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**FACTORS AFFECTING THE COST AND MARGINS OF BAKERY PRODUCTS IN  
WESTERN UTTAR PRADESH**

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**ABSTRACT**

Bakery Industry is an important part of economic and social structure of Meerut Region. As the population is growing, its food habits are changing and the consumers are driving towards low calorie fiber diets, bakery industry is also growing in the country. Bakery Industry is having many products in itself such as- Biscuits, cakes, chocolates, cookies, bread, pastries and other milk and dairy products. These are such items, which are liked by young generation very much but there are many problems and challenges for the Industry. Firstly, it is found that the methods which are being used for the preparation of such items are very much traditional because of which their costs remain high and the quality inferior. Secondly, industry is not organized in nature because of which also the tastes differ from bakery to bakery. Not only this, also the marketing practices are found defective which results in the increase of their marketing costs to a large extent. If we go into depth of this industry, we find that although the profits of the manufacturers seem to be very low but due to the mixing of inferior quality goods they earn heavy profits. So, on one hand the production and marketing costs come very high and on the other hand unethical profits are also earned by the bakery owners.

**Key words:** Bakery Industry, Biscuits, cakes, chocolates, cookies, bread

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**INTRODUCTION:**

In the present era the size and character of market has changed enormously. There is a substantial increase in population as well as the disposable income of an average family. A great variety of new products and services are developing the consumers' market day-by- day. Here, in the present market, the selling of products and services has become more difficult because of the high intensity of competition. It is the time when consumer has begun to acquire a place of unique importance. Now the businessmen are realizing the importance of marketing activities. They are not only interested in maximizing their sales but also are serious for permanent clientele. The marketing activities of a business are gaining more and more importance day-by- day. Thereby the study of factors affecting production cost and marketing margins of bakery products becomes more important. For the purpose of present study the factors influencing the different aspects of marketing of bakery products can be categorized into the following two heads:

- I. Factors affecting the cost of production of Bakery Products
- II. Factors affecting the margins of Bakery Industry

**FACTORS AFFECTING THE COST OF PRODUCTION OF BAKERY PRODUCTS:**

In bakery industry a number of factors affect the cost of production of bakery products. These factors may be the quality of raw material, nature of the product, labour cost, production process, wastage of material, cost of preservation, transportation cost, office expenses etc. All these factors may be analysed under the separate heads as given below:

**FLUCTUATIONS IN THE PRICES OF RAW MATERIALS:**

Fluctuations in the prices of raw materials play their dominant role in influencing the cost of production of bakery products. The increasing cost of raw materials leads the cost of production of the bakery products considerably upward. During the survey; it was observed that the prices of raw

materials took continuous jump during the last decade which increased the cost of bakery products to a large extent. It was also observed that now the prices of bakery products are going out of the pockets of the middle and lower class people due to unchecked rise in the prices of the raw materials. Also the bakery industry in Meerut Region is not the exception of this phenomenon because the prices of the various bakery products have gone up considerably during the last decade.

#### **QUALITY OF RAW MATERIALS:**

The quality used for producing bakery products affects the cost of bakery products to a large extent. Though it is necessary that these products should be produced by standard quality of material because these products affect the health of the people who consume them yet the prices of raw materials are touching new heights day-by-day. If the standard materials are used in producing bakery products, the cost of the product will be more in comparison to the ones which produced with low quality materials. During the survey it was noted that most of the bakers of Meerut Region have started to use low grade of raw material for producing the various bakery products with the point of view to reduce the production cost of bakery products.

#### **NATURE OF THE PRODUCT:**

Bakery products are of different nature viz perishable and non- perishable. The nature of the bakery products affects their cost. The perishable bakery products are produced with extra care and expensive materials are used in producing them. Their preservation cost is also high while the non-perishable bakery products don't need extra care and the raw materials used in producing them is comparatively cheaper. Also in Meerut Region the costs of perishable bakery products remain high in comparison to non-perishable bakery products.

#### **STANDARD OF PRODUCTION PROCESS:**

Also the standard of production process affects the cost of the bakery products. When the standardized production process is adopted, naturally the cost of production will be high. If the baker desires to get the bakery products of standard quality, it is but natural that he will have to bear more production cost. On the other hand if he thinks that his products should be of normal quality and he adopts the age-old or out dated production process, he will get the bakery products produced at low costs. In Meerut Region the bakers use both type of processes. Some bakers use the age-old traditional production process and some other use the new improved processes for the production of bakery products. Thus their production costs of the same product differ considerably.

#### **COST OF PACKAGING:**

In the packaging of bakery products, the baker has to incur extra cost. Cost of packaging also affects the total cost of the bakery products to a considerable extent. To preserve these bakery products, the baker use various methods to protect them from heat, moisture, insects etc and to maintain their quality during the period in between their production and consumption. When the bakers use good quality packing materials then the cost of production also increases and if the baker uses the packing material of lower quality then the cost of such product comes comparatively low. In Meerut Region, different bakers use different types of packing materials. The bakers producing standard quality of bakery products use high quality packing material to maintain the quality of their products while the bakers producing the low quality of bakery products use low quality packing material i.e. why their production costs remain comparatively low.

#### **WASTAGE OF RAW MATERIALS:**

Normal wastage of material is the part and partial of cost in the ordinary course of production. But if there is an abnormal wastage, it increases the total cost extra ordinarily. It may be due to repeated power cut during the production process, careless handling of raw materials, extra- ordinary wastage of raw materials during

the production process, theft of raw materials from the store, wastage of raw materials in the store etc. Due to all these reasons the cost of bakery products increases to a considerable level. Such wastage of materials directly affects the cost of production of various bakery products. In Meerut Region most of the bakers assume 1-2% of wastage of materials while the process of production. If there is more wastage due to any other reason, it is taken very seriously and the causes of such wastage are searched out immediately so that the remedial measures may be taken to remove such problem.

### **LABOUR COST:**

Labour is the active source of all the production activities. Without labour none can expect to activate any business activity.

Labour is the most important factor than the other elements of cost. For producing bakery products direct and indirect labour are engaged in production process. Their costs play a significant role in influencing the total cost of production of bakery products. If the labour cost is high naturally the total costs of producing bakery products will go up. On the other hand if labour cost remains low, also the total cost will go downward. In the bakery industry of Meerut Region, labour cost is beyond the control of the bakers and they have to pay the labour at the prevailing rates. Thus the labour cost has its direct impact on the cost of production of bakery products in the area selected for the study.

### **STORING COST OF RAW MATERIALS AND SEMI- FINISHED & FINISHED PRODUCTS:**

It is generally accepted that quantities should be brought in economic size so that there may not be over stocking because over stocking requires more storages space, which in turn increases in storing expenses. In bakery industry purchase of material is made in small quantities because it requires less storing space for a short time which results in less storing cost. If the material is purchased in large quantity it will require more storing space for more time which will increase the storing cost. Like wise if the finished products or the semi- finished products are kept in store for a long time, it will increase their retention and preservation costs. On the contrary, if these are kept in store for a short time these costs will be comparatively low.

In the bakery Industry of Meerut Region, generally the raw material is hold for maximum 6-7 days while the finished and semi- finished stock take an average time of 3-4 days due to that the storing cost of finished products and semi-finished products remain higher due to the refrigeration and preservation.

### **TRANSPORTATION COST:**

The transportation cost of the bakery products affects the total cost of the products. The cost of carrying the raw material to the production place and then the carrying cost of finished product to the selling place affect the overall cost of the bakery products. In Meerut Region also the transportation cost is high and keeps on increasing rapidly due to hike in the prices of petroleum products which raises the cost of the various bakery products in the area of the study.

### **NATURE OF CAPITAL INVOLVED IN BUSINESS:**

Capital is an important factor for a business. Without adequate capital no business can be established and run for a long time. If a company or business runs with borrowed capital it has to pay a huge amount as interest on this capital which increases the cost of business. On the other side if the company employs its own capital there is no extra burden of interest.

In Meerut Region most of the old bakery owners have their own capital but new bakery owners establish their business with the help of own and borrowed capital. They raise the funds from different sources for which they have to pay interest. Thus the business cost remains high as compared to the business cost of the old bakers.

**OTHER COSTS:**

Besides the above defined costs there are many other small costs which though not a large one but form a considerable part of the total cost of the bakery products. Though these costs cannot be counted separately yet this will be a blunder to ignore them at any stage.

Thus the fluctuations in the prices of raw materials, quality of raw materials, nature of the product, standard of production process, cost of packaging, wastage of raw materials, labour, storing cost of raw materials, semi-finished & finished products, transportation cost, nature of capital involved in business, volume of ingredients in products, expenses of production department, fuel cost, rent or building expenses etc affect the cost of production of bakery products in Meerut region.

**FACTORS AFFECTING THE MARGINS IN CASE OF BAKERY PRODUCTS:**

The various factors affect the margins of bakery products in direct or indirect manner. These factors are the cost of production, interest on borrowed capital, pricing policies, demand in the market, marketing channels, marketing charges, wastage, rate of obsolescence, salary of office staff, packing cost, shop expenses etc. The detailed study of these factors has been conducted under the separate heads as given below:

**COST OF PRODUCTION:**

Cost of production of bakery products affects the margins of bakers in direct manner. If the cost of production is moving upward due to rise in prices of raw materials, wages and hike in other direct and indirect expenses without any increase in selling price of such products, definitely the profit margin of bakers will come down. On the other hand, if the bakers remain successful in making the effective checks on production cost at different levels, their margins will increase without increasing the prices of the bakery products.

In Meerut Region the experienced bakers keep on the strong check on the whole production process and earn a reasonable margin by selling their products on reasonable prices.

**INTEREST ON CAPITAL:**

Capital is an active factor of a business. Without capital no one can imagine any kind of business. So the capital plays an important role in business. During the survey it was observed that in Meerut Region most of the bakers use both their own capital and the borrowed capital. In the case of use of the major part of own capital the margins of the bakers are found more in comparison to the profit margins of those bakers who depend mainly on borrowed capital.

**PRICING POLICIES:**

Also the pricing policies of an industry affect its marketing margins. If the prices are kept high with higher sales, and there are monopolistic conditions, the profit margins will be high. On the contrary, if there is competition among the manufacturers such a price fixation policy will be failed and profit margins will come down due to less demand in the market.

In Meerut Region most of the bakers fix the prices of the bakery products at cost plus 100% approximately and earn attractive profit margins.

**DEMAND IN THE MARKET:**

The demand of a product decides the volume of profit margins to a large extent. If there is high demand of product, it will give more profit margins as compared to the profit margins when the demand of that product is low.

In the bakery industry of Meerut Region the demand of bakery products is high due to which the bakers and other marketing intermediaries are earning a handsome amount as the profit margin in bakery products trade.

### **NUMBER OF MARKETING CHANNELS:**

Also the number of marketing channels affects the volume of marketing margins. As much as the marketing channels exist in the market, they all make their profit margins and increase it in totality. In the bakery industry of Meerut Region also the bakers work as a marketing channel in addition to distributors and retailers and they all make their profit margins by performing their distribution duties. Thus a chain of marketing intermediaries is earning a huge amount of profit margins in bakery industry.

### **MARKETING CHARGES:**

The amount of marketing charges leaves its direct impact on the marketing margins. In case of high marketing charges the profit margins remain smaller because prices cannot be fixed beyond paying capacity of the buyers. On the other hand when the rate of marketing charges is low, the marketing margins will be high because the sellers are in a position to earn margins at high rates even by charging reasonable prices from the consumers. In the bakery industry the marketing charges remain about 25-30% of the selling price of bakery products which affect the marketing margins of marketing channels to some extent.

### **WASTAGE:**

Wastage is a normal activity in business. It is very common during production and marketing of bakery products. It affects the margins of bakery industry. There is no hard and fast rule about the quantity of wastage. If the wastage rate is high, naturally it will be the direct loss of manufacturers or distributors or retailers. High rate of wastage leads the costs upwards and margins downwards. In bakery industry generally the wastage is found in production process @ 1% which increases the production cost of bakery products and reduces the margins of the manufacturers.

### **CHANGE OF SEASONS:**

Bakers get losses due to change of seasons. The main reason behind it is the change in the climate. For example, the milk products rot during the summer season very frequently while they last for sometime long during the winter season. Biscuits and rusks lose taste very frequently in the rainy season. In such cases the loss has to be born by the bakers, distributors and retailers. It results in the decrease in the profit margins.

### **STORING TIME:**

The storing time leaves its direct effect on the cost of bakery products. Larger the storing time, higher will be the storing cost and vice versa. In bakery industry some times semi-finished materials are to be held for some time due to delay in getting the labourers or lack of power etc. In such cases it increases the storing cost of semi-finished stock. Likewise if the finished goods are not in demand due to some reason, these are to be stored up for some time with much difficulty in order to retain their taste which increased storing cost enhance the total cost of their production which results in the reduction in their profit margins. In the bakery industry of Meerut Region such type of abnormal storing cost is found very common and this leaves its adverse effects on the marketing margins of manufacturers of bakery products.

### **CASH OR CREDIT SALE:**

According to the market customs the bakers have to sell their bakery products on credit to the distributors and retailers who take time in making full payment. In such cases the bakers have to arrange the finance from other sources for which the interest is to be paid. It increases the marketing cost of these products and thus the marketing margins of bakers come down. On the other side if the sales are made in cash there will be no such expenses and the rate of marketing margins will be higher. But the system of cash sale at the bakers level is very rare in Meerut Region and the first



option is adopted by almost all the bakers of this area, which reduces their marketing margins to a large extent.

### **COMPETITION IN THE MARKET:**

In the present era of globalization every business unit has to face the competition at national and international levels. If there is healthy competition among the business units, it is always favourable and does not hit the justified margins of manufacturers, distributors and small traders. On the contrary if there is a cut throat competition in the market, it often enforces the manufacturers and the marketing intermediaries to cut the prices up to break-even and sometimes below this point. In this situation no business concern is in a position to make any margin. In the bakery industry of Meerut Region, the healthy competition is found and every baker and the trader are earning justified margins. Further it is to be added that there is no effect of competition on bakers and they feel free to fix the prices of their products due to which they ever remain gainer and earn their profit margins at a very high rates.

Thus the cost of production, interest on capital, pricing policies, demand in the market, number of marketing channels, marketing charges, wastage, change of seasons, storing time, cash or credit sale, competition in the market, marketing area, sales volume, amount of bad debts, government policies and interventions etc leave their effects on the margins in Bakery Industry in the area selected for the study.

### **CONCLUSION:**

Fluctuations in the prices of raw materials, quality of raw materials, nature of the product, standard of production process, cost of packaging, wastage of raw materials, labour, storing cost of raw materials, semi-finished & finished products, transportation cost, nature of capital involved in business, volume of ingredients in products, expenses of production department, fuel cost, rent or building expenses etc affect the cost of production of bakery products in Meerut Region.

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