,365.45	150,585,682.64	146,600,211.40
10	Carriage outward	292,703,489.08	283,397,010.81	823,620,888.98	319,625,045.56
11	Budget allocated	79,434,734.94	94,867,709.34	125,010,191.64	125,723,612.18
	Total	834,318,920.38	822,737,657.80	889604642.83	923,744,959.75

**Source:** Report of Biratnagar Milk Supply Scheme 2009

### Expense Statement (Variable Cost Sheet)

S/N	Particulars	2060/2061	2061/2062	2062/2063	2063/2064
1	Collection expense	154,630,908.35	145,750,586.28	150,451,551.29	163,231,463.68
2	Processing expense	35,889,818.70	36,947,198.13	43,831,723.78	47,491,322.29
3	Selling expense	3,792,613.85	4,270,590.68	6,118,943.68	7,867,533.98
4	Adm. Expense	25,163,224.68	24,750,505.89	29,810,461.31	31,705,355.83
5	Running Capital	249,285,254.25	250,424,041.71	250,251,491.88	250,281,733.29
6	Staffs Adv. Personal	9,085,739.91	10,364,742.48	10,251,733.29	12,337,400.00
7	Staffs Adv. off. Purp.	165,975.73	262,989.36	911,868.02	927,200.88
8	Miscellaneous	408,240.88	512,082.15	36,816.98	37,461.68
9	Sales (return)	(123,048.01)	78,341.06	0	0.00
10	Deposited withdrawn	110,950.,00	110,950.,00	110,950.,00	121,433.71
11	Store expense	9,210,378.98	10,795,730.96	14,035,382.03	17,831,222.70
12	Cash in Bank	77,002,021.06	5,750,037.76	12,148,237.21	13,122,232.34
13	Cash in Hand	324,354.00	33,050.50	180,664.88	184,323.40
14	Inter branch purchase	46,527,057.39	41,613,107.37	59,934,470.43	61,323,435.34
15	Carriage outward	162,834,743.93	172,499,854.09	187,662,435.71	190,232,403.25
16	Tax paid	108,753,919.81	111,467,934.38	119,578,989.34	120,818,522.38
17	Opening Sock	20,378,685.85	7,105,915.00	4,288,923.00	6,231,915.00
	<b>Total</b>	<b>834,319,020.38</b>	<b>822,737,657.82</b>	<b>889,604,642.83</b>	<b>923,744,959.75</b>

**Source : Biratnagar Milk Supply Scheme, 2009**

### SALES VOLUME

S/N	Particulars	2060/2061	2061/2062	2062/2063	2063/2064
1	Milk (fresh milk)	46,827,991.44	48,489,675.92	55,732,340.80	55,732,340.80
2	Milk (whole milk)	22,984,752.20	25,216,356.08	28,060,725.50	28,060,725.50
3	Yogurt	5,4187,085.00	354,359.00	155,750.00	155,750.00
4	Yogurt(cup)	4,080,502.50	4,121,815.50	4,322,401.50	4,322,401.50
5	Yogurt (soocial)	827,189.00	7,551476.00	23,420,180.67	23,420,180.67
6	$\frac{1}{2}$ kg Ghee	458,700	254,945.44	270659	270659
7	Ice- cream (cup)	22,630,578.12	24,133.62	75,753.97	75,753.97
8	Cream (40%)	4,418.17	4,235.50	950.8	950.8
9	Ice- cream (II)	.....	727.27	0	0

10	Paneer	601,865.59	328,436.43	975,054.50	975,054.50
11	Cheese (open)	...	651,420.50	940,058.80	940,058.80
12	Lal Mohan	104,551.79	43,276.76	517,080.70	517,080.70
13	Packet Butter	726,523.13	693,376.42	874,325.67	874,325.67
14	Loose Butter	209,805	413,100.00	813,500.00	813,500.00
15	Std loose Milk	157,186	3.6,669.00	39,787.78	39,787.78
16	Std loose whole Milk	964,840.20	898,494.00	995,507.60	995,507.60
17	Paner packet	.....	1,772.72	49,053.00	49,053.00
18	Pada	74,034.52	18,394.99	30,400.80	30,400.80
19	Fresh milk	.....	29,905.00	0	0
20	Jira Mohi	.....	60380.00	0	0
21	Rashvari	2,27.00	....	8,575.70	8,575.70
22	Milk (India)	3,382,422.17	....	0	0
23	Spread cheese	692,701.16	....	0	0
24	Gudpak	....	....	6,401.42	6,401.42
25	Yak cheese	....	....	4,101.08	4,101.08
26	Jar ghee	70,950	....	130,300.22	130,300.22
27	Cheese 200gm	....	....	5,885.00	5,885.00
28	Yak cheese (100gm)	....	....	5,545.50	5,545.50
29	Sugarfree Yogurt	....	....	1,700.00	1,700.00
30	Lady cane	....	....	5,847.00	5,847.00
31	Balusahi	....	....	12,323.50	12,323.50
Total		110,542,988.48	109,499,113.98	117,962,366.12	117,454,210.51

**Source :** *Biratngar Milk Supply Scheme, 2009*