

## **Challenges of the pandemic on the Dairy Industry: A Case Study of Amul’s responsiveness**

<p><b>Author</b></p> <p>Dr. Stephen Victor, Professor, Royal Thimphu College.</p> <p><b>Key words:</b></p> <p><i>dairy industry, Amul Model, COVID-19, pandemic response.</i></p>	<p><b>Abstract</b></p> <p>When the COVID-19 pandemic struck in 2020, several business establishments were forced to shut down and many recorded negative growth. However, Amul, the Indian dairy cooperative society, adopted strategies which not only made them tide over the crisis but enabled them to record impressive growth. Their daily collection of milk increased by 3.5 million litres per day. The milk supply chain was not interrupted. The Amul leadership saw novel opportunities amidst the crisis. Taking advantage of the need for an immunity booster, Amul introduced products like turmeric, tulsi (basil), and ginger milk. A typical consumer wanted to shift from non-packaged products to safer and hygienically packed food items. Amul capitalised on this customer preference and came up with a unique game plan. They managed to launch more than 100 new products including fast-moving consumer goods (FMCG). Unlike many other establishments, their turnover increased by around 22.5 million during FY 20-21. This Case Study explores the leadership approaches adopted by Amul to not only navigate through the crisis but also capitalize on the situation to enhance its profitability. The leadership approach adopted by them could serve contextualized and replicated by other organizations.</p>
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## **Introduction**

Globally every industrial sector was adversely affected by the COVID-19 pandemic. Several factors contributed to the negative snowballing effect on the economy. One of the major factors that affected the business enterprises was the non-availability of professional human resources triggered by migration, sickness and death. Movement restrictions made the situation worse. Though a few shifted to the "work from home", many had to stop their work due to the nature of their industry which necessitated physical movement. Another factor that affected many businesses was the slump in the demand for many products. This paper attempts to explore the effect of the pandemic on the dairy Industry using AMUL as a case. The paper studies the responsiveness and adaptability of the leadership of AMUL during turbulent times and discusses the opportunity to replicate their leadership approach to other organizations

## **Impact of COVID-19 on the Dairy Industry**

The dairy industry was one among the establishments that faced a sudden reduction in demand resulting from:

- reduction in occupancy of many hotels
- operation of milk bars and ice cream outlets below capacity
- closure of student mess/hostels due to the introduction of online learning
- closure of office/industry canteens due to work-from-home options or layoff
- decrease in liquid cash that could be spent

## **Literature Review**

The Covid 19 outbreak impacted various facets of the economy, like "the capital markets, labour markets, foreign trades, and the consumption and production sectors" (Shang et al., 2021) . The dairy-related industries were no exception. A study of the dairy industry in the US and China found that the pandemic resulted in decreased farm-gate milk prices, disruption and difficulties in moving milk within the supply chains, worker shortages, increased production costs, and lack of operating capital (Qingbin et al., (2020). The situation was so severe in the UK dairy sector that when the demand for dairy products went so low, many farmers trashed thousands of litres of milk. Independent - (2020). In Canada, bulk buyers including restaurants drastically reduced their consumption to the extent that around 500 farmers were asked to dump five million litres of milk a week BBC

(2020). In a report titled, “An economic analysis of the impact of COVID-19 lockdown on the Indian dairy sector” by Chandel et al. (2020) it was found that the estimated economic loss due to the shrinking demand for milk and milk products in nine states of India stood at INR 1,143 million per day during the pandemic. Further, data collated by Kayamkulangara et al. (2022) from 200 farmers in the Kozhikode district of Kerala, India indicated that due to dry fodder shortage and reduction in milk prices, dairy farmers suffered an average loss of INR 7,175 per milch animal.

Table 1 shows the region-wise economic welfare losses per day in the Indian dairy sector. The dairy producers were adversely affected but the consumer gained to a marginal extent because of the reduction in prices. The producer losses were shared by two different groups of stakeholders. The first group comprised the dairy farmers who maintained the milch cows and had a regular quantum of milk production. The demand reduction forced the farmers to settle for a lesser price per litre of milk. Like the farmers, the entrepreneurs who owned processing plants also suffered economic loss. The enormous negative impact on the dairy industry in India was experienced the most in the Western and Central regions which is the same region where Amul primarily operates.

**Table 1**

Region-wise economic welfare losses per day (INR. 10 million)

Milk producing regions	Change in Producer surplus/ welfare	Change in consumer surplus/ welfare	Total economic losses
Northern region	-34.19	13.88	-20.32 (30.44)
Southern region	-12.76	5.18	-7.58 (11.36)
Eastern region	-12.80	5.19	-7.60 (11.39)
Western and Central region	-52.59	21.34	-31.24 (46.81)
Total	-112.33	45.58	-66.75 (100.00)

Source: “Economic Analysis of the Impact of COVID-19 Lockdown on Indian Dairy Sector” (Chandel et al., 2020)

### History of AMUL

AMUL ushered in India's 'White Revolution' around 75 years ago when farmers in the Kaira District and elsewhere had several struggles. Their earnings were majorly dependent on seasonal crops. Milch cows and buffaloes did not provide a reliable income. Private traders controlled the milk movement logistics. Since milk was perishable, dairy farmers were

compelled to dispose of it at a very low price. Under this circumstance, the private dealers made huge profits. Farmers realised that the only way to prevent the middlemen from taking advantage of this situation was to directly market the milk. Therefore, they joined hands and formed a cooperative movement and established Kaira District Cooperative Milk Producers' Union Limited, popularly known as AMUL, which came into existence on December 14, 1946.

In 1949, Dr. Verghese Kurien was enlisted to stay and assist with the mission which was later termed 'Operation Flood'. Tribhuvandas Patel the driving force behind AMUL, was the organization's first chairman and was at the helm. He retired in the 1970s. When Tribhuvandas Patel was the Chairman, Dr. Kurien served as the general manager of AMUL. He introduced technological and marketing initiatives. On the death of Tribhuvandas Patel in 1994, Dr. Kurien became chairman of AMUL. Dr. Kurien founded, the Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF) and served as its Chairman from 1973 to 2006. During his tenure, he transformed AMUL into a marketing success. His leadership approach was people-oriented and fostered integrity.

From 2006 onwards AMUL reported steady growth. See Figure 1. Even during the year of the pandemic, AMUL did not have negative growth. While many businesses saw negative growth, AMUL had marginal growth during that time. AMUL's growth is attributed to the 5 P's.

**Figure 1**

*AMUL's Turnover figures from 2006-2021*



Source: Annual Sustainability Report of AMULFED DAIRY, 2022

The 5 Ps adopted by AMUL are product, presentation, pricing, place and promotion.

*Product:* AMUL kept track of consumer requirements and lifestyle changes. It quickly came up with innovative and attractive products to cater to those needs. The quality of the product was at par with or even one notch higher than the best in the market.

The philosophy behind AMUL's product design was that a satisfied customer became the marketing agent of that product.

*Presentation:* The way a product is packed and presented increases the possibility of its popularity. AMUL's products came in excellent packaging with sturdy covers that had very attractive colour combinations. The fonts used for the text on the covers were also novel enhancing its desirability.

*Pricing:* Amul's pricing was well-researched. Every new product was introduced at a very competitive price and when the demand shot up they could increase the price of that product without much reduction in sales. AMUL also aimed at multinational corporations with lowered pricing of their product portfolio. Backward integration helped AMUL to maintain a competitive advantage in pricing.

*Place:* The nature of AMUL's products (food items with less shelf life) requires a dedicated and robust logistic network chain. Over the years AMUL has developed a robust cold chain network of refrigerated vehicles and cold storage warehouses. No other corporation in India has such a massive network. The "Business to Customer(B2C)" process is closely monitored so that the products reach intact and also without pilferage.

*Promotion:* Amul invests only a little portion of its budget in advertising, but it is well spent. The cooperative has been able to get away with spending only 1 per cent of its earnings on advertising, thanks to its brand mascot, the Amul girl. Today, the Amul brand umbrella is a great advantage. It is a well-known and trusted brand both in India and elsewhere. Its competitors, on the other hand, spend anything from 7 per cent to 10 per cent for this cause. The Unique Selling Proposition (USP) of Amul is "Value for Money."

### **Innovations by AMUL during the pandemic**

Immunity booster products *Tulsi (Basil) Doodh (Milk), Ginger Doodh, Haldi (Turmeric) Doodh, Ashwagandha Doodh* were produced. Amul Cart App facilitated retailers to order from the distributors. The company focused on production of Ultra High Temperature (UHT) processed milk to respond to customers' search for safe milk sources rather than local milk which had the possibility of contamination. Introduction of chocolates which returned a value growth of 79 per cent during 2020-21 were other innovations. The company strengthened logistic support network in Tier III and Tier IV cities where demand increased due to reverse migration. The use of IT technologies to monitor distribution with internally developed technology-supported Apps like Amul Track, Amul Dashboard, Amul Store Locator, etc. promoted sale of AMUL products. All these innovations were possible because the leadership had the openness to accept suggestions which came from different sources.

### **The present status of AMUL**

Amul is a household name in India with several food items that are consumed every day, the prominent among them being, milk, butter and cheese. Initially, Amul associated with villagers supplying milk in a cooperative mode. This mode of operation made Amul grow into a top dairy product brand in India. Amul can survive any competition due to its three-pronged strategy, i.e., professional management, branding and matching supply and demand. AMUL's reach has crossed India and has penetrated the international markets. Today, AMUL stands for numerous things, i.e., high-quality goods at cheap rates, the birth of a broad cooperative network, and a successful dairy development model.

*The excerpts from the speech of the Chairman Mr. Shamalbhai B. Patel of Amul during the 47<sup>th</sup> AGM held on 20<sup>th</sup> July 2021 quoted below clearly shows the timely and relevant leadership and strategies embraced by AMUL.*

"During FY 2020-21, milk procurement by member unions of Amul Federation achieved a growth of 14 per cent over what was achieved during 2019-20. Since out-of-home consumption in hotels, restaurants, cafes and catering segments was significantly impacted during the pandemic, we focussed our attention on enhancing in-home consumption of our products.

We redesigned our marketing campaigns to educate and inform consumers about using the wide range of products and check out our restaurant-style dishes at home. These campaigns encouraged consumers to try their hand at cooking tasty and healthy dishes using Amul products. Through our innovative digital campaign on Facebook live, we created the world's largest live recipe show providing a platform for chefs to showcase their recipes using Amul products"(Amul – 47th AGM Report, n.d.)

A comparison of the performance of the two years (FY 2019-20 and FY 2020-21) shows that AMUL procured more milk from the farmers during the Covid year (FY 2020-21). This affirms the commitment of AMUL toward the betterment of the dairy farming community. In both years AMUL came up with contingency plans to tackle new challenges and crises. Their success is not only seen in their financial performance but also in the goodwill generated by the public at large.

**Figure 2**

*AMUL performance highlights of Year 2021-22*



Source: (Annual Sustainability Report of AMUL, 2022)

Even when many players in the dairy sector struggled to recover from the effects of the pandemic, AMUL witnessed impressive performance (See Figure 2). A 12 per cent increase in the receipts indicates that a few lakhs of dairy farmers have found a source of income to feed their families. They were able to find dignity in their labour in that AMUL federation purchased their milk produce at a reasonable price. The demand for milk powder increased possibly due to the aggressive marketing work done by their

team. They managed to grab a larger share of that shrinking market. Post-pandemic, Ultra High Temperature (UHT) product demand rose because consumers have decided to switch to more hygienic products. AMUL was able to capitalise on the trend and thrive. AMUL's contribution to the environment is also seen on several fronts in that they saved 21,00,000 kWh of electricity per annum and saved fuel of 1,00,000 SCM/annum resulting in a CO<sub>2</sub> emission reduction of 1,800MT/annum.

### **Lessons learned from strategies adopted by Amul to overcome pandemic challenges**

We can draw several lessons from AMUL's experience and leadership. These lessons can provide strategic guidelines for businesses to thrive during unforeseen economic pressures.

***Identify shifts in customer preferences:*** During the pandemic, customers felt the need for immunity-boosting foods and beverages. It was clear to a majority of the people that there were no curative options available for COVID-19. Those who were not affected by the pandemic wanted to guard themselves against the disease and the only option left before them was to have foods that gave them strong immunity. AMUL was quick in responding to this shift in customer preference. People had varied perceptions regarding the sources of immunity enhancements. Further, a typical household which bought fresh milk from a local dairy got worried about possible infection and was looking for a safer alternative. The leadership at AMUL was ready with the UHT processed/packed milk to give them what they were looking for i.e., milk with less chance of infection. Consequently, AMUL could make a huge profit in manufacturing and marketing this product. To survive in this competitive world and still post profits, leadership should be in close touch with the ultimate consumers to know and understand their shifting choices.

### ***Keep applying technological innovations and upgrading frequently:***

The think-tank that guided AMUL during the pandemic was abreast with major technological developments. AMUL became logistically more competitive with the use of Apps such as Amul Track, Amul Dashboard, and Amul Store Locator.

### ***Keep your prospective customers informed about your product:***

During the pandemic, the leadership of AMUL decided to increase their



advertisement budget significantly. This decision is appropriate as a study of the popular AMUL doodle noted that the number of illustrations related to the coronavirus increased during the pandemic (Choursia, 2021). The AMUL doodles bring in a perfect blend of humour and sarcasm which bring positive vibes into the minds of the general public.

***Adopt the right pricing strategy:*** Consumers are willing to pay for a product that meets their expectations. However, this does not mean that the pricing can go beyond certain limits. The leadership at AMUL identified their pricing limits through extensive market research. The stage of the product life cycle also matters when it comes to pricing. Taking the cue from AMUL's leadership success in the area, business establishments should plan and implement an aggressive and appropriate pricing strategy.

### **Conclusion**

Economic pressures due to the COVID-19 pandemic were not easy to handle. The leadership of AMUL took efforts in the pandemic scenario, handled customer fears and industry challenges. These are acknowledgeable and appreciable in comparison to the efforts made by related industrial establishments. The leadership of AMUL has shown the world that opportunities do exist even though trying circumstances may prevail. When such opportunities are exploited to the fullest advantage, the industry as well as humanity at large will be the ultimate beneficiary.

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