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mawlyngot’s tea growers’ cooperative

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The Mawlyngot Tea Growers’ Cooperative Society (MTG), nestled in the pristine East Khasi Hills of Meghalaya, India, was started in 2003 by Lisenbor Nongspung, a head teacher at the village school and former village headman. By the end of 2014, MTG had spread across 90 hectares, with the entire village (about 45 households) of Mawlyngot as members of the society. Nonetheless, since 2013, Nongspung had felt that MTG was mired in issues of profitability. He sensed that strengthening the marketing activities of the society would be important to address the challenge, but he was not sure how to proceed.

MAWLYNGOT VILLAGE

Mawlyngot was a village in the East Khasi Hills district of the state of Meghalaya, India, located about 40 kilometres from Shillong, the state capital. The original inhabitants of the village had migrated there about 150 years prior from other districts in Meghalaya, following the route of Umsong River. After a few skirmishes with other villages in the East Khasi Hills (e.g., Thangbnai, Rngibah, and Khapmaw), the migrants shifted northward and finally ended up at the hilltop that became known as Mawlyngot. The village had a scenic view of the Khasi and Jaintia Hills. Mawlyngot was in a strategic location, connecting seven other villages with the rest of the state.

For years, agriculture had been the main occupation of the village. Yams, corn, potatoes, and bananas were the major crops. Widespread jhum cultivation[[1]](#footnote-1) had degraded the soil; gradually, agriculture was replaced by several villagers with local manufacturing of liquor. The shift in occupational structures led to negative consequences for the villagers that included brawls, broken families, and poor health.

Nongspung, joined by some villagers, took on the challenge of transforming the village. Nongspung first formed the *Charchamandal Farmers’ Centre*, a meeting place for farmers to pursue skills and techniques related to agriculture. In 2003, as soon as the government approved Nongspung’s proposal to start a tea plantation project, MTG was registered and the decision made to produce organic tea under the brand name “Urlong,” which meant “prosper” in the Khasi language. According to MTG’s records, the project improved the village’s economy from a mean household income of ₹1,500[[2]](#footnote-2) in 1999 to ₹4,500 in 2012.

In 2014, Mawlyngot had about 45 households committed to sustainable development. Being involved with the tea plantation strengthened the sense of ownership among the local farmers. When asked about the progress of the village over the years, Nongspung responded:

The problem of alcoholism has declined, and the village started seeing greater health benefits. Because of tea, impoverished families are now having the means to send their children to school and complete their higher studies. Food insecurity has become an issue of the past, and proper housing has become a reality. Tea has transformed the lives in this village.

THE MAWLYNGOT COOPERATIVE

The beginning of the journey for the cooperative was 1987, when the farmers’ centre was formed in collaboration with a farmers’ training centre. Nongspung had observed that Mawlyngot had an ideal climate for tea farming, especially organic farming. The area was naturally bestowed with an abundance of water, both wet and dry climates, and good soil conditions. Nongspung first experimented with tea farming on his small organic tea farm. In 2000, when villagers found merit in the idea, a village development committee was formed with the idea of starting tea cultivation. In February 2001, the development committee applied to the Department of Border Areas for development aid from the government for tea cultivation. The scheme was sanctioned with the assistance of officers from the Department of Agriculture, Meghalaya. In July 2003, the cooperative was given ₹5,872,000 toward the development of tea cultivation. The cooperative was then registered under the *Societies Registration Act, 1860*, as the Mawlyngot Tea Grower’s Society. A few years later, because the operations involved all households in the village, the society was granted the status of Integrated Development Society.

The first batch of tea plants was planted in August 2003 under the guidance of the Tea Development Centre of the Government of Meghalaya. Members of the society had the opportunity to visit tea growing areas in Darjeeling, which provided the members with more knowledge about various practices of tea cultivation, helping the members learn and the society grow.

A tea processing unit was established in Mawlyngot in early 2003. With several years of hard work and continuous improvement, the processing unit and its tea products were certified as organic in August 2011 by India’s Control Union of Organic Certificates. The next year, the society began experimenting with coffee plantations and had several rounds of discussions with neighbouring villages about expanding the cooperative model to include the neighbouring villages.

The Cooperative Model

The MTG model had three tiers: the Dorbar Shnong, the village cooperative society, and self-help groups (SHG). An integrated model was designed to connect the village tea growers directly with the consumers, removing any intermediaries.

Mawlyngot Dorbar Shnong

The Dorbar Shnong was an important institution in almost all the villages of Meghalaya; it supervised the functioning of the village and looked after its wellbeing. As an apex body, the highest institution at the village level, the Dorbar Shnong made major decisions—such as forming MTG—that affected the village economy and social systems. The Dorbar Shnong held an annual general meeting every year and discussed matters concerning the administration of the village. It sought opinions and suggestions from every villager and discussed the issues until arriving at a collective decision. It conducted several awareness and training programs to enhance community participation. The Dorbar Shnong also supported developmental projects such as roads, footpaths, and drainage systems, and was instrumental in making Mawlyngot a model of self-sustenance through MTG.

Village Cooperative Society

Members of the village cooperative society included tea growers as well as landless farmers from Mawlyngot who were committed to selling their tea leaves to the cooperative. The cooperative members elected the managing committee and managing director. (Nongspung had been in the position since 2003.) Apart from organizing the farmers’ activities, the cooperative also supported the improvement of tea cultivation by providing required technological inputs and other best practices. The cooperative also had a point of sale for the farmers. After tea leaves were plucked and collected, farmers sold them to the cooperative. The cooperative then graded and processed the leaves for different varieties of tea such as green, black, powdered, and so on. Processing was done in the unit established by MTG in the village, and the cooperative helped with marketing activities. The realized profit was shared with the members, with a small portion of the savings used for running the cooperative.

Self-Help Groups

SHGs were the day-to-day business arm of MTG. The SHGs were shareholders in the cooperative society. The groups comprised approximately 85 per cent of the Mawlyngot population. A few of the SHGs were from the neighbouring villages that were involved in indirect activities. A few SHGs were involved in tea plantation; others were involved in processing and day-to-day activities. Every SHG had an elected leader for a term of one year; the leaders were responsible for holding regular meetings and for supporting one another in their activities. The cooperative created 10 SHGs, giving employment to villagers either directly or indirectly.

Unique Initiatives

Sustainability and growth had been the cornerstones of MTG since its inception. The cooperative took several steps over the years to increase its membership while maintaining its core goals and principles. For those involved in tea cultivation, special training programs were provided to members to improve their business skills and enhance their motivation and productivity. Programs and initiatives were empowering women by providing them with employment in the tea gardens and conducting special training programs for them.

The cooperative also provided earning opportunities to the young by making them the distribution agents, working on commission. They were paid ₹100 for every 10 kilograms of tea distributed to the retailers. Many of them reported to the case authors that this money was helpful in pursuing their higher studies. School children of the members were given a cash prize of ₹3,000 if they ranked among the top three in the secondary school Class 10 or Class 12 final examinations.

The cooperative committed to village development in a number of ways including organizing rural sanitation programs with the help of several non-profit organizations. This improved waste disposal in the village made its surroundings clean. The cooperative also contributed to laying roads and making electricity and drinking water available across the village. Its small loans to SHGs promoted organic farming even in household yards.

The cooperative also took initiatives with regard to the health of its members. In collaboration with the state healthcare department and the local community health centers, the cooperative facilitated programs such as family planning, rural health, child care, and child immunization. Members and their children received regular health checkups, and—importantly, given the village’s past—programs dealt with the effects of alcohol addiction and its impact on society.

THE TEA INDUSTRY IN INDIA and the NOrth eastern states

Tea was one of the most popular beverages in the North Eastern states of India. The first experimental tea plantations were established on the Garo Hills in 1835, then in the state of Assam. In 1839, during British rule, private enterprises were involved in the production of tea, mostly in the states of Assam and Tripura. Later, Arunachal Pradesh, Nagaland, Manipur, and Meghalaya entered the industry.

According to the Tea Board India,[[3]](#footnote-3) of the total production of 5,048 million kilograms of tea produced in 2014, China and India were the top two producers, providing 40 and 25 per cent respectively. The main tea-growing regions in India were the North Eastern states of India. The Northeast was the largest producer of tea (49 per cent in 2014), followed by West Bengal (27 per cent). Together, the seven North Eastern states and Darjeeling (in the state of West Bengal) produced nearly 77 per cent of tea in India, with Assam contributing more than 50 per cent. The southern states produced a lower share: Tamil Nadu (14 per cent) was followed by Kerala (6 per cent) and Karnataka (1 per cent) (see Exhibits 1 and 2).

Within the Northeast region, tea was one of the most cultivated agriculture commodities after rice. As a significant contributor to the gross domestic product (GDP), the tea industry in the Northeast accounted for 0.3 to 0.6 million jobs, both directly and indirectly.[[4]](#footnote-4) Tea production in India grew at a compounded annual growth rate (CAGR) of 3 per cent from 2011 to 2014.

The tea industry in India was dominated by the unorganized sector. The top 10 players accounted for only 16 per cent of the total domestic production (1,184 million kilograms in 2014); the balance was from the small players. India consumed about 1,015 million kilograms of tea in 2014, which is around 80 per cent of its production; the remainder was exported.[[5]](#footnote-5) The demand for Indian tea was high in the export market.

URLONG TEA: BRAND BUILDING, PRODUCTION, and DISTRIBUTION

Brand Building

In the initial years of producing tea, the cooperative found it difficult to compete with regional and multi-national brands like Anderson’s, Sharawn, Nalari, Tata, and Tetley. Generally, the package sizes available were similar for all brands.

Nongspung and his team decided to create a brand name that would help the cooperative convey their purpose of existence. One of the members of the team suggested the name “Urlong,” meaning “prosper” in Khasi; the team felt the name signified what the community longed for. The brand name was short and had a deep meaning that members of the cooperative could connect with and be proud of.

After a few months, the cooperative released articles and write-ups about the brand in the newspapers. This publicity created the required impetus to establish the brand in the local market. Following the success of its initial branding efforts, the brand achieved another milestone when it was certified as organic. Urlong had established its presence in the markets with its combination of organic tea and sustainable cultivation. Until then, sustainable practices were not a common practice among tea cultivators in Northeast India.

Production Infrastructure at Mawlyngot

With a total capacity of 500 kilograms per day and working for about 175 days a year, MTG’s production unit handled the processing activities—withering, breaking up, CTC (crushing, tearing, and curling), fermenting, drying, sorting, and packaging. The unit had a total of 21 full-time employees. The entire chain of operations from picking the tea leaves to distributing packaged tea was handled by the villagers. The cooperative also had a small vermicomposting unit in the village to meet the demand for organic manure for its tea cultivation. A few SHGs were responsible for providing organic manure to cooperative members at competitive rates.

Tea production was a highly labour-intensive activity, which was evident all through the year. Tea needed to be carefully hand-picked every 7 to 20 days depending on the climatic conditions and altitude. Tea plants had to be regularly pruned to make the handpicking convenient. The leaves, once picked, were sent to the processing unit. MTG offered tea farmers a price as high as ₹60 per kilogram. After processing, the tea was packaged into different sizes: 100 grams, 250 grams, and 500 grams. MTG used paper boxes that were environmentally friendly for packaging. Finally, packaged consignments were grouped into lot sizes of 50 to 80 kilograms, and distributed to the local markets and to some other states in the country. MTG distributed Urlong to the regional markets with little scope for export due to low production capacities. As part of its plan to fully utilize the infrastructure and cater to the demands of the market, MTG planned to expand its cooperative model to other villages and thereby meet the demand of tea production in all seasons. Nongspung hoped to have another processing unit in a neighbouring village in the years to come.

Pricing, Distribution, and Marketing

MTG set the prices for different variants of tea. Every year, the procurement price for the farmers was set at the beginning of the season; the price was stable throughout the year. Over the previous couple of years, the procurement price offered to farmers ranged from ₹60 to ₹90 per kilogram. The method of setting prices increased farmers’ commitment and loyalty to the cooperative. In turn, the cooperative gained by procuring all the tea grown and improving economies of scale. Loyalty programs like emergency loans and Christmas bonuses were key in binding the farmers to the cooperative.

The retail prices for the tea were ₹150 for a 250-gram package and ₹300 for a 500-gram package. The retailers and wholesalers were given a margin of 10–15 per cent. Village youth were encouraged to earn money on a commission basis, paid by the kilogram of intended stock distributed to the wholesalers and retailers. The cooperative also sold tea through auctions and trade fairs that were hosted in other states of the country.

Nongspung wanted to translate the cooperative’s commitment to the sustainable production of organic tea into sales and income for farmers. Given that the cooperative was relatively new in the market, the efforts to position the Urlong brand were challenging. Though Urlong was known for being organic, the consumers and retailers were happier for the ethical position that MTG took and for the societal contribution that it made. Nongspung commented, “consumers aren’t choosing our product because it’s organic, but because of our commitment towards sustainability and “upliftment” of the society. This message was aligned with their expectations for our brand.”

MTG tried its best to reach as many retail outlets as possible in the state and several adjacent states. Retailers expressed happiness with the tea and MTG. However, limited production facilities proved to be a major hindrance in expanding the distribution reach. In fact, on several occasions, the stock-outs at the retail counter resulted in customer dissatisfaction.

SCALING UP

Nongspung was considering what strategies for positioning Urlong and other efforts were required to scale up MTG’s operations. He believed that tea cultivation had brought a sea change in Mawlyngot, and he wanted the neighbouring villages to reap similar benefits. He wanted to scale up MTG to incorporate the seven villages nearby, each having 45–50 households, bringing the benefits of tea cultivation to more farmers. Heads of these villages were invited to meetings and asked to take initiatives for replicating the cooperative model. During these meetings, village heads brainstormed how to replicate MTG and decided it should be done in villages where the predominant occupation was agriculture and not tourism.

Nongspung was aware of the challenges and was contemplating their solutions.

Challenge 1: Collection

As the number of villages increased and the number of farmer members grew, collecting the harvested tea would become costlier and less feasible. Should they open a collection centre in each village where farmers could bring their tea and receive payments, ask the villagers to sell their produce at the MTG production centre, or hire an agent to do the procurement?

Challenge 2: Financial Constraints

Scaling up to incorporate seven other villages required both capital investments and working capital. Capital expenses could be incurred if the production capacity had to be increased. Disbursing the farmers’ procurement price required working capital. In order to increase the reach and positioning of Urlong, the marketing expenses would also grow. Inventory and cash receivables could also grow as a consequence of expansion (see Exhibit 3).

Challenge 3: Quality Assurance with Organic Characteristics

Maintaining the quality of tea and the brand equity of Urlong would be another challenge. In the initial period of scaling up, managing the quality of organic farming required additional items like technical resources and labour. How Nongspung would ensure quality remained another challenge.

The Decision

Nongspung had to call a meeting of the cooperative members to discuss MTG’s most viable option to encourage more farmers from the neighbouring villages to join the cooperative and overcome the related challenges. He was concerned about the effect scaling-up operations would have on the long-term sustainability of the village cooperatives.

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EXHIBIT 1: PRODUCTION OF TEA IN INDIA, 2009 to 2014

(in million kilograms)

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **North India** | **South India** | **Total** |
| 2009/10 | 734.38 | 256.80 | 991.18 |
| 2010/11 | 728.52 | 238.21 | 966.73 |
| 2011/12 | 865.59 | 229.87 | 1,095.46 |
| 2012/13 | 893.38 | 241.69 | 1,135.07 |
| 2013/14 | 965.07 | 243.71 | 1,208.78 |

Source: “Socio-Economical Statistical Information about India: Agriculture/Tea,” Indiastat: Revealing India…. Statistically, accessed January 19, 2016, www.indiastat.com/agriculture/2/plantationcrop/963290/tea/17582/stats.aspx.

EXHIBIT 2: Production of Tea in northeast india, 2009–2014

(in million kilograms)

|  |  |  |
| --- | --- | --- |
| **Years** | **Northeast India** | **India** |
| 2009/10 | 499.997 | 978.999 |
| 2010/11 | 480.286 | 966.203 |
| 2011/12 | 234.317 | 998.328 |
| 2012/13 | − | 822.940 |
| 2013/14 | 652.97 | 1,208.780 |

Source: “Selected Production of NE Region and Yield in India (2009–2014),” Indiastat: Revealing India…. Statistically, accessed January 19, 2016, www.indiastat.com/agriculture/2/plantationcrop/963290/tea/17582/stats.aspx.

EXHIBIT 3: MAWLYNGOT Tea Growers’ COOPERATIVE Society, statement of Profit and Loss (Fiscal Year 2013/14)

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit (₹)** | | **Loss (₹)** | |
| Gross profit transferred from carriage account | 753,280 | Cost of firewood | 50,100 |
| Interest on loan (revolving fund) | 4,500 | Central tax paid | 1,630 |
| Income from guest house | 86,925 | Gas bill | 14,130 |
| Bank commission (SBI) | 21,345 | Computer repair | 3,700 |
| Interest earned on savings bank account (MCAB) | 3,966 | Electricity bill | 14,117 |
|  |  | Generator | 14,250 |
|  |  | Salary paid | 140,000 |
|  |  | Muster roll | 28,850 |
|  |  | Value-added tax (VAT) paid | 26,075 |
|  |  | Travel | 10,980 |
|  |  | Internet | 14,475 |
|  |  | Machinery repair | 18,500 |
|  |  | Electrical | 480 |
|  |  | Commission paid | 456 |
|  |  | Purchase of packaging material | 8,860 |
|  |  | Refreshments | 910 |
|  |  | Diesel for generator | 1,300 |
|  |  | Carrier expenses | 7,570 |
|  |  | Purchase of gardening tools | 470 |
|  |  | Postal charges | 513 |
|  |  | Audit fee | 500 |
|  |  | Stationeries | 8,493 |
|  |  | Purchase of stamps | 5,000 |
|  |  | Printing | 5,000 |
|  |  | Tea Board India | 19,072 |
|  |  | Expenses in organic inspection | 5,200 |
|  |  | Payment to Central Pollution Control Board | 2525 |
|  |  | Renewal of FSSAI licence\* | 5,000 |
|  |  | Boilers Registration, Licence and Renewal | 800 |
|  |  | Building materials | 120,580 |
|  |  | Food expenses | 16,060 |
|  |  | Registration of land | 19,000 |
|  |  | MVPADTCS paid\*\* | 27,500 |
|  |  | Depreciation (generator, scale, sealing machine, polytope, liquefied petroleum gas, factory building, processing machinery) | 97,518 |
| Total | 870,016 | Total | 689,596 |
| Net Loss | nil | Net Profit | 180,420 |
| **Grand Total** | **870,016** | **Grand Total** | **870,016** |

Note: SBI = State Bank of India; MCAB = Meghalaya Cooperative Apex Bank; \* FSSAI = Food Safety and Standards Authority of India; \*\* MVPDPTCS = Meghalaya Village Promotion and Development Tourism Cooperative Society

Source: Mawlyngot Tea Growers’ Cooperative Society.

1. Jhum cultivation was an agricultural method of slash and burn: land for crops was created by first slashing the trees and vegetation on the land, then burning the slashed growth. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1 = ₹63.189 on December 31, 2014. [↑](#footnote-ref-2)
3. “Statistics: Estimated Production,” Tea Board India, accessed January 19, 2016, www.teaboard.gov.in/TEABOARDCSM/MTU=; “Estimated Production for December 2014,” Tea Board, accessed January 19, 2016, www.teaboard.gov.in/pdf/bulletin/Estimated\_production\_for\_December\_2014.pdf. [↑](#footnote-ref-3)
4. “NEDFi Databank: North East India,” NEDFi Databank, accessed January 19, 2016, http://databank.nedfi.com/content/tea. [↑](#footnote-ref-4)
5. “Socio-Economical Statistical Information About India: Agriculture,” India Stat: Revealing India ….Statistically, accessed January 19, 2016, www.indiastat.com/agriculture/2/plantationcrop/963290/tea/17582/stats.aspx. [↑](#footnote-ref-5)