

The Business Hub Approach to Service Delivery

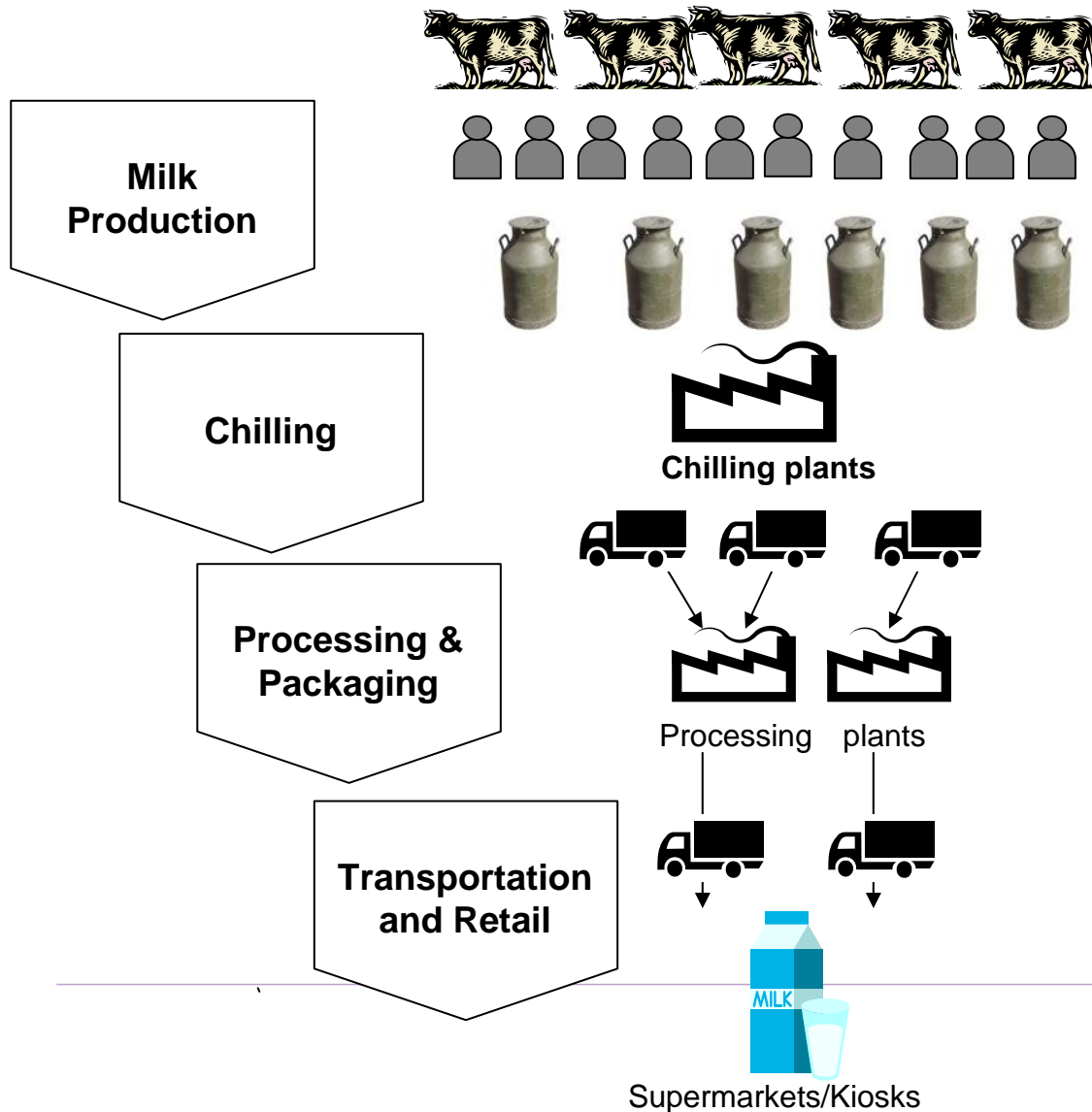
The Second National Conference of the BDS Donor Coordination Group-
September 2006
Naivasha



TECHNO SERVE
Business Solutions to Rural Poverty

Presented by Fred Ogana

The Chilling Plant Model

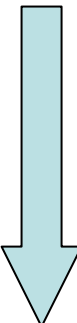


SERVICES FLOW

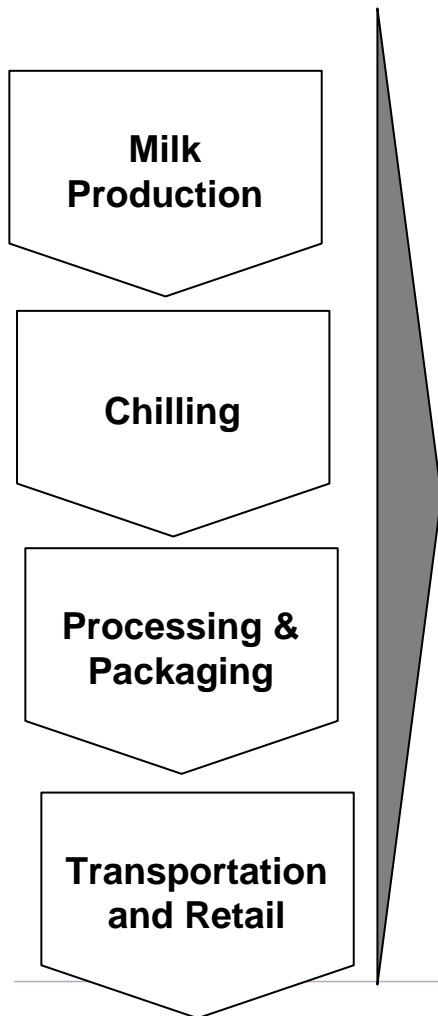
Input markets/Services:

- 
1. Farm Business management
 2. Input supplies
 3. Financial Services
 4. Extension support
 5. Training

Outputs markets/Services:

- 
1. Business management
 2. Transportation
 3. Quality Control
 4. Extension support
 5. Training

Markets Constraints



BDS Market Constraints:

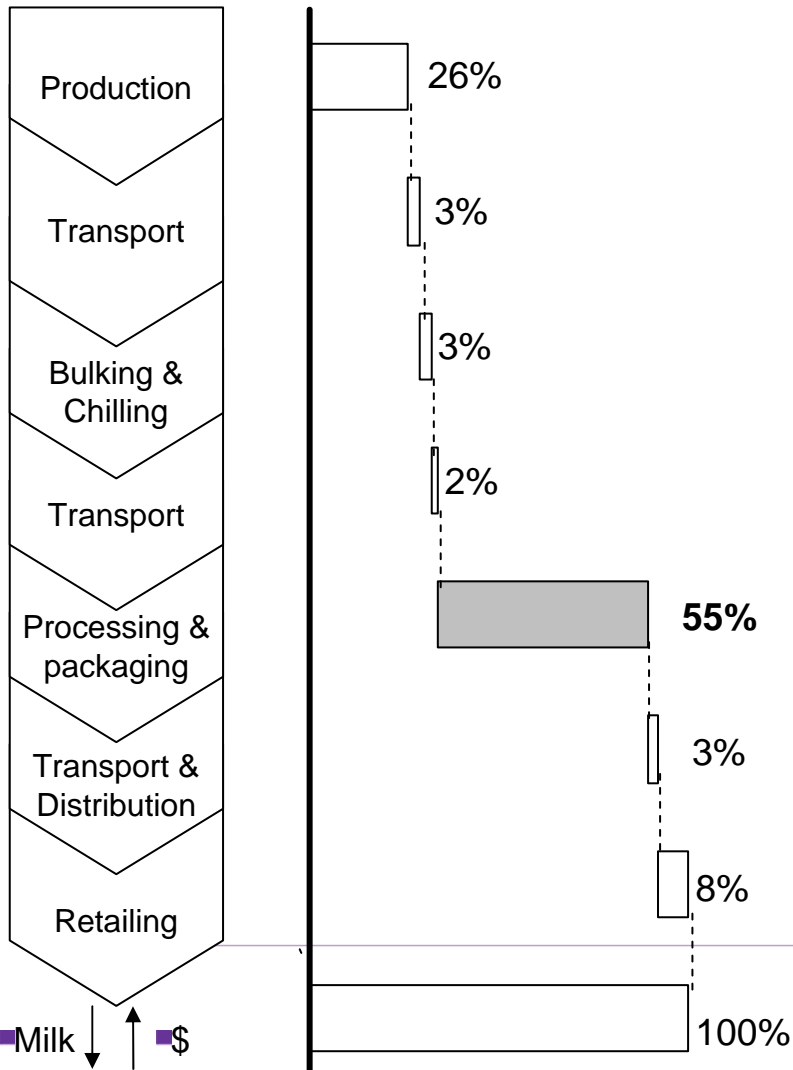
1. Poor market access
2. Low prices
3. Poor quality milk
4. Low productivity
5. High cost of collection
6. High demand for low priced milk often low quality milk
7. High cost of inputs whose majority are of doubtful quality
8. Lack of understanding of fundamental business practice



Processors take the largest share of revenue in the value chain. Chilling Plants need to expand their activity to processing & packaging

Value chain (industry average)

Share of revenue %

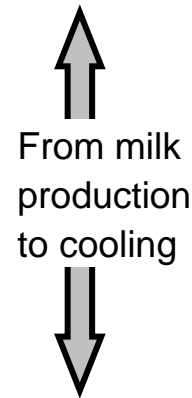


Price

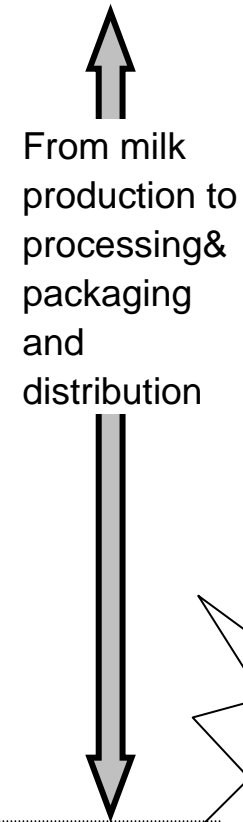


Chilling activity

Now

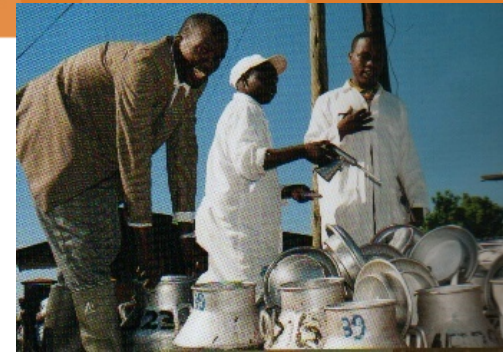


Future



Chilling costs only 3% & greatly improves quality

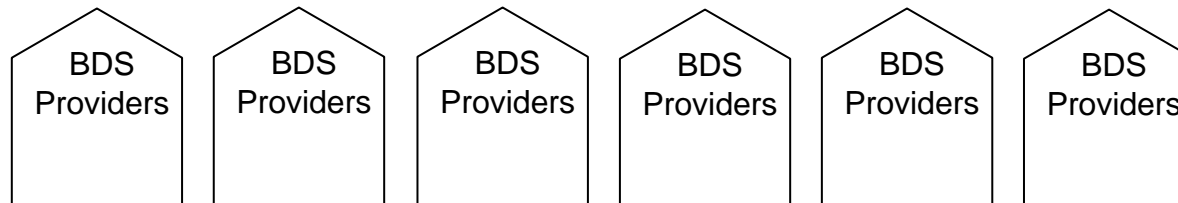
An Integrated BDS-value Chain Approach



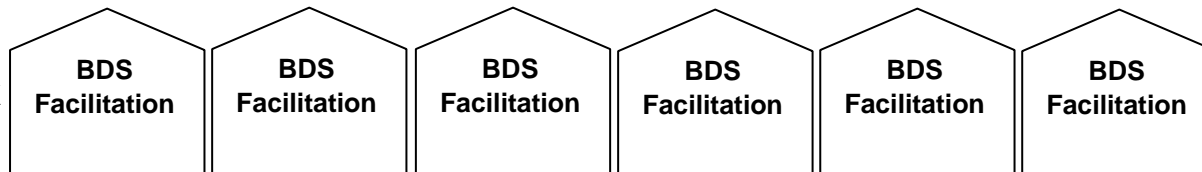
Overall Dairy Value Chain

| | 1. Farm level production | 2. Transport | 3. Bulking & Chilling | 4. Transport | 5. Processing & Packaging | 6. Distribution | 7. Retailing | TOTAL |
|----------------------|--------------------------|--------------|-----------------------|--------------|---------------------------|-----------------|--------------|-------|
| Share of Revenue (%) | 26% | 3% | 3% | 2% | 55% | 3% | 8% | 100% |
| KSh / litre | 13 | 2 | 1 | 1 | 28 | 1 | 4 | 50 |

Market support services



Stimulate Demand & Link Markets

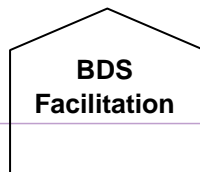
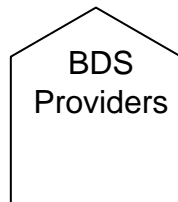




Farm Level Production Chain



| Service streams | Breeding | Feeding | Water | Health care | Other labour | Cow shed | Margin | TOTAL |
|----------------------|----------|---------|-------|-------------|--------------|----------|--------|-------|
| Share of Revenue (%) | 2% | 66% | 5% | 5% | 8% | 3% | 11% | 100% |
| KSh / litre | 0.3 | 8.6 | 0.7 | 0.7 | 1.0 | 0.4 | 1.4 | 13 |



1. Farm level production

2. Transport

3. Bulking & Chilling

4. Transport

5. Processing & Packaging

6. Distribution

7. Retailing



Transport Value Chain

| Service streams | Fuel | Maintenance | Insurance etc | Hired Labour | Depreciation | Spillage | Margin | TOTAL |
|----------------------|------------------|------------------|---------------|--------------|--------------|----------|--------|-------|
| Share of Revenue (%) | 32% | 32% | 4% | 15% | 13% | 2% | 1% | 100% |
| KSh / litre | 0.64 | 0.64 | 0.09 | 0.31 | 0.27 | 0.04 | 0.02 | 2.00 |
| | BDS Providers | BDS Providers | | | | | | |
| | BDS Facilitation | BDS Facilitation | | | | | | |

1. Farm level production

2. Transport

3. Bulking & Chilling

4. Transport

5. Processing & Packaging

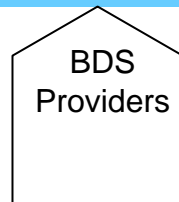
6. Distribution

7. Retailing



Bulking and Chilling Chain

| | Operational Costs | Admin. Costs | Financial Cost | Net Profit | TOTAL |
|----------------------|-------------------|--------------|----------------|------------|-------|
| Share of Revenue (%) | 61% | 15% | 2% | 22% | 100% |
| KSh / litre | 0.61 | 0.15 | 0.02 | 0.22 | 1.00 |



1. Farm level production

2. Transport

3. Bulking & Chilling

4. Transport

5. Processing & Packaging

6. Distribution

7. Retailing

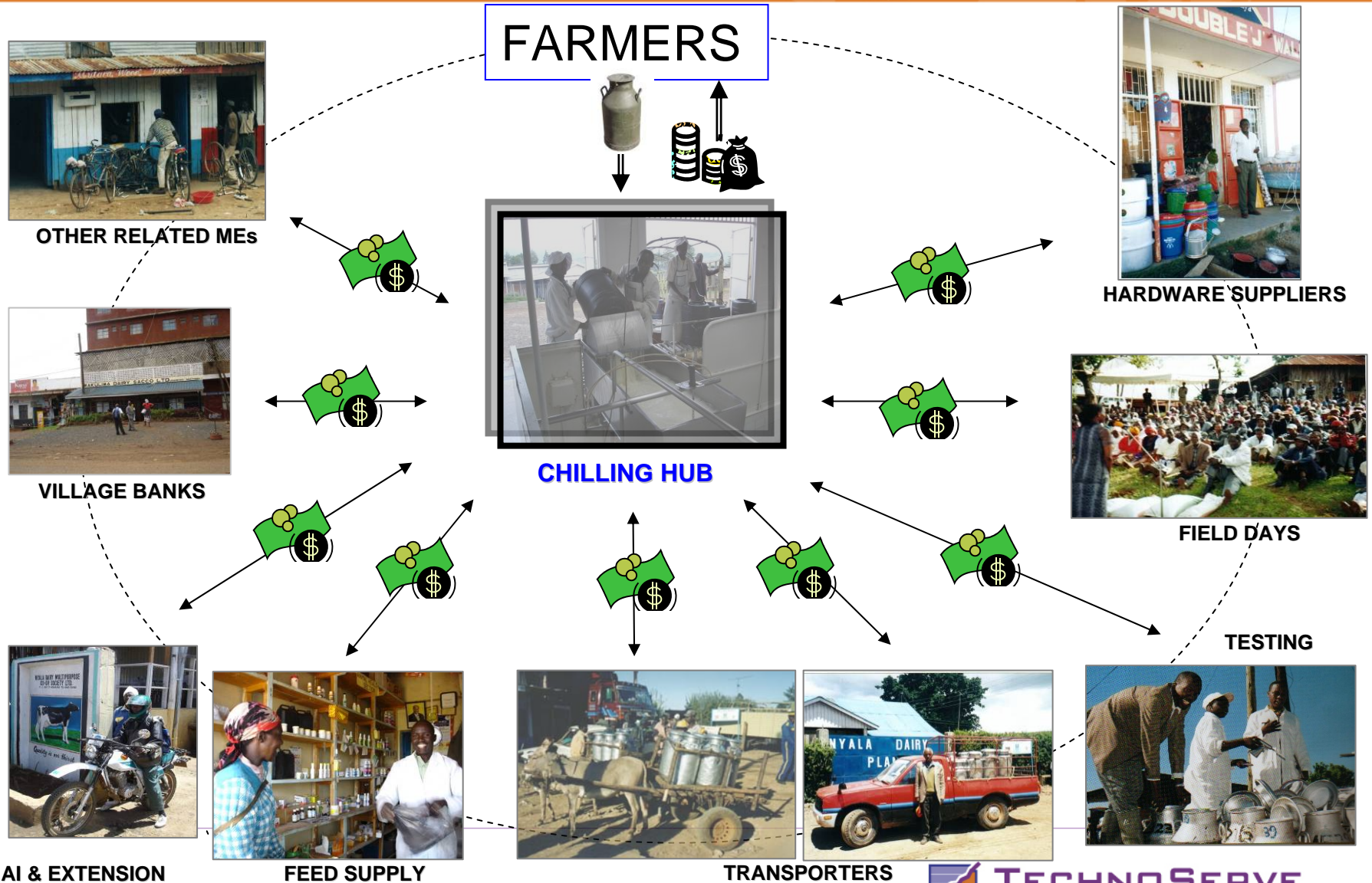
Processing Chain



| | Op.Costs | Admin.Cost | Finc.Cost | Net Profit | TOTAL |
|----------------------|----------|------------|-----------|------------|-------|
| Share of Revenue (%) | 60% | 12% | 11% | 17% | 100% |
| KSh / litre | 16.8 | 3.36 | 3.08 | 4.76 | 28 |

| Operational Costs Chain | Dep. | Elec. & Fuel | Labour | Training | Repairs | Cleaning & Lab | Water | Packg. | Other | TOTAL |
|-------------------------|------|--------------|--------|----------|---------|----------------|-------|--------|-------|-------|
| Share of Revenue (%) | 18% | 10% | 6% | 2% | 4% | 2% | 1% | 49% | 8% | 100% |
| KSh / litre | 3.02 | 1.68 | 1.01 | 0.34 | 0.67 | 0.34 | 0.17 | 8.23 | 1.34 | 12.20 |

The Solution – Transforming Chilling plants to Business Hubs



AI & EXTENSION

FEED SUPPLY

TRANSPORTERS

How Farmers pay for Services through the Business Hub



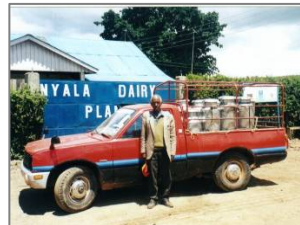
HARDWARE SUPPLIERS



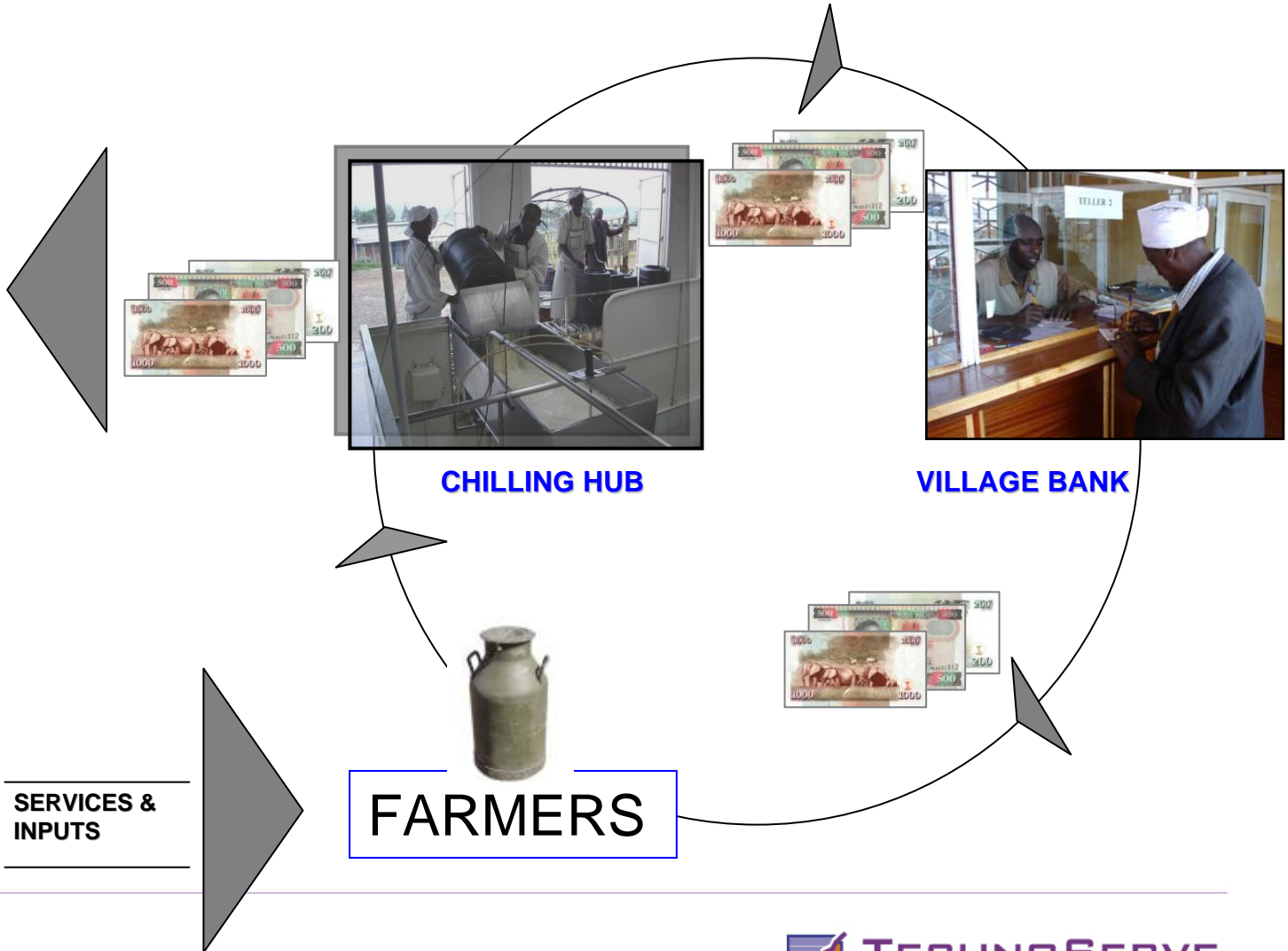
AI & EXTENSION



FEED SUPPLY



TRANSPORTERS



Provider Services

Services

- Business opportunity evaluations
- Business planning and strategy development
- Financial systems development & ICT
- Market linkages
- Farm Input and extension delivery
- Technical and maintenance in support
- Audit and financial management etc

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TechnoServe's Facilitative Role

TechnoServe Facilitation:

- ▶ Develop Business Model
- ▶ Put in place management and financial systems
- ▶ Build capacity of providers and encourage competition among them
- ▶ Market Linkages
- ▶ Technical linkages including Information Communication technology

Service Delivery by BDS Provider:

- ▶ Business training for top managers of the chilling hub
- ▶ Hub contracts and pays for systems and controls development e.g. audit firms
- ▶ High level provider engaged to offer services e.g. Financial Consultants.
- ▶ Hub managers trained to package, market themselves and negotiate deals
- ▶ Service provider compete to secure contracts with the hub

Current Business Clients:



Raka Dairy Ltd

- Cheese Processor
- 5,000 litres/day
- 800 farmers (Watuka Co-op)



Nyala Dairy Co-operative

- Milk Chilling
- 10,000 litres/day
- 3,500 farmers



Muki Dairy Co-operative

- Milk Chilling
- 20,000 litres/day
- 5,300 farmers



Molo Dairy Ltd.

- Processor
- 15,000 litres/day
- 2,000 farmers



Wakulima Dairy Ltd.

- Milk Chilling
- 20,000 litres/day
- 2,000 farmers



70,000 Liters
Daily



\$6.3m p.a.

Over 13,000 farmers

Risks and Challenges

- Production affected by weather (drought)
- Intense competition in milk market
- Service providers tend to overcharge for services
- Quality of services need to be monitored
- Access to financial services is limited due to low fund base at SACCO level.



Train farmers on feed conservation/feeding & nutrition



Consistently compete on quality rather quantity



Build capacity of providers and encourage competition among them



Build capacity of providers



Develop joint ventures and introduce alternative financing models