

Maximum Retail Price (MRP) of Products in Bhutan: A Study on Manufacturers' Practices and Implementation in the Market

Table of Contents

EXECUTIVE SUMMARY	2
1. BACKGROUND	3
1. OBJECTIVES	4
2. METHODOLOGY	5
2.1. RESEARCH DESIGN.....	5
2.2. SAMPLING METHOD.....	5
2.3. SAMPLE SIZE	5
2.4. DATA COLLECTION.....	6
2.5. DATA ANALYSIS	6
3. FINDINGS.....	6
4. RECOMMENDATION	12

Executive Summary

The Maximum Retail Price (MRP) is a crucial aspect of consumer protection and pricing transparency in retail markets. In India, the MRP system is tightly regulated to ensure price stability and prevent price manipulation. However, in Bhutan, while the concept of MRP was introduced in 1995, its implementation faced challenges due to differences in market dynamics and the regulatory framework. As a result, the MRP regulations in Bhutan were discontinued in 2006.

Despite the lack of MRP regulations, many Bhutanese businesses still adhere to MRPs set by manufacturers, especially for products imported from India. This adherence is driven by various factors, including the benefits of free trade agreements, GST exemptions, and cost advantages from sourcing products directly from manufacturers. However, the pre-printed MRPs on imported products may not always reflect the local market conditions accurately, posing challenges for retailers.

The Consumer and Competition Affairs Authority (CCAA) in Bhutan has taken a stance to allow retailers to affix their own retail selling prices on imported products while retaining the original pre-printed MRPs for price comparison by consumers. This approach aims to prevent price manipulation and ensure transparency in pricing.

Recent developments show that some Bhutanese manufacturers have started affixing MRPs to their products, indicating a potential shift towards self-regulation. However, there is a need to explore the rationale behind this practice and its impact on consumers and market dynamics.

The study explores the Maximum Retail Price (MRP) landscape in Bhutan, focusing on manufacturers' practices and the implementation of MRP in the market. It examines the factors driving Bhutanese manufacturers to affix MRPs to their products and evaluates the practicality and impact of MRP implementation on market dynamics and consumer behavior. Additionally, the study explores the potential of leveraging MRP guidelines and practices to enhance consumer benefits and develop self-regulatory mechanisms for MRP implementation.

Through a qualitative research approach involving surveys, interviews, and data analysis, the study found that all 16 Bhutanese manufacturers surveyed have established MRPs for their edible products. These manufacturers believe that setting MRPs ensures consistent and transparent pricing across the market, preventing overpricing and protecting consumer interests. While some manufacturers have formal MRP guidelines, others lack consistent guidelines, relying on various factors to determine MRPs.

The study also reveals that while manufacturers expect retailers to sell products at the set MRP, enforcement mechanisms vary. While some manufacturers impose consequences for non-compliance with MRPs, others do not. Despite this, retailers in Thimphu generally adhere to MRPs, with some selling below MRP to attract more customers.

To enhance consumer benefits and market efficiency, the study recommends that manufacturers realistically determine and strictly enforce MRPs. The Consumer and Competition Affairs Authority (CCAA) should advise consumers to compare prices and make informed purchasing decisions.

Retailers should be reminded to affix the retail price on products, ensuring transparency in pricing. It should be made clear that without the retail price affixed, the MRP on the product should be applied.

1. Background

The Maximum Retail Price (MRP) is the highest price at which a product can be sold to consumers, as mandated by law or regulation. It includes all applicable taxes and is printed on the product packaging by the manufacturer. The concept of MRP is widely utilized in countries like India to prevent retailers from charging prices above the stipulated maximum. This mechanism ensures that consumers are not overcharged and promotes transparent pricing, allowing consumers to know the maximum amount they will have to pay for a product. In India, the MRP is strictly regulated under the Legal Metrology (Packaged Commodities) Rules, 2011. It is mandatory for all pre-packaged goods to display the MRP.

In Bhutan, the MRP rule was introduced in July 1995 with the adoption of the Bhutan Packaged Commodity (BPC) Rules and Regulations 1995. The primary aim was to regulate the sales, storage, and distribution of packaged commodities within the country and to ensure that these commodities were sold at the pre-printed MRP.

The rules applied to all packaged commodities produced or imported from India, which were then sold or distributed in Bhutan. All wholesalers and retailers were required to sell packaged goods at the pre-printed MRP.

Although the intent behind these rules was positive, the context in which they were framed and implemented was different from the domestic environment of Bhutan. This difference led to practical difficulties and contextual challenges, as the MRP regulations were applicable only within the originating country. Consequently, the MRP regulations in Bhutan were discontinued in 2006.

The pre-packaged commodities imported from India still come with pre-printed MRPs, as mandated by Indian regulations. Given Bhutan's proximity to India, the benefits of the free trade agreement, the Goods and Services Tax (GST) exemption, and the ability to source directly from principal Manufacturers at wholesale prices, Bhutanese businesses can still make a profit by selling at the MRP or even below the pre-printed MRP. Evidence from the market shows that many businesses successfully sell products at or below the MRP, reflecting the cost advantages they gain from these economic benefits. However, the pre-printed MRP is not enforced in Bhutan due to the lack of governing laws. Further, in some cases, the pre-printed MRP may not reflect the actual market conditions and dynamics of Bhutan, leading to potential issues in pricing flexibility for Bhutanese retailers. This discrepancy may result in misaligned prices that do not suit the local economic environment, making it challenging for retailers to adjust prices according to local market conditions.

The Competition and Consumer Affairs Authority (CCAA) in Bhutan has taken the position that while retailers can affix their own retail selling price on imported pre-packaged commodities, the original pre-printed MRP should not be obliterated, smudged, or altered. This policy helps consumers compare prices and make informed purchase decisions, thereby preventing unwarranted price manipulation by businesses. Businesses are mandated to retain the pre-printed MRP as it is, and consumers are advised to make price comparisons and informed decisions.

Recently, some Bhutanese manufacturers have started affixing MRPs to their pre-packaged commodities. This development has prompted a study to explore the rationale behind this practice, its benefits to consumers, and the extent to which manufacturers monitor their distributors and retailers to ensure compliance. Additionally, the study is needed to examine how regulatory agencies can leverage their MRP guidelines and support these practices to enhance consumer benefits and develop self-regulatory mechanisms for MRP implementation, where possible.

1. Objectives

The primary objectives of the study are as follows:

Exploring the MRP Landscape in Bhutan and Manufacturers' Rationale: Examine the multifaceted MRP landscape in Bhutan, aiming to determine the underlying motivations and strategic considerations driving Bhutanese manufacturers to affix MRPs to their pre-packaged commodities. This objective seeks to delve into the decision-making processes of manufacturers, exploring factors such as cost structures, market dynamics, and consumer preferences shaping their MRP practices.

Assessing the Practicality and Implementation of MRP in the Market: Evaluate the practicality and extent of MRP implementation in the market and its impact on market dynamics and consumer behaviors.

Exploring the Potential of Leveraging MRP Guidelines and Practices: Examine how MRP guidelines and practices can be effectively utilized, and the potential role of regulatory agencies in maximizing consumer benefits.

2. Methodology

2.1. Research Design

This study utilized a qualitative approach, incorporating the distribution of questionnaires and telephone interviews to gather qualitative data from producers and retailers. Additionally, available secondary data sources were utilized to complement the primary data collection process.

2.2. Sampling Method

Convenience Sampling: Since we are focusing on Maximum Retail Price set by manufacturer or producer, a convenience sampling approach was employed to select representatives from local producers producing edible products with Maximum Retail Price. This method allowed us to select producers on their easy availability and accessibility.

2.3. Sample Size

The sample size of manufacturers was determined using a convenience sampling method. From the list of 448 active producers provided by the Department of Industry in Bhutan, 16 were selected based on their popularity and the availability of their products in large quantities in the national market. These 16 selected producers were also validated through phone interviews. Together, these producers manufacture 120 different products with Maximum Retail Price (MRP) that are supplied in the national market. 25 major grocery retailers located in Thimphu and also dealing with local products were selected based on convenience as shown in Figure 1.

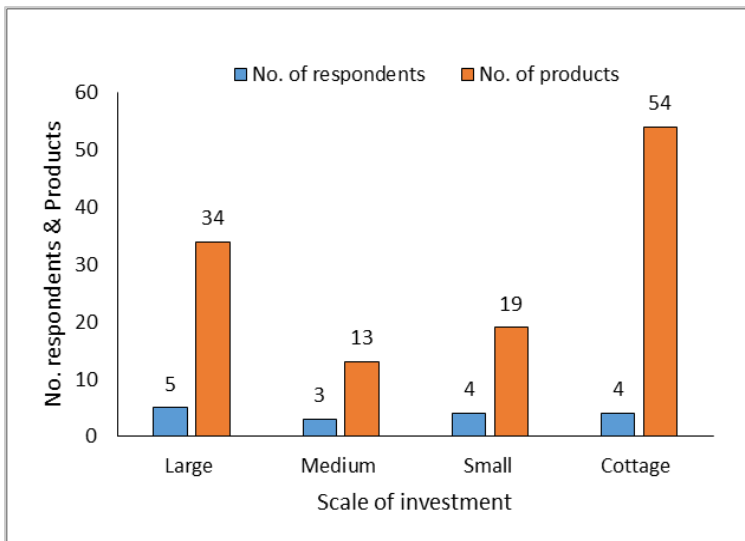


Figure 1. Sample Size of Respondents and No. of Products

2.4. Data Collection

- i. Survey Questionnaires were sent to producers via email and interviews with producers were conducted through telephone.
- ii. Interviews with retailers were conducted through field visit and telephone.
- iii. List of products with MRP and names of Manufacturers were collected from the Thimphu market.

2.5. Data Analysis

Thematic analysis was employed to analyze, identify, and interpret qualitative data regarding the Maximum Retail Price set by national producers.

3. Findings

3.1. Manufacturers

3.1.1. Manufacturers with MRP Label on their Products

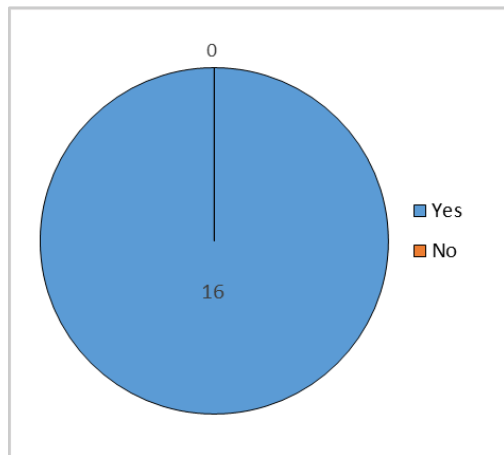


Figure 2. Numbers of Manufacturers with MRP on Their Products

All 16 Bhutanese manufacturers agreed that they have established a Maximum Retail Price (MRP) for their edible products. This agreement ensures that the pricing of these products remains consistent and transparent across the market, preventing any overpricing and protecting consumer interests. The MRP is prominently displayed on all packaging, allowing consumers to make informed purchasing decisions. This collective commitment by the manufacturers highlights their dedication to fair trade practices and consumer rights.

3.1.2 MRP Guidelines

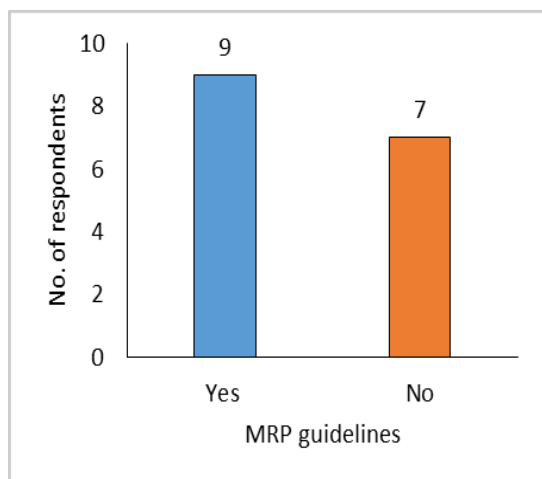


Figure 3. Manufacturers having MRP guideline

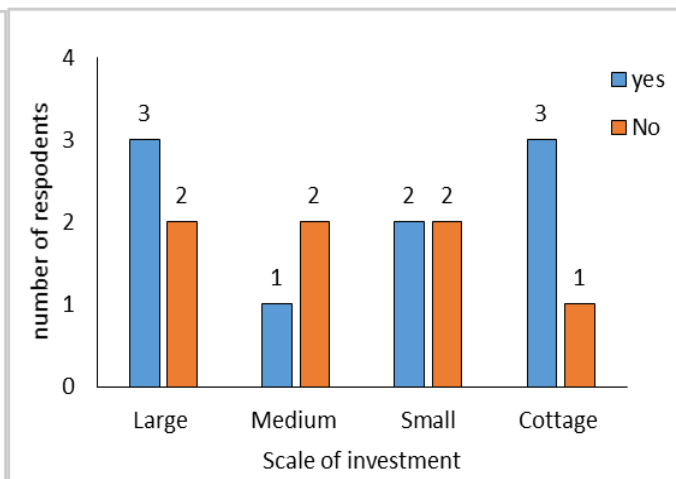


Figure 4. MRP based on scale of investment

As shown in Figure 3, nine manufacturers have Maximum Retail Price (MRP) guidelines for their products, while six manufacturers do not. However, most manufacturers lack formal or consistent MRP guidelines. Manufacturers with parent companies in foreign countries, such as Tashi Beverages Limited, which produces water-based flavored drinks, adhere to the pricing guidelines of their parent companies.

Some manufacturers follow pricing guidelines to account for various factors influencing pricing decisions. Pricing policy is a company's strategy to determine the price of its products or services, aiming to ensure profitability and flexibility. It was also found that the majority of large and cottage manufacturers (3) have MRP guidelines, whereas small manufacturers are equally split between having and not having MRP guidelines. For medium manufacturing companies, only one has MRP guidelines, while two do not (Figure 4).

3.1.3 Factors Determining Maximum Retail Prices of Products

Manufacturers determine the Maximum Retail Price (MRP) of their products using the following four factors:

1. **Cost of Production:** The total expenses involved in manufacturing the product.
2. **Profit Margin:** The desired profit added to the cost of production to ensure profitability.
3. **Market Price:** The prevailing price of similar products in the market.
4. **Expenses Incurred by Distributors and Retailers:** The additional costs borne by distributors and retailers, which include transportation, storage, and retail operations.

Manufacturers may use one or a combination of these factors to set the MRP, depending on their specific pricing policies and strategies. This approach allows them to balance profitability, market competitiveness, and the sustainability of their business.

3.1.4 Requirement for Retailers to Sell at MRP Fixed by Manufacturers

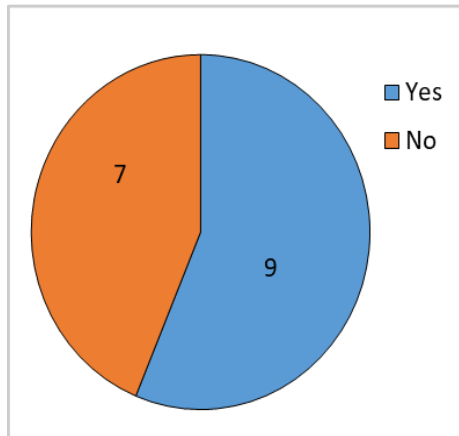


Figure 5. Products sold at MRP set by Manufacturers

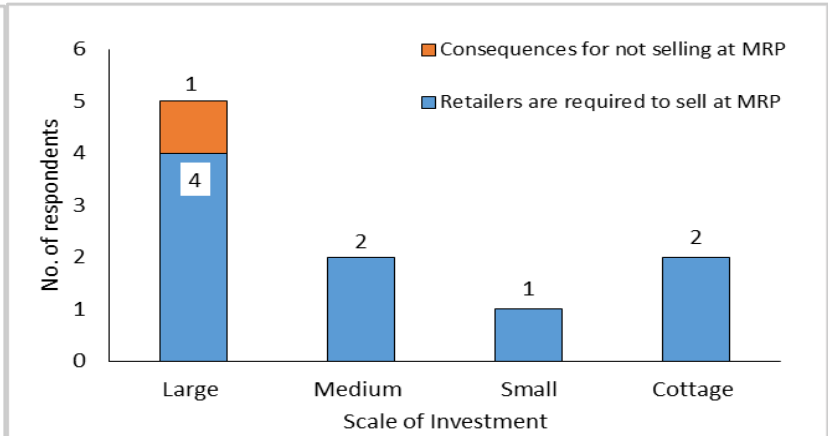


Figure 6. Consequences for not complying with MRP set by Manufacturers

As per Figure 5, nine manufacturers stated that sellers are required to sell products at the Maximum Retail Price (MRP) since they supply to retailers and distributors at prices lower than the MRP. However, seven manufacturers indicated that sellers are not required to sell products at MRP because they do not account for the expenses incurred by retailers and distributors.

Although nine manufacturers agreed that it is necessary for retailers to sell products at MRP, eight of them mentioned that there are no consequences for retailers and distributors who do not comply with the MRP set by the companies. Only one manufacturer imposes consequences for non-compliance with the MRP (Figure 6).

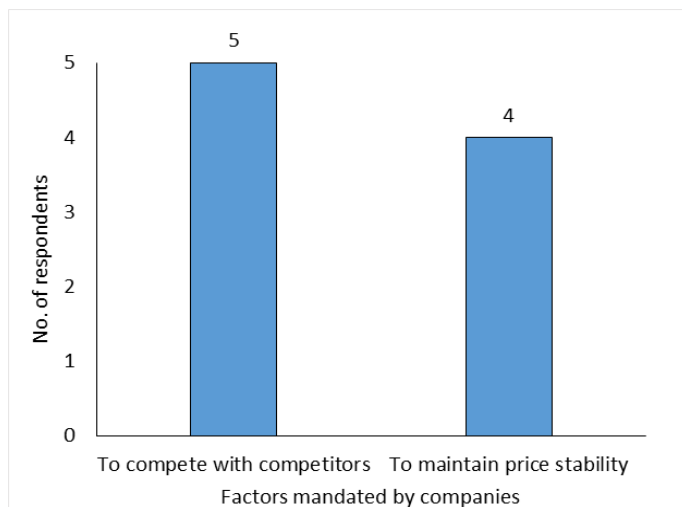


Figure 7. Factors that mandate retailers to sell at MRP

Of the nine manufacturers who require retailers to sell products at the set Maximum Retail Price (MRP), five state that this is necessary to remain competitive in the market. Given the presence of many manufacturers producing similar products in Bhutan's local market, price is the most important factor for staying competitive. Meanwhile, four manufacturers claim that the primary purpose of the MRP is to maintain price stability.

3.1.5 Frequency of Review and update of MRP by the Manufacturers

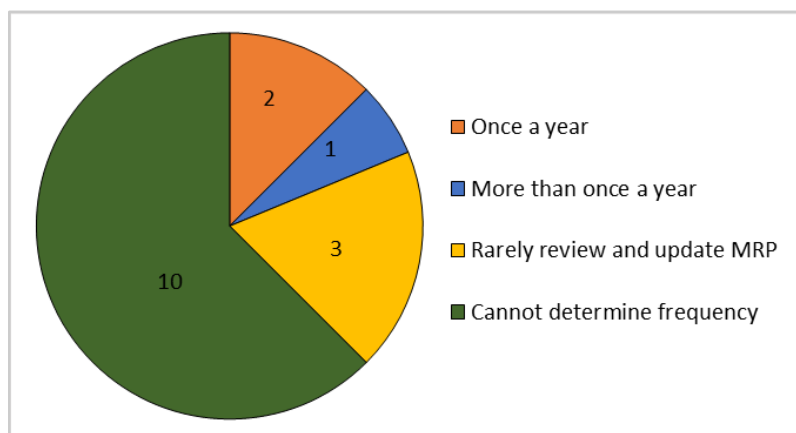


Figure 8. MRP update and review frequency

As illustrated in Figure 8, the majority of ten manufacturers are unable to determine the frequency of updating and reviewing the MRP of their products due to their reliance on various factors. Three manufacturers rarely review and update the MRP, with their reviews depending on factors such as increases in production costs, competitor prices, and market demand. Two manufacturers claim to review and update their products' MRP annually to ensure alignment with changes in production costs, market dynamics, and competitor pricing strategies. Only one manufacturer reports updating and reviewing MRP more than once a year.

3.1.6 Distribution Channels of the Manufacturers

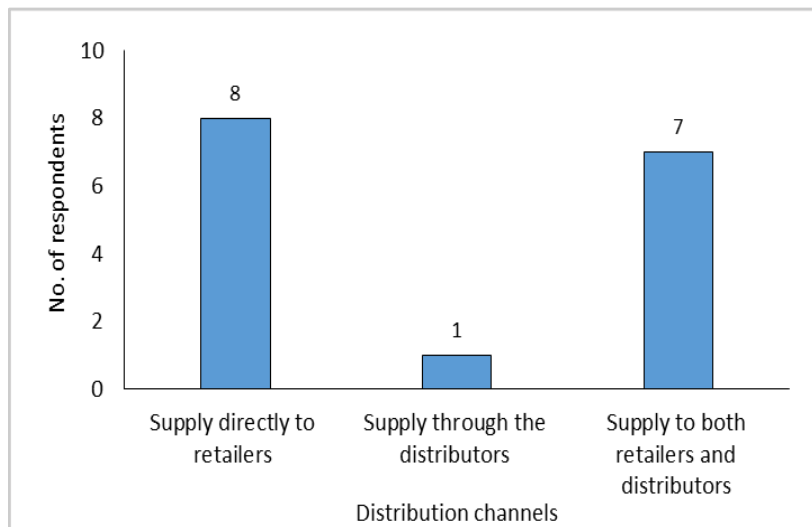


Figure 9. Distribution channels of producers

Distribution channels are crucial for producers to ensure the timely delivery of quality products to consumers. According to Figure 7, the majority of manufacturers (8) indicated that they directly supply their products to retailers. Seven producers supply to both retailers and distributors, while only one producer relies solely on distributors to supply their products.

Manufacturers who choose to supply their products through distributors often implement strategies to maintain selling prices below the Maximum Retail Prices (MRP). They achieve this by either offering a certain percentage of price reduction or providing commissions to distributors for distributing their products. These strategies help producers manage and maintain the MRP for their products throughout the supply chain, ensuring consistent pricing and accessibility for consumers.

3.1.7 Suggestion for Enforcement

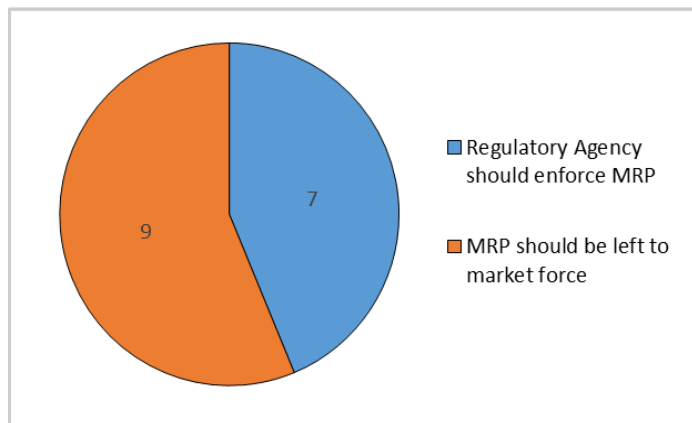


Figure 10. Suggestion on implement of MRP

In India, the Maximum Retail Price (MRP) system is rigorously overseen by government bodies to uphold price stability and safeguard consumers against price manipulation. Within our market, there are varying viewpoints among manufacturers regarding the regulation of MRP.

Nine manufacturers advocate for allowing market forces to determine the MRP. They contend that since they do not factor in the retailer's profit margin when setting their product's MRP, letting the market dictate prices is more efficient.

Conversely, seven manufacturers endorse the idea of regulatory agencies enforcing MRP to ensure price stability. They observe that some manufacturers sell their products at lower prices to enable retailers to adhere to the MRP. This approach, they argue, would mitigate price exploitation and ensures consumers are not overcharged.

3.2. Retailers

3.2.1 Retailers Selling Products at MRP Fixed by the Manufacturers

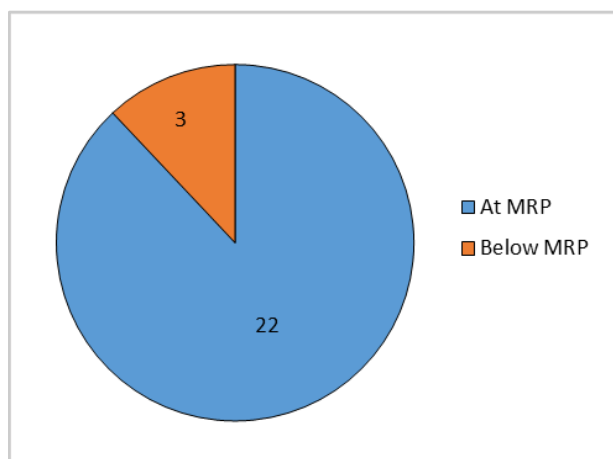


Figure 11. Number of Retailers selling products at MRP fixed by Manufacturers

As illustrated in Figure 11, 23 retailers in Thimphu adhere to the Maximum Retail Price (MRP) established by Bhutanese manufacturers for their products. Nevertheless, three retailers stated that they sell products below the MRP to draw more customers. Additionally, other retailers indicated that they sell certain products below the MRP when offered a scheme by manufacturers.

3.2.2 Enforcement of MRP by Manufacturers in Local Market

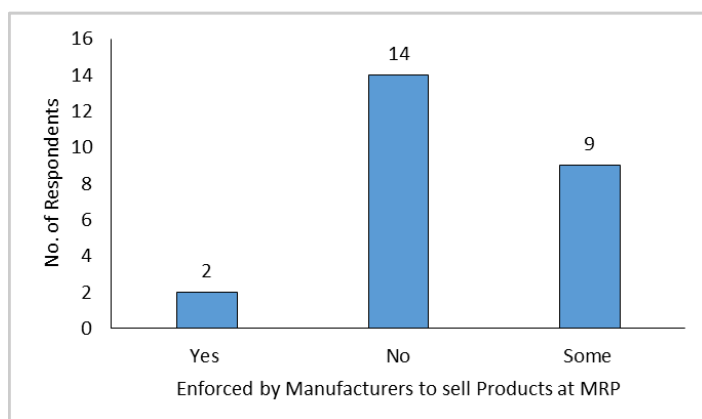


Figure 12. Enforcement of MRP by Manufacturers

Fourteen retailers asserted that manufacturers do not uphold their Maximum Retail Price (MRP) in the retail market, whereas nine retailers stated that some manufacturers remind them to sell at the MRP set by them. This is because the costs incurred by retailers are included in the MRP set by manufacturers, and it helps in promoting their products in the market. Two retailers claimed that they are compelled by manufacturers to sell at the MRP set by the manufacturers.

4. Recommendation

While many manufacturers set the Maximum Retail Price (MRP) of their products, this pricing is often not strictly based on production and market dynamics, which can lead to MRPs that do not accurately reflect true market conditions. This can make it challenging to implement MRPs effectively through regulatory mechanisms. However, retailers do sell products at or below the MRP depending on the market situation, indicating that enforcement is possible.

For now, it is only appropriate to advise these manufacturers to realistically determine the MRP and strictly enforce it by embedding the requirement in their sales terms and conditions and other self-regulation systems. As retailers are able to maintain these MRPs, the CCAA should advise consumers to compare prices and make informed purchasing decisions.

Additionally, retailers should be reminded to affix the retail price on the product if they do not sell at the set MRP due to inability. It should be made clear that without the retail price affixed, the MRP on the product should be applied.