

Income effect on biscuit consumed



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India Biscuit industry is the second largest manufacturer of biscuits in the world with the total turnover of r 3000 crores. Indian Biscuit industry is growing at 17%. Biscuit market is dominated by Parle-G and Britannia in India, with Parle-G having around 40% market share and Britannia having 40% market share. Krackjack is sweet and salt biscuit from Parle-G and Britannia 50-50 is also a sweet and salt biscuit from Britannia. Britannia 50-50 is a substitute for Krackjack, as it serves for the same purpose.

Total Mall, Star Bazaar and Big Bazaar are located in and around Koramangala. Koramangala is an Urban area with high density of population. The average size of these malls is around 2 lakhs sq. ft. These malls act as market place for manufactures to sell their products directly to the customers.

Description of the Findings

Price

The prices for Krackjack 65gms pack and Britannia 50 50 (65 gms) were collected and is summarised in the following Table.

Price in different Malls (in r)

Product

Total Mall

Star Bazaar

Big Bazaar

Krackjack (65gms)

7

7

7

Britania 50 50 (65gms)

7

7

Item not available

Table 1: Price of the product and its substitute

From the above table it is evident that the price of the product (Krackjack (65gms)) and its substitute (Britannia 50 50 (65 gms)) remains the same across all the Malls, selected for this study.

Sales Quantity

The average sales of Krackjack 65gms pack and Britannia 50 50 (65 gms) is summarised in the following Table.

Total Malls (Weekly Sales Quantity)

Product

Monday, Tuesday, Wednesday

Thursday, Friday

Saturday, Sunday

Krackjack (65gms)

10 to 15

20

80 to 150

Britania 50 50 (65gms)

10 to 15

20

80 to 150

Table 2: Average weekly sales of the product and its substitute

Discounts and Promotions

There were no special discount or promotional offers were given for Krackjack and Britannia 50 50.

Summary of interview with Total Mall, FMCG product manager.

Promotions are generally given by the product manufacturer. Manufacturer gives promotional offers for various reasons like – to increase their market share, manufacturer want to promote some product, manufacturer want to build the brand image, want to attract customers.

Total Mall procurement team have the authority to give promotions. When Total Mall want to promote a specific product, the Mall give promotional offers for those specific products.

Discounts are given by the product manufacturer.

Discounts are also given by the Total Mall, to clear the stocks or to increase the sales for a particular product which will result in huge profit.

The target customers for Total Mall are – regular customers/house hold, shop keepers, people looking for offers which are not given by distributors.

There are no discounts or promotion for certain products because, the market is saturated and there is no further need to increase the market share. The other reason could be, the product might be a critical product, which customers will buy even if there are no discounts.

If a product is not available in the store, 30% of the customers will not prefer switching to a different product/brand (brand loyal customers), 30% of the customers will buy what is available in the store and 30% of the customers will be interested to try competitor's product or substitute product.

Analysis of the Findings

Nature of the product

Biscuits fall under essential consumer goods category. Biscuit has become a household item. Essential goods are goods that are essential for the consumer (household). Consumers tend to buy essential goods irrespective of the change in the price of the essential goods.

Demand and Supply

There is always demand for biscuits. Even if the price of biscuit is increased, the demand remains inelastic. The law of demand is not applicable for essential goods like biscuits. Parle-G has not increased the prices for its biscuits for the past 16 years. Demand curve for biscuits is shown in Figure 1.

Figure 1: Demand curve for Biscuit

Parle-G and Britannia manufacture biscuits to meet the consumers demand. Even if the supply increases, price is not increased and if the supply decreases also, the price is not decreased. Biscuit prices are inelastic to the quantity manufactured. The supply curve for biscuits is shown in Figure 2.

Figure 2: Supply curve for Biscuit

Income Effect

The quantity of biscuits consumed by household remains constant irrespective of the increase or decrease in the income levels of the household. Thus the household demand for biscuits is inelastic to the income of the household. Engel curve for biscuits is shown in Figure 3.

Figure 3: Income effect on Biscuit consumed

Elasticity

Price Elasticity

As the demand for biscuits are constant for the household, the price elasticity for biscuits is zero. Change in price does not affect the quantity of biscuits consumed in the household.

Demand Elasticity

As the demand for biscuits are constant for the household, the demand elasticity for biscuits is zero, irrespective of the price change.

Income Elasticity

As the income increases or decreases, the demand for biscuits is constant for the household. So the income elasticity for biscuits is zero.

Substitution effect

Consumers get the same utility value for the fixed budget for Krackjack and Britannia 50 50. Figure 4 shows the indifference curve for Krackjack and Britannia 50 50.

Figure 4: Indifference curve for Krackjack and Britannia 50 50

Production

Key raw materials required for manufacturing biscuits are wheat, vegetable oil and sugar. Since biscuits are essential goods, the price of the biscuits remain same irrespective of the price variation in the raw materials cost. When the raw materials price increases, manufacturer produces more biscuits and by adopting good pricing strategies, they will sell more biscuits to maintain their profits. When the raw materials price decreases, the manufacturer maintains constant supply of biscuits matching the quantity demanded.

Profit Maximization

The price of biscuits is fixed. Raw materials used for manufacturing biscuits are wheat, vegetable oil and sugar. If the prices of the raw materials

decrease, Parle-G and Britannia will make huge profits. When the price of the raw materials increase, the profit margin decreases for biscuit manufacturers. In order to maintain same profit levels, the biscuit manufacturers will produce more biscuits and sell more biscuits to maintain their profit margins. To increase the sales, Parle-G and Britannia will follow some of the pricing strategies mentioned in section 9. Pricing Strategies.

Market Structure

Biscuits are heterogeneous product. Biscuit industry's market structure is oligopoly, and is dominated by Parle-G, Britannia and ITC. Parle-G, Britannia and ITC together control 90% of the biscuit industry in India. Parle-G and Britannia are price setters in the biscuit industry. There is huge barrier to entry into biscuit industry because of huge capital investment, economies of scale. In biscuit market, price and output decision are indeterminate. Parle-G has 40% market share in the Indian biscuit market and Britannia also have 40% market share.

Federation of Biscuit Manufacturer's of India (FBMI) is an industry body, which represents the interests of biscuit industry in India.

Pricing Strategies

Generally government fixes price for essential goods. For biscuits, industry body FMBI sets the price. Since biscuits are low margin business, biscuit manufacturer can make more profits by selling more quantity of biscuits. More quantity of biscuits is sold to customers through various channels like – whole sellers, distribution network, retail stores and Malls. Biscuit

manufacturers give quantity discount to Malls, in order to sell more biscuits, which in turn will also give more profits for the Malls.

Consumer Behaviour

Consumers have constant demand for essential goods like biscuits and the budget for those essential goods tend to be fixed. The price of Krackjack (65 gms) and Britannia 50 50 (65 gms) pack remains the same. This gives an option to the consumer to select either of the biscuit for the same price and quantity. Thus the utility value for the sweet and salt biscuit is constant for the consumer.

A consumer who is consuming Krackjack biscuits, when he/she goes for shopping Krackjack biscuits in a mall and if the product is not available in the mall, consumer tend to behave in one of the following ways,

Consumer does not buy anything. Those customers are brand loyal customers and they have the tendency to buy that specific brand.

Based on the data collected, on an average, 30% of the customer are brand loyal customer, who prefer to buy the same brand of biscuit which they are using.

Consumer will take what is available. To meet their immediate needs, certain set of customers buy what is available in the store.

Based on the data collected, 30% of the customers tend to buy what is available in the stores to meet their demand.

Consumer will try evaluating a different brand/substitute. These types of customers are also brand loyal customers; since the product was not available they are interested to evaluate a different brand/substitute.

Based on the data collected, 30% of the customers are willing to try new brands/substitutes.

Conclusion

This study reveals how business make decisions like – quantity of goods to be produced and its price based on the supply and demand, how to maximise the profits. The study also reveals how the customer behaviour varies based on the situation.