

M. M. Enterprises: Challenges and Opportunities for a Growing Firm

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October 24, 2014 Ranveer Singhal, returning to his desk after enjoying Diwali break, noted that his partner Deepak Gupta had placed some paper on the desk with a note “Urgent”. Their company, M.M. Enterprises had received an offer from Surya, a leading brand in Vanaspati ghee which had a strong brand presence across North India to enter into a strategic alliance for the mustard oil business. Before getting this offer, the partners had been planning to expand their brand Giriraj across Haryana as they were facing competition from local players in Rewari. Ranveer Singhal now faced a dilemma should they expand their own brand ‘Giriraj’ across Haryana or enter into a strategic alliance with Surya. What could possibly be the best course of action for M.M. Enterprises?

Company Background

In 2009, Ranveer Singhal entered into a partnership with his childhood friend Deepak Gupta in Rewari to start M. M. Enterprises to produce mustard oil. M. M. Enterprises was set up with an initial investment of ₹ 40 lakhs and a production capacity of 21,000 tons mustard oil per year. They adopted intuitive business practices and traditional marketing approaches as the partners did not have a business education to understand the intricacies involved in marketing management. In 2012, they expanded their production capacity to

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36,750 tons of mustard oil per year. The founders started the company with nine employees. Each employee had been assigned with different functional responsibilities. Over six years, the overall headcount had quadrupled to 37 employees.

About the Product

Mustard oil is a fatty vegetable oil obtained from pressing the mustard seeds. It contains two essential fatty acids such as Omega-3 and Omega-6, which are not present in most of the other edible oils. High nutritional value, medicinal benefits and its affordable price makes the oil a popular edible oil among all sections of society. Recommended by cardiologists, its consumption had been growing at the rate of 20% in North India as reported in 2015.¹

In India, mustard oil is also used for body massage as prescribed in Ayurveda. Mustard oil massage helps to improve blood circulation, muscular development and imparts good texture to human skin and hair growth. Its antibacterial properties make it an ingredient in home-made cosmetics. It is also used as a fuel for lighting lamps on festive season.¹

Mustard seeds are the basic raw material to produce the mustard oil. On crushing the seeds, mustard oil and mustard cake are obtained. The average oil recovery from mustard seed was around 35%. The percentage of recovery depends upon the quality of seeds, technology, and machinery. 62% of the end product was in the form of mustard cake, which was rich in proteins and was used as an ingredient for animal feed. The

¹ <http://www.fnbnews.com/Top-News/Future-of-mustard-oil-consumption---India-world-scenario> - 27 February, 2015- Future of Mustard oil consumption – India, world scenario, Umesh verma

remaining 3% are waste material which cannot be used further. M. M. Enterprises was selling their mustard oil for ₹ 73 per Kg and cake for ₹ 11 per kg.

Since inception, M. M. Enterprises focused on delivering superior quality mustard oil. Contaminated mustard oil and various other substitutes of mustard oil such as palm oil were available at in the market at cheaper prices. However, M. M. Enterprises never compromised on the quality of the product. The company used multiple filters to extract pure mustard oil. Their core philosophy was to deliver high quality product.

Distribution Network

M. M. Enterprises distributed mustard oil under the brand name 'Giriraj'. The company had a distribution network of 50 wholesalers and 300 retailers. It covered specific areas of southern Haryana which includes Rewari, Faridabad, Gurgaon, Bawal, Sohna, Taoru, and Kanina (Refer Exhibit 1). Mustard oil was distributed to the retailers, only in the Rewari area. However, in other areas, the oil was supplied to the wholesalers. The company was incurring a transportation cost of ₹ 0.1 per kg which included bringing raw material from the grain market, supplying oil to the dealers and retailers, and selling of cakes in the open market. In 2014, the company offered 9% margin to the retailers and 12 % margin to the dealers. The current company's retail sale was 30% of the total sale.

Competition

In 2009, when the company commenced its operations, the market was dominated by a few national brands and local brands [names??] of mustard oil in Rewari. Since its commencement, M. M. Enterprises grew to become the largest player in Rewari. It had taken four years to build its brand in Rewari. By the end of 2013, there were more than

four major local players namely Shree, Madan, Kanha, and Scooter in the area with almost equal production capacity. They were giving tough competition and reduced the existing sales and profit margins of M. M. Enterprises. The increased competition made it difficult to procure mustard seeds from the local grain market as it was the only place to obtain low price quality seeds.

The state of Rajasthan was the largest producer of mustard seeds (refer Exhibit 2). Rewari's closeness to the Rajasthan border helped the local producers of oil to procure good quality mustard seeds at a lower price.

A Blueprint for Future Growth

Ranveer Singhal and Deepak Gupta realized that it was difficult to sustain in the competitive marketplace if they stuck to the old way of doing business. They therefore planned to expand their business and were considering two options whether to expand their own brand 'Giriraj' across Haryana or enter into a strategic alliance with Surya.

Expand Own Brand 'Giriraj' across Haryana

In five years' time, M. M. Enterprises had grown significantly (see Exhibit 3). They were in the process of expanding the current production capacity of 36,750 tons per year to 52,500 tons per year with the intention of expanding across Haryana. The understanding of the new market had to be considered while deciding on expansion into Haryana to reduce the chances of failure in the new market. Since the firm was already a known brand in the region of Rewari in Haryana, expanding into Haryana made more logical business sense rather than expanding into other neighbouring States. However, in order to cater to the new market, new marketing infrastructure had to be created including

creation of distribution channel, newer promotional activities etc. According to proprietors it was expected that the retail sale would be expected to increase by 45% of their total sales with this move.

This would also increase their total transportation cost to ₹ 0.5 per Kg. The current cost of production per kg was ₹ 28.17 which would come down to ₹ 26.70 because of economies of scale. The expected incremental cost would be ₹ 48 lakhs which included the cost of creating new infrastructure and procurement of new machineries. The company sold mustard oil in different sizes and packaging (1 L, 2 L, 5 L, and 15 L) in the market and incurred a packaging cost of ₹ 0.5 per kg which would further reduce to ₹ 0.45 per kg with the expansion because of economies of scale. Currently, the company had been following a basic promotion of the product through distribution of pamphlets. However, advertisement and promotional strategies would be required to create awareness in the new market and budget would increase from ₹ 0.005 per kg to ₹ 0.2 per kg.

Enter into strategic alliance with Surya

Surya was a leading brand in Vanaspati ghee and had a strong brand presence across North India. Surya had a strong desire to diversify its business in mustard oil. The urge to enter into mustard oil led the company to find a supplier which could supply good quality mustard Oil. Based on the information collected from market research and suppliers of Vanaspati ghee, the Production Manager of Surya found M. M. Enterprises suitable to the and he approached the partners of M. M. Enterprises to enter into a strategic alliance.

As per the conditions of alliance, both firms would work independently and there would be no interference in the management decisions of both the companies. M.M. Enterprises would supply mustard oil to Surya on a margin of 14%. Packaging and transportation cost (from manufacturing plant to wholesalers/retailers) would be borne by Surya. The product would be sold under the brand name of Surya and the name of M. M. Enterprises would be mentioned as the manufacturer of mustard oil on the product labelling. The total transportation cost of M. M. Enterprises would lower to ₹ 0.085 per Kg.

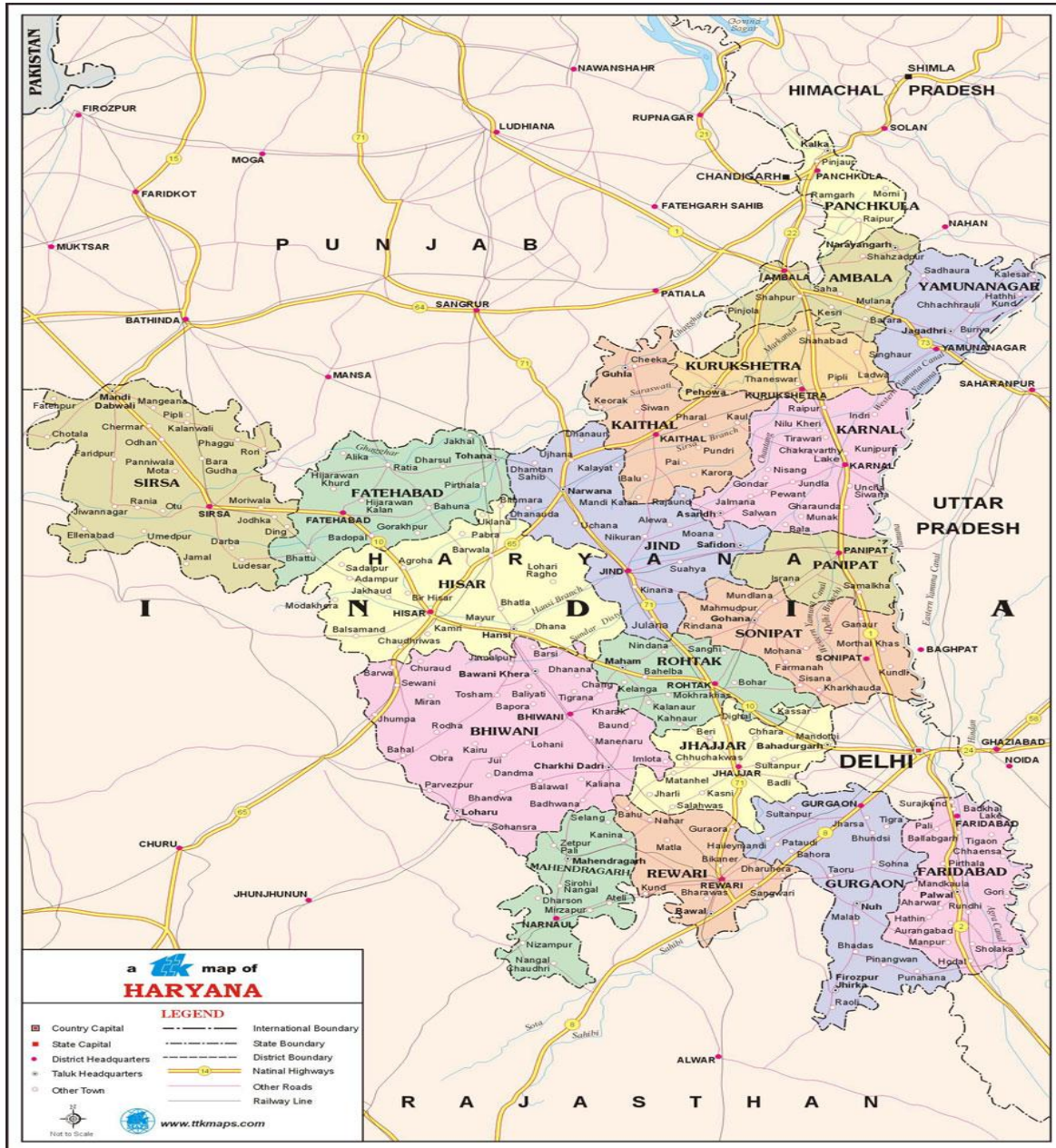
M. M. Enterprises would continue to have its Brand 'Giriraj' in Rewari and pursue its operation as the partners were performing earlier. Therefore, M. M. Enterprises would supply mustard oil to Surya and continue with its Brand 'Giriraj' in Rewari.

The Dilemma

The deal was an opportunity for M. M. Enterprises to enter into strategic alliance with an established brand Surya as an oil manufacturer. The deal would assure that there was a more regular demand of mustard oil and a fixed margin, but the company would lose out on building and establishing its own brand. On the other hand, if M. M. Enterprises were to expand its brand 'Giriraj' across Haryana and develop new markets, while they would continue to capitalize on their established brand but entry into a new market and corresponding creation of marketing infrastructure carried its own risk. Ranveer Singhal was therefore in a dilemma as to whether M. M. Enterprises should enter into a strategic alliance with Surya or expand its business across Haryana with the brand name of 'Giriraj'?

Exhibits

Exhibit 1: Map of Haryana



Source: www.ttkmaps.com

Exhibit 2: Production data of Mustard Seed (in lakh Tonnes)

State	Production in 2014-15 (lakh tonnes)
Rajasthan	26.2
Punjab/Haryana	7.25
UP	6.50
MP	4.80
Eastern India	4.80
WB	3.00
Gujarat	2.85
Other	2.00

Source:<http://www.indiastat.com/agriculture/2/oilseeds/17204/rapeseedandmustard/19578/stats.aspx#>

Exhibit 3: Capacity of M.M.Enterprises

Year	Capacity (Kg per year)
2009	21,00,000
2010	21,00,000
2011	21,00,000
2012	36,75,000
2013	36,75,000
2014	36,75,000