

Teaching Note Niti Masala: Expansion Strategy

Dr. Prashant Kotasthane

Dr. Vijaya Puranik

Dr. Dhananjay Mandlik

SYNOPSIS

Niti Masale is one of the largest employers in the rural part of Awasari, near Manchar (Maharashtra). Various divisions of Niti Masale have been awarded by various organizations and by the Ministry of Commerce and Industry, Maharashtra Government for excellence in taste and authenticity of their products. Niti Masale still holds a strong presence in various cities in Maharashtra, being one of the largest providers of traditional Indian kitchen taste. Niti Masale is led by Mrs. Niti Khude, Chairman & Managing Director, Mr. Nilkanth Khude, and Mr. Milind Khude, Executive Director.

Mr. Nilkanth Khude along with his wife initiated the business operations through the manufacturing of spices in the year 1980 and has till date witnessed the ups and downs in the business for over more than 3 decades. The younger generation under the able direction of Executive Director, Mr. Milind N Khude, showed an inclination towards expansion and was prepared to shoulder risks and in contrast the older generation warned to take a safe and cautious approach.

Niti Masale is planning for almost tripling its existing production capacity and plans to venture into markets in new geographical areas.

Executive Director, Mr. Milind Khude is busy in reorganizing the financial, technological and human resources requirement believed to be necessary for the implementation of expansion strategy.

Dr. Prashant Kotasthane, Dr. Vijaya Puranik & Dr. Dhananjay Mandlik wrote this teaching note as an aid to instructors in the classroom use of the case **Niti Masala : Expansion Strategy**. This teaching note should not be used in any way that would prejudice the future use of the case.

Version: 2018

LEARNING OBJECTIVES

Objectives of the case

- Learning objective 1: To learn about the design and implementation of functional strategies in marketing for implementation of grand strategy of market expansion.
- Learning objective 2: To learn about the selection and implementation of policies for human resource management attracting and retaining personnel in the remote area
- Learning objective 3: To learn about the effective implementation of activities for cost reduction in logistics

POSITION IN COURSE

This case can be used in MBA courses/modules at the **Sem II or Sem III** level.

RELEVANT READINGS

Donald J. Bowersox, David J. Closs, M. Bixby Cooper, Supply chain logistics management (New Delhi: McGraw-Hill, 2002), Pg 95-98. ISBN 0-07-235 100-4

Martin Murray, "Reducing Supply Chain Transportation Logistics Costs", (Updated March 07, 2017)

06/05/2017, 21:00 hrs, www.thebalance.com/reducing-transportation-costs



CASE STUDY

EXPANSION STRATEGY

With construction going on in full swing and the rainy season approaching shortly Mr. Milind Khude, Executive Director, Niti Masale was a bit worried.

After having witnessed the ups and downs of the business for over more than 3 decades (1980s to 2010) he took over the reins of the business from his father Mr Nilkanth Khude.

Considering that the current business scenario¹ was showing a healthy upward trend he intended to lead the organization to go for a major expansion.

All traditional businesses are founded on the basis of the thoughts of a visionary, who sees the overall growth in diversification and expansion. Mr. Nilkanth Khude along with his wife initiated the business operations through the manufacturing of spices in the year 1980 after a sudden accidental loss in his well established agri-business of trading in potato seeds.

Today, Niti Masale is one of the largest employers in the rural part of Awasari, near Manchar (Maharashtra, India). The various Divisions of Niti Masale have been awarded by the Ministry of Commerce and Industry, Maharashtra Government for excellence in taste and authenticity of our products. Niti Masale holds a strong presence in various towns in Maharashtra, as one of the largest providers of traditional Indian kitchen taste though major markets of large cities adjacent to and including Pune are still (2017) untapped.

Niti Masale is the brain child of Mrs. Niti Khude Chairman, Shri Nilkanth Khude, Managing Director, and Shri Milind N Khude, Executive Director.

Due to lack of adequate capital initially the business was limited to job work of grinding spices. Gradually with forward integration on public demand in subsequent years it was expanded to few powdered spices. Production capacity being limited to 5 products and the average output was 100kg/day till 1990.

First expansion was initiated in 1995 after division in the family. This included contemporary machinery as polarizers and roasting & grinding units which increased the capacity to 500 kilograms/day. Niti Masale consolidated their position in the market and average capacity remained steady till the unfortunate fire accident which occurred in 2004.

Goodwill of public & supply chain partners helped to resurrect & reconstruct the business. Subsequent expansion in 2006 saw installation of automatic packaging machine, minor

¹ **Sajith Mohan, Sheena. S.Rajan,, Unnikrishnan**, *Marketing of Indian Spices as a challenge in India*, ISSN (Print): 2319 – 801X, www.ijbmi.org, Dept of Business Management Studies, Annamalai university, Tamil Nadu, Volume, 2 Issue 2, February. 2013, PP.26-31

expansions in form of machines with upgraded technology continued till 2017 enhancing the current capacity to 2 ton /day.

The younger generation shows an inclination towards expansion and shouldering risks and in contrast the older warn them against it and advice to take a safe and cautious approach.

Existing infrastructure

Niti Masale operate from Awasari- Manchar a place 40 km away from Pune on Nasik highway on about 20000 sqft plot consisting of 10000 sqft built up operational area for production and material storage.

Major machines employed for production are jumbo grinders, polarizers, pro-cleaners, millers, F F Sealing & packaging machines.

Niti Masale operates with 40 unskilled workers, 6 skilled workers and 6 machine operators and are currently operating in one shift for workmen of 12 hrs & two shifts for ladies of 6 hrs each.

Annual production capacity is 750 tons /annum and is distributed in product range as

Dry Powders (Chilly Turmeric Coriander)-----35%

Blended spices-----30%

Hotel spices----- 30 %

Others-----5%

Market Potential

Spices are integral part of Indian food (India has come to be known as “land of spices”) both as a component of daily food items as well as part of pickles, sauces & chutneys etc. With changing life style and especially with changes of food habits and increase of income level, the use of powdered spices has increased².

Of late, the market for ready mix of spices has grown significantly. There are numbers of small units producing powdered spices, both in loose as well as packet form. The consumption of spices in a household of five members, in Maharashtra is estimated at 100 gm. per person per month i.e. 6.0 kg per household per year. Of this share of spices, powdered spice may be taken at 50% i.e. 3.0 kg per household per year. In Maharashtra powdered spices are used mainly in urban and semi urban areas and it may be conservatively assumed that 70% of the urban population uses powdered spices. Niti Masale has its market presence in a few talukas (province) of Pune, Ahmednagar and Nasik districts of Maharashtra .

The important factors which consumers give relative importance to while making a choice of a brand of spices mix are³ :-

- Good flavor
- Availability
- Quality
- Price
- Brand name

² **Dr Sreeekumar D Menon** , *Consumer Behaviour Analysis Of Spices(Curry Powders)In*

Kottaym District Of Kerala State, Journal of Business Management & Social Sciences Research (JBM&SSR) ISSN No: 2319-5614, Volume 4, No.6, June 2015

³ **Poonam Bagal**, *A study on consumer buying behaviour towards spices with Special reference to Everest Masale in Bengaluru city, International Journal of Interdisciplinary Research, Volume I, Issue 1 November 2015*

Major adjacent market of Pune city has not been explored yet and Niti Masale has plans to venture into this market shortly. Other markets to be explored are in south Maharashtra with the inclusions of Kolhapur, Sangli, Satara & Solapur districts

Design

Recipes are being formulated in house with suggestions from customers whenever required.

Quality control inspections are being done for every batch, quality parameters includes the odour, taste, physical appearance, standard colour test and consistency of granules.

Major parameter for quality control inspection is appearance which is checked visually the other important parameter is moisture content, testing for which is done in house using chemicals and laboratory equipment.

Average storage time of raw materials within the premises is one week. Similarly average storage time after packing before dispatch to distributors is five days. A temporary shed of 1000 sq.ft. has been constructed for storage of finished products as well as raw materials required for daily production.

Marketing

Exhibit:1



Source: <http://www.nitimasale.com/> 12/ 06/2017 : 1100 am

Exhibit:2

Product range Niti Masale

Dry Spice Powders	Blended Spices	Hotel Packs	Others
Chili Powder	Kanda-Lasun Masala	Pav-Bhaji Masala	Readymade Papad
Turmeric Powder	Missal Masala	Chole Masala	Masala Pith
Coriander Powder		Garam Masala	

Source: <http://www.nitimasale.com/> 12/ 06/2017 : 1100 am

Products are packed by using automatic packing. Packets of 50 gms , 100 gms ,200gms ,1kg and 5 kg are available. Plastic pouches for one time use worth Rs 5 and Rs 10 are also available.

Distribution

Organisation arranges delivery directly to retailers wherever possible. In few cases distributors have been appointed. Distribution margin is set at 8 % and retailers margin is fixed 25 % which is well above the industry standards.

Pricing

Decision of keeping price at competitive level in comparison to competitors had been taken and is being implemented in existing markets. This strategy is also used for market positioning for the products. In case of penetration in new areas discounts are offered to attract the supply chain partners in the initial stage

Exhibit : 3

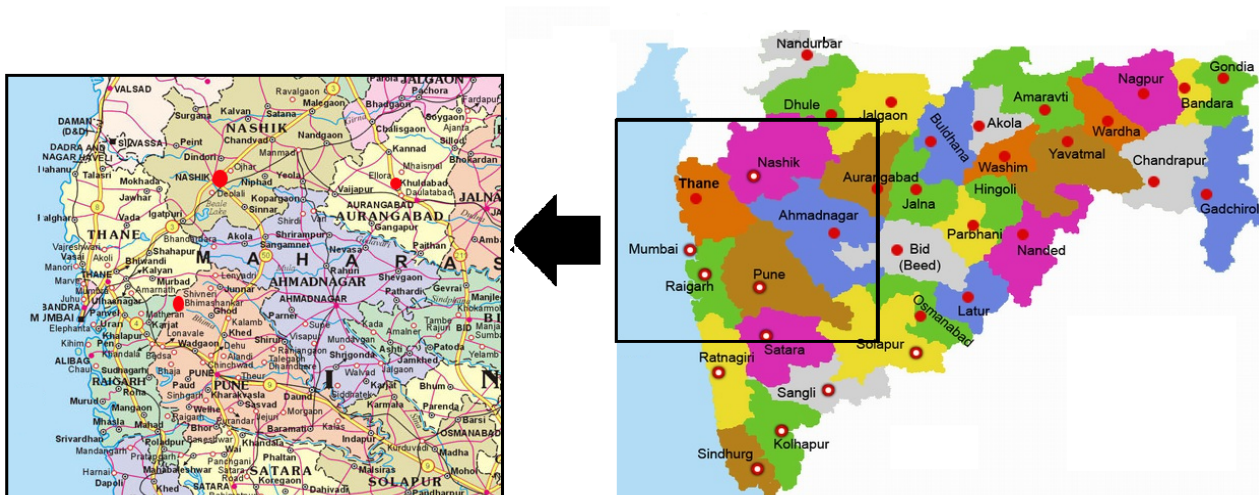
Discount schemes used by Niti Masale in various marketing areas

Sr.no	Occasion	Promotions /Discount Scheme
1	Diwali (Every year)	Free gifts for purchases beyond quotas for channel members
2	New territory	Extra Discount upto 5%
3	Cash discounts	Extra Discount upto 2 % to effect immediate payment

Exhibit : 4

Extent of the market

MARKET FOR NITI MASALE



Source: <http://www.india maps .com/> 17/ 06/2017 : 1000 pm

Major market for Niti Masale is in Khed taluka and adjacent talukas in Pune & Nasik districts Geographical regions as target markets set for expansion strategy are Pune city, South Maharashtra and Gujarath. Gulf market had been taped in 2015 with a couple of international orders successfully executed.

The market interface is handled by team of six marketing executives lead by a sales manager who are covering the entire market. Sales team is being backed by advertisement in magazines and newspapers frequently.

Logistics

About 75% of the deliveries take place with help of 4 pick-up vans all owned by the organization but in about 25 % cases third party logistics is utilized specially for longer distances. Outsourcing logistic activities has been encouraged since recent few years.

Materials

Niti Masale requires more than 50 raw materials for which they have tapped a number of suppliers from various regions of India. Mutual cooperation through implementation of Customer relationship management (CRM) and Supply chain management (SCM) is being practiced since a long time.

Mode of purchase of raw material for the organisation is through agreements and verbal commitments and it avails a credit of a fortnight from suppliers. Niti Masale management prefers to buy raw materials without credit facility to avail cash discounts upto 2%. Suppliers have been given an average lead time of 10 days to supply material.

Permanent Infrastructure for stocking of 10 days of stock of raw materials had been constructed. It facilitates in bound logistics being in close vicinity of production area.

Storage time for raw material differs as per availability and seasonality of materials. Seasonal items likes Chili requires special facilities as cold storages hence frequently external cold storages are being hired.

Essential quality check inspections of incoming shipments are carried out and whenever necessary, quality assurance is been implemented after studying results of preset quality parameters for incoming shipments from the suppliers. Majority of suppliers are approved and are in supply chain relationship for years together and hence it is observed that rejections are negligible.

In process sampling and inspection is being done on regular basis for critical parameters and few parameters are being tested by better equipped labs outside the factory on regular basis.

Quality assurance is being treated as most important aspect of the process. Wherever off specification material is generated due to process problems, it is dealt in isolation and in few cases with appropriate processing (only if possible) recycled back in the process.

Packing, and storage of finished products is being carried out on site in the warehouse area for effective inventory management. Raw material stocks for 2 weeks are maintained. 7 days inventory of finished products for dispatch is maintained in the warehouse.

Order processing

Orders are secured by the sales team or through distributors directly on phone and dispatched as per convenience. No specific schedule has been laid out for routine orders .

Finance

Strategy for compositions of funds to raise the capital investment for Niti Masale for the past was as per details given below:-

Own investment----- 30%

Short term loans-----70%

Capital investments in fixed assets land building ----- 30 %

Machinery and Transportation -----10%

Working capital ----- - 60 %

Major funding of working capital is through short term loans (cash credit) facilitated through banks. With a turnover of nearly 8 crores the organisation strives to achieve an inventory

turnover of 4 . Central Bank of India and Rajgurunagar Sahakari Bank are bankers for the organization.They also provide other short term loans whenever required.

Exhibit : 5

Sources and Usage of funds in the organization

Financial year	Sources of funds		Usage of funds			
	Own	Borrowed Cash Credit	Capital Investment			Working Capital
			Storages	Machinery	Transportation	
2014-2015	25 %	75%	-	15%	20%	70%
2015-2016	25 %	75%	-	15%	-	75%
2016-2017	25 %	75%	20%	-	-	65%

Management of working capital

Combination of Self funding & short term loans has been the practice till 2017.

15 days credit is given by suppliers for payment of incoming shipments whenever payment is given without availing this facility a cash discount up to 2 % has been extracted from vendors.

Payments receivable are mostly cash and a credit of up to 15 days have been granted to distributors and retailers. Average inventory turnover for the past was approximately 8 times. Major problems are with receivables and bad debts which account to about 5 %.

Human Relations : Organization structure

Mr. Nilkanth Khude looks after purchasing and supplier relationship , rest of the operations are handled by Mr. Milind Khude .

One supervisor per shift controls forty workers skilled as well as unskilled, both male and female. Daily shift consists of 12 hours for men and six hours for women due to unavailability of women workers. Very few CSR activities are been performed and worker welfare is been looked into personally by helping workers as and when required.

Sales organization is composed of two sales managers and six sales representatives covering the geographical area of the market.

Statutory requirement such as PF and other mandatory requirements have been followed and implemented. Entire factory of Niti Masale is free from unionization and internal industrial disputes. Recruitment and selection process is been carried out by Mr. Milind Khude himself.

Mr. Milnd Khude laments that getting skilled workers in the interior parts away from the city is difficult and hence selection and retention of skilled workers is a major problem.

Issues inherent to Agriculture based business

Multiple sources for raw material some time poses a problem due to in sufficient quantity and irregular supply. Supply chain partners frequently deliver material short of the ordered quantity and often delay the shipments.

Raw materials being agricultural products consistency in quality poses problems. This risk to a certain extent is being minimized through supplier relation and quality certificates of raw materials for incoming shipments whenever required.

Idle capacity, under utilization of infrastructure due to insufficient stock raw material, insufficient sales orders, insufficient working capital, shortage of proper man power and electricity are major areas of concern.

Infrastructure of the organization and works are in an area which is 50 km away from nearest city Pune and hence it is difficult to attract and retain skilled man power for the organization .

Marketing activities are carried out by sales team. No professional marketing team existed and hence traditional marketing mix strategy was practiced till 2017 .

Exhibit: 6

Profile of skilled workers/staff---

Parameters	Type 1 Unskilled	Type 2 Semiskilled	Type 3 Skilled	Type 4 Supervisory
Nos	15	15	8	3
Age				
<i>20-30</i>	10	-	-	-
<i>30-40</i>	5	5	8	3
<i>40-50</i>	-	10	-	-
Qualification				
<i>Schooling</i>	15	15	-	-
<i>Matriculate</i>	-	-	8	-
<i>College</i>	-	-	-	-
<i>Graduation</i>	-	-	-	3
Marital status				
<i>Married</i>	5	11	8	3
<i>Unmarried</i>	10	4	-	-
<i>Widowed</i>	-	-	-	=
Salary/Income (Monthly)				
<i>10K-15K</i>	15	-	-	-
<i>15K-20K</i>	-	15	-	-
<i>20K-30K</i>	-	-	8	-
<i>30k & Above</i>	-	-	-	3
Gender				
<i>M</i>	7	9	8	3
<i>F</i>	8	6	-	-
No of children				
<i>None</i>	1	1	-	-
<i>One</i>	4	6	2	1
<i>Two</i>	-	4	6	2
<i>More than Two</i>	-	-	-	-
Vehicle (Two wheeler)				
<i>Yes</i>	4	9	8	3
<i>No</i>	11	6	-	-
Local residence (within 20 km)				
<i>Yes</i>	15	15	8	3
<i>No</i>	-	-	-	-

ASSIGNMENT QUESTIONS

1. Assignment Question 1 : What pricing strategy should Niti Masale adopt to venture in new markets as according to the strategic plan ?
2. Assignment Question 2: Which HR policies should Niti Masale adopt to attract and retain Human Resources in the organisation in light of expansion strategy?
3. Assignment Question 3: Suggest an Order booking and an inbound logistic system for Niti Masale in consideration of expansion strategy?

TEACHING PLAN

One or two sentences about the length of the ideal class session (75 to 90 Minutes).

Discussion Point	Time (Minutes)
Introduction	10
Assignment Question 1	25
Assignment Question 2	25
Assignment Question 3	20
Conclusion	5

ANALYSIS

Assignment Question 1

Analysis/Answer/Teaching tips for Assignment Question 1

Niti Masale is a well established brand in areas where it currently operates. The channel members in the existing market are satisfied with the existing policy of a remuneration margin of 8% to distributor and 25 % margin to retailers. Distributor margin of 8% matches with the average industry margin. Retailer margin is over the average given to a retailer in the market (regular margin is about 20 %).

Existing MRP of the products is competitive in the market and hence a non- price route appears to be the best option for the expansion strategy in new markets.

Getting visibility of any brand across the retailers shelf is the best policy for creating a brand positioning in the minds of consumers and penetration in the market. This can be done through sales promotion campaigns run for retailer and distributor levels so that these channel partners stock more and sell more.

Assignment Question 2

Analysis/Answer/Teaching tips for Assignment Question 2

Niti Masale operate from Awasari - Manchar a place 40 km away from Pune and 3 km away from Nasik highway. This site has no facilities as availability of good school and convenient shopping for personnel. This creates a major barrier in attracting and retaining skilled Human Resources in the organization.

An understanding with a good school in Rajgurunagar or PCMC area can be worked out supplemented with a school bus service which can be made available from Manchar site. Similar services can be made available to employee and their family twice on Sundays and once on week days.

Efforts for forming and implementing Employee cooperative store considering employee involvement for collective buying and cost savings can be initiated to create better socio-economic conditions for employees

Assignment Question 3

Analysis/Answer/Teaching tips for Assignment Question 3

Orders are secured by the sales team or through distributors directly on phone and are dispatched as per convenience. No specific routine has been planned out for routine and dispatch. Majority of the dispatches take place directly to retailers.

Orders secured from varied sources (retailers distributors & sales persons) should be consolidated through a well designed system. Through unitization of load and choice of appropriate vehicle accordingly, transportation cost can be reduced to a large extent.

Data generated through the system can be utilized for activities as Material Resource Planning for production aspects and for Distribution Resource Planning for regular dispatch of finished products to the market.

Sales team should work as per specific routine lead as prefixed dispatch routes. Inventory requirements according to beats have to be monitored, analyzed and maintained in the stock to the optimum level. This will partially reduce the inventory carrying cost.

WHAT HAPPENED

A brief follow up of what decision was made and what happened to the parties involved.