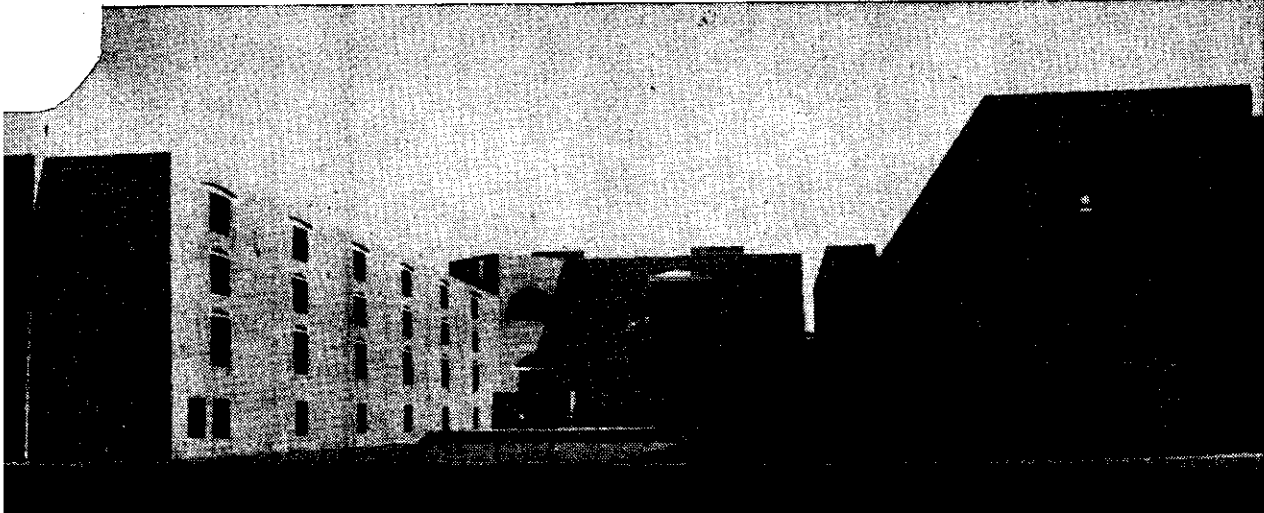




W. P.: 368


Working Paper



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THE CASE OF SUGAR CRISIS OF 1980

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W P No. 368
July 1981

WP368

WP
1981
(368)

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CONSUMER RESEARCH AND PUBLIC POLICY : THE CASE OF SUGAR CRISIS OF 1980

by

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The second half of 1980 witnessed an unprecedented rise in the free-sale price of sugar, with retail prices spiralling from a low of about Rs. 4.50 per kg. in January to a record high of Rs. 12/- per kg. in September. Graph I gives the price fluctuations experienced by the commodity in the year 1980, based on Ahmedabad market data regarding grade C-30 sugar. The consumer was, thus, confronted with a crisis situation having many uncertainties about the future availability and prices of a commodity considered so essential in everyday household consumption. While macro level national figures indicate a reduction in consumption of about 3% overall and close to 7% in the free-sale quantity during this period, very little is known about the micro level consumer behaviour under such uncertainties. What effect did the crisis have on consumption and stocking patterns of the commodity in the households? To what factors was the crisis attributed and what was the consumer expectation about the future regarding this commodity? How did the consumer try to cope with the situation and what remedies does he suggest to prevent recurrence of such a crisis? While the specific sugar crisis seems to have withered away and bearish factors appear to presently dominate the sugar situation, crisis of this nature are not uncommon in this economy. The answer to some of the above raised questions should,

therefore, be of vital interest to the public policy makers who have fairly frequently to deal with many similar situations.

The study:

The study is based on a field survey of 68 households conducted in January 1981 with sample drawn from middle and upper income segments of Ahmedabad City with principal wage earner of the households as the responding unit. The study was intentionally restricted to relatively higher income segments because of the following factors:

- a. As against the national per capita monthly consumption of about 675 grams, the sugar consumption in the upper income segments is known to be higher because of affluent food habits as well as lesser dependance on inferior substitutes like gur, jaggery and khandsari. Therefore, these segments should be expected to have greater flexibility in controlling and reducing the level of consumption of this commodity. While the latest data are not available, National Sample Survey 23rd round (1968-69) indicates that at the then prevailing price of about Rs. 3 per kg., average per capita consumption of sugar for all expenditure classes in urban India was Rs. 1.61. As against this average, consumers in upto Rs. 8 monthly per capita expenditure category spent 8 paise a month on sugar, Rs. 8 to 11 expenditure category spent 30 paise, Rs. 11 to 13 category 41 paise, Rs. 13 to 15 category 55 paise while on the higher income side, per capita expenditure on sugar

was Rs. 3.22 for monthly expenditure group above Rs. 75, Rs. 2.31 for Rs. 55 to 75 expenditure group, etc. Undoubtedly, therefore, sugar consumption in higher income groups is many a times more than that in the lower income groups;

- b. Because of greater resources at their command, these segments are able to exercise greater freedom in aligning the household stock pattern with their future expectations about the commodity;
- c. Since higher income levels are closely correlated with higher education levels, this segment should be able to better articulate their concerns about the crisis and the expectations in the future. Similarly their awareness of the health hazards of excessive consumption of sugar should be higher and they may, therefore, use the opportunity arising out of shortage situation to impress upon the members of the household about the need for reducing the consumption levels of sugar; and
- d. As heavy users of the commodity, the share of free-sale sugar volume in this segment is substantial and their actions and behaviour during such shortage situation have a very significant influence on the pricing behaviour of the commodity.

Respondent profile:

The average age of the respondents was 39 years with 77% of the respondents falling in the age group 25 to 45 years and the remaining above 45.

Occupationwise, 14% of the respondents were from government service, 25% company executives, 37% professionals and 22% from business - trade. Since principal wage earner was the target of our investigation, the sample composition was almost entirely (97%) drawn from male population. On the basis of respondent profile, therefore, the study has serious limitations and its potential for statistical projections is restricted but on a qualitative consideration the data do provide important insights into a frequently occurring phenomenon of considerable economic, social, political and administrative significance.

Findings:

Reduction in Consumption:- 45% of respondents reported that there was no change in the quantum of regular sugar consumption during this period. 18% reported a reduction upto 10%, while 37% felt that their consumption was reduced by anywhere from 10% to 30%. Regarding sugar consumption on festivals, 26% reported no change and another 28% reported very little reduction. As many as 46% reported some reduction to very large reduction in their consumption of sugar on festivals like Diwali. As against this, only 45% respondents felt that their consumption of sugar based products purchased from outside like ice creams, sweets, etc., went down somewhat whereas for 55% of the respondents, there was no such change. It is thus clear that consumers paid greater attention to direct use of sugar at home because of high prices but their concern was far less reflected in their behaviour about the consumption of sugar based products purchased from outside.

Stocking Pattern:- We asked the respondents about their stocking patterns of sugar prior to the emergence of the crisis when retail price was about Rs. 4 per kg. and the pattern now when prices had come down from peak of Rs. 12/- to about Rs. 7.50 per kg. It appeared that on an average the households stocked five weeks requirements prior to the crisis with 8% households having only one week stock, 42% one to four weeks, 39% 4 to 8 weeks and the remaining 11% having stocks from 8 weeks to 6 months requirements. The stocking pattern had significantly changed and in January 1981, the average stock level was found to be 3 weeks requirements. Of course 50% of the respondents had not changed their stocking patterns. High prices of sugar and the expectation that lesser stocks at home would discourage excessive consumption were given as the main reasons for reduction in stock level. 53% of the consumers made their bulk purchases when price was around Rs. 8, suspecting that prices would once again go up and in any case would not go down below Rs. 8 per kg. The average quantity purchased was 6 kg. with 10% of the households buying as much as 50 kg.

Utilisation of Ration Quota: Before the crisis 31% of these households never bothered to use their ration cards probably because of small difference of about Re. 1 per kg. in the price of free-sale sugar as against ration sugar. Another 8% used the ration cards only occasionally while the remaining 61% utilised the ration sugar facility from 'fairly regularly' to 'always'. Of the 39% who did not bother much

about the ration cards, nearly half reported a change in their behaviour regarding the use of ration cards from 'some change' to 'complete change'.

Demarketing Efforts:- We examined the degree of efforts made by the principal wage earner of the family in convincing the other members regarding the need to take measures to counteract the crisis, including reduction in consumption. 49% of respondents made little or no effort in this direction while 12% reported some effort, 27% strong effort and the remaining 12% having made very strong effort. High prices of sugar and poor availability were given as the major arguments in this convincing effort. 16% of respondents who made such efforts resorted to appeals of social responsibility while a small minority of 6% argued around harmful effect of excessive sugar consumption.

Responsibility for Crisis:- Statements 1 to 9 in Table I provide data on consumer perceptions about the source of responsibility for the crisis. The consumer strongly felt that crisis was artificial and created by vested interests, it was politically motivated, and the major blame lay with bad government policies. The other parties they blamed were manufacturers and trade. Exports, smuggling to neighbouring countries, lower production and consumer hoarding were not considered as important contributory reasons to the creation of the crisis.

Consumer Expectations:- Statements 10 to 13 in Table V provide data on consumer expectations about the future of the commodity. It

is clear that nearly 48% of the consumers felt that sugar prices were likely to be even higher next year, sugar crisis was here to stay and was likely to get worse. It is strange that this expectation was not based on fears of lesser availability of sugar in the future as only 34% of the respondents believed in such a possibility. Probably most people attributed the crisis to manipulations by vested interests and not necessarily caused by considerations of demand and supply. They expected similar manipulative forces to play their role in the future also without regard to supply situation.

Consumer steps to ease situation:

Statements 14 to 18 in Table I are indicative of the measures consumer is willing to take to tide over the crisis. Nearly 83% of respondents believe that consumers should lower sugar consumption and 53% believe that consumer should use more of sugar substitutes. 79% of respondents were willing to make greater efforts to reduce sugar consumption in their households while 54% expressed willingness to switch over to substitutes wherever possible. Strangely enough only a minority of 32% respondents seem to believe that quantity of sugar consumed in their households was more than what is desirable from health point of view, while 59% disagreed with this view. Knowledge about desirable level of sugar consumption appears to be low nor do people seem to be sufficiently aware of the health hazards of excessive consumption of sugar.

Remedial measures:

Statements 19 to 25 deal with the measures which the respondent felt should be taken to improve the crisis situation. Improving distribution and augmenting supplies by greater production were ranked as the most important remedies by 89% and 85% of the respondents respectively. Nearly 75% of respondents believed that imposing price controls was the answer to the problem while 68% favoured reduction in exports. Nearly 61% favoured distribution of sugar through ration shops only. Knowing that many of our respondents were non-users or occasional users of ration cards and depended heavily on free-sale sugar, such a favourable response to ration shops can be attributed to a high level of frustration caused by tremendous fluctuations in prices and non-availability of the commodity in the open market.

Summary:

Market research has an important role to fulfil in the public service, namely as a rational means of getting public inputs into public policies, plans and programmes. There is considerable evidence that such a research has made a wide range of contributions to a variety of public programmes and problems the world over but experience in our country clearly reflects that policy makers in the government, both at the Central and State levels, make decisions with at most only guess work about how the public will respond. A similar concern was expressed by the Glassco Commission in its report on the Organization of the Government of Canada (1963) when it stated "what is needed is public

service that identifies itself with the community it serves and of which it forms a part and with which the public itself can feel a sense of identity". The essence of the foregoing seems clear: public policies and programmes must be linked to their publics.

How could public policy formulators make use of the research findings of this study? The research does suggest some areas where public policies can be better formulated with the help of some of the important findings of the study. For instance the finding that consumption of outside purchased sugar based products was not affected much during the crisis is suggestive of a segmentation approach for sugar marketing where pricing and distribution policies for bulk users like sweet shops, ice cream manufacturers, etc. could be different than sugar supplies meant for direct consumption at home.

The stock releases of free-sale sugar could be better aligned with stocking patterns of consumers so that at a time when consumer is building household inventories, higher quota is released. This can help avoid price spiral where consumer purchases for future consumption can themselves lead to upward price trends, which in turn can result in still further stocking. The present practice of free-sale releases largely on the basis of monthly consumption, with adjustments for reasonability and special occasions, ignores the fact that consumer inventories are built up in advance and there is a time lag between consumption and purchases. Similarly, the stock position of retail

outlets does get depleted towards the end of the season and it needs to be recognised that with a network of over three lakh outlets in the country involved in the distribution of free-sale sugar for a total quantity of less than 18 lakh tonnes, the pipeline stocks can easily be 10% to 15% of annual turnover of the free-sale portion of the commodity. The timing of retail inventories built-up, therefore, can have a profound effect on the prices and the availability of the commodity. Same is true of another finding that nearly 20% of the consumers who did not care for ration quota earlier have now started using this facility. This should help in decisions of stock releases to ration shops which may now be under greater service stress because of larger number of consumers wishing to avail the facility.

Public policy makers can also help demarketing effort at home by providing to the consumers the appropriate basis for promoting reduction of consumption. Since half the consumers did not make any such efforts, a well designed communication programme can certainly help reduce this proportion of unconcerned citizens. Such a communication programme can also be effectively used to influence consumer expectations about the future, especially if their expectations are distorted and future trends are likely to be different as evident from rational factors and data. Indian consumer generally tends to be emotional rather than rational after any such crisis and is likely to be somewhat pessimistic under such situations. Consumer expectations do significantly affect the market trends and it is necessary for the public policy to mould these

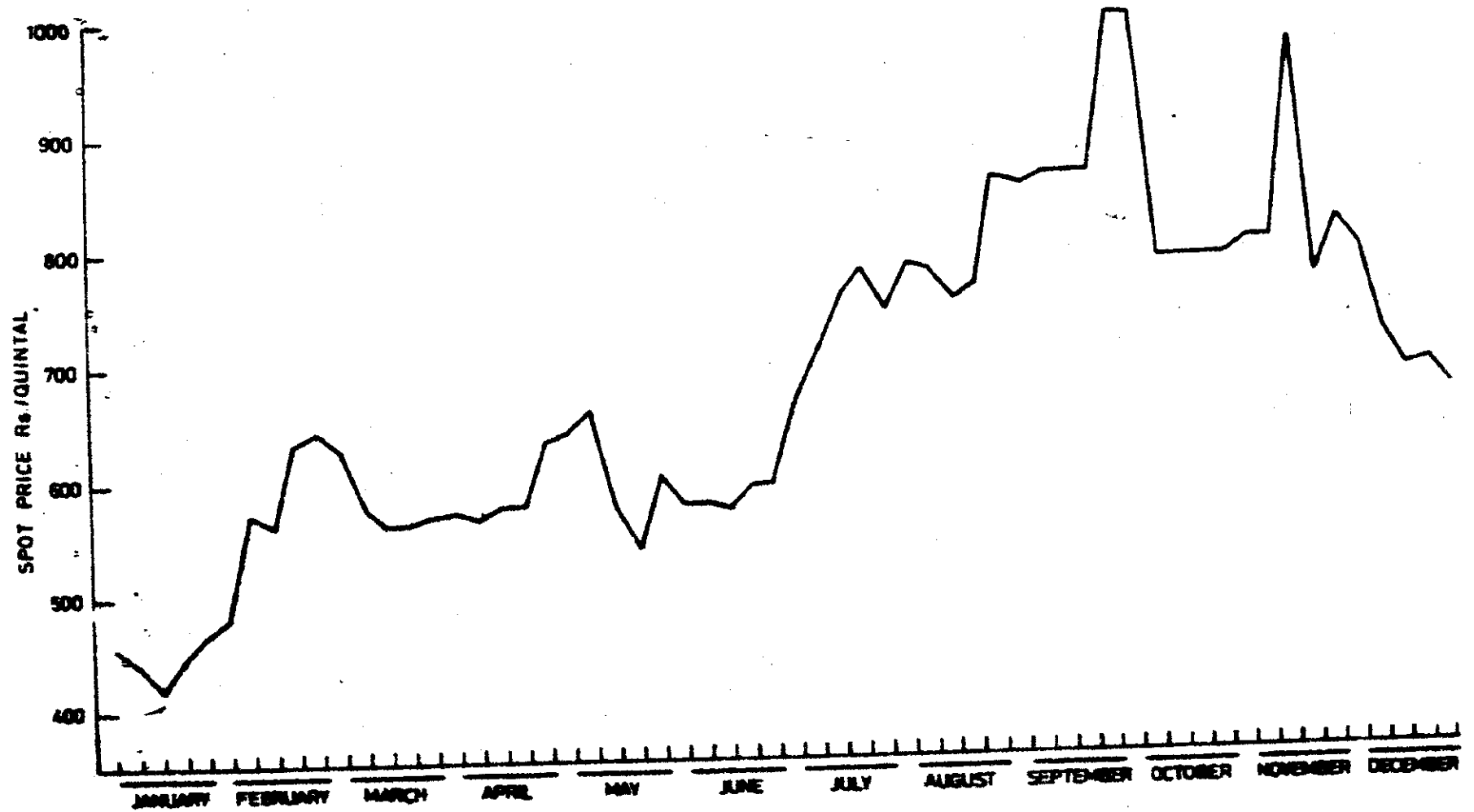
expectations in the right directions. Also, if the policy makers believe that consumption levels in certain segments are excessive and the said segment is not fully aware of the harmful effects of excessive consumption, an educational drive to improve knowledge about the product and its usage may be called for.

The study brings out quite clearly that there remained a serious communication gap between the public and the policy makers all through the crisis. As we know, production of sugar last year was only 39 lakh tonnes as against the estimated annual consumption of about 54 lakh tonnes and even with the carryover stock of 20 lakh tonnes from the previous year, demand supply position was only precariously balanced. But at no stage was any attempt made to convince the consumer about the genuineness of the problem, thereby leaving the consumer to draw his own conclusions about the factors causing the crisis. He continued to blame the Government Policies, while Government in turn, blamed the trade and industry. No attempt was ever made to seek the cooperation of the consumer in tiding over the difficulty. Indian consumer has always arisen to the occasion whenever he has believed that a particular problem facing the country is real. He did not even hesitate to part with a dearly held possession like gold if the country so needed. It is only for the policy makers to design communications to bridge the information gap, enhance the credibility of the cause, and evoke public support to tide over any such crisis.

Thus a number of directions can emerge from a limited research of this kind. Of course, it should be recognized that specific directions indicated here are only illustrative, since generalisations from a limited sample study of this kind need to be drawn with caution. The primary purpose of this paper should be seen more as a demonstration of the potential of consumer research as an important input to public policy making rather than the more conclusions of the research, which as already indicated, do have serious validity limitations.

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SUGAR WHOLESALE PRICES FOR 1980*



* AHMEDABAD MARKET WHOLESALE PRICES FOR GRADE C-30 SUGAR

TABLE-I

FREQUENCY RESPONSES TO SUGAR CRISIS-RELATED STATEMENTS (IN PERCENTAGES)

Statements (1)	Strongly agree (2)	Agree (3)	Indif- ferent (4)	Dis- agree (5)	Strongly disagree (6)
<u>RESPONSIBILITY FOR CRISIS:</u>					
1. The sugar crisis is artificial and has been created by vested interests.	29	50	12	9	0
2. The whole sugar crisis is politically motivated.	31	37	20	11	1
3. The present crisis is due to bad government policies on sugar.	37	43	12	8	0
4. The sugar crisis has been caused by wholesalers and retailers.	19	35	23	23	0
5. The sugar crisis is a result of consumers stocking large quantities of sugar in their homes.	8	17	19	38	18
6. The sugar crisis has been started by the manufacturers to make more money.	22	35	22	18	3
7. The sugar crisis has arisen because demand for sugar is more than what we can produce.	8	23	12	43	14
8. The sugar crisis is the result of increased exports of sugar.	9	43	17	25	6
9. Smuggling of sugar to Pakistan and other neighbouring countries is a major reason of the sugar problem.	6	28	31	28	7
<u>CONSUMER EXPECTATIONS:</u>					
10. The sugar crisis is likely to get worse.	14	35	22	28	1
11. Sugar crisis is here to stay.	6	42	26	21	5
12. Availability of sugar is likely to be even less in future.	3	31	26	37	3
13. Sugar prices are likely to be even higher next year.	9	39	29	23	0

contd.....

TABLE-I (contd.)

	(1)	(2)	(3)	(4)	(5)	(6)
<u>CONSUMER STEPS TO EASE SITUATION:</u>						
14. Because of the sugar crisis we should all lower our sugar consumption.	17	66	9	6	2	
15. We should consume more substitutes to tide over the crisis.	5	48	18	21	8	
16. I will make greater efforts to reduce sugar consumption if the crisis gets worse.	23	56	9	12	0	
17. I will change over to substitutes wherever possible.	5	49	18	25	3	
18. I believe that in families like ours, total quantity of sugar consumed is more than what is desirable from health point of view.	7	25	9	52	7	
<u>REMEDIAL MEASURES:</u>						
19. It is necessary that complete price control be imposed on sugar.	34	42	3	15	6	
20. Distribution of sugar through ration shops only is a worthwhile remedy.	22	39	15	18	6	
21. We must make industry produce more sugar.	50	35	8	6	1	
22. Reducing exports of sugar will considerably help the problem.	31	37	17	14	1	
23. Improving the distribution of sugar to avoid future crisis is a must.	46	43	5	6	0	
24. Promoting of sugar substitutes for lesser dependence on sugar is useful.	13	45	15	20	7	
25. Educating consumers to reduce consumption is necessary.	20	39	14	20	7	