

# Industry analysis of arun ice cream



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The ice cream industry in India is in many ways, reflective of the overall population distribution. The country's population is primarily rural with approximately 65% of the population living in villages with a population of less than 5, 000; this means there are well over 150, 000 villages with a combined population in excess of 650 million. This has contributed to a highly fragmented industry that by many estimates has over 70, 000 ice cream entities. Many of these are single family operations where the product is made either in the home or in very small factories and sold on the streets.

The 350 million remaining people are concentrated in the cities where the industry is reasonably concentrated in the hands of a few international and domestic firms. It is estimated that only 30% of the entire market is "organized" and the industry meets the classic definition of a fragmented industry, that is, one where there is an absence of market leaders with the power to shape industry events. Ben & Jerry's has prepared a detailed analysis of the industry following the pattern established by Michael Porter, the complete study is included as Appendix A with a brief description of the major forces as follows.

Barriers to entry - The two favorable factors are the opportunity for product differentiation within the super premium segment and the importance of corporate experience in all phases of the operation (production, distribution, and marketing). The most important down side factor is that consumer switching cost is nil. v Power of buyers - With ice cream there are virtually no important end consumers. However if one focuses on the consumer as retailer then the importance of the few powerful and growing grocery chains represents a significant hurdle.

This is offset by the almost complete lack of potential for backward integration and the relative insignificance of ice cream to this customer group. v Power of suppliers - The most important factor here is the importance of quality. The agribusiness in India is still very much in the developmental stage and there is little concern, at present, over the dairy producers moving into ice cream production. v Availability of substitutes - The concept of comfort foods in India is still very much in the incubation stage; as such the primary role of ice cream is that of a sweet desert with little or no emotional value.

Accordingly, there is a wide variety of alternative products. The most notable alternatives are kulfi and faludeh. Kalfi is the traditional desert of India. It is essentially a cream based pudding where the content varies significantly on a regional basis. Faludeh, an Iranian sweet and is quite popular because of its rice noodle content and generally low price. v Government actions - While there is no threat that the government will enter the industry the primary concerns are focused on the growing economic tensions between states and between states and the national government.

The need to generate additional government revenues could prove to be the motive to reinstate industry restrictions or otherwise alter the basic economics of the industry. v Rivalry - By almost every indicator the rivalry is intense and will continue to grow. There are just a few large firms, the industry is expected to grow rapidly, and the strategic stakes are large not only for the MNC's attempting to enter the market but for domestic firms as well. Overall the industry is moderately attractive as illustrated in the following graphic. Industry Competition

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As the industry evaluation would indicate the competition is significant. The 70, 000 some participants is a large number but the more serious challenge comes from the top six national firms; Amul, Kwality Walls, Mother Dairy, Vadilal, Dinshaw, and Arun. These top six firms dominate the market and essentially control the organized market. Detail statistics are not available to indicate market share but Ben & Jerry's estimates that these six firms control 40% to 50% of the urban market. Historically MNC's have not achieved much success in penetrating the Indian market.

There are a number of possible explanations for this; the relative embryonic and disorganized nature of the market, excessive government regulation that included excessive tariffs and the restriction that imported ice cream could only be sold in hotels[1], and a highly fragmented and ineffective media. Most of these market inefficiencies have been or are in the process of being corrected and Ben & Jerry's believes that conditions have ripened to the extent where MNC's can now effectively enter the market and compete with the domestic firms. Industry growth

The three factors of growth, population, per capital consumption, and price are all projected to increase over the next six years. Population is projected to grow at 1. 8%, per capital consumption is projected to grow at 5%, and prices are projected to increase at just over 1% per year. (Overall the long-term projection for consumer prices is expected to rise at 3. 5%, however, given the intense level of competition Ben & Jerry's does not think it likely that ice cream prices will rise that fast. ) Overall the market will grow from \$245 million to \$360 million, a compound growth rate of 8%.

Of the \$115 million in growth, 60% will come from increased per capita consumption, 24% from increased population, and 16% from increase in price.

**Strengths**

- 1) Ben & Jerry's have an established and recognized brand name.
- 2) Known for product quality.
- 3) Strong presence of parent company in India.
- 4) Loyalty, well-treated workforce.
- 5) Social programs add to PR.
- 6) Wide variety of unique ice cream flavors.
- 7) Cold supply chain and distribution network virtually non-existent.

**Weaknesses**

- 1) Limited target market, functioning as a niche product.
- 2) Difficult to penetrate the market.
- 3) Suppliers have high bargaining power.
- 4) Zero market share.
- 5) Untested products in new market.
- 6) Cold supply chain and distribution network virtually non-existent.
- 7) Few internationally experienced managers.

**Opportunities**

- 1) Growing ice cream market in India, Pakistan, and Nepal.
- 2) Springboard to rest of Asia.
- 3) Increased wealth due to economic changes.
- 4) Strong and growing customer base.
- 5) Globalization of product range.
- 6) Change in suppliers and distributors could lead to economies of scale.

**Threats**

- 1) Threat of substitutes.
- 2) Extreme local competition.
- 3) Tough competition with international MNCs.
- 4) Economical and regulatory changes.
- 5) Globalization of product range.
- 6) Social changes within consumer market such as health conscious attitudes.
- 7) Political unrest with Pakistan.

**Target Market**

Ice cream is a reasonable proxy for the universal food product. Its appeal is neither gender nor age specific. It satisfies hunger, tastes good, makes the consumer feel good, and it's fun to eat. Consumers purchase ice cream for a variety of reasons. On festive or special occasions it represents a special treat. Super premium ice cream, especially a foreign brand, is akin to a status symbol that allows the purchaser to feel good about what he/she has accomplished in life.

When packaged in individual servings it is a convenient way to respond to impulses and provides instant gratification. In many economically developed societies the concept of a comfort food has taken root and grown. Comfort foods are those foods that one consumes because it makes the consumer feel good. Culturally, the concept of comfort foods is a learned behavior. For example, in the US when a child is hurt often times the parent will give the child a food product, generally a sweet, to ease the discomfort.

In western societies the number one comfort food for both men and women is ice cream. After ice cream comfort foods become more gender specific; in the US chocolate is number two for women while pizza is number two for men. The concept of comfort foods in India is very much in an embryonic stage. Economically, for many, food is still in short supply and nutrition is far more important than feeling good about what is consumed. In India there are several cultural dimensions that act as inhibitors to the concept of comfort foods whereas in the US these same dimensions contribute to the idea.