

Chapter 2

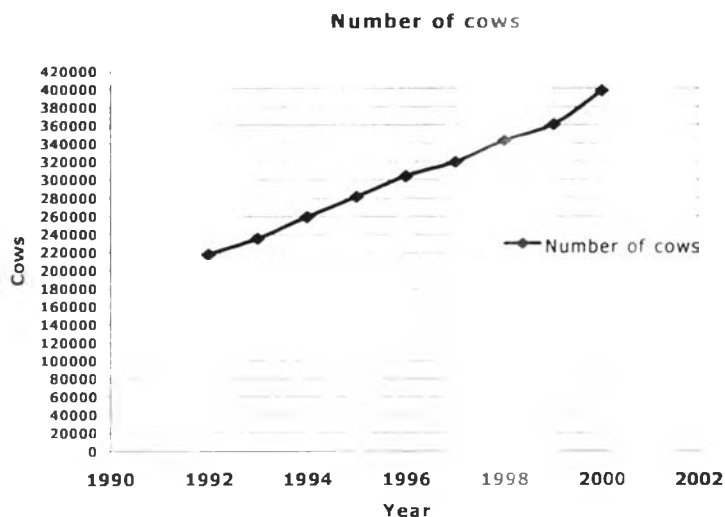
Marketing Analysis

In this chapter will involve with the situation of fresh milk in Thailand and the analysis of Canned Liquid Coffee market against with production volume. The production volume of fresh milk is increasing in each year in order to supply adequate to the demand in the country. However, it is not enough, that why it has to import milk powder from aboard in order to compensate the different of this demand. The government tried to help the domestic cow's farmer by forcing the milk factory must buy all fresh milk at the guarantee price

2.1 Situation of Thailand's fresh milk

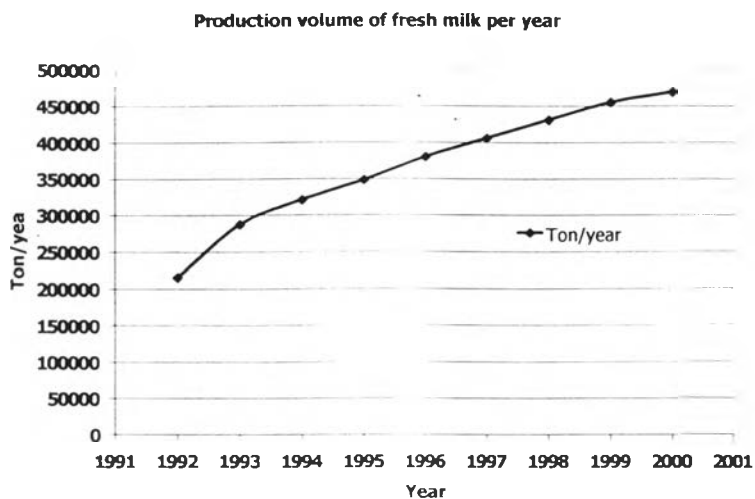
2.1.1 Production of fresh milk

The number of cows was increased from 342,660 to 360,435 or 5.19 percent increased from year 1998. In year 2000, the number of cows increased to 397,090 or increased 10.17 percent. The quantity of fresh milk was also increased from 431,000 ton to 455,000 ton or 5.57 percent. The overall fresh milk 96 percent or 436,800 ton of total fresh milk in the country was supplied to the local factories. It is increasing 5.57 percent from 1998. In year 2000, quantity of fresh milk increased to 469,000 ton or increased 3.08 percent.



Graph 3: The number of cows in Thailand

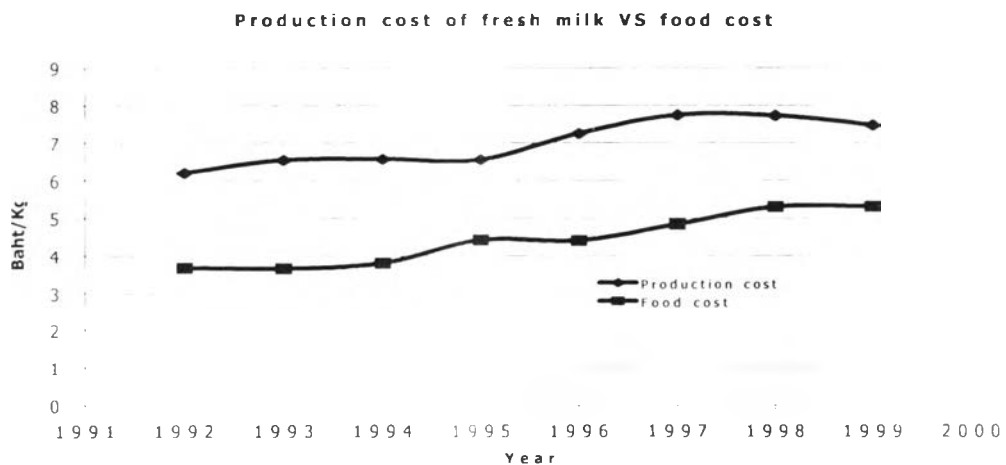
Source: Economic report and situation of stock lives 1999-2000
Department of lives stock and development.



Graph 4: The production volume of fresh milk in Thailand per year
 Source: Economic report and situation of stock lives 1999-2000
 Department of lives stock and development.

2.1.2 Production cost of fresh milk

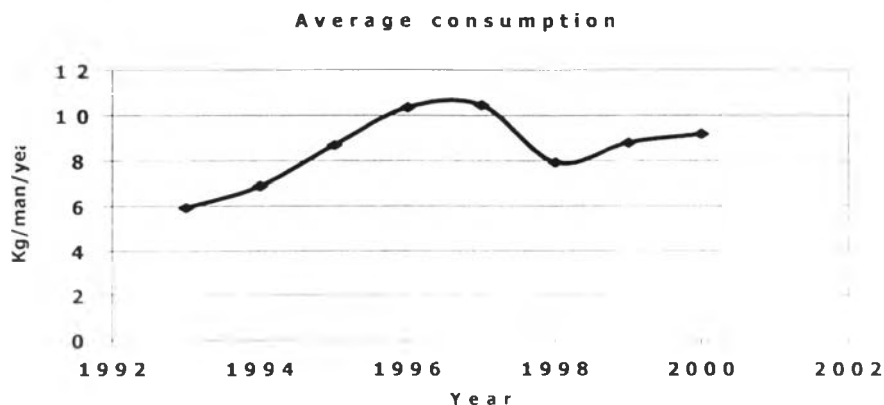
The production cost of fresh milk is normally depending on the cost of cow's food and the quantity of fresh milk. In the fact that, if they can produce more fresh milk per day, the cost will be reduced. From the data, year 1999 the cost of fresh milk per kilogram is 7.47 Baht. It is reduced from 7.72 Baht from year 1998. It causes from the reduction cost of cow's food.



Graph 5: The production cost of fresh milk in Thailand
 Source: Economic report and situation of stock lives 1999
 Department of lives stock and development.

2.1.3 Milk consumption

The consuming of ready to drink milk in Thailand was averaged at 8.79 Kg/man/year. It is increasing 10.98 percent from year 1998. In year 2000, the consuming rate will be 8.9 Kg/man/year. The consuming rate was increased because of the government has issued the campaign milk for student in school. From the figure, trend of consuming were continuous increased since year 1993 to year 1996 because of the economic climate is good. Until year 1997 and 1998, the economic climate in Thailand was down and gave the impact to low demand fresh milk consuming. In year 1998 to 1999, the economic climate in Thailand is get better and gave the impact to energize to increased the consuming of fresh milk.



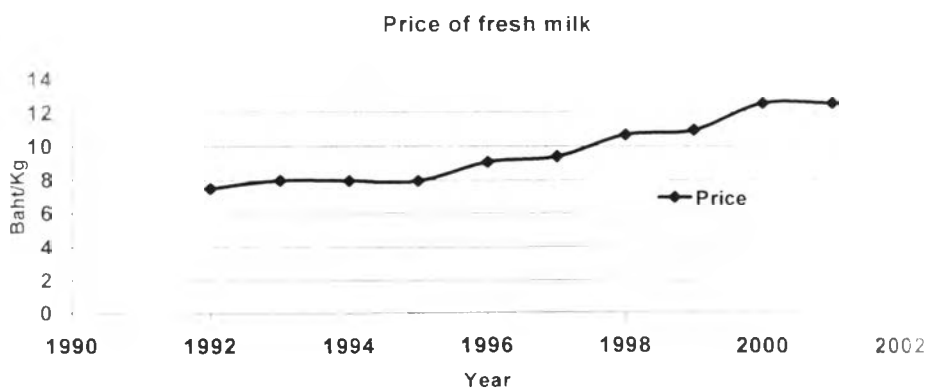
Graph 6: The consuming of milk in Thailand

Source: Economic report and situation of stock lives 1999-2000

Department of lives stock and development.

2.1.4 Fresh milk price

Year 1999, the price of fresh milk is averaged at 10.94 Baht/Kg. it is increasing 2.63 percent from year 1998. The price of fresh milk depends on many factors, such as Solid Non Fat or SNF, dirty, fat content, load of microorganism. However, the price of fresh milk was set standard 12.5 Baht/Kg at SNF 8.5 percent by the government. This price was set because the government try to help cow's farmer in term of guarantee price, anyhow, it's still depending on the quality and the composition of fresh milk.



Graph 7: The price of fresh milk in each year in Thailand

Source: Economic report and situation of stock lives 1999-2000

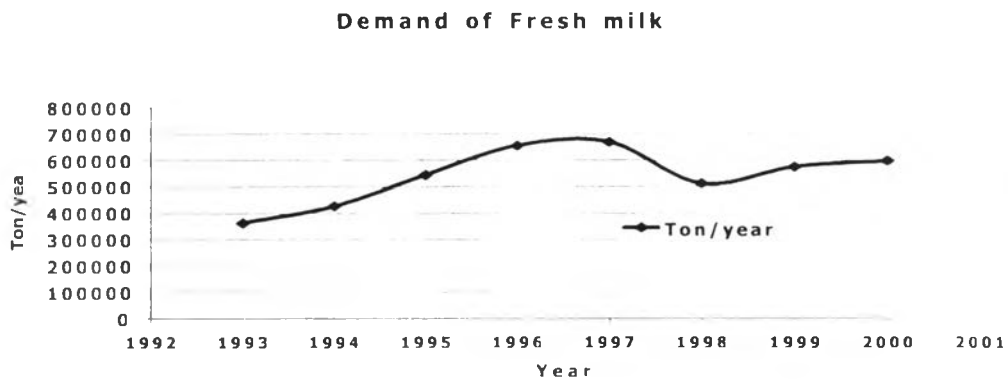
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From the figure above, the price of fresh milk is continuous increased because of government try to maintain the price of fresh milk in order to help cow's farmer and increasing of cow's foods. Although in year 1997 to 1998, Thailand economic climate is down and sending the impact to down consumption but the price still increasing. Forecasting of price in year 2001 should be the same as last year. Because of the price of cow's foods looks constant, together with get better Thailand economic climate. This will impact to increase in demand, however, the price should be around 12.50 Baht/Kg of fresh milk.

2.1.5 Demand of fresh milk in country

In year 1999, the demand for using fresh milk is 573,637 ton, but in the country can produce only 455,000 tons. It still needs to produce more 136,837 tons in order to achieve demand. This is the reason why we can not stop import of milk powder. In year 2000, the demand of fresh milk was increased to 596,895 tons.

From the figure, the demand of fresh milk was decreased in year 1997 to 1998. It was the impact from the down in demand of consumption fresh milk and down in Thailand economic climate. In year 1998 to 1999, the demand was increased because of increasing the consumption and get better Thailand economic climate.



Graph 8: Demand of fresh milk in Thailand

Source: Economic report and situation of stock lives 1999-2000

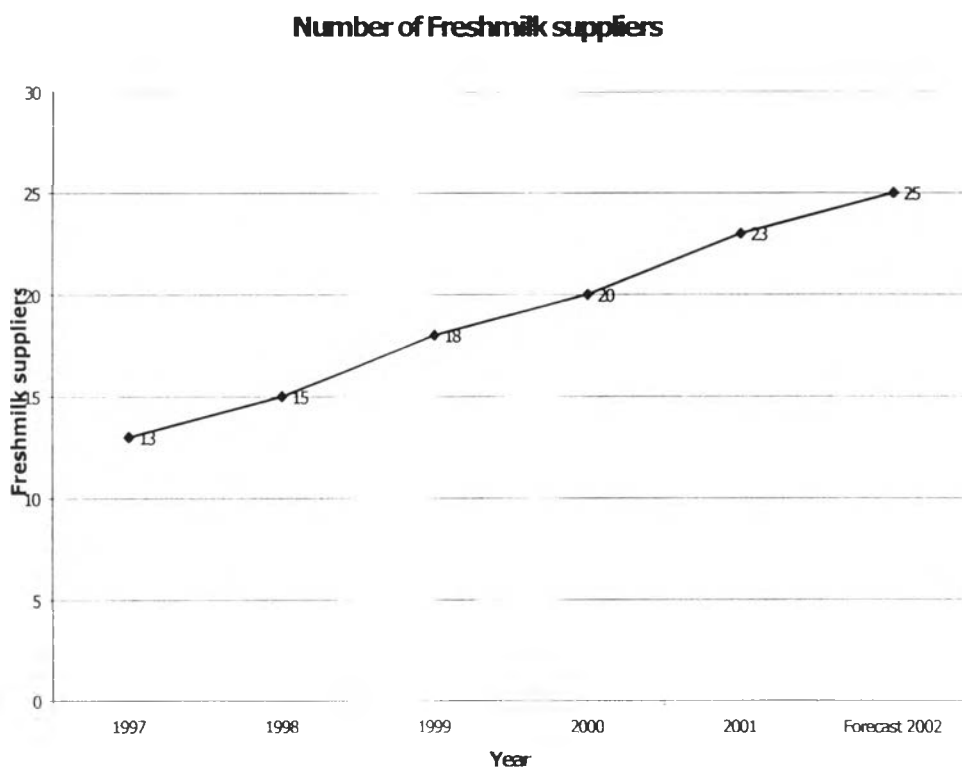
Department of lives stock and development.

2.1.6 Fresh milk contract supplier of the company

The company had made contract with 15 fresh milk suppliers in year 1999 and increased to 20, 23 suppliers in year 2000 and 2001 respectively. By forecasting in year 2002 it will have fresh milk supplier 25 suppliers. In the fact that, composition of fresh milk is varied from source to source, that's mean sometime they can't sell fresh milk cause from too much composition deviation. The amount of antibiotic is one major critical criterion, which is directly impacted to this event. Generally, by the nature of fresh milk it can not keep for a long time at normal temperature environment. It needs a process of heat treatment and cool it down to 4-6 °C as soon as possible in order to extent storage times. That's mean fresh milk has to send to the destination as soon as possible also after secretion and cool down at the farm. The contract had been made between supplier and company in order to guarantee

that they can sell all fresh milk to the company. But it doesn't mean fresh milk, which has amount of antibiotic more than company's requirement can be received. It just makes a confident to the suppliers that they are always have a purchaser if milk is in company quality norm. The content of contracts are covered both the required quantity and supplied quantity in each year per supplier, that mean when the fresh milk has been delivered according to the required quantity. The company will be managed all received fresh milk, event, the factory is shutting down.

According to the fresh milk production volume in country is less than consumption volume, the company also has a policy to help cow's farmer in term of cow's farming technology. This policy was made in order to make a good relationship with local suppliers and also be a motivation and encouragement to have more cow farm in the country. The number of suppliers, which were increased in each year, can be seen by below figure.



Graph 9: The number of fresh milk supplier in each year
Source: Agricultural department Nestle Thailand

In summary we can see that the production volume of fresh milk is continue increasing. In year 2000, the capacity of fresh milk is excess 450,000 tons and the demand is a little bit dropped from the year 1999. It may from the economic crisis, which is effecting to shrink of demand. The price of fresh milk is also increased from the previous year, it is good to cow's farmer. However, the price is staying at 12.50 Baht in year 2001. From the forecasting supply of fresh milk to factory in each year, we can see that the tendency is increasing. However, trend of production volume looks less than the demand of fresh milk.

2.2 Market Share of company, Canned Liquid Coffee product

This company just entries to the liquid coffee market for 6 years ago. With a successfully with coffee powder product in the market before, hence, company decided to launched liquid coffee product to capture other market segments. Unfortunately, when he launched, it has a one strong local brand, Birdy, in the market and is almost market share. So, it became to be 2nd manufacturer when company decided to launch new product to this segment.

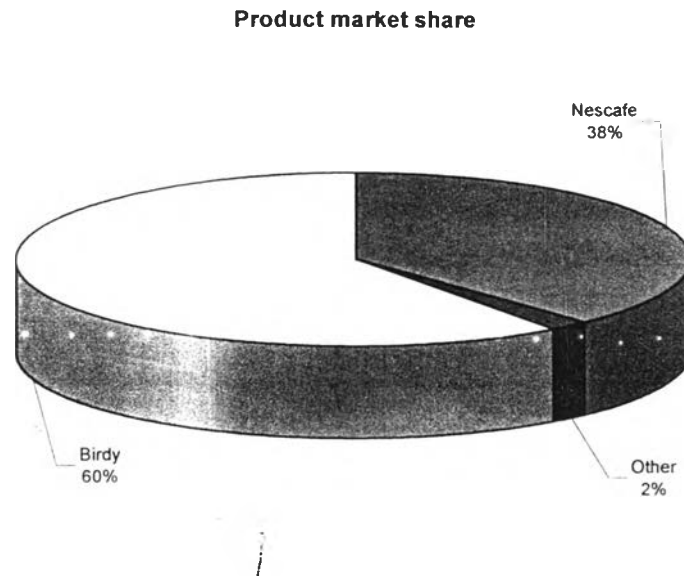


Figure 3: Market share by brand
Source: AC Nielson Retail Audit 2001

According to figure 10, Birdy is a leader-shared market by 60 percent and follows with Nescafe by 38 percent and other remaining are 2 percent in year 2001. Market shared did not move too much from last 2 years.

2.2.1 Market share by type of product

We can classify the market share of each product brand into specific name of product in order to know the exactly type or stock keeping unit (SKU), which is selling. Birdy brand has 2 SKU, which was the best selling. That are "Birdy super blend and Birdy robusta", these 2 SKU has been shared the market by nearly 60 percent.

Nescafe has 2 SKU, which were best selling. Those are "Nescafe Extra and Nescafe Shake".

Birdy super blend and Nescafe Shake have the same target group, that is student or young generation, who is required freshness. While, Birdy robusta and Nescafe extra have a target at working generation group.

Share by type of product brand

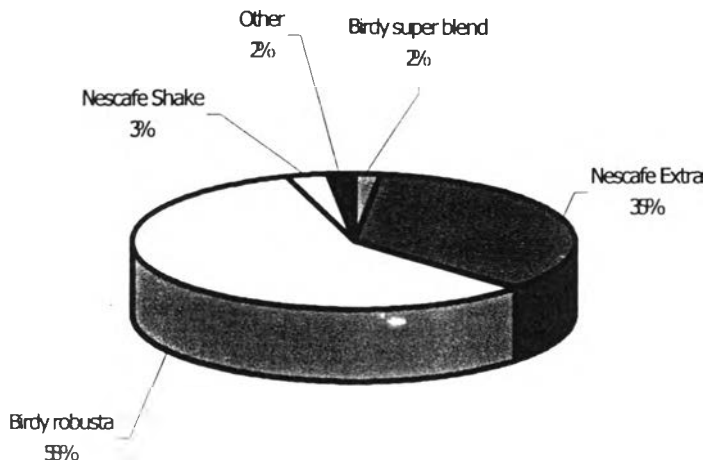
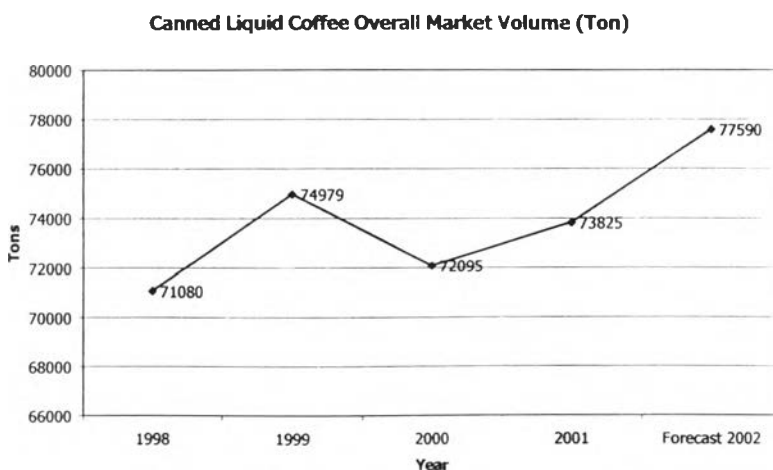


Figure 4: Market share by type of product
Source : AC Nielsen Retail Audit 2001

From the market share by type of product, the best selling or most shared is Birdy robusta. It was taken place share of market by 58 percent. Second brand type is Nescafe Extra, it has a share by 35 percent. Third shared by Nescafe shake, which is mostly the same share by Birdy super blend and other brand type around totally 7 percent. It is imply that Birdy is market leader with Birdy robusta type. Nestle has a target business objective to achieve shared of ready to drink coffee market by 49 percent in year 2002.

2.2.2 Market volume

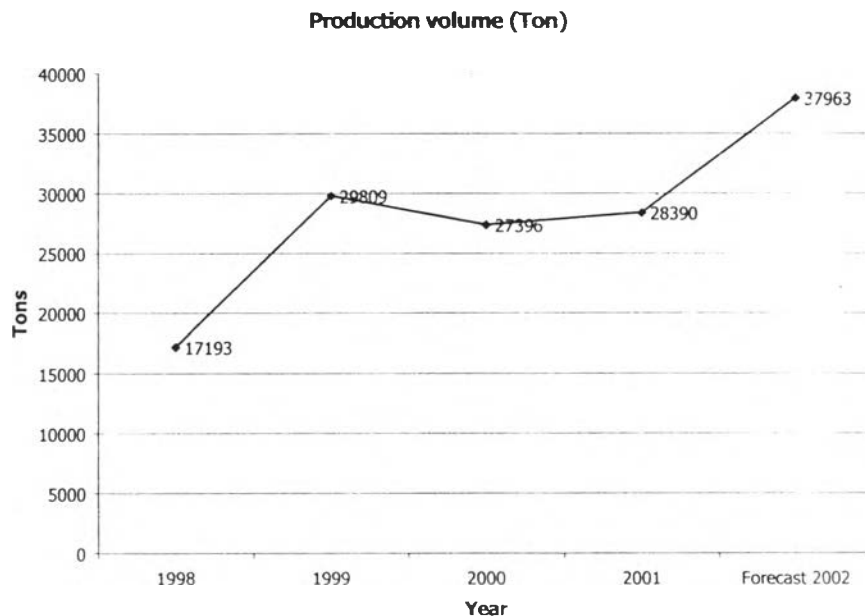


Graph 10: Canned liquid coffee market volume overview
Source: RTD Marketing Division, Nestle Thailand.

According to figure 12, ready to drink coffee market year 1999 was increased by 5.49 percent from year 1998. This happens by the economic climate feel much better than 1998, especially, more on the employment.

In year 2000, market volume had been dropped for 3.85 percent from the effect of stay of economic climate and selling price of ready to drink coffee increased from 10 to 12 Baht per can. With this reason causes to reduce in demand and market volume. In year 2001, it has more new launching from other brand, such as, Ah-Ha. Moreover, the existing brand such as, Sigha, also launched new type of ready to drink coffee with more lifestyle by adding new flavor. These factors had pushed market volume increased by 2.4 percent from year 2000. Forecasting market volume year 2002 will be increase by 5.1 percent or from 73825 tons to 77590 tons. This will cause by new launching new and more variety of products from other brand and promotion plan will be more competitiveness. With this reason will push to increase in market volume by 5.1 percent from year 2001.

2.2.3 Sale plan and forecasting with production volume



Graph 11: Sale plan and production volume

In year 1998, it's just a beginning of starting new operation plant. In that time, Nestle used co-packer, Tipco, as an outsourcing and start operate a new plant at the same time. After that, 1999 sale volume increased to 29809 tons or increased by 5.49 percent from year 1998. These happens by the successfully of promoted product strategy with more concentrate. In year 2000, the sale volume was dropped by 8.95 percent with the reason of increase of selling price and economic climate still stray at downward trend. In year 2001, the selling volume increased for 3.63 percent by the economic climate is getting better, people has more employment and increase in investment project. In year 2002, the sale forecast was estimated at 37963 tons or increased by the reason of;

- More effective promotion campaign
- Increase distribution channel
- Establish product availability
- Plan to launch new product

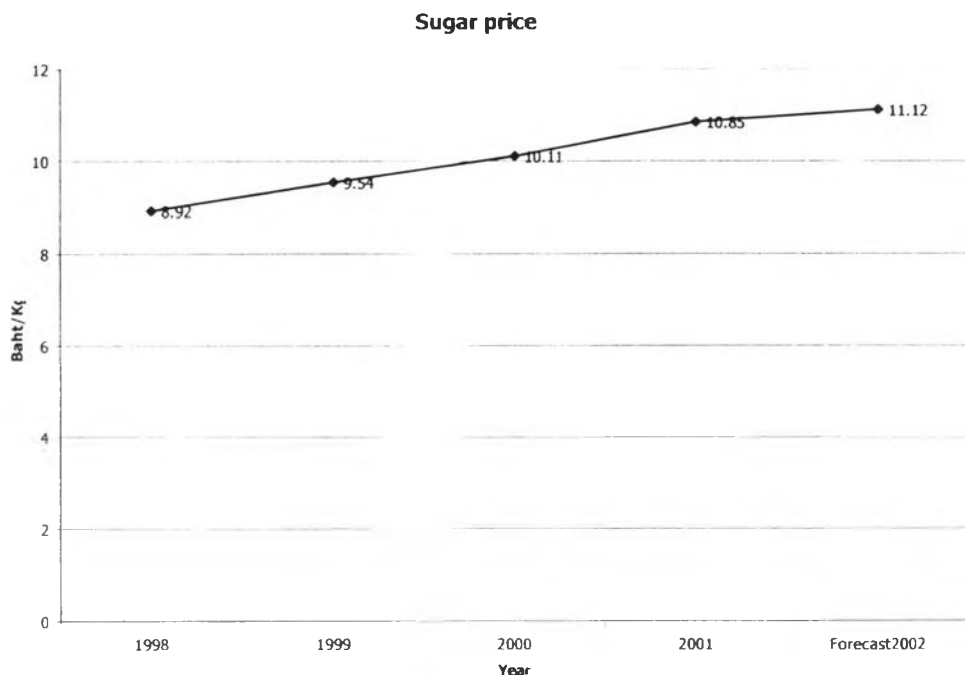
- Improvement on order and billing operation
- Marketing plan and sale forecast will be done by Coca Cola company joint venture.
- Company objective by increase selling volume 30 percent in Thailand market.

2.3 Raw material prices

There are 5 raw materials, which is used to make ready to drink coffee, exclude water. Some of them have to import from oversea and the price has to be revise accordingly to the situation of the market, such as, milk powder and flavor. Especially, milk powder have to be forecast the required quantity ahead for 1 year before in order to book the quota of each regional. However, some of them are local raw material, which is easier to control both quantity requirement and communication planning, such as sugar. The ingredient or raw materials, which was used, are

Sugar

Sugar is one of raw material, which is available in country. It will purchase in form of sugar plantation white. The type of raw material have less or small fluctuation in term of price. The government also help sugar canes farm in term of price, therefore, this manufacturing base located on Kanchanaburi province.



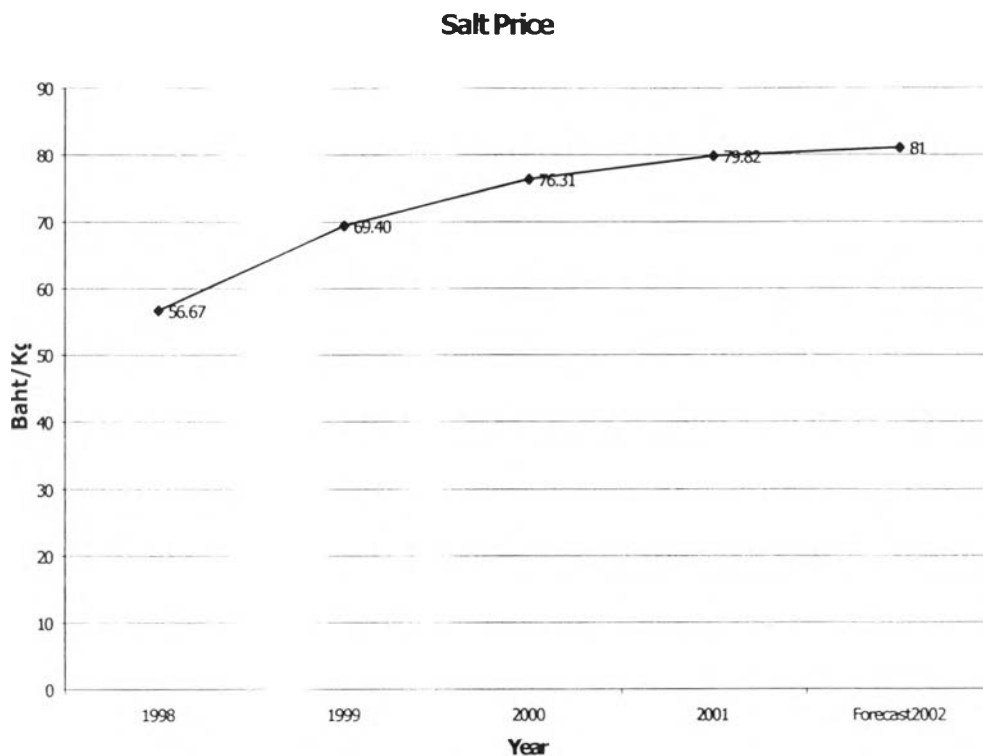
Graph 12: Trend of sugar purchasing price
Source: Purchasing price 2001, Nestle Thailand.

The purchasing price of sugar doesn't change too much in each year, if the price of sugar increasing very fast. It will affect to food industries sector consequently to increase price for consumer products. That why the government have to help sugar cane farm in term of price. The average price increase in each year is around 6

to 7 percent, however, forecasting purchasing price 2002, could be in crease around 2.5 percent from year 2001 because of the a little bit over supply in market.

Salt

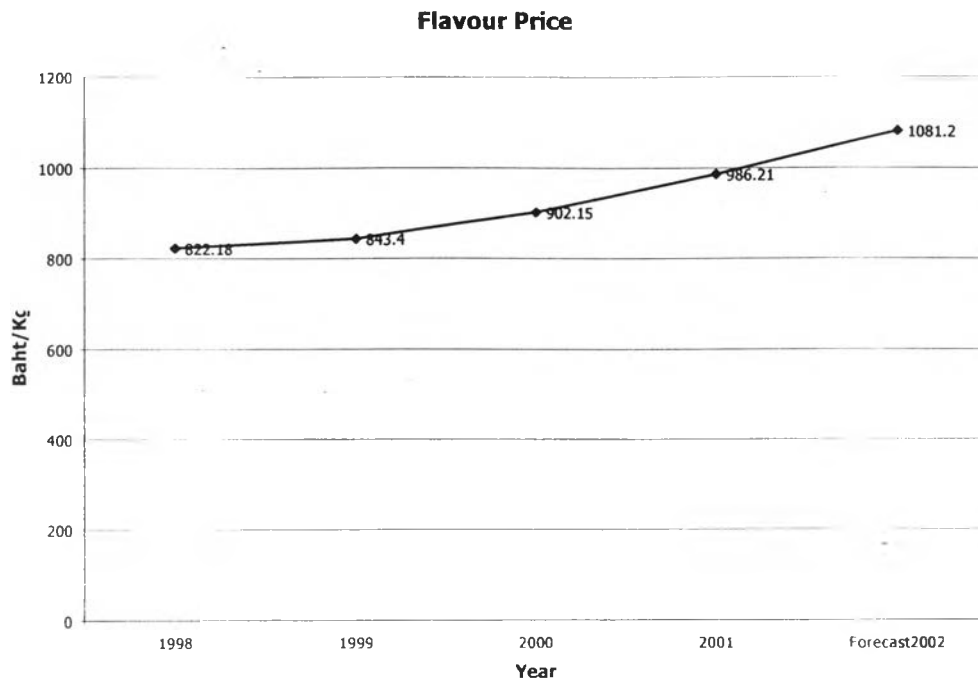
Salt used to stabilize protein in liquid coffee when it passes though heat treatment process, sterilization. This type of raw material is local raw material, sometime, but very small amount, has to order from oversea. Purchasing price is continuos increase because in production process of salt use chemical from oversea. That means the price of salt will depend on the price of chemicals, which used to produce salt also. However, purchasing price in each year is average at 12.3 percent increase with the reason of increase in raw material price. Anyhow, forecasting price of salt in year 2002 is around 12 percent increase by the reason of stability chemical component price.



Graph 13: Salt purchasing price
Source: Purchasing price 2001, Nestle Thailand.

Flavor

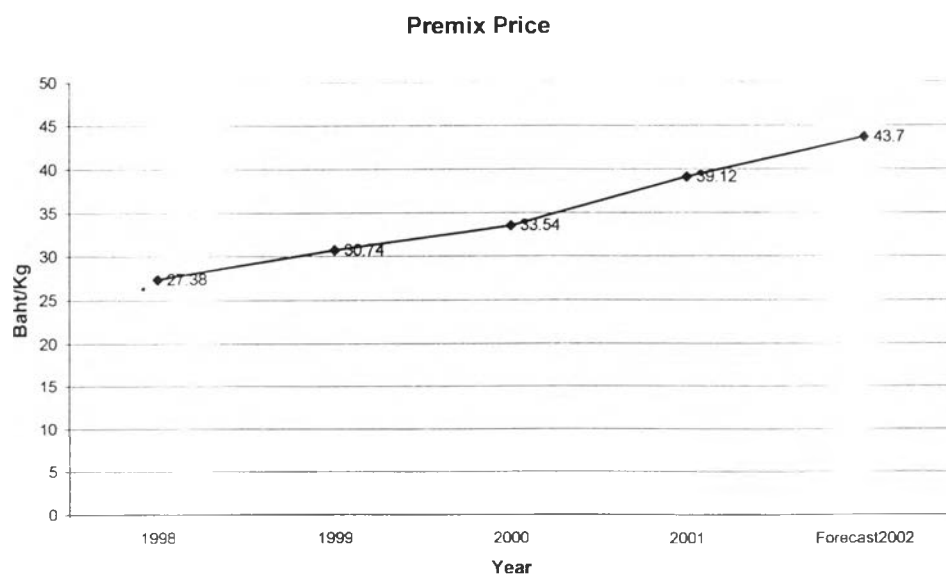
Flavor is imported raw material, price is depending on the exchange rate also. In during year 1999 and 2000, price had been increased for 9.96 and 9.31 percent because of the strong foreign exchange rate. However, the average price increase is around 6.2 percent in each year. The forecasting price could be same as last year increase 9.63 percent with the reason of less fluctuation of foreign exchange rate.



Graph 14: Trend of flavor purchasing price
Source: Purchasing price 2001, Nestle Thailand.

Premix

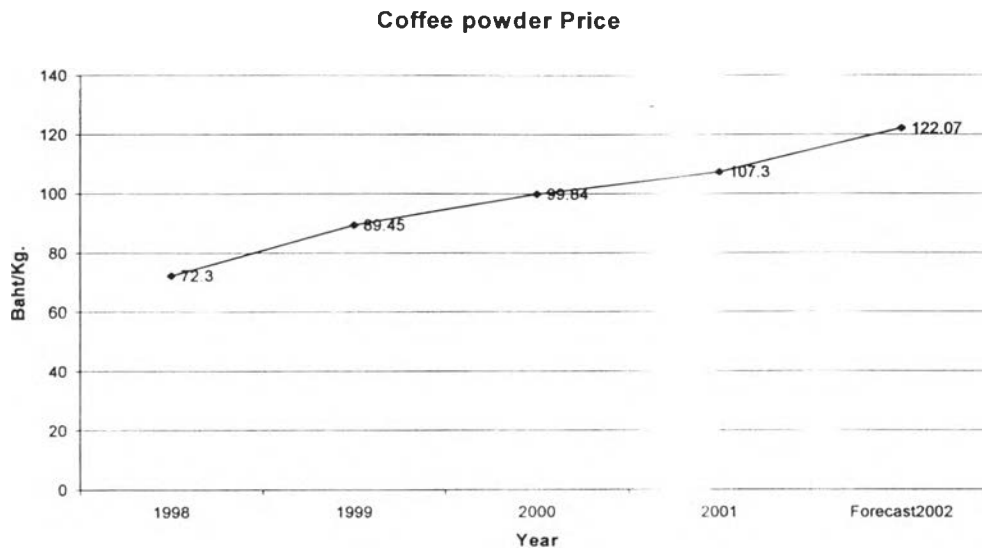
Premix is imported raw material, purchasing price is increased at average 11.7 percent in each year. This type of material also depend on the foreign exchange rate, during 2000, price had been increased for 16.6 percent with reason of strong foreign exchange rate. Forecasting price could be around 43.7 Baht/Kg or increase by 12.6 percent, because of less in foreign exchange rate but still increase a little bit more than last year.



Graph 15: Trend of premix purchasing price
Source: Purchasing price 2001, Nestle Thailand.

Coffee powder

Coffee powder was supplied by local Nestle coffee powder plant. The coffee bean is available in Thailand and selling price of coffee bean also help by Thai government. Anyhow, price of coffee bean is increasing very fast in year 1998 to 1999 because of the price of coffee bean is increased very fast in that year. This impact to increase for 23.72 percent of coffee powder price. However, the average increase price is around 13.76 percent. Purchasing price of coffee powder could be 122.07 Baht/Kg or increasing 14.3 percent with the reason of increase in manufacturing cost in coffee powder supply plant.



Graph 16: Trend of coffee powder purchasing price
Source: Purchasing price 2001, Nestle Thailand.