*THINK INDIA JOURNAL*

ISSN:0971-1260
Vol-22-Issue-14-December-2019

# The Curious Case Of Parle - G - Decrease In Demand Or The New Inferior Good

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**Abstract:**

Parle G : the word itself means different things for the Generation X, millennial and Generation Z. Once considered as the comfort food by many the demand for the product has seen a continuous decline over the years. Recently the company decided to retrench the employees due to fall in the demand of its of Parle Biscuits. While the company continues to still produce its premium brand biscuits it has decided to discontinue the production of Parle –G biscuits.The study centers around decoding the fall in demand of Parle Company's famous product Parle –G biscuits. The study attempts to analyze whether the fall in the demand is due the change in price of the product due to the change in the GST rates which had led the company to decrease the number of biscuits in the packets or due to the change in taste and preferences of the millennials and Gen X. Further can this change be attributed to the change in income in the economy. Most importantly the study analyses whether the decrease in demand can be taken as an important indicator for listing Parle G as the new Inferior good.That is in economic terms is the phenomenon a contraction of demand, or a shift in demand. For the purpose of the study last 10 years data relating to various micro and macroeconomic indicators have been taken for further analysis.

Key word: Demand, Inferior Good, Shift in Demand, Contraction in Demand, FMCG industry, Taste &Preferences, economic Indicators, Market Share.

## PARLE G- G FOR GROWTH

Year 1929 saw the setting up of an indigenous bakery in Vile Parle Mumbai by the name parley Gulco which gave a stiff competition to the non Indian made biscuits. As in 2019 with 10 company owned facilities and 125 manufacturing plant the total number of employees comes upto nearly 100,000.During the last 81 it had amassed the image of not only an exemplary leader of marketing excellence but also that of the provider of staple food. Parle G biscuits took the role ofa breakfast when consumed with tea or milk, a snack with the evening tea, and even a source of supplement for the aged and ill alike when they were not able to consume any solid food item. Mothers confidently fed their toddlers Parle G biscuits. G manne Genius The company saw a continuous growth in the demand of the product. And at a time was the grand choice of the consumers. It gradually acquired a 15% share of aggregate total retail confectionary demand.Over the years the company have gained a not only 40% market share in the biscuits segment but also gained the reputation as the baker of comfort food. The word Parle-G had become synonymous with the glucose biscuits around the country. In the initial years it was the urban markets which saw a increase in the demand of the product, but over the last few years it was the rural market which had majorly constituted for the demand of Parle-G. Every Kisok and pan shop had Parle G biscuits in various packets and the favorite were the small packets. The company was certified as the world's largest biscuits brand by Nielsen in 2013, "with Rs5,000 crore sales, ahead of international giants such as Mondelez International Inc. (that sells Oreo in India) and United Biscuits, among the top brands in the UK, which is one of the world's largest markets for biscuits (Gupta, 2017).

## INDIAN ECONOMY

Over the last years the Indian economy saw a continuous increase in GDP. In 2016 it was considered as the third largest economy by purchasing power parity (PPP) method. During this period the personal disposable income of the citizens too increased leading them to spend more on goods and services thereby increasing the consumption too "the country has witnessed a rise in its personal disposable income and the consumption pattern has changed a lot in last decade, following surging employment opportunities, increase in double income households and government's effort to boost rural income" (New Era MarketMonitor Consultancy, 2016).

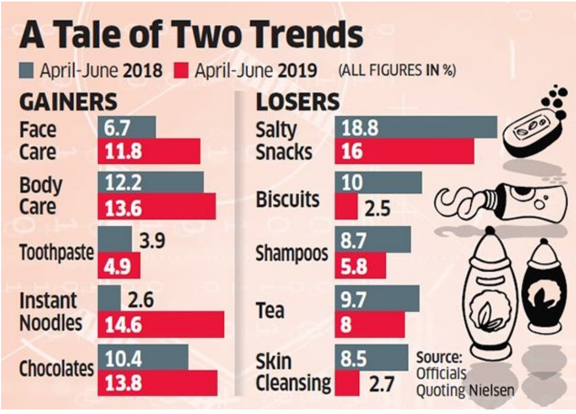
But starting from 2018 the economy saw a decrease in demand of the goods and services. While some sectors reported a larger decline others joined in the trend late. Most slowdown was reported in the consumer goods sector and that too in the rural sector. "Market research firm Nielsen said last month India's consumer goods industry was losing steam as spending in the rural heartland cools and small manufacturers lose competitive advantages in a slowing economy" (Ravikumar, 2019). Figure 1 shows the trend in the

ISSN:0971-1260
Vol-22-Issue-14-December-2019

economy during the year. While Face care , body care products, toothpaste, instant noodles and chocolate market saw an increase over the last year. On the other hand salty snacks , biscuits , shampoo , tea and skin cleansing products market saw a decline in demand.

**Figure 1**




Source: (Malviya & Mukherjee,2012)

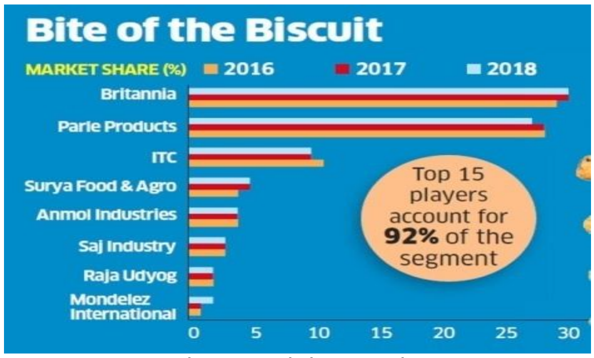
Daily home and personal products including creams, detergents, toothpastes, deodorants and food items such as chocolates, malted beverages and noodles grew at a higher rate during the April-June quarter, according to officials quoting Nielsen data.In another report the data showed that the FMCG market growth fell 60 basis points to 10% during the quarter, led by biscuits, salty snacks, soaps and tea (Malviya & Mukherjee, 2012).

## INDUSTRY

The Indians have a love for the crunch with the famous tea. Something to dip and savor the tea. This taste and preference results in India being the second largest producer of biscuits just after US. As such it also makes Biscuits the largest sold food item making Biscuits industry one of the biggest industries in India. According to a report by blue weave Consultancy the increase in demand of the bakery products is attributed to the better appeal, taste, and convenience clubbed with fast paced lifestyle and also due to the impact of urbanization. (Blueweave Consulting, 2019)

It had come a long way from being considered as a sick mans diet to the demand for ready made productsby the urbanizedsociety. The industry started growing in the laterpart of the 20$^{th}$century. A part of the industry is still unorganized and caters to up to 35% of the total volume of demand. According to the statistics the country produces 30 lkMt out of which 17 % is exported. The per capital consumption as per the statistics is 2.0 Kg placing the country third after USA and China. With a turnover of 3000 crores it is also the secondlargest manufacturer of Biscuits after US According to recently published report "*India Biscuit Market Overview, 2017-2023*", the organized biscuit market accounts for more than 70% of value share in the overall Indian biscuit market. The sector is expected to surpass the revenue figure of INR 400 billion by 2023 (Research and Markets, February 2018).

**Figure 2**




(Sagar Malviya, 2019)

The above figure shows the increase and decrease in the market share of the top leaders of the biscuit industry. While Britannia's share of market had increased in the last years , what is interesting to note is the decreasing share of market of Parle products that decreased. The same trend couldbe observed for ITC too.

A look at the total biscuits market in India shows that the total organized market in India is estimated to be 26,000 crores while the unorganized market accountsfor 13,000 crores. Indicating that a shift in demand can occur for the lowest price branded biscuits in favor of the local made biscuits and the likes. Moreover as in 2016 the majority of the biscuits market comprised of demand for cookies and least for cream biscuits as shown in Figure 3 below.

**Figure 3**

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ISSN:0971-1260
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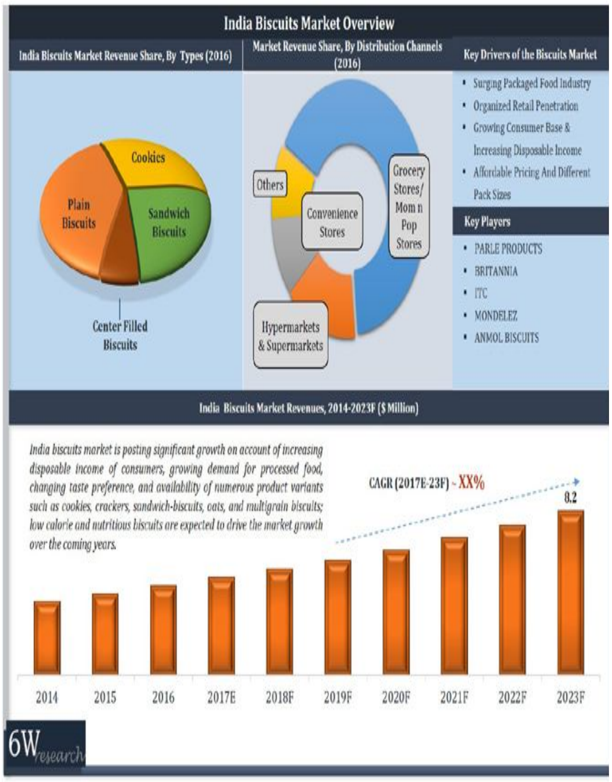
(Pinto, 2017)

**Figure 4**




Source- (6W Research, 2017)

As per the statistics of 2017 it can be seen that majority of the market share is that of plain biscuits. Interestingly according to the review of revenue generation by distribution channel most of these are sold or demanded not from convenience store or hyper markets but from mom and pops store. Amongst these it was Parle products which were leading in the market share. A deeper analysis of the Indian biscuits markets shows that it is expected that the demand will grow in the coming years too.

Parle Products in the Indian industry had enjoyed a leading position from the start.When the company was established the basic idea was to provide an affordable biscuits to the Indian consumers who were at the time under the rule of British Government. "Launching Parle-G in 1939 was not just a business decision but also a responsibility to sell affordable biscuits to Indians (during British rule) at a time the market was flooded with costly imports," said Ajay Chauhan, executive director (ET Bureau, 2013). The same value strategy helped the company to acquire a leading sales tag in 2012, when Parle Products sold Rs 5,010 crore worth of glucose biscuit brand at retail price, besting the entire domestic sales of Dabur or Godrej products and selling three times more than Maggi noodles which meant sales of more than 100 crore packets across sizes every month, or 14,600 crore biscuits in the entire year, that is, 121 biscuits each for the 1.2 billion Indians (ET Bureau, 2013).

The value based strategy clubbed with the pricing strategies and the economies of scale that the company enjoys led to the biscuits becoming the staple food product. In 2012 the company had brought in the new variant by the name of parle G Gold. The same year company also tried to push the sales by a new ad campaign kal ka genius. The ad was clearly targeted at the millennials. In 2013 the company reported that the overall share of parle G in the total production has decreased from 70 % ten years back to 50 %. Clearly a major challenge for the company was Generation Z.

## THE COMPANY

The secret to Parle G's success? Sticking to its position as a glucose biscuit meant for the masses. In the decades since Parle-G's launch in 1939, Parle Products has kept the brand's prices at the entry level, introduced only one premium variation, and even kept the vintage Parle girl affixed on packets(Gupta, 2017).Since 1990, Parle-G has managed to retain 75-80% of the glucose biscuits market, while premium biscuits are worth only Rs5,000 crore in the total biscuits market, according to heads of several top biscuit makers in India (Gupta, 2017). The Nielsen study adds India is the world's leading market for biscuits, ahead of the US, Mexico, China, Argentina, France, Italy, Germany, Turkey and Spain. While India showed a volume market share of 22%, the second slot was occupied by the US at 13%. The top three countries -- India, US and Mexico -- contribute over 40% of the total biscuits 10 largest markets for biscuits in volumes sales (Bhushan, 2011).Going by the data for the year 2009-10, the volume sales of Parle-G is bigger than the fourth largest biscuit consuming country – China.Industry analysts say the Rs 5,000-crore Parle's focus on the volumes segment and competitive pricing backed by strong distribution, especially in rural markets has led the rise.Of the overall 40 brands across biscuits, chips and confectionery that Parle Products makes, Parle-G contributes 50% to the firm's topline, Parle Products group p (Bhushan, 2011). Going back a

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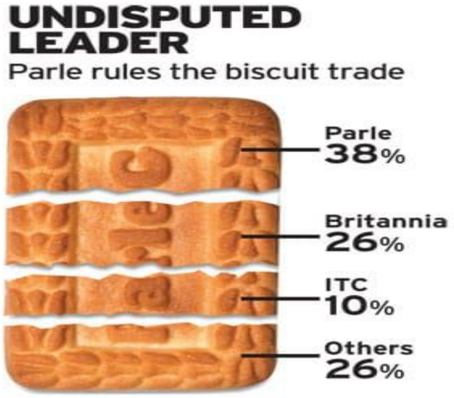
few years it can be seen from the data of 2013 that Parle products were a clear leader with 38% market share and as such was an undisputed leader in the market. Such was the demand for Parle G which had 74.9 % of the market share of glucose biscuits market that it was quoted to me sold more that all he biscuits hat were sold in the whole of china as can be seen in figure 6.

**Figure 5**




(Shashidhar, 2013)

**Figure 6**


(Shashidhar, 2013)

During last calendar year, the biscuit category grew 12%, slower compared to 14% in 2017. Companies estimate 3,500-4,000 smaller and loose biscuit firms operate in just one region or district, all nibbling away at their sales growth For years, local brands — not just in biscuits but in most segments — have eaten into share from leading consumer product companies, especially in soaps, detergents, hair oil, tea and biscuits, with more than 500 unorganized players operating in these categories (Sagar Malviya, 2019).

"Parle-G is growing slower than other categories at about 4-5% annually," Shah said. Even though the company's Hide & Seek brand is among the top 5 in the cookie market as per Euromonitor, Parle-G still commands a quarter of total sales volumes of the biscuit market in India, he added (Gupta, 2017).

But during the last few years it is receiving tough competition from the cookie and cream segment.

## REVENUE

The FMCG industry can not be delink it with the Indian economy. Due to the economic slowdown other companies in the industry also saw a decrease in demand. If we look at the overall industry we see a decreased value or revenue growth in FMCG which has been consistently coming down over the past four quarters — from 16.2% in July-September last year to 10% this year, analysts are questioning if it's due to the base-year effect after a one-off kicker from the implementation of the goods and services tax. (Malviya & Mukherjee, 2012). But usually it is the mass products which get affected by the downturn of the economy most. Whereas we see that the premium brands of Biscuits and cookies saw a comparatively lesser decrease in demand (Devendra Chawla, managing director at Spencer's Retail (Malviya & Mukherjee, 2012).

The Parle company too is no different a case. It has an annual revenue of above $1.4 billion, (Ravikumar, 2019). And Within the company Parle-G is its flagship and number 1 brand, although its share of revenues has fallen from 66% in its heyday to nearly 33% today (Gupta, 2017). The company also saw a 8% decline in volume growth. Moreover, a sharp decrease in its sales means a decrease in demand which has to be dealt with a decrease in production, which in turn will obviously means that employees won't be required to produce more. They rather have to decrease the production meaning laying off the unrequited workers, "company had seen an 8 per cent decline in volume growth — with the lower end of its biscuit product range suffering the

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worst effects of the decline in demand moreover a sharp drop in Parle's biscuit sales means the company may have to slash production, which may result in layoffs of 8,000-10,000 people," said Mayank Shah, category head at Parle(TT Bureau, 2019).

Analyst also view the change in GST rate as one of the reasons for the decreased revenue of the Company and specially the Parle – G brand. Earlier it was put in the 75 rs per Kg bracket which required only 12 % tax to be paid. But the new GST rate lead it to pay 18% tax . a tax payable by 100rs per kg biscuits brand which includes cream biscuits and cookies too. "While Parle was the most impacted by GST transition, it has still chosen to not move from its Rs 5 per pack price-point for its flagship Parle-G biscuits. With the slowdown, Parle is likely finding it increasingly difficult to offset margin pressure through volumes," they said, adding, "such a situation, in fact, represents a good opportunity for premium players like Britannia and also ITC to fortify their presence in the biscuits category"(Ananda, 2019).This decrease in revenue has led the company to held talks over the past year with the government's GST council as well as former Finance Minister Arun Jaitley, asking them to review tax rates, Shah added (Ravikumar, 2019).

## DEMAND

The analysis of Indian society's consumption pattern of the biscuits reveals that biscuits are actually the staple and the most basic packaged food products in the country (Sagar Malviya, 2019). And the reason for this view is the way in which it has been consumed over the years which has actually became a habit (Gupta, 2017). And this largest consumer product segment is worth of Rs 35,000 crore.

Over the years the Indian consumers grocery list have seen the addition of bakery items including mostly Biscuits, cookies, cream biscuits, salty biscuits and cookies etc. The major drivers for these changes can be considered as the growing urbanization, increase in the double income earning households, shift in consumer taste and preferences and even the consumption pattern. These additions in the shopping baskets have provided a push to the manufacturers also. The whole market size is increasing due to increase in the demand. Another push factor is the adding of various flavors by the manufacturers to take care of the niche segments also. Moreover there is also a growing consciousness regarding the brand and the celebrities enforcing these brand which is another reason adding to the growth of the sector. As reported by the study of New Era MarketMonitor Consultancy in 2016 ,There is a growing number of consumers who are brand conscious and they continue to trade up for premium biscuits allowing companies to add more cookies in their product portfolio(New Era MarketMonitor Consultancy, 2016). Blue weave consulting company had forecaseted that due to these innovations and additions in the biscuts segment coupled with the increasing income of the people will lead to an increase in the market in future (Blueweave Consulting, 2019).

During the previous periods the increase in demand for the product can also be attributed to the fact that the period saw favorable macroeconomic indicators resulting in more income for the youngest nation where most of the consumer base comprises of less than 35 years of age group "who are looking for biscuits with better taste" (New Era MarketMonitor Consultancy, 2016). The report in 2015 indicated that it's the 'cookies' category which accounted for accounted for the largest market share in the country's biscuits market, and was closely followed by 'plain biscuits and sandwich biscuits(New Era MarketMonitor Consultancy, 2016). Another study reported an increasing demand for cream biscuits with a growth rate of 8-9% and that of cookies at the rate 15-16 per cent per annum (Pinto, 2017).

The scenario was different for the year 2017 which saw the rollout of GST and also the decrease in sales of biscuits In fact the whole FMCG sector was affected by the GST and the impact was more visible in the rural areas and on the smaller companies. What was worth noticing was the fact that while value categories glucose biscuits or small packs are seeing a decline, the case was not the same for premium sub-segments and bigger packs in biscuits, which continued to grow (Malviya & Mukherjee, 2012). The market demand analysis shows that nearly one third of demand for biscuits comes from the rural market. According to a news report this market has been "has been under stress over the past three quarters, even though it has expanded at a faster pace than in the cities" (Ananda, 2019).Putting biscuits below Rs 100 a kg in the 18 per cent goods and services tax (GST) slab might push price-sensitive consumers towards unbranded products was the concern of the manufacturers. (Pinto, 2017). It is more of a concern for the policy makers too as this indicates the slowdown

ISSN:0971-1260
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in the most affordable sector in the economy.PvarunBerry, managing director of Britannia Industries Ltd, Parle's main competitor, said earlier this month that consumers were "thinking twice" about buying products worth just 5 rupees"Obviously, there is some serious issue in the economy," Berry had said on a conference call with analysts. On the other hand production cost have increased due to the new norms of GST with the inclusion of additional taxes. The company resorted to decreasing the number of biscuits even in the five rupee packet.Moreover another important economic fact is that Consumers across geographies aspire to move up the consumption curve, which is something that FMCG companies need to keep in mind to provide quality at the right price (Buch, 2019). Maybe this is the reason that many premium segment products are offered by both Britannia and Parle even for the rural areas which signifies a shift in the consumer preference.

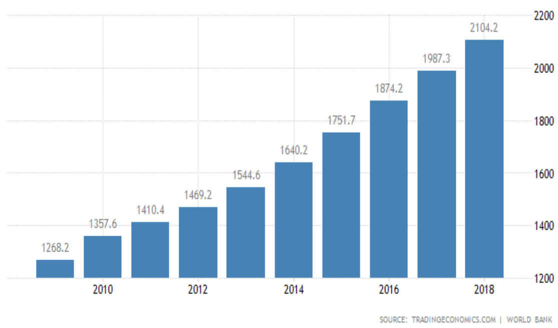
Whereas looking at the glucose biscuits segment, fall in the market share of Glucose biscuits have been reported since 2011. The years after saw a steady decline in the market share of glucose biscuits whereas the premium segment saw an increase in the demand. It was reported that the top players like Parle, ITC and Britannia shifted their focus on the premium segment to keep up with the profit s. "We are focusing more on the cookies and cream segments following consumer demand trends. The segment also gives better realizations and margins," Chittranjan Dar, chief executive of ITC Foods, said (Malviya & Mukherjee, 2012).The chief executive also added that, while premium segments help companies earn higher margins, glucose products help gain a clout in raw-material buying and sourcing as the segment generates economies of scale, moreover while cookies and cream biscuits are discretionary products, glucose biscuit is considered more necessary, making it relevant in an environment like today when consumers are cutting back on high-priced items (Malviya & Mukherjee,2012).

## PER CAPITA INCOME AND GDP

Another important economic indicator is the per capita income and the disposable income of the Indian consumers. It has been observed that the income has decreased and maybe, "GST (Good and Services Tax) of 18 percent on a Rs 5 staple biscuits pack is too steep for the bottom of pyramid customer, especially when rural incomes have shrunk" (Buch, 2019). This fall in sentiment has been widely attributed to listless growth of incomes and the fall in other economic parameters which have altogether resulted in the decrease in nominal per capita disposable income inIndia which fell to 9.5 per cent between 2015 and 2018 from a high of 13.3 per cent between 2010 and 2014.

Dwindling disposable income is primarily why Indians of all hues have cut down on or delayed buying essential items and even staple consumption items, analysts say. (ET online, 2019)

**Figure7**




Source- (TRADING ECONOMICS, 2019)
**Figure 8**

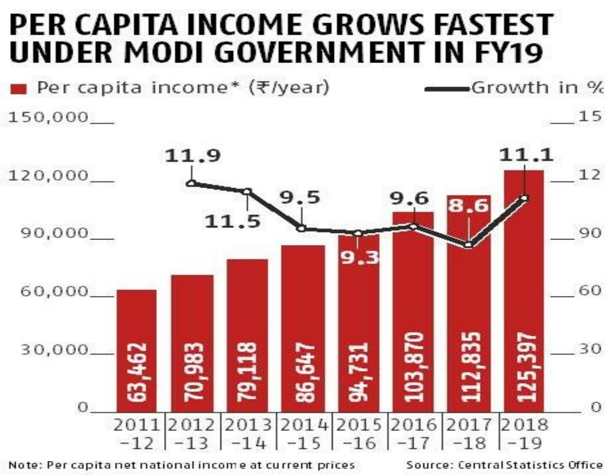



**Figure9**


Source- (TRADING ECONOMICS, 2019)

Looking at the economic parameters and the variables under the study it calls for the analysis whether the fall in demand for Parle G is a fall in just demand of a fall in overall quantity demanded. And whether these changes are of permanent changes or just economic fluctuations. Also the factors which affect the demand of biscuits and that too specially glucose biscuits can be identified. While the company continues to add new varieties units premium segment will the demand for Parle G continue to decrease. And most importantly can it be included an inferior goods list.

## Questions for Discussions

1. What are the factors affecting the demand for Biscuits (Glucose and Premium Segment)
2. Were Consumers Price sensitive to a change in number of biscuits per packet.
3. Is this a movement along the demand curve or a shift in Demand curve.
4. Which income group constituted the target consumer group of Parle G biscuits.
5. Can Parle G be considered an inferior good.

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ISSN:0971-1260
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