Market Analysis of Nescafe

Group 5

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Group Members

Nand Parikh	1401023
Prerak Raja	1401041
Varad Bhogayata	1401042
Jay Joshi	1401052
Parth Shah	1401054
Bhavya Patwa	1401063
Riddhesh Sanghvi	1401074
Karan Patel	1401113

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Theoretical Analysis of Coffee Market

- Coffee being an FMCG good, required large scale production and high set-up cost.
- **High set-up** costs deter initial market entry, because they increase break-even output, and delay the possibility of making profits.
- Nescafe took 7 years to develop the perfect instant coffee that could retain the natural flavour and freshness. Also, these companies need to constantly research and develop new flavours and improvise the current products constantly to survive the competition.
- Hence, due to **high R&D cost**, new entrants will have to match, or exceed, this level of spending in order to compete in the future. This extensively deters there entry.
- Apart from this we also see **predatory pricing, large advertisement cost and loyal consumers** hampering the initiation of new comers.

Thus, looking at these factors we could conclude that coffee market is a market in which only a few players could enter the field crossing these threshold barriers and thus it resembles **Oligopoly market**.

Rise of Nescafe in India

- India being a tea country, before the arrival of Nescafe, coffee was mostly consumed by southern sections of India, and was produced by Karnataka government.
- **"The coffee with life in it. Made in just 5 seconds"**. Thats how Nescafe announced its entry into India, in 1963. Before the ad campaign hit bill-boards across the country, Indian coffee lovers were stuck with the idea that coffee is something that takes minute attention to prepare and cannot be instant.
- As there was not commercial competition with any other private sectors Nescafe flourished in the initial years.
- Later Nescafe started spearding its leg outside southern India, making coffee a known beverage in entire India.

Lack of Private Sectors resulted in Duopoly Behaviour

The major competition for Nescafe was just the southern state governments(later became Tata Coffee in 2000) as HUL introduced BRU(in 1969) almost a decade after Nescafe, Nescafe enjoyed a good Duopoly market.

- **Profit maximization Condition:** Other than southern regions , Nescafe had a greater ability than government to reach to the consumers, hence giving them opportunity to achieve high margins.
- **Price Setters:**After building a brand name Nestle was confident regarding the demand of its product and hence Nestle had the luxury to increase the price, as there was a competitor, unlike monopoly a sudden or a major price change was not seen, but a complementing price rise could be observed.

Duopoly Behaviour (continued)...

- **Entry and Exit:** As India was not globalized or liberal till 1990, a company had to face many barriers to enter the market, as a result other than some household industries there was no big competetion to Nescafe.
- **Perfect Knowledge:** Nestle other than coffee was just producing chocolates at that time in India, hence company was fully aware about all the in's and out's, giving them additional advantage to flourish and expand.
- **Long run profits:**Though due to strict rules of government, Nestle initially faced many difficulties and large set-up costs, but as there was not much of competition Nescafe enjoyed long run profits.

Liberalization and Global Policies leading to Monopolistic Market

• With this there was rise of competitors like BRU, Lemor, Aveon Cafe, Nandan and also privatization of 19 southern coffee plants as Tata Gold, thus competition for Nestle increased.
Hence coffee production approached towards monopolistic competition.
The factors of monopolistic market could be very clearly seen as given below:

- **Product Differentiation:** In a monopolistic competition every producer tries to give something different than other even if it serves the same purpose, various companies came up with their differentiated product, for example HUL came up with BRU lite, Nestle came up with Nescafe 3-in-1 (having milk,coffee,sugar) & Sunrise, etc. As a substitute of its own product i.e. Nesafe classic, Nescafe tried to increase marginal profit keeping marginal cost almsot same.

Monopolistic Market (continued)...

- **Many Firms:** As large MNC were into coffee production larger number of firms was an obvious thing, every producer would try to increase their consumers by expanding themselves. Nestle started its own outlets in many urban regions, also Nestle promoted the idea of vending and coffee machines into bigger corporate houses of India.
- **Independent decision making:**Biggest advantage in a monopolistic competition is any competitor can fluctuate price upto a certain extent irrespective of others, as market is divided among various producers this will not have a bigger effect on market, even if consumers starts deviating from the product, they can be easily regained by lowering the price.Nestle also varied its price but due to bigger brand name this was not much affected and thus slowly increased its marginal profit.

Increased Competition turning into Oligopoly Market

• In a monopolistic market due to cut throat competition many giants took exit from coffee business till 2005 leaving only few competitor for Nestle like BRU and Tata gold.
•Since 2010 Tata gold has not marked its presence, but recently Tata announced its next beverage Tata coffee Grand and collaboration with Starbucks also BRU has survived huge set backs in the coffee market and is still giving Nescafe a nice competition.

This shift towards Oligopoly market displayed the following characteristics:

- **Achieving long run profit:** Companies still in coffee production has been well settled since a long time and now are enjoying huge profit margins, as their initial investment cost is already been covered up. Nestle being in the initiator of private coffee sector in India has now been able to earn huge profits.

Oligopoly Market(continued)...

- **Product Differentiation:** Nestle has introduced various new products, compared to other competitors and as in oligopoly decisions by any producer directly affects other,the same happened here.Due to various products Nestle has increased its brand value immensely.
- **Profit Maximization:** This did not really happen for Nestle due to strong competition against BRU and hence its market stake fell below BRU in 2008, but correcting its mistake Nestle came up with a cheaper product Nescafe Sunrise, which brought Nestle back in game and now it holds 60-65 % of the market.
- **Entry and Exit:** Nestle, Bru, Tata being deep rooted in this business, any business person would find it difficult to enter this market, similarly now this big companies along with earning their profits has a responsibility to lift the market higher.

Conclusion

Market for Nestle has been a complete circle

- Initially sharing market just with southern government and acquiring around 55 % of market was really a big deal for any new comer in a Duopoly.
- Later due to Nestle's success in coffee market many producers raced in the competition and Nestle faced a monopolistic market.
- Finally due to cut throat competition many competitors left the market leaving coffee production in hands of a very few producers and Nestle became a part of oligopoly market.
- Present market stakes shows that small household industries are vanishing, giants like Tata and its joint venture with Starbucks, CCD's, Barista etc., are failing in acquiring a decent market share then again near Duopoly will be created between Nestle and Bru or Tata.

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Thank You!!!