

Gujarat cooperative milk marketing federation limited (gcmmf) assignment

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Gujarat Cooperative Milk Marketing Federation Limited (GCMMF) Objectives of the case study: ??? What are the salient changes in the external environment of GCMMF? Are they posing constraints to GCMMF? What are they? ??? Evaluate GCMMF's response to these changes in terms of (i) the resource requirements of the proposed food products business and (ii) resources and capabilities available at GCMMF. ??? Is GCMMF taking what it may think is the easy way out? Can it stay in its core business and make a difference to the milk sector in India (and yet be successful commercially)?

Introduction:

GCMMF was established in the year 1973 with a view to streamline the milk production and supply process in Gujarat. Its main aim was not to maximize profits but to give the dairy farmers a fair deal, who until then were being exploited by the private milk contractors. GCMMF was a great success since its inception. By providing on-time payments to the dairy farmers, veterinary services, cattle feed of good quality, education on better feeding of cattle and facilities for artificial insemination of cattle at cost or below cost gave dairy farmers an incentive to be a member of the cooperative.

In addition to producing and supplying milk of three varieties and dairy products from the surplus milk supply, GCMMF had diversified its business to related areas like edible oils-Dhara and fruit & vegetable based foods-Safal.

In the year 2000, GCMMF was faced with a dilemma of whether to stick to its existing product line or to venture into the processed foods market with

jams, sauces and fruit juices. What are the salient changes in the external environment of GCMMF? Are they posing constraints to GCMMF? What are they?

The below, are the changes in the external environment of GCMMF:
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Competitors: GCMMF faced a number of competitors in each of the segments they operated in. Some of these were local player whereas other international competitors had better resources to penetrate the market. Milk and dairy products business: In this segment, the other state owned cooperatives marketed their products under different brand names and led to healthy competition. Competition was growing in the dairy products market with big corporate houses like HLL and Britannia entering the dairy products market in India backed by big investments in advertising

Ice cream business: There were other brands from private players like Vadilal and Quality-Walls who had more resources to spend than GCMMF in advertising. Edible oils business: There was again competition from private brands. Processed foods business: There were major players like Britannia-Maggie and Heinz. Supply Challenges: The market was getting saturated from the supply side. The rate of growth of milk production was around 6 percent per annum. The demand, however, could be expected to grow at 8 to 10 percent per annum, according to industry experts.

With having constraints on the supply side GCMMF was faced with the challenge of meeting the increasing demand. Technology: Even though GCMMF had the ability to process more, the supply of its raw materials was limited. Milk supply was getting saturated from its supply side. In the processed food sector, there was immense scope for improvement. Indian produce was 30 percent lesser than other countries even though arable land was 40 percent more than the others. Subsistence farmers did not have an incentive to produce fruits and vegetable.

With the lack of proper storage and transportation facilities, 35 percent of the produce was wasted. Middle men and costs; In the processed foods sector, the presence of about seven layers of middlemen, each with incremental commission charges and en route wastage of produce led to the consumers paying six to seven times of the price received by farmers. There were opportunities to cut the middlemen and improve the supply chain.

Fragmentation and Taxes: The food processing industry was extremely fragmented.

Cooperatives operated under archaic, colonial co-operative legislation in which even though they formed a part of the same 3-tier co-operative structure, they had to pay 4 percent central tax while transferring the products to any of their own branches that lie outside Gujarat. Local sales taxes applied to products sold within the state. A private company on the other hand did not apply while transferring the products to their own branches. This gave the private players an edge over the co-operative societies.

The tax structure under which GCMMF fell was different from the tax structure under which the competitors and MNCs were. This again was not favoring GCMMF for procuring and reselling to other cooperatives from different states within India

Salaries: Salaries paid by GCMMF were lower than those paid by private players and hence found it more difficult to attract managers from premier management institutes. The management graduates were more inclined towards taking up jobs with MNCs and other sectors. This

however, was not a major concern as employees had immense growth opportunities and job satisfaction.

Change in consumer taste: With more disposable income, consumers were moving from basic need products (Milk) towards more premium products like ice cream where GCMMF did not have a good market share and difficult to penetrate where the market is dominated by HLL and regional players like Vadilal. Evaluate GCMMF's response to these changes in terms of (i) the resource requirements of the proposed food products business and (ii) resources and capabilities available at GCMMF. Resource requirements of the proposed food products business: A co-operative society of the Anand pattern needed to be created. ??? Since fruits are grown in different parts of the country, an effective logistics system to gather the produce at appropriate locations needs to be created. ??? Install technologically competent machinery and processors. ??? Since fruits are long term produce when compared to milk which is a daily produce, GCMMF should find an optimal method of compensating the farmers. ??? Reduce/eliminate middlemen so as to give maximum benefit to the grower. ??? Position its processed foods well in comparison to the competitor's products.

Resources and capabilities available at GCMMF. ??? Incentives to fruit growers in order to increase their yield, training in different kinds of growing methods and a probable cyclical incentive plan. They may also want to apply the oil business strategies in the processed foods sector. ??? Setting up factories close to the location of the produce, in order to save on logistics cost, wastage in the process of transportation and faster supply. ??? It needs

to position its processed foods just as well as it has positioned its edible oil and milk products.

With the fruit consumption set to increase many-fold in the coming years, GCMMF can explore the area of canned fruits and vegetables instead of only concentrating on the processed foods section. ??? Although it was a farmer focused organization, the growing competition forced it to focus on consumers. To provide value to the consumers and improve on its brand value in terms of quality, they set up the TQM process to improve certain areas. ??? There were challenges in logistics and supply chain in the Indian processed food sector.

This was a situation GCMMF was familiar with: a wasteful production system, and poor prices paid to farmers. If the farmers could be organized into co-operatives, as it had done with milk, GCMMF might be able to become a truly major player in India's processed food market. Is GCMMF taking what it may think is the easy way out? Can it stay in its core business and make a difference to the milk sector in India (and yet be successful commercially)? I do not believe that GCMMF is taking the easy way out by diversifying its product range.

It is still very relevant in the milk sector and the biggest player there. It has also earned itself a strong brand which it can capitalize on when moving to any other sector. There is great opportunity in terms of growth both in the dairy products and the processed food market. In the dairy market, the per capita milk consumption in India was around 225 grams per day, as compared to more than 600 grams in many other countries. There was scope

for increasing the consumption of milk further, which provided great growth opportunity.

The challenge would be addressing the supply issues. It could look at introducing better breed of cattle or similar initiatives to boost the production. Moreover, their “ social benefit” motive and their experience in building co-operatives backed by cold chain network, they are in a good position to enter the processed food business and establish themselves as in a market leader. They also have significant brand value and experience working with food products which will be useful in this expansion.