K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

MFM – II Sem.(2017-20 Batch)
Sub: Competition and Strategy
(End Term Exam)

Total Marks: 25 Time: 1.5 Hours 12/4/2018

There is one case study on Amul, followed by questions. Students are required to answer the questions using the course frameworks as discussed in the class. Marks will be for analysis of the information and the presentation of the views presented.

AMUL – India's Pride

Competing with Global Giants

AMUL – THE HUMBLE BEGINNINGS

Amul is the name derived from the Sanskrit word "Amulya," which means invaluable. Formed in 1946, it is brand name managed by an Indian co-operative organization, Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF), which in 2012 is jointly owned by 3.03 million milk producers in Gujarat, India.

Amul is based in Anand, Gujarat and has been a successful example of co-operative organization. Amul spurred the White Revolution in India which in turn made India the largest producer of milk and milk products in the world. It is also the world's largest vegetarian cheese brand.

Amul is the largest food brand in India and world's largest pouched milk brand with an annual turnover of US $2.2 billion (2010-11). GCMMF is the largest food products marketing organization of India. Over the last five and a half decades, dairy co-operatives in Gujarat have created an economic network that links more than 3.1 million village milk producers with millions of consumers in India. These co-operatives collect on an average 9.4 million liters of milk per day from their producer members, more than 70% of whom are small, marginal farmers and landless laborers and include a sizeable population of tribal folk and people belonging to the scheduled castes.

Currently, the Unions making up GCMMF have 3.1 million producer members with milk collection average of 9.10 million liters per day. Besides India, Amul has entered overseas markets such as Mauritius, UAE, USA, Oman, Bangladesh, Australia, China, Singapore, Hong Kong, and a few South African countries.

History

The seeds of this unusual saga were sown more than 65 years back in Anand, a small town in the state of Gujarat in western India. The exploitative trade practices followed by the local trade cartel triggered off the co-operative movement. Angered by unfair and manipulative practices followed by the trade, the farmers of the district approached the great Indian patriot Sardar Vallabhbhai Patel for a solution. He advised them to get rid of middlemen and form their own cooperative, which would have procurement, processing, and marketing under their control.

In 1946, the farmers of this area went on a milk strike refusing to be cowed down by the cartel. Under the inspiration of Sardar Patel, and the guidance of leaders like Morarji Desai and Tribhuvandas Patel, they formed their own co-operative in 1946.

This co-operative, the Kaira District Co-operative Milk Producers Union Ltd. began with just two village dairy cooperative societies and 247 liers of milk and is today better known as Amul Dairy. Amul grew from strength to strength thanks to the inspired leadership of Tribhuvandas Patel, the founder chairman and the committed professionalism of Dr. Verghese Kurien, who was entrusted the task of running the dairy from 1950.

Lal Bahadur Shastri, then-Prime Minister of India, decided that the same approach should become the basis of a National Dairy Development policy. He understood that the success of Amul could be attributed to four important factors. The farmers owned the dairy, their elected representatives managed the village societies and the district union, they employed professionals to operate the dairy and manage its business. Most importantly, the cooperatives were sensitive to the needs of farmers and responsive to their demands.

The National Dairy Development Board was set up in 1965 with the basic objective of replicating the Amul model. Dr. Kurien was chosen to head the institution as its Chairman and asked to replicate this model throughout the country.

VISION AND CORE VALUES

Amul's business strategy is driven by its twin objectives of:

- *Long term, sustainable growth to its member farmers*
- *Value proposition to a large customer base by providing milk and other dairy products at a low price*

External Considerations Milk production has to compete in economic terms for allocation of resources of production with other competing options such as crop cultivation. In recent years, Indian dairy farmers have been facing soaring input costs which have adversely impacted viability of milk production as an economic activity. Some reports even suggest that in certain regions of India, farmers are finding it more profitable to sell their cattle to meat & leather industry, rather than continue in milk business.

The same reports also suggest that this phenomenon has already led to closure of some milk cooperatives in many parts of India. If true, this indicates a disturbing trend, which if it continues unchecked can severely undermine the self-sufficiency of Indian dairy sector, achieved through sixty years of hard work. One must ensure remunerative price of milk to the farmers, even if this implies further increase in prices of milk and dairy products to the consumers in the short term. While urban consumer may have to bear the burden of short-term inflation in milk and milk products, they will benefit through long term price stability due to accelerated growth in milk production.

Internal Considerations

The company's main focus is to play a leadership role in Indian dairy industry and leading the Indian dairy co-operative sector thereby making AMUL the world's largest milk producer. We can see AMUL is sticking to its product line, i.e., milk and its variants after having experimented with other product lines like pizzas, cheese burgers, ketchup etc.

AMUL's Vision

A strategic vision describes the route a company intends to take in developing and strengthening its business. It lays out the company's strategic course in preparing for the future. AMUL's strategic vision has been articulated as:

"Provide remunerative returns to the farmers and also serve the interest of consumers by providing quality products which are good value for money."

Ethical and Stated Core Values

The following has been the measures for fulfilling the vision and ethical aspects of the company:

Fair Pricing Amul has long been implementing the fair pricing model for the consumer as well as the farmer, who sells the milk to the respective cooperative society. The first step towards discharging the Corporate Social Responsibility (CSR) is the business philosophy of the GCMMF. It is two-fold – to serve the interests of milk producers and, to provide quality products to consumers as value for money. The milk producers are paid for their milk in accordance with market forces and realization of value for their produce.

Quality Amul follows Total Quality Management (TQM) to ensure high quality of its products. It has carried out comprehensive change processes in TQM to ensure that they are one step ahead in quality management. Under quality assurance program, the federation has supported the member unions for strengthening infrastructure for quality and clean milk production by implementing various Central and State government programs.

Advertising and Promotion Honesty in advertising, to misrepresent products and services is wrong regardless of the setting or target market – developed or developing markets, rich and poor consumers. Amul consciously made efforts to advertise the true and key features regarding quality of the production.

The Distribution At Amul, CSR has been defined as the commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development. In Amul "Yatrathe" distributors and their salesmen are taken on a visit to Anand. During this visit they are shown dairy plants, their upkeep, international standards of hygiene and quality, the practices adopted for clean production, and above all the co-operative philosophy. Through one to one talk with the farmers, the distributors and salesmen realize AMUL is a large business of small farmers.

AMUL'S BUSINESS MODEL

The Amul Model is a three tier co-operative structure **(*Refer to Annexure-1*).** This structure consists of a Dairy Co-operative Society (DCS) at the village level affiliated to a milk Union at the District level which is further federated into a Milk Federation at the State level. The above three-tier structure was set up in order to delegate the various functions; milk collection is done at the Village Dairy Society. Milk Procurement and Processing at the District Milk Union, and Milk and Milk Products Marketing at the State Milk federation. This helps in eliminating not only internal competition but also ensuring that economies of scale are achieved.. As the above structure was first evolved at Amul in Gujrat and thereafter replicated all over the country under the Operation Flood Program ,it is known as the "Amul's Model "or Anand Pattern of Dairy Co-operatives.

The Amul Pattern aims at maximizing the farmer's profit while ensuring efficient delivery of quality milk at a reasonable cost to the consumer, thus meeting a marketing as well as social development challenge. It operates in a three-tier structure.

The Village Society Replicating the Anand model, a village Dairy Co-operative society (DCS) is formed by milk producers. Any producer can become a DCS member by buying a share and committing to sell his stock of milk exclusively to it. Each DCS has a milk collection center where members take their daily stock of milk. Each member's milk supply is tested for quality, and the payments are based on the percentage of fat and the SNF content. At the end of each year, a portion of the DCS' profit is used to pay each member a patronage bonus, depending on the quantity of milk.

The District Union A 'district co-operative milk producers' union' is "owned" by the dairy co-operative societies. The union buys the milk from all the societies and processes and markets the fluid milk and products. Most unions also provide a range of inputs and services to DCSs and their members, such as feed, veterinary care, and artificial insemination. The employees of these district unions train and provide consulting services to support the local DCS leaders and staff.

The State Federation The district level co-operative milk producers' unions in the state comprises of the 'state federation,' which in turn is responsible for marketing milk and milk products of the member unions, Some federations also manufacture feed and support other union activities.

The Amul pattern involves people in their own development through co-operatives where professionals are accountable to leaders elected by producers. The institutional infrastructure – village co-operatives, dairy and cattle feed plants, and state and national marketing – is owned and controlled by farmers.

The Amul pattern's success led to the creation of similar structures of milk producers in other districts of Gujarat, drawing on Amul's experience in project planning and execution. Between 1977-78 and 1991-92, the production of milk in Gujarat increased from about 2 mt to approximately 3.6 mt, an average growth of about 4.3% per annum.

Financial Strategy and the AMUL Model

AMUL's finance strategy is driven primarily by its desire to be self-reliant and thus depend on internally generated resources for funding its growth and development, This choice was motivated by the relatively underdeveloped financial markets with limited access to funds, and the reluctance to depend on Government support and thus be obliged to cede control to bureaucracy.

AMUL's financial strategy may thus be characterized by two elements:

1. *Retention of surplus to fund growth and development*
2. *Limited / no credit, i.e., all transactions are essentially cash only*

For example, payments for milk procured by village societies is done in cash and within 12 hours of procurement (most, however, pay at the same time as receipt of milk). Similarly, no dispatches of finished products are made without advance payment from distributors etc. This was particularly important, given the limited liquidity position of farmers/suppliers and the absence of banking facilities in rural India. This strategy strongly helped AMUL implement its own vision of growth and development. It is important to mention that many of the above approaches were at variance with industry practices of both domestic and MNC competitors of AMUL.

Revenue Patterns

GCMMF has crossed the USD 2 billion turnover mark (INR 9,774 crore) in 2010-11. The federation's turnover grew at compounded annual growth rate (CAGR) of 23% in the last four years.

The organization achieved USD 1 billion turnover in the 33rd year of its formation, while it took just four more years to add another 1 billion USD to it. GCMMF has set an ambitious target of crossing INR 12,000 crore turnover in 2011-12. The market share of various categories of products has also gone up. The butter sales showed growth of 26% in 2010-11, while the milk pouch sales shot up 34% in the same period. The beverage range of dairy products sold under Amul like lassi, flavoured-milk, and the butter-milk have shown growth of 28%.

The federation has undertaken its largest ever distribution expansion exercise to extend its reach to smaller towns and semi-urban areas. GCMMF plans to appoint 150 super distributors with a view to extend its reach to 3,000 new smaller towns and semi-urban areas in 2011-12.

GCMMF's plan to add 2,000 more outlets during the current fiscal year take the total number of exclusive parlors in parts of the country to 8,000. Further to expand the network and make chilled products available, the co-operative will be hiring 200 super distributors this year. During 2010-11, Amul brand sold 70 lakh liter of packaged milk every day. GCMMF is selling 17 lakh liter of Amul pouched milk in Delhi alone out of the total 35 lakh liter milk sold outside Gujarat. Milk procurement by the cooperative giant in 2010-11 was 93 lakh kilograms per day which has now touched 96 lakh kilograms of milk/day.

In addition, 6 to 7 lakh kilograms per day milk and milk solid is being procured from other co-operatives in the country to take care of additional demand of the consumers. The average milk price paid to farmer has also increased from INR 337 / Kg fat to average prices of INR 425 / Kg fat.

STRATEGIC ANALYSIS OF AMUL

Response to Changing Market Conditions

In 1970s Amul was the market leader in chocolate industry (which wasn't very large). In late 1980s Cadbury entered the Indian market which led to change in market conditions. In the 1990s Amul introduced many new variants like 'Bindaas' and 'Nuts about You'. But the market share kept on declining despite lot of efforts. In 2003 its share was 2%. In 2004 Amul went for a complete repositioning of its Chocolate brand. It undertook a series of aggressive initiatives to increase visibility and brand loyalty among consumers, Following are some of the initiatives taken by the company:

- Amul launched CHOCOZOO. This was a move to capture the hearts of young children find of watching cartoons. Introduction of economics variants of chocolates were prized at Rs 1, 3 and 5.
- Took a trendier look in its packaging and promotions. It removed the cute little butter girl and the cheese boy from its wrappers and introduced new packaging designed by a US firm.

- Shifted emphasis from festivals and special occasions to spreading on all occasions.
- Placed its chocolate products at lesser price points compared with its competitors. It concentrated on the niche segment such as health chocolates.
- It launched Trix, a wafer biscuit coated with rich milk chocolate. Cadbury's Perk and Munch from Nestle were the two major players in the wafer chocolate segment.
- Amul introduced father-son advertisement, rose-day advertisement, and a corporate image advertisement.

As a result of these measures, the market share of the chocolates touched 10%, the highest since early 1990s. However this peak was short lived as Cadbury pumped up its 'Celebrations' campaign by spending heavily on advertising and promotions. Currently it has 5% share of the chocolate market but the company is not spending on its advertising as it is not a priority for Amul.

Entering New Geographic Markets

Amul has entered overseas markets such as Mauritius, UAE, USA, Bangladesh, Australia, China, Singapore, Hong Kong, Cambodia, and a few South African countries. Its products are also available in the Phillipines, Japan, China, and Sri Lanka.

Entering New Product Lines

Amul Pizza: Though Amul entered the pizza category, it mostly failed. It also tried to launch cheeseburgers, tomato ketchup etc. – which failed. Then Amul decided to enter the ready-to-eat stuffed paratha, cheeseburgers, cheese and paneer pakoda, and cheese sandwich segments.

Amul Ice-Cream Parlors: Amul launched India's first Probiotic Ice-cream for the health conscious and Sugar free ice cream for the Diabetics and then opened Ice Cream Parlors.

Strategic Alliances

In Uttar Pradesh, Amul has an alliance with Parag for co-packaging and have more efficient distribution in the region. In June 2003 Amul tied up with petro-retailer IBP for selling its products like ice creams, flavored milk, pizzas, and sweets from its retail outlets. This alliance not only adds value to the petrol stations but also provides Amul a whole new nation-wide retailing chain through which it can tap currently unexplored markets. Logos of the dairy major Amul will appear on the two Sauber F1 team race cars, which include rear wing, front face, and the helmets of the drivers. This move can be seen as part of re-branding strategy among urban consumers.

Actions in R&D

As more farmers joined the co-operatives, the need to develop a mechanism for storage of increasing quantities of milk became intense. The co-operative was established on the

promise that it would buy any quantity of milk that a member farmer wanted to sell. The need to store milk in powder form increases as excess milk quantities in winter seasons could then be used in lean summer seasons. Moreover, demand for liquid milk was not growing along with the growth in milk production.

No technology, however, existed worldwide to produce powder from buffalo milk. Engineers at AMUL successfully developed a commercially viable process for the same, first time in the history of global dairy industry. Subsequently, it also developed a process for making baby food out of this milk powder. It has also developed a unique process for making good quality cheese out of buffalo milk thereby converting a perceived liability into a source of competitive advantage. Similar efforts in the area of "embryo transfer technology" have helped create a high yield breed of cattle in the country. AMUL's innovations in the area of energy conservation and recovery have also contributed to reduction in cost of its operations. AMUL also indigenously developed a low cost process for providing a long shelf life to many of its perishable products.

Actions to Capture Emerging Market Opportunities by M&A

The GCMMF, Amul's parent company, is relying heavily on merger and acquisitions to double its dairy collection. It has already acquired plants in Mumbai and Nagpur and are close to acquire a Pune based Kapila Dairy. It is also planning to acquire dairies in several other parts of India such as Bhopal, Indore etc. In the ice cream sector, Amul is planning to acquire plants of Vadilal and Kwality.

Competitiveness Build-up via Strategic Alliances & Collaborative Partnerships

By 2012 Amul is planning to double its Amul Preferred Outlets (APO) across India from 5,000 to 10,000. These outlets will be on franchise model. Amul has also rolled out "Super Distribution Model" to enhance reach of products across rural India. It has started 30 Super distributors across 8 states covering more than 500 smaller towns.

To impart knowledge to village girls and women about milk production management, the company has started "Mahila Pashupalan Talim Karyakram", in alliance with village councils.

Competitive Capabilities

Amul has taken some big risks in its bid to emerge as a diversified foods company with a targeted turnover of Rs 10,000 crore by 2006-07. The big question is whether Amul can leverage its existing brand equity in these new businesses. As Amul diversifies, risk of diluting its brand equity cannot be underestimated. Past experience indicates that diversification is not all that easy. Take the case of chocolates, which Amul entered in the 1970s. Amul's market share is only 2% against market leader Cadbury's 70%.

However, Amul is no pushover, since its ability to keep prices low is well established. The distribution network includes cold chains and number of retail outlets. In ice creams, which Amul entered in the mid-1990s, it has a creditable 27% market share compared to market leader HLL's 40%.

Amul's Proactive and Reactive Strategy Elements

The former chairman Dt. Kurien in his Chairman's speech in year 2000-01 (27th Annual Report), said that "Since 1991, anybody and everybody has been free to enter the dairy industry and to reap benefit from the market that our federation created and nurtured with our sweat and blood. Multinationals, backed by their surplus capital, are seeking a hefty share of our milk and milk products market. At the same time, regional private companies have been able to penetrate markets on the strength of aggressive pricing made possible by cavalier treatment of taxation laws and quality standards. More recently. Government has even allowed free import of dairy products, leaving the door open to subsidized imports from the advanced dairying nations. The dynamics of the Indian dairy industry are increasingly linked to the global dairy industry. If we are to survive, it is no longer sufficient for us to be the best in the world. The key to retaining our competitive advantage lies in keeping focused on the basic business principles:

1. Be Customer driven
2. Adapt quickly to the changing environment
3. Anticipate change and act today to meet tomorrow's challenges

Our success has been grounded in two strengths:

1. Our distribution network, serving more than five lakh retail outlets
2. Our superior product quality – 'Value for Money'

This was further acknowledged by P G Bhatol in 2011 (the 37th Annual Report). One can see that the proactive values of the past continue to play a leadership role in Amul's present day business decisions. AMUL has been adapting itself to the changing circumstances.

Some examples throw more light on the adaptive reactions to changing circumstances:

1. The e-commerce Road: Having a "first mover advantage" in the net business. In the year 1999-2000, Amul launched a dedicated website and had embraced in the e-revolution.
2. Total Quality Management (TQM): AMUL carried out comprehensive change processes in its TQM to ensure they are one step ahead.
3. Information Systems Management: IT has played a major and crucial role in the development of military-like precisions. The installation of more than 3,000 Automatic Milk Collection System Units at village societies to capture milk fat content. Member information, amount payable to each other, and volume collected has proved extremely

beneficial in ensuring fairness and transparency throughout the entire organization and thus, has leveraged IT to the maximum.

THE MACRO ENVIRONMENT

The following macro-environmental factors play a major role in Amul's life:

Changing Demographics & Lifestyle

As there is a significant increase of ageing, urban and middle class populations impact consumer needs and behavior. Ageing populations, urbanization, and an emerging global middle class are driving demand for new types of liquid dairy products in both developed and developing countries.

The 60+ population is the fastest growing segment in every region of the world due to lower birth rates and higher life expectancy. Dairy producers in countries from Mexico to Greece to Indonesia are offering these consumers products such as milk fortified with calcium, vitamins, and minerals that help reduce cholesterol and protect against osteoporosis – all helping to maintain active lifestyles.

The number of people living in cities is expected to reach more than six billion by 2050 and they are better educated, more brand conscious, and have a higher disposable income than their rural counterparts according to the United Nations. Dairy producers are starting to cater their products to this group with value-added products such as enriched milk and drinking yoghurt. Urbanization is also changing distribution models. In Saudi Arabia, for example, dairy producers are now delivering LDP (Liquid Dairy Products) to growing urban populations from the countryside.

Regulatory Environment

The dairy industry was de-licensed in 1991 with a view to encouraging private investment, flow of capital and new technology in the segment. Although de-licensing attracted a large number of players, concerns on issues like excess capacity and sale of contaminated or substandard quality of milk, induced the Government to promulgate the MMPO (Milk and Milk Products Order) in 1992. MMPO regulates milk and milk products production in the country. The order requires no permission for units handling less than 10,000 liters of liquid milk per day or milk solids up to 500 tons per annum. MMPO prescribes State registration to plants producing between 10,000 liters to 75,000 liters of milk per day or manufacturing milk products containing between 500 to 3,750 tons per year. Plants producing over 75,000 liters per day or more than 3,750 tons per year of milk solids have to be registered of milk solids have to be registered with the Central Government.

All milk producers except malted foods are covered in the category of industries, for which foreign equity participation up to 51% is automatically allowed. Ice cream, which was earlier reserved for manufacturing in the small scale sector, has now been de-reserved. As such, no license is required for setting up of large scale production facilities for manufacture of ice cream. Subsequent to de-canalization, exports of some milk based products are freely allowed provided these units comply with the compulsory inspection requirements of concerned agencies like the National Dairy Development Board and Export Inspection Council etc. Bureau of Indian Standards (BIS) has prescribed the necessary standards for almost all milk based products, which are to be adhered to by the industry.

Local Competitors

Local competitors are the major problem faced by AMUL. They sell their products at a lower price since being a low capital company they have fewer expenses to take care of. Secondly, as the environmental costs are rising day by day, it is getting tough to carry the same pricing throughout. Thus cutting down the extra cost will surely help. Adulteration, also a major threat to quality, takes place due to illiterate farmers from remote villages.

With so many newcomers entering this industry, competition is becoming tougher day by day. However the market is large enough for many to carve out their niche.

Global Forces

Dairy industry globally remains one of the highly supported agricultural activities. The use of protectionist policies and export subsidies continue to distort world trade in dairy products. The Uruguay Round of Multilateral Trade Negotiations (MTN) achieved only limited success in increasing market access and reducing export subsidies. It did, however, establish a framework for negotiating further reductions in support.

Under the World Trade Organization Agreement on Agriculture, it was agreed that non-tariff barriers, such as import quotas, would be converted to tariff equivalents and these tariffs then progressively reduced. A small in-quota tariff would be applied to a minimum access quantity, and higher above-quota tariff applied to quantities beyond this minimum. Domestic support and Export subsidies were also to be reduced. While the changes established a framework for reform, they are yet to have an appreciable impact on the dairy market.

People today talk of e-commerce as a tool of the future. The internet, they say, will change everything – the freedom of speech, the way markets function, the nature of work, the meaning of leisure, and the empowerment of consumers. Increased globalization and international trade has helped Amul to identify the foreign markets. Initially it was catering only to the Indian market. Now Amul has been supplying its products to lot of other countries such as Australia, China etc.

COMPETITIVE FORCES FOR AMUL

The various competitive forces in the context of AMUL and the Indian dairy industry are:

Bargaining Power of Buyers

Cost of switching to competitor brands: The switching of brands is seen very much in products such as ice cream, curd, milk powders, milk additives etc. But it can be seen comparatively less in liquid milk category. Even if the buyers shift to the other brands of milk, the value that they get is less than they would get from consuming Amul.

Large number of buyers: Milk is a necessity and hence is a mass product. It has a considerable share of the rupee spent by an Indian. Moreover, the buyers are spread evenly over the country and do not have any bargaining power.

Bargaining Power of Suppliers

The objective of Amul dairy is not only profiting. As it is a part of a cooperative society, it runs for the benefit of farmers those are the suppliers of milk and users of milk products. According to the cooperative concept, supplier has good bargaining power to have a good return on his or her supply. However, a supplier has limited rights to bargain with the co-operative society because it is run for the sake of masses and not for individual benefit. It was set-up with the intention that suppliers get their fair share.

There is appropriate bargaining power of the supplier. In the olden days there were no cooperative societies as the farmer was exploited. Nowadays, however, the farmer's rights are protected under the co-operative rules and regulations which ultimately results in a moderate power of bargaining from the suppliers.

Threat of New Entrants

Economies of Scale: GCMMF enjoys economies of scale which is difficult to match by any other competitor. It is because of this reason that no regional competitor has grown to a national level.

Cost and Resource Advantages: Amul dairy is a cooperative society. That means "cooperation among competitors" is the fundamental principle here. Amul dairy is managed under the norms of GCMMF and market the products under the brand name 'Amul' which has a very good reputation at the domestic and international level. Here, the raw material procurement is very difficult for the new entrants. Consequently capital requirement is also high. Still, new entrants are emerging as domestic and international players. So the threats of new entrants are moderate.

Brand preferences and Consumer Loyalty: There is an immense level of brand preference of Amul in the minds of the people. The level of preference specifically in the liquid milk sector is that they would go to another retailer if the retailer does not have Amul milk.

Access to Distribution Channels: The distribution channel of GCMMF is a very planned and perfect one. For any new entrant to enter it would be a very difficult task. For GCMMF it is the result of years of hard work and its investment in its employees as well as different levels in the distribution network.

Capital Requirements: The total investment required in the industry is large and is decision worth considering even for MNCs. The investment decisions cover the processing costs as well as the marketing costs. To compete with brand Amul in India is difficult as Amul is synonymous to Quality.

Threats from Substitutes

Availability of attractively priced substitutes: Different substitutes are available for different category of products. There is ample availability of low-priced substitutes from local vendors and retailers. This is a front where GCMMF is still finding it hard to combat.

Satisfaction level of Substitutes: Customers do consider these products as equal on quality if not better than the products of GCMMF. Hence the rate of customers switching to the substitutes is very high. Moreover, the buyers can switch to the customers easily without any hurdles as well.

Rivalry among Competitors

Demand for the Product: Demand is growing at a healthy rate

Nature of Competitors: In every product category GCMMF faces competition from different players. In the milk-powder and chocolates categories, it faces competition from Cadbury and Nestle. In the ice cream market it faces Kwality Walls, Max and Havmor while in the butter and cheese it is Britannia. Moreover, in almost all categories there is presence of local competitors. Rivalry intensifies.

Mergers and Acquisitions: There are no mergers and acquisitions in the industry. However, if any MNC wishes to enter via this route, then the competition would be severe.

PROMOTIONS

Promotion is critically important in positioning and for recollecting the brand in the mind of the consumers. A USDA report suggests that “advertising also bolsters per capita consumption of some dairy products, especially fluid milk and cheese. Research indicates that promotion can result in higher sales.”

Various promotional mix techniques such as websites on the internet advertising, sales promotion etc., are essential to promote their product and services. There is need for marketing promotion. Since it is unavoidable to be successful in the dynamic environment, a producer must not only offer a good product at a reasonable price, right time, right quality, and right quantity, but also inform actual and potential customers about the product and where they can buy the products and services in the constantly rapid changing market environment.

With clever use of topical events, Amul’s ‘utterly-butterly’ campaign has the distinction of entering the Guinness Book of World Records as the longest running campaign and has won several other accolades.

SUCCESS METRICS

Success of the company can be assessed by seeing how well its objectives are accomplished. Objectives of AMUL’s business strategy is to benefit both the consumers as well as the suppliers.

Success Categories	Indicator of Success	Successful Outcomes
Farmer Profitability and Wealth	Price/ Rate differential, Total Owner Return	Improved farmer skills, Technological improvement including genetics-FIP (Fertility Improvement Program), Improved milk yield of mulching cattle
Manufacturing Success	Manufacturing Costs	Improved Technology - SAP and ERP, Improved Pricing regimes, and Economies of scale and scope
Market Success	Stable ownership structures, increase in market share, and New market development	Effective connections to market demand
Social Success	Vitality of rural towns, Political clout	Improved communication and negotiation - bridging social divides; Lierate rural suppliers and Legislative Support

OTHER MAJOR PLAYERS

Amul has got several product lines but its main revenue earning source is dairy products. There are several competitors of Amul in this product line. There are virtually 15 dairy co-operatives in India. These are :

1. Andhra Pradesh Dairy Co-operative Federation Ltd (APDDCF)
2. Bihar State Co-operative Milk Producers' Federation Ltd (COMPEED)
3. Gujarat Co-operative Milk Marketing Federation Ltd (GCMMF)
4. Haryana Dairy Development Co-operative Federation Ltd (HDDCF)
5. Himachal Pradesh State Co-operative Milk Producers Federation Ltd (HPSCMPF)
6. Karnataka Cooperative Milk Producers' Federation Ltd (KMF)
7. Kerala State Cooperative Milk Marketing Federation Ltd (KCMMF)
8. Madhya Pradesh State Cooperative Dairy Federation Ltd (MPCDF)
9. Maharashtra Rajya Sahakari Maryadit Dugdh Mahasangh (Mahasangh)
10. Orissa State Cooperative Milk Producers' Federation Ltd (OMFED)
11. Pradeshik Cooperative Dairy Federation Ltd (UP) (PCDF)
12. Punjab State Cooperative Milk Producers' Federation Ltd (MILKFED)
13. Rajasthan Cooperative Dairy Federation Ltd (RCDF)
14. Tamil Nadu Cooperative Milk Producers' Federation Ltd (TCMPF)
15. West Bengal Cooperative Milk Producers' Federation Ltd (WBCMPF)

There are two main players – Amul of GCMMF and Mother Dairy of NDDB. We will analyze Mother Dairy separately which is the main competitor and a strong threat to Amul. Other small cooperatives will be treated together, as individually they are very small in size to pose a significant threat to GCMMF. "Mother Dairy" is the single largest brand of milk in India as well as in Asia, marketing about 2.2 million liters of milk per day. Mother Dairy commands 40% market

share in the organized sector in and around Delhi, primarily because of consistent quality and service. Mother Dairy is presently manufacturing and selling around 8.5 lakh liters of toned milk through vending shops.

Objectives and Business Philosophy of Mother Dairy

The main stakeholder of Mother Dairy was the farmer members. Their objective is not to maximize profit but to give the best price to the farmers. Thus, they look at the price given to the suppliers as not a cost but an objective. Mother Dairy had, as its main objective "*carrying out activities for the economic development of agriculturists by efficiently organizing marketing of milk and dairy produce, agricultural produce in raw and / or processed form and other allied produce*". This is to be done through:

1. Common branding
2. Centralized marketing
3. Centralized quality control
4. Centralized purchases and
5. Pooling of milk efficiently

Mother Dairy had declared, as its business philosophy, the following: *Ensure that milk producers and farmers regularly and continually receive market prices by offering quality milk, milk products, and other food products to consumers at competitive prices and; uphold institutional structures that empower milk producers and farmers through processes that are equitable.*

The biggest strength of Mother Dairy was the trust it had created in the minds of its consumers regarding the quality of its products. NDDB, and its brand Mother Dairy, stood for guaranteed purity. In India, where such trust was hard to come by, this could provide a central anchor for Mother Dairy's further business plans.

Strategies by Mother Dairy

Focused Approach Mother Dairy wants to get into bigger markets and have bigger share in those markets. The cooperative is also expanding its product portfolio further to match rival offerings – particularly those of Amul. For the first 22 years of its existence, liquid milk was the only dairy product that Mother Dairy offered. It was in 1996 that it came up with ice creams. The real spurt, however, came later when it introduced curd, flavored milk, lassi, and mishti doi. It introduced butter, ghee, UHT milk, and chees a few years after that. Its frozen foods and vegetables brand Safal is a market leader. Besides introduction of corn and mixed vegetables, it has plans to come out with frozen potato-based snacks.

So, while the product portfolio has been growing, Mother Dairy has plans to reach out to newer markets – but the strategy here is more product-specific. In liquid milk, it will initially concentrate only on four markets- Delhi, its home ground; Junagarh region and Ahmedabad in Gujarat; Mumbai, which it entered just a while ago; and Hyderabad, where it moved in a little

before Mumbai. They have no plans to go everywhere with liquid milk. What's the need to get into those markets that already have strong cooperative brands? Their objective of getting into newer locations is to not to make Mother Dairy larger, but to ensure that there is large viable distribution network and consumer brand to take care of surplus milk.

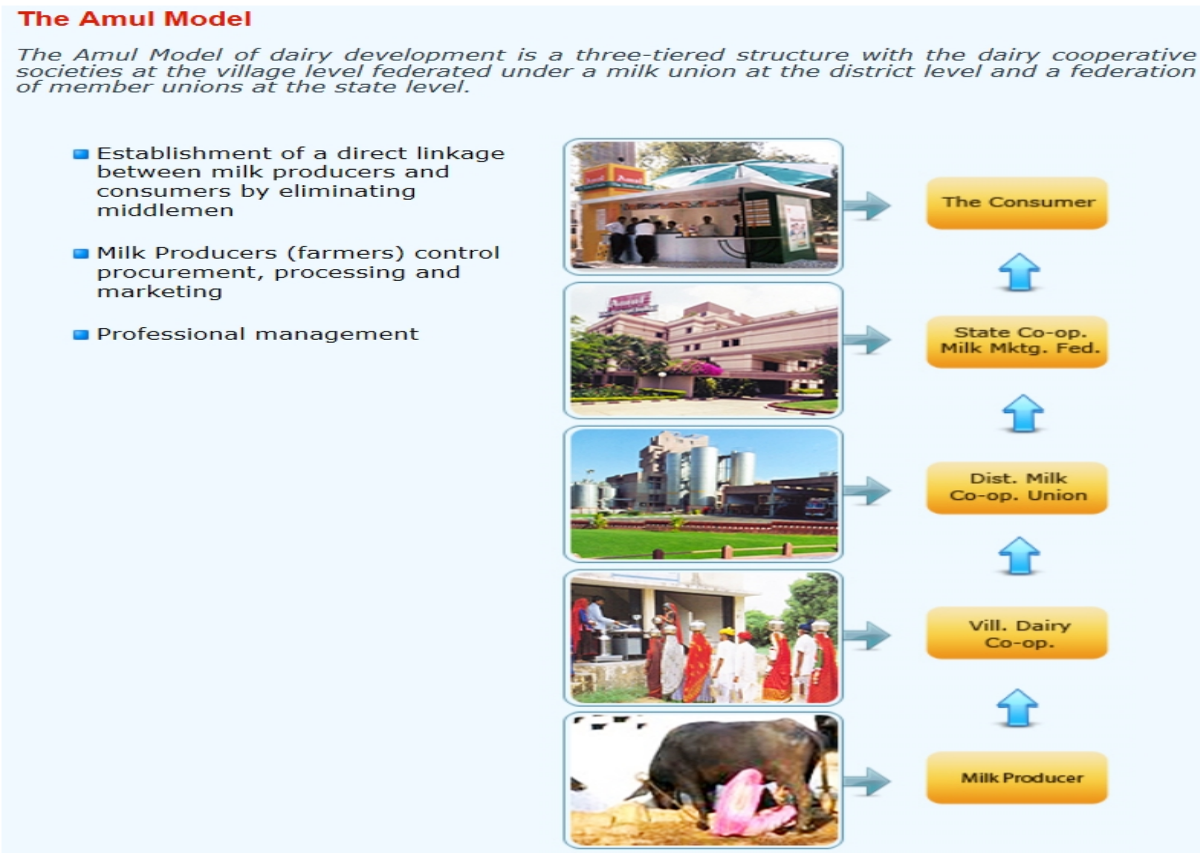
Wider Spread As far as other dairy products are concerned, Mother Dairy plans to expand across the board. Other than milk, for most state federations, dairy products are still a small part of their operations. So they are taking their products to regions across India, where they see enough market potential. In ice creams, it was only couple of years ago that Mother Dairy entered its first market outside Delhi – UP and Punjab. It has extended operations to Haryana, Jaipur, Mumbai, and Kolkata as well. Next year, it plans to go south to Hyderabad and Bangalore.

Product Differentiation While Mother Dairy still may not have a product portfolio as large as Amul, which is also expanding across the country in a big way and is a much bigger player, it is doing its bit. Mother Dairy says the idea is not just to enter new markets, but to do well in those markets – which means bigger market shares in the different product categories in whichever market it is present. The drivers will be value created through quality of the offerings as well as innovations in products. This will, of course, be backed by relevant marketing and promotion campaigns. Mother Dairy is bringing in mass Indian flavors which are building up in terms of absolute percentage of contribution. Their attempt is to make the taste experience in ice creams as familiar as possible so as to increase consumption.

Smart Marketing On the marketing front, Mother Dairy says it is trying to take its product campaigns to a higher platform. For instance, in the case of milk, the campaign does not talk about the obvious benefits – eg. Good for health, calcium etc. – but instead targets children and are created around ideas such as: The country needs you, grow faster". As far as products such as butter, cheese, and ice creams go, the campaigns have been created around "taste". For butter, the focus is again on children. Here, Mother Dairy has dared to go different. Since 60% butter is consumed by kids, the company wants them to sit up and take notice of its butter. Clearly Mother Dairy has aggressive plans.

Source : Case taken from "Crafting and Executing Strategy" 19th Edition by Thompson, Peteraf, Gamble, Strickland and Arun Kumar Jain published by McGraw Hill Education (India) Private Limited

Annexure 1 : Amul's Business Model



QUESTIONS

1. Provide a critique of Amul's vision statement? How well aligned are Amul's core values to their vision? Briefly explain. 3
2. How does the co-operative – yet – competitive strategy differ from the usual competitive strategy? Use Porter's five forces model to describe the impact this model has on the industry attractiveness by assessing five forces model for both models. Explain whether the impact of model change is positive or negative for each of the five forces and why? 5
3. How does one account for the success of Amul as a "Bottom of the Pyramid" company as well as a successful Indian MNC? 2
4. Draw the industry & firm level value chains? Where does Amul add maximum value?

3

5. Why have similar co-operative arrangements not worked for other dairies in India? 2
6. Based on the information available in the case, plot different products of Amul in the BCG matrix. 2
7. What are the Key Success Factors for the industry? How does Amul manage them? 3
8. Draw nine components of Business Model of Amul as per Business Model Canvas. 5