



HOW K&N'S
BUILT THE
POULTRY VALUE
CHAIN

How K&N's built the poultry value chain

Pakistan's poultry sector is a rare success story on the agricultural landscape. K&N's has led this success story from the front over the past few decades meeting national and international milestones. This story is a study in innovation, transparency, and leadership.

Pakistan is the eleventh largest producer of poultry in the world, with 1.2 billion broilers that have quadrupled over the past 15 years. In 2023, the poultry sector produced 22.5 billion eggs and about 2 million tons of poultry meat. The *State of Pakistan's Agriculture 2023* report highlights the rapid growth of the poultry industry, attributing it to advancements like controlled sheds and the introduction of hybrid maize. This case study focuses on the journey of K&N's, a major poultry producer, who has been a beacon for Pakistan's poultry industry for six decades, and has significantly contributed to the sector's rise and achieved end-to-end value chain integration.

K&N's was established in 1964 with the vision of providing a cheaper source of protein to bridge the protein gap and address malnutrition in Pakistan. K&N's has successfully integrated its operations along the poultry value chain, managing the entire production process from breeding to final product distribution. This comprehensive control ensures consistent quality and efficiency throughout the supply chain. K&N's story demonstrates how the company leveraged technology from abroad, developed a complete value chain, and helped establish ancillary industries.

Founding and Early Growth

K&N's began its journey in 1964 with a simple setup of 1,000 chicks in a family oil mill warehouse. By 1966, the company had acquired 10 acres of farmland through a government lease program, marking the beginning of its expansion. As the company grew, it diversified its operations. By 1970, K&N's was manufacturing poultry equipment as well and was helping the whole industry raise its game.

In 1971, the company established Kays Poultry Feed, ensuring a reliable and high-quality feed supply for its poultry. The company continued to innovate by building its first environment-controlled breeding house in 1981. This step was pivotal in maintaining consistent and optimal conditions for poultry breeding which significantly enhanced productivity. By the mid-2000s, there was inadequate supply of parent stock, so K&N's started the production of the Cobb500 parent stock, for its own breeding program, and for supplying other parent stock/breeding companies, further solidifying its position in the market.

K&N's pursuit of innovation led it to introduce soybean meal as a protein source in poultry feed in the 1980s, gradually replacing the traditional cottonseed oilcake—which was found to be harmful to the chicks. This change improved the nutritional value of the feed and reduced instances of gossypol

poisoning, a common issue with the use of cottonseed. Such innovations not only improved poultry health but also set new industry standards.

Product Innovation and Diversification

The company was among the first to offer packaged poultry meat in Pakistan, a significant shift from the traditional wet markets. K&N's has also introduced innovative read-to-cook and ready-to-eat products, including frozen seekh kababs and chicken chapli kababs. In addition to expanding their product range, K&N's implemented a successful consumer loyalty program over a decade ago. This program offered digital cards with various membership tiers, providing privileges, and discount vouchers to loyal customers.

Changing consumer perceptions about food safety and Halal certification has been a significant focus for K&N's. Traditionally, Pakistanis have purchased meat from wet markets (and most Pakistanis continue to do so), which often have extremely unhygienic conditions. K&N's offers a cleaner, safer alternative with their processed poultry products. The company used various media, including documentaries shown at public places like Daewoo bus terminals and airports, to educate consumers about their Halal practices. Unlike many exporters to the Middle East, where a significant portion of poultry is machine-slaughtered and not considered truly Halal by some, K&N's ensured all their birds were hand-slaughtered without stunning.

In 1976, the company established K&N's Advisory Services, providing a comprehensive support system for the entire poultry industry. This initiative included technical and extension service centers where veterinarians and other technical staff were readily available. They published technical bulletins and brochures, conducted seminars, and offered free vaccination and de-beaking services. K&N's also sent staff abroad for training and conducted local technical training programs for veterinarians and technical staff. These efforts not only supported K&N's operations but also contributed significantly to the development of the poultry industry in Pakistan.

K&N's aggressive growth strategy included expanding to new production locations across the country, which inspired other businesses to enter the poultry industry. However, this rapid expansion of the industry brought challenges, particularly in the form of persistent diseases that threatened poultry health and productivity. To address these issues, K&N's established the Poultry Diagnostics and Research Institute. This institute worked in close coordination with K&N's Advisory Services to provide comprehensive research and extension services, ensuring the sustainability and health of the poultry industry.

K&N's has established a strong retail presence with one of the country's largest company-operated chain of stores across Pakistan. K&N's ensures control over quality and service.

Global expansion, recognition, and awards

K&N's has become Pakistan's largest exporter of poultry products to the Middle East. In 2013, K&N's took a significant leap by establishing a US entity which owns and operates a production plant in the United States for hand-slaughtered Halal chicken products. This strategic move not only allowed them to cater to the growing Muslim population in the US but also facilitated exports to Canada from their US manufacturing location.

K&N's participated in a prestigious global sausage and cold-cuts competition held in Germany every three years. Competing against companies from around the world, K&N's showcased their expertise and product excellence and won five gold medals, two silver medals, and one bronze medal in various categories. K&N's had to navigate a complex EU regulatory landscape to obtain the necessary permissions to bring their sausages into Germany from Pakistan, even for a competition.

In 2011, Harvard Business School (HBS) conducted a detailed case study on K&N's which was presented at the annual agri-business seminar held at HBS every January, where K&N's was featured alongside other prominent companies such as Marine Harvest, Fonterra, and PepsiCo. The Harvard case study involved a comprehensive review of K&N's operations, including visits to their facilities and interviews with their staff. The case study was also presented at other prestigious institutions, including HBS Shanghai, UCD Michael Smurfit Graduate Business School and Cornell University.

Challenges

K&N's faces significant challenges stemming from regulatory issues that impact their operations and competitiveness. One major hurdle is the import of genetically modified (GMO) soybean, a crucial component in poultry feed. In 2022, for example, some shipments of GMO soybean were blocked at the port due to regulatory scrutiny and a lack of clarity on the import policies for genetically modified commodities. This disruption led to an acute shortage of poultry feed, making local feed more expensive which led to a fall in the supply of poultry and subsequently drove up meat prices. The government needs to establish a consistent policy with regards to the import of such soybean as inconsistent policy causes major upheavals in the whole poultry industry.

Additionally, K&N's is confronted with inconsistent sales tax policies that further complicate their business environment. Companies that are part of the documented sector, such as K&N's, have to pay sales tax on all transactions, whereas the wet market does not allowing them to offer lower prices. This disparity creates a significant price differential, making it difficult for K&N's to compete fairly. Any restaurant, hotel or caterer reluctant to show complete sales to circumvent full tax exposure will avoid procuring chicken from K&N's, adversely affecting K&N's market position. While more than 95% of poultry in Pakistan is grown on commercial farms which are mostly equipped with modern technology, the poultry retail segment is mostly in the informal sector. The regulatory regime needs to improve by bringing the informal poultry vendors into the tax net as well so that companies that are providing

hygienic and quality product are provided a level playing field.

Another significant challenge for K&N's has been changing customer perceptions about Halal practices. As mentioned earlier, K&N's produced documentaries to educate customers showcasing their operations, emphasizing their commitment to traditional Halal methods.

The poultry processing industry in Pakistan faces structural challenges that hinder its growth. High startup costs and substantial investments are required to enter the industry, making it difficult for new players to emerge. K&N's competes with the vibrant wet market sector in the informal market, where every street has a chicken shop operating with minimal costs. These informal vendors can sell at lower prices due to their minimal overheads, posing a significant challenge for K&N's, which operates with substantial overheads and adheres to stringent quality and safety standards. Additionally, Pakistan's typical cooking practices, which involve overcooking food to kill germs, make consumers less concerned about the hygiene of their poultry sources, further entrenching the informal market's position. To address this issue and to promote the development of the formal sector poultry industry, there should be tax holidays and sales tax exemptions for such investment projects in rural areas since they can generate more revenue and jobs than traditional agriculture. Given that the tax-to-GDP ratio for the industry is significantly higher than the country's average of 10%, such incentives could stimulate growth and development in the sector.

Conclusion

From its humble beginning over six decades ago, K&N's has been driven by its fundamental reason to exist of providing better nutrition through poultry for the health and happiness of the nation, which enabled it to become a leading poultry enterprise in Pakistan with an end-to-end operation. The company's integrated value chain, from breeding to final product distribution, has allowed it to maintain high standards and adapt to market demands effectively. The challenges K&N's has faced, particularly in regulatory issues and market competition, highlight the need for a supportive policy environment.

K&N's story offers valuable lessons for the broader industry. Their success underscores the importance of innovation, transparency, and adherence to quality standards. By investing in research, development, and customer education, K&N's has managed to build trust and loyalty among consumers. The company's emphasis on traditional Halal methods and commitment to hand-slaughtered poultry, despite the cost and effort involved, illustrates the significance of staying true to core values.