

# Shampoo price elasticity



## Price

The price of a commodity represents the value the consumer's place on it and the revenue the producers want from it.

P

0 QTY

Demand Curve

The demand curve shows the relationship between price and quantity demanded and is one of the most basic and important tools for analyzing consumer's side of the market.

Price Competition

In price competition, the firm's try to capture the market by lowering the price since lower price will increase demand. Hence firms try to beat each other in prices. Consumers usually shift to the lowest priced brand hence price competitors will usually have prices very near to each other.

Non – Price Competition

In Non -Price Competition firms try to increase sales and market share by competing with rivals in areas like branding and advertising.

The firm builds loyalty towards the brand by emphasizing product features, service, quality etc. The firm make sure that the consumer must be able to distinguish brand through unique product features and perceive the differences in brands and view them as desirable . Another form of non-price

competition is patents through which the firm makes it difficult for competitors to emulate the differences between firms and their product. The firm tries to eliminate its price difference with its competitors through non-price competition, where by it off-sets the price difference by the perceived benefits of its product.

P

Q

Demand Curve for two different brands of the same product

The above picture shows the demand curve of two competing firms where one firm's demand curve is shifted out to the right by stressing distinctive attributes, hence consumers perceive and desire particular attributes thereby having a greater demand for one firm's product at the same prices.

Example which differentiate Price and Non- Price Competition

For instance, two restaurants selling the same kind of cuisine and located right next to each other will have very similar or may be exactly same prices on their Menu Cards. Hence, these restaurants are engaging in price competition. Since they are selling exactly the same cuisine and are located right next to each other, if one price to charge the higher than the other it will lose all its customers. This is a form of price competition.

Now consider two restaurants selling totally different kind of cuisines. One is a Chinese restaurant and the other is a Greek Restaurant, then we can expect that even though both are situated right next to each other they might

be charging totally different prices for their food and still getting customers. This is a case of non-price competition because each restaurant has its own differentiated product that it can afford to sell at a different price and still get customers.

### Product Development

It basically focuses on creating a good brand image. Non-price competition typically involves promotional expenditures, (such as advertising, selling staff, the locations convenience, sales promotions, coupons, special orders, or free gifts), marketing research, new product development, and brand management costs.

## Competition

In economic analysis, the most important indicator of the degree of competition is the ability of firms to control the price and use it as a competitive weapon.

### Perfect Competition

In perfect competition there are many sellers offering the same product hence an individual firm has virtually no control over the price of its product. That is they all are price takers.

Perfect competition is a theoretical market structure. It is primarily used as a benchmark against which other market structures are compared. The industry that best reflects perfect competition in real life is the agricultural industry.

## Monopoly

In Monopoly a firm has all the market power because it the only seller in this type of market. It has the power to establish the price at whatever level it wants, subject to possible constraints such as government regulation. It's the consummate price maker.

In perfect competition and monopoly, there is neither price competition nor non- price competition.

## Monopolistic Competition

### Monopolistic Competition

Monopolistic competition is a form of imperfect competition as producers competing each other and selling products that are differentiated from one another (means products are not exactly similar, they are the substitutes). In monopolistic competition firms can behave like monopolies with respect to their own product and use the market power to generate profit. Eventually in Monopolistically competitive markets other firms enter the market and the benefits of differentiation decrease with competition; the market becomes more like perfect competition where firms cannot gain economic profit.

Models of monopolistic competition are often used to model industries.

Textbook examples of industries with market structures similar to monopolistic competition include restaurants, cereal, clothing, shoes, and service industries in large cities.

In Monopolistic Competition the market situation could be both Price and Non- Price Competition . An example Nokia sells its Music Express phones in

<https://assignbuster.com/shampoo-price-elasticity/>

slightly higher price than the other music phones of other companies because of its differentiated features.

### Oligopoly

Oligopoly is a market situation in which there are only a few sellers (of products that can be differentiated but not to any great extent); each seller has a high percentage of the market and cannot afford to ignore the actions of the others.

In some situations, the firms may employ restrictive trade practices (collusion, market sharing etc.) to raise prices and restrict production in much the same way as a monopoly. There can be price and non-price competition in oligopoly. For example: In the Indian market petrol pumps is an example of oligopoly.

## Elasticity

In economics, elasticity is the ratio of the percent change in one variable to the percent change in another variable. It is a tool for measuring the responsiveness of a function to changes in parameters in a unit-less way. In addition to the price and non-price competition, the demand for product depends on elasticity of demand. There are three types of Elasticity's which could affect market demand from the consumer's side. These are:

- Own Price Elasticity,
- Income Price Elasticity,
- Cross Price Elasticity.

## Own Price Elasticity

Price elasticity of demand measures the percentage change in quantity demanded caused by a percent change in price. As such, it measures the extent of movement along the demand curve. This elasticity is almost always negative and is usually expressed in terms of absolute value (i. e. as positive numbers) since the negative can be assumed. In these terms, then, if the elasticity is greater than 1 demand is said to be elastic; between zero and one demand is inelastic and if it equals one, demand is unit-elastic.

## Income elasticity of demand

The income elasticity is calculated as the percentage change in the quantity demanded of the good divided by the percentage change in income. Income elasticity can be used to classify goods as normal or inferior. With a normal good demand varies in the same direction as income. With an inferior good demand and income move in opposite direction.

If the income elasticity for a good is positive we call them normal goods. It can be between 0 and 1, and we call it income inelastic demand for goods such as food, clothing, newspaper . If it is above 1, we call it income elastic demand. Examples are the red wine, cruises, jewelry, art, etc.

If the income elasticity is negative, this means that as income increases, the quantity demanded for those goods actually decreases, we call those goods inferior goods. Examples are “ Ramen noodles”, cheap red wine, potatoes, rice etc.

## Cross price elasticity of demand

<https://assignbuster.com/shampoo-price-elasticity/>

The cross price elasticity is calculated as the percentage change in the quantity demanded of good x divided by the percentage change in the price of good y. Goods can be complements, substitutes or unrelated. A change in the price of a related good causes the demand curve to shift reflecting a change in demand for the original good. Cross price elasticity is a measurement of how far, and in which direction, the curve shifts horizontally along the x-axis.

If the cross price elasticity is negative, then we call such goods Complements (example: pizza and soft drinks — they are consumed together). If the cross price elasticity is positive, then we call such goods Substitutes (example: pizza and burgers — you usually consume either / or).

According to the total expenditure method;

$E_p < 1$

Price of X increases then the expenditure on X increases. Thus the expenditure and demand on Y decreases. Cross price elasticity of X and Y is negative, therefore they are complements.

Now Taking  $E_p > 1$ ...we can find out the relation of substitutes.

Therefore own price and cross price elasticity is not totally independent of one another.

## **Ans 2**

In shop name “ All Needs” which is mini Vishal mega mart, i went through the shampoo section of that shop, where i observe how the arrangement of

Shampoos is done. The first thing one notice when they enter the shampoo section are the most commonly used shampoos like Fructis, Sunsilk, Clinic Plus, Clinic All Clear, Pantene, Baby Johnsons & Johnsons Shampoo, Head & Shoulders. L'Oreal has its own separate section. The high price shampoos like Vela, L'Oreal are placed at the uppermost section . There was a separate section of Anti-Dandruff Shampoos of mixed brands . The conditioner and other least used shampoos like Sesa, Ayur, Vatika, Medicare, Halo were displayed at the lower section. Shampoo Sachets and small bottles were displayed at the lowest section.

Retailers' has focus on the needs of the consumer and accordingly displayed shampoos. They figured out that men demand fragrance, kids demand fragrance and bubbles, middle income section demands normal brands like Sunsilk, All Clear, Head & Shoulders which are easily affordable and last long. Low income people generally demand Sachets of shampoos or Herbal shampoo like Himalaya, Chik, Ayur. High income people demand shampoos like L'Oreal, Wella.

Accordingly Retailer of ' All Needs' have arranged the shampoos in the following manner:

" Upper segment is focused on upper class people and joint family, where 1st they have arranged L'Oreal and then Wella, then 700ml and 400ml bottles of Dove, Head & Shoulders, Sunsilk , Elvie.

Middle Segment is focused on middle class people where they have mostly displayed 200ml, 300ml bottles of Clinic Plus, Sunsilk , Fructis, Himalaya.

There is 1 separate segment of Anti-dandruff shampoos of all brands like Head & Shoulders, Clinic All Clear, Dove Anti-Dandruff. This could be placed either at upper segment or at middle segment.

Mixed Segment focus on lower class section where mostly cheap and easily affordable shampoos are displayed which is easily affordable to all though does not carry good quality. These shampoos are like all shampoo sachets and easily affordable shampoo like Vatika, Clinic Plus, Chik , Herbal Shampoos like Aloe-Vera , Ayur , Dabur health shampoo.

After analyzing the nature of the market, I have observed that people of high income class mostly prefer to purchase L'Oreal, Joint family purchase 400ml-700ml of Dove, Head & Shoulders, Sunsilk, And Clinic Plus. Middle income Class people mostly purchase 200ml-300ml bottles of Pantene, Dove, Sunsilk, Clinic All Clear, Fructis. Low income class people mostly purchase sachets of shampoos and 100ml -200ml bottle of Chik, Ayur.

## **Pricing strategy**

There is intense price and non-price competition in the shampoo market. If we look at the two major rival companies namely HUL and P&G we notice the trend that these two companies have been engaging in intense price competition. The following is an excerpt from a newspaper article:

“” WITH the price war in the FMCG industry intensifying further, Procter and Gamble (P&G) India on Thursday announced that it has slashed the prices of its popular Pantene range of shampoos by 16 per cent.

Here we see an example of price competition between firms in the shampoo market. So firms with similar products engage in price competition to capture a larger share of the market. In addition there is non-price competition also. Companies spend a huge amount of money on advertisements as well as product development. Thus we have advertisements where famous people like movie stars claim that using a certain shampoo has benefitted their hair immensely. For example – In addition firms also keep on introducing new types of shampoos. Example: Bollywood Television actresses Shilpa Shetty and Neha Dupiya using New advanced' Pantene Pro V'; Asin Thottumka and Bipasha Basu for ' Clinic Al Clear – Anti – Dranduff Shampoo'. P&G recently introduced Pantene Hair Fall Control shampoo, which is “ designed to reduce hair fall due to breakage by up to 50 per cent within two months”. Pantene currently has a market share of 7. 5 per cent in the Rs. 900-crore domestic shampoo market and is trying to increase it by introducing new products as well as competing in prices with other shampoo sellers.

#### Current Market Position

The current shampoo market in India is worth Rs. 930crore . The shampoo penetration is 40% for urban and 10% for rural markets. There is a lot of competition possibility in this market due to the huge untapped market.

The Top Companies of Shampoos in India are Hindustan Uniliver Ltd., ITC (Indian Tobacco Company, Dabar India, Paras, P&G, Himalaya, L'Oreal Paris. The Top Shampoo brands are:

' Normal Shampoos – Clinic Plus, Chik, Dove, Fiama D'wills'.

‘ Herbal Shampoos – Ayush, Dabar Vatika, Nyle, Ayur, Himalaya’.

‘ Anti-Dandruff Shampoos – Clinic All Clear, Head & Shoulders, Dabar Vatika ADVANCE’

‘ Premium Shampoos – Revlon Flex, L’Oreal, Wella’

## **Conclusion**

According to my analysis, I conclude that shampoo market is a Monopolistic Competition where many competing producers sell products that are differentiated from one another (that is, the products are substitutes, but, with differences such as branding, are not exactly alike). Monopolistic Competition is competing both in terms of price and brands. If there are more substitute of shampoos it is more elastic. In this all products are differentiated in some ways, thus the firm will only be able to sell extra output by lowering the price. In physical differences of shampoos it could differ in color, scent, thickness, bottle design and lathering ability.

Hence each firm has its own customers (by establishing some consumer loyalty), modest change in the output price of any single firm has no perceptible influence on the sales of any other firm, i. e. one firm can raise price without losing all customers. Therefore, in addition to price competition there is non-price competition. Shampoo makers have every incentive to seek out and provide only the features that consumers are really willing to pay for. By advertising it attracts people towards their product.