The Business Hub Approach to Service Delivery

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

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Business Solutions to Rural Poverty

Presented by Fred Ogana

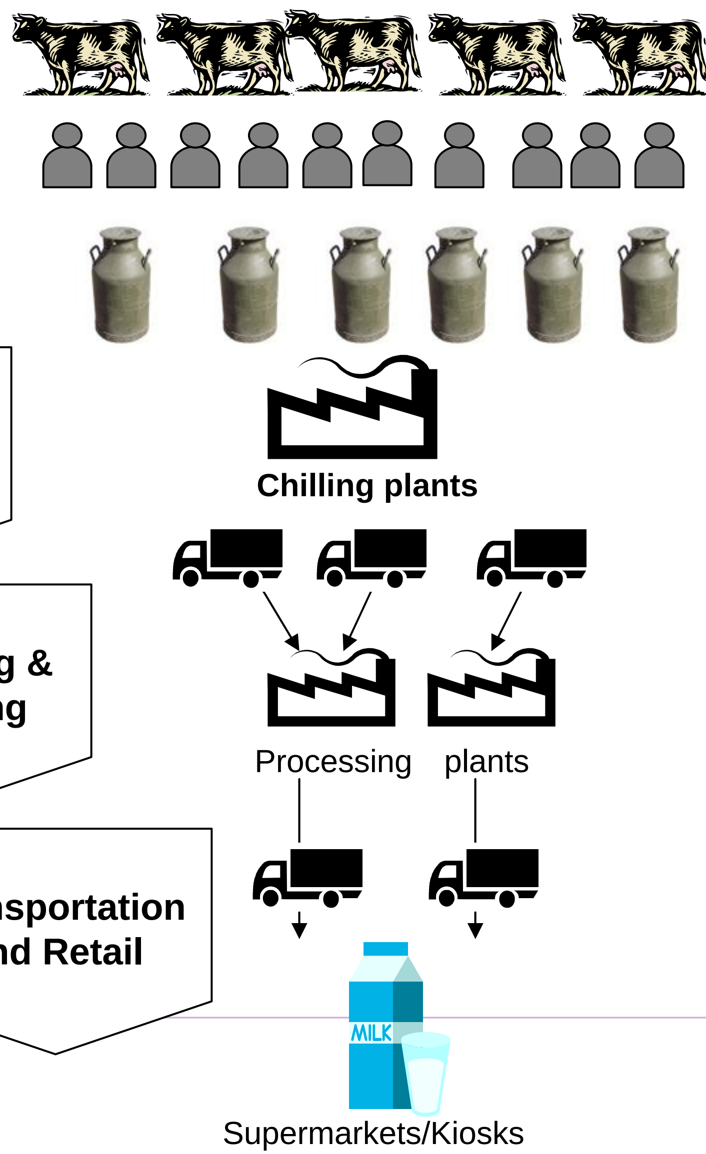
The Chilling Plant Model

Milk Production

Chilling

Processing & Packaging

Transportation and Retail



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

Milk Production

Chilling

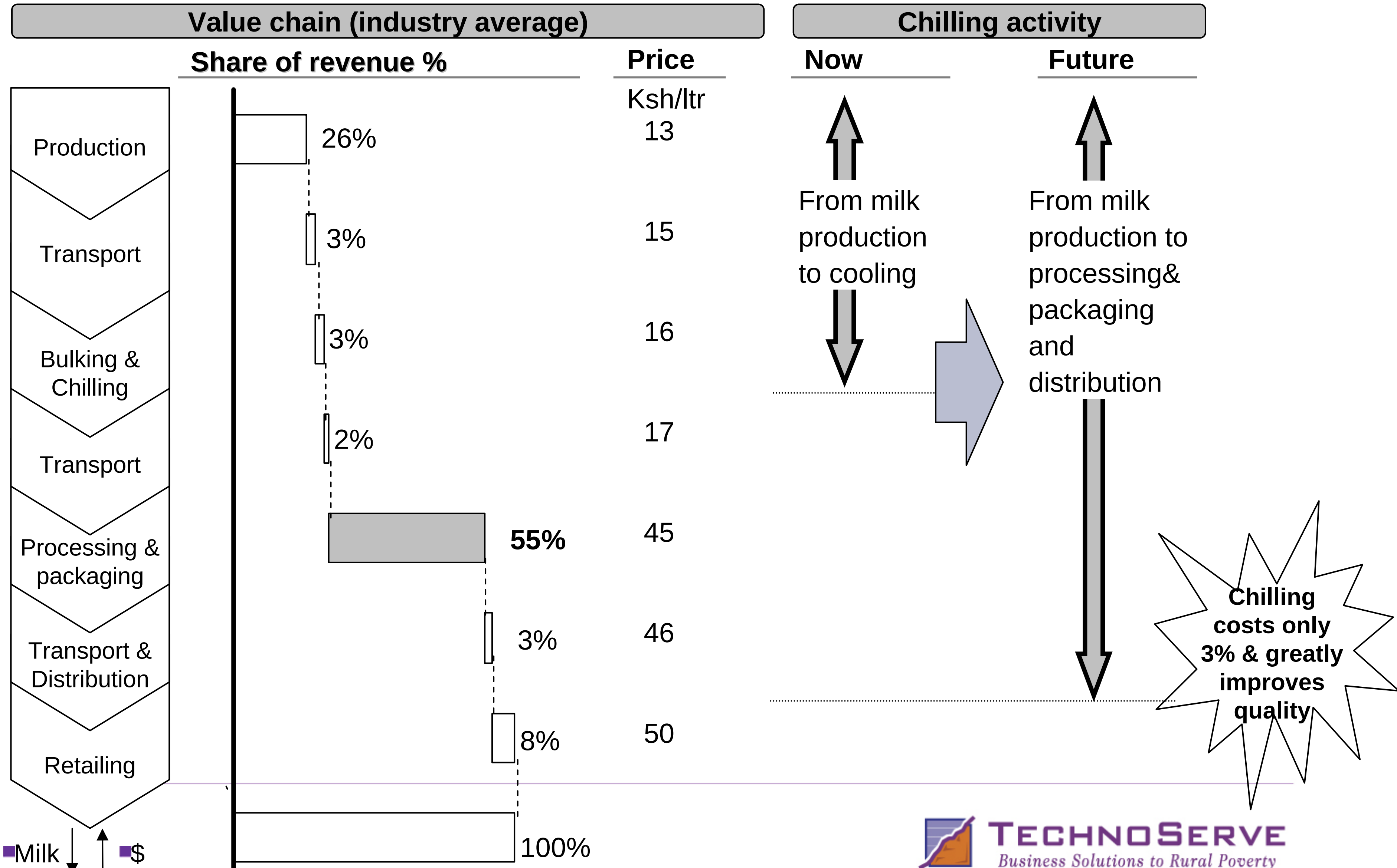
Processing & Packaging

Transportation and Retail

BDS Market Constraints:

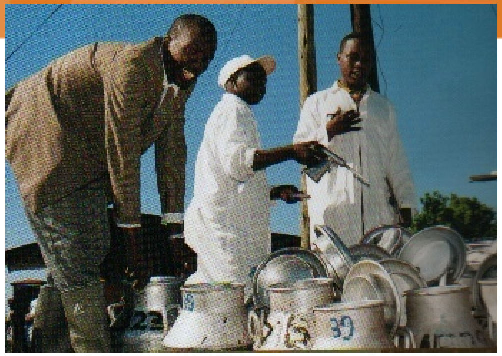
1. Poor market access
2. Low prices
3. Poor quality milk
4. Low productivity
5. High cost of collection
6. High demand for low priced milk often low quality milk
7. High cost of inputs whose majority are off doubtful quality
8. Lack of understanding of fundamental business practice

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



Source: SDP, various; Tegemeo, various; TechnoServe analysis

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	BDS Providers	BDS Providers	BDS Providers	BDS Providers	BDS Providers	BDS Providers
Stimulate Demand & Link Markets	**BDS Facilitation**	**BDS Facilitation**	**BDS Facilitation**	**BDS Facilitation**	**BDS Facilitation**	**BDS Facilitation**

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1. Farm level production | 2. Transport | 3. Bulking & Chilling | 4. Transport | 5. Processing & Packaging | 6. Distribution | 7. Retailing

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

BDS Providers

BDS Facilitation

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 ChillingChain

	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

BDS Providers

BDS Facilitation

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

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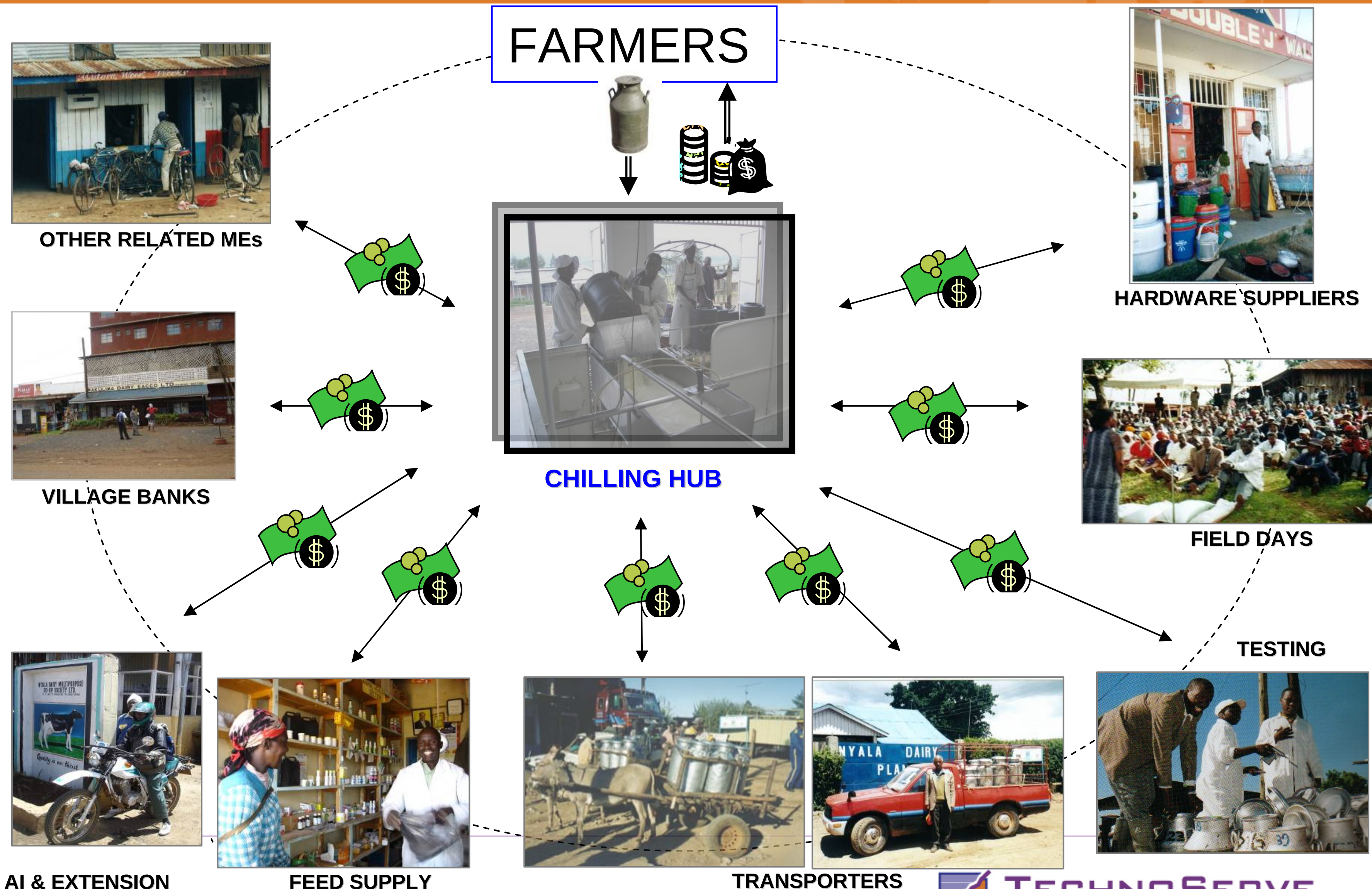
The Solution – Transforming Chilling plants to Business Hubs



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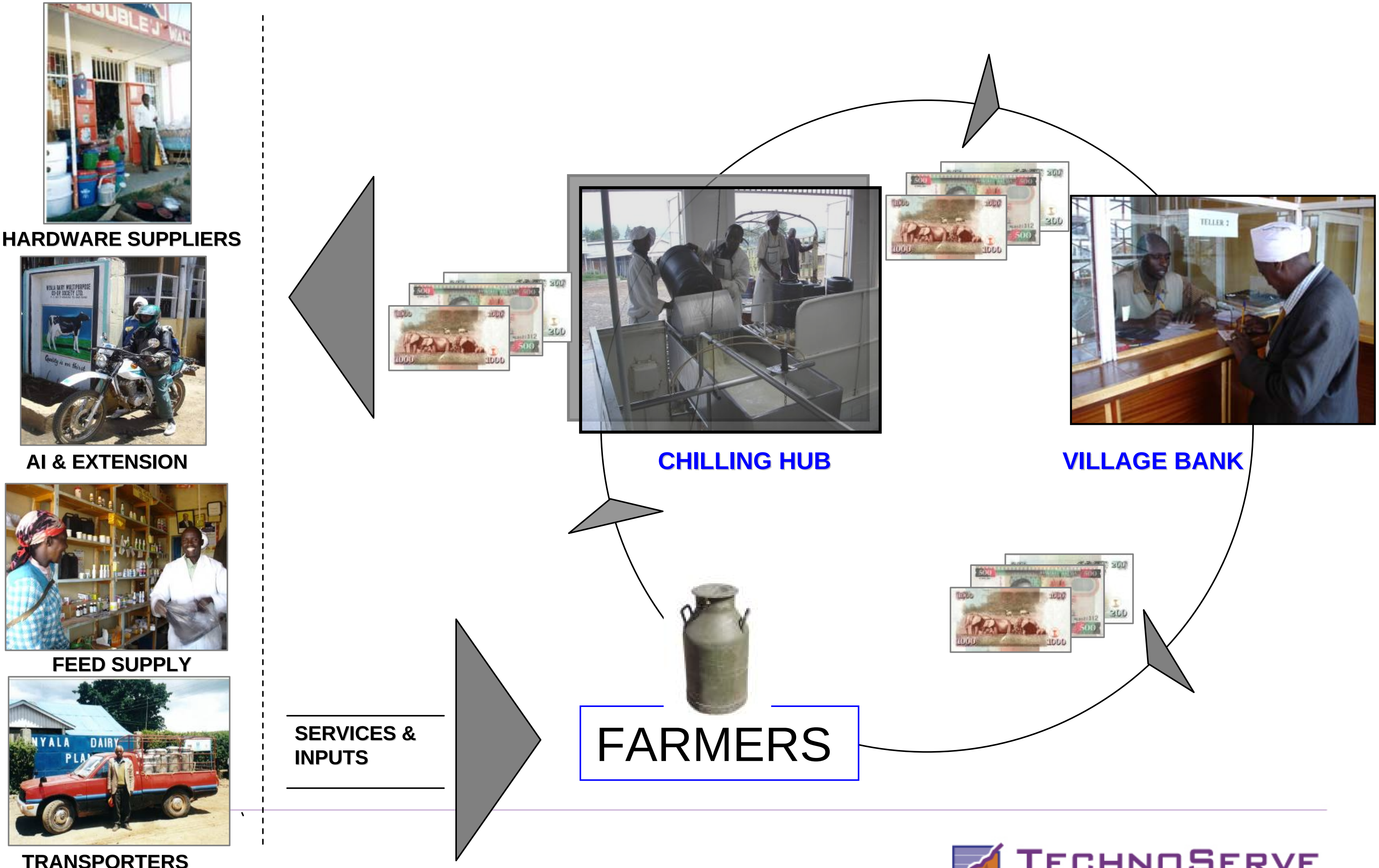
How Farmers pay for Services through the Business Hub



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

TechnoServe's Facilitative Role

TechnoServe Facilitation:	Service Delivery by BDS Provider:
Develop Business Model	Business training for top managers of the chilling hub
Put in place management and financial systems	Hub contracts and pays for systems and controls development e.g. audit firms
Build capacity of providers and encourage competition among them	High level provider engaged to offer services e.g. Financial Consultants.
Market Linkages	Hub managers trained to package, market themselves and negotiate deals
Technical linkages including Information Communication technology	Service provider compete to secure contracts with the hub

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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

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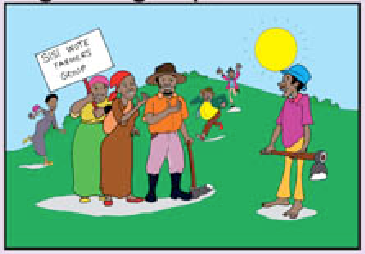
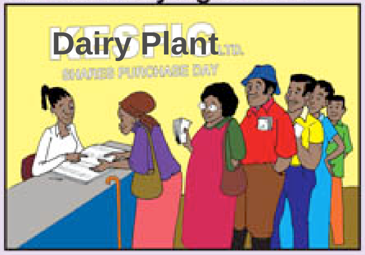
Building Replicable Commercial Model

Farmer's Participation

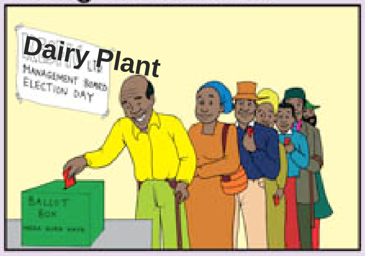
Organize groups



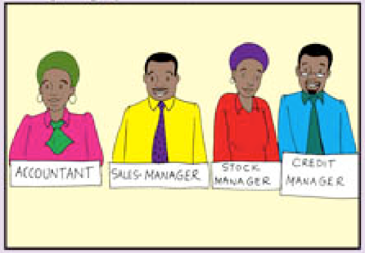
Farmers buying shares



Management elected



Employ professional staff



How farmers get paid

Price based on market

Payment voucher

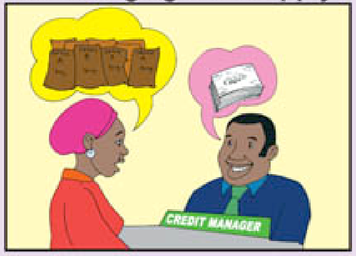
Presentation of voucher to bank

Withdrawal of cash and savings

Advantages of Business model system

Open bank accounts for individuals

Borrowing against supply



Increased wealth/incomes

Risks and Challenges

Production affected by weather (drought)	Train farmers on feed conservation/feeding & nutrition
Intense competition in milk market	Consistently compete on quality rather quantity
Service providers tend to overcharge for services	Build capacity of providers and encourage competition among them
Quality of services need to be monitored	Build capacity of providers
Access to financial services is limited due to low fund base at SACCO level.	Develop joint ventures and introduce alternative financing models