Oiling the Wheels of Change in Traditional Business: The Marico Story

How a traditional family business built on spice became a multinational giant of consumer goods.

The Masjid Bunder market in Mumbai is, on the best of days, a heaving cacophony of traders, handcarts and lorries weaving their way through snaking rows of shop houses and stalls selling everything from spices to grain and soils. For two years until 1992, it was also home to Marico, then a fledgling consumer products company founded in 1990 as an offshoot of Bombay Oil Industries, the traditional commodities business of the Mariwala family. Marico is now one of India's leading companies with **a turnover of INR74,370 million (US$1 billion)** from 25 countries across Asia and Africa.

The **story of Marico** can be traced to 1971, when Harsh Mariwala joined Bombay Oil as a 20-year-old commerce graduate, a third-generation addition to the family business. There were no professionals in what was then a B2B company with roots in the spice trade. Everything was managed by the Mariwalas (*mari* being Gujarati for pepper): Harsh's father, three uncles, four cousins and Harsh. Appointment letters or staff policies were non-existent. Harsh spent the next 15 years creating and popularising consumer brands for the company's key commodity of coconut and edible oils, learning what he could from consultants on everything from hiring to distribution.

By the mid-1980s, the consumer product branch of the business that Harsh had built was contributing 80 percent of Bombay Oil's turnover. But if it was to become truly big in the fast-moving consumer goods (FMCG) sector, it would have to become a separate, autonomous entity, not part of an organisation scattered across disparate businesses such as chemicals and spice extracts. Already, internal conflict over resources and talent was rife. It took three years before Harsh finally convinced his family to hive off the consumer products division of Bombay Oil into Marico.

The making of a culture

Any new company has to define its own culture if it is to become successful and a **great place to work**.

Culture is important as **it can make or break the business strategy**, and the HR function is instrumental in building that culture. So the first person Harsh Mariwala hired was the head of HR, a professional from Asian Paints. For the next six months, the two recruited some 40 senior staff to manage the 200 employees Marico had inherited from Bombay Oil. But it was chaotic as all the new supervisors had their own leadership style.

Mariwala and his team held numerous discussions with the new senior staff members before coming up with what they called the three Ps of Marico: People, Products and Profits, as well as the accompanying values. "When you involve people, you win their commitment," Mariwala says of the lesson he learned. "In any culture-building journey, the role of the middle and top management is crucial. If someone takes it lightly and says 'this is the Managing Director's values' then those values will just not percolate throughout the organisation."

Right from the start, the culture at Marico was open and participative. Mariwala moved the company headquarters from the congested Masjid Bunder area to the upmarket suburbs of Bandra, and created one of India's first open-plan offices. Staff members go by their first names; nobody wears a suit or tie. There is no need to apply for sick or casual leave, nor seek authorisation for expenses, because trust is one of the corporate values. Hiring and promotions are based on merit, not connections.

Marico employees are encouraged to experiment and take risks. Mid-level staff members stay in a job for a maximum of three years before being assigned to another. Marico also has an internal innovation award that attracts about 20 entries a year. Many of the awards have gone to factory workers. One such winner had come up with a simple solution to coconut oil bottles left empty on the filling line: install a fan to blow them off. Not all Marico innovations have succeeded, but lessons learned from failed experiments went into making subsequent brands a success.

Building market confidence

Marico went public in 1996 but by 1999, the company was facing an existential crisis. FMCG giant Hindustan Unilever (HU, then known as Hindustan Lever) launched Nihar, a coconut hair oil brand competing with Marico's Parachute brand, which accounted for up to 60 percent of its profits.

Mariwala refused to sell out despite being approached multiple times by HU and bankers. He was confident that Marico would prevail, given its knowledge of the business and 50 percent share of the market. Marico fought the battle on four fronts. First, it improved the quality of the product. Then it went on an advertising assault using the emotional appeal of coconut, which figures in many auspicious Indian occasions like weddings. The company also strengthened its rural distribution network. Most importantly, it worked on empowering its sales staff, as FMCG battles are decided on the ground.

Salespeople were called to a conference in a room decorated like a war room where they watched a motivational video played to a theme called Parachute ki Kasam (In the name of Parachute). The corporate team set up exclusive telephone lines to obtain information from the field and react quickly to the competition's initiatives. The sales staff were fired up and went out to war for Marico, guns blazing.

Nihar captured about 12 percent of the market but became stagnant. HU began losing interest in the coconut hair oil market as it pursued its integration with Unilever. It finally decided to auction off the brand after market share had fallen to 8 percent. It was a **strategic acquisition** Marico resolved to win, and win it did against at least four other rivals in 2006.

So, not only did Mariwala not capitulate to competition, he acquired the rival. It was a big boost for staff morale and investor confidence. Since then Marico has exploited Nihar's substantial presence in east India and its 74 percent penetration of rural markets. Thirteen years on, Parachute and Nihar command nearly 60 percent of the coconut hair oil market. The David vs. Goliath story illustrates how home-grown companies **leverage local integration and rapidly changing social trends** in their battle with foreign players, no matter how locally embedded the latter are. It also provides an early example of how **top companies in emerging markets have become battle-hardened**.

Caring for customers and suppliers

In the FMCG market, your relationship with customers should be built on trust and warmth. It cannot be transactional. Mariwala says: "The private sector is an integral part of society. It cannot prosper without recognising the social context within which it operates."

Take Saffola, a decades-old cooking oil brand Marico inherited from Bombay Oil. Marico founded Saffola Healthy Heart Foundation in 1991 to help grow awareness of India's heart disease and diabetes epidemic and encourage people to lower their health risks. There are Saffola Heart Health Awareness camps, free cholesterol check-ups, talks to encourage people to lead healthier lifestyles, as well as a dietary advice hotline manned by nutritionists. Today Saffola is a US$143 million brand contributing 16 percent of Marico's sales.

With business partners, Marico has also built trusting relationships. The company cut out the middlemen by opening some 20 copra collection centres in farming areas. Farmers now sell directly to Marico rather than go through various layers of brokers. Marico saves on transport costs and passes the savings on to farmers via better prices for their produce. It also provides the farmers with weather information and productivity tips.

With distributors, Marico sponsors training programmes where they learn to maximise return-on-investment, among other topics. All these benefits mean Marico's partners are that much more motivated to work with the company.

Second wind

Almost 30 years after its birth, Marico is entering its **next phase of growth**. True to the Marico culture, it will be led by professionals, including CEO and Managing Director Saugata Gupta, my friend and batchmate from the Indian Institute of Management Bangalore. He is a professional marketer who joined Marico in 2004 and assumed the top job three years later.

Engine 2, as Gupta calls the new phase, will be powered by **innovation** and take the long view. He aims to create new brands in male grooming, superfoods and skincare to fuel Marico's growth beyond that spurred by its established brands. What is certain for now is that this new growth engine will be separate from the core engine – much as Marico had to leap from its family nest before it could take flight in an emerging market.

This post is based on Harsh Mariwala's speech at the INSEAD India Business Dialogue 2019 held in Mumbai on 27 April. The event explored the nature of global challenges and shifting societal expectations from the perspective of "Business as a Force for Good". It was jointly organised by the INSEAD Alumni Association – India and the INSEAD Emerging Markets Institute (EMI).

***Vinika D. Rao** is Executive Director of the INSEAD EMI, a leading think tank on issues related to economic development and business management in emerging economies across the globe. It develops cutting-edge pedagogical material, research publications and data sets related to emerging markets. You can connect via email at **emi@insead.edu** or follow Vinika on Twitter at **@VinikaDRao**.*

Found this article useful? **Subscribe** *to our weekly newsletter.*

*Follow INSEAD Knowledge on **Twitter** and **Facebook**.*

Find article at
https://knowledge.insead.edu/blog/insead-blog/oiling-the-wheels-of-change-in-traditional-business-the-marico-story-11791