

# **Management Economics**

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## Company background

Johnson & Johnson, a worldwide corporation with headquarters in the United States and operations in the UK, was founded in 1886. It is one of the biggest consumer products and healthcare firms in the world. With an emphasis on pharmaceuticals, medical equipment, and consumer health products, Johnson & Johnson works via several divisions and subsidiaries. The consumer health industry, which provides a variety of products for baby and personal care, is one of its well-known subsectors.

Figure 1: Johnson & Johnson Logo

(Source: Pharmaphorum)

## Chosen product

Johnson & Johnson's newborn care products are particularly well-known in this industry. These products cover a wide range of items, including baby powder, tissues, lotions, cleansers, and moisturisers. The infant powder from Johnson & Johnson stands out as a well-liked option within the collection of baby care

products. This talc-based powder was created particularly to aid in preserving the delicate softness, smoothness, and dryness of babies' skin. It has gentle ingredients that are suitable for babies. Due to its enduring reputation, Johnson's baby powder has been a preferred brand in numerous homes for many years (Ullah, 2021).

Figure 2: Johnson's baby products

(Source: [www.johnsonsbaby.in](http://www.johnsonsbaby.in))

## **Reason to choose it**

Johnson's baby powder was chosen as the featured product because of its long history of success and appeal to parents. The company's reputation for dependability and effectiveness in treating nappy rash and encouraging newborn

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hygiene has grown. The powder keeps the baby's skin dry and helps prevent irritation and discomfort by absorbing extra moisture.

Johnson's infant powder furthermore goes through extensive dermatological testing to guarantee its safety for usage on small infants. To adhere to legal requirements and guarantee client satisfaction, the organisation employs stringent quality control methods.

Overall, Johnson's infant powder is a dependable option for parents looking for newborn care products due to its long-standing reputation, ability to effectively

treat diaper rash, and commitment to safety.

# **Identify Demand and Market Equilibrium**

## **Price of substitutes**

Alternative baby powders or powders with different compositions can be used as Johnson's baby powder alternatives. Powders based on cornflour, arrowroot, or talc-free baby powders are a few typical replacements. The advantages of absorbing moisture and keeping the baby's skin dry and pleasant are identical to those offered by these substitutes.

Depending on the brand and the precise components used, substitution costs may change. However, due to worries about the possible health dangers linked to talc-based powders, there has been a rise in the demand for talc-free and natural baby powders in recent years. The market for alternative powders has expanded as a consequence of the rising demand, which might lead to more alternatives and possibly lower prices (Mani, et al, 2020).

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The demand for Johnson's baby powder may be impacted by talc-free alternatives' rising popularity and availability. Some parents might decide to convert to talc-free products because of personal preferences or health issues. Johnson's baby powder may therefore face a drop in demand from customers who actively seek out talc-free or natural substitutes (Mohammadian et al., 2019).

## **Price of complements**

Other baby care items from the same manufacturer, such as Johnson's baby shampoo, lotion, oil, or wipes, can be used in conjunction with Johnson's baby powder. These items are frequently used in tandem with one another since they are made to perform well together in a baby's skincare routine (Johnson, Adkins, and Chauvin, 2020).

The cost of complements may vary based on the particular product and the state of the market. The demand for Johnson's baby powder, however, is typically not significantly affected by changes in the cost of accessories. Johnson's baby powder users are likely to keep buying it despite price increases in supplements if they are happy with the product. The powder's reputation, efficacy, and customer trust are the main factors influencing consumer demand.

## **Consumer Income**

Beyond my knowledge cutoff in September 2021, updated economic statistics are needed to determine if consumer income is rising or falling. I can, however, give a broad overview of how shifting consumer income might impact the market for infant care items like Johnson's baby powder.

The demand for baby care items may be positively impacted by rising consumer

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income. Parents may be more inclined to spend on upscale or well-known brands like Johnson & Johnson if they have more disposable cash. To protect the welfare and comfort of their newborns, they can prioritise investing in high-quality baby care goods, such as baby powder (Krishna, et al, 2017).

On the other side, the demand for various baby care goods may be somewhat harmed if consumer income is falling. Some families may choose more cost-effective options or limit their overall expenditure on non-essential things, such as some branded infant care products, during hard times. In place of more expensive brands, they can decide to buy generic or store-brand baby powders.

## **Consumer tastes & preferences**

Companies like Johnson & Johnson must be aware of how consumer tastes are changing since they are continuously changing. Due to rising environmental awareness and customer concern for their health, there has been a noticeable movement in recent years towards natural and eco-friendly products. This shift in

customer preferences may affect how much Johnson's baby powder is purchased.

Baby powders using talc may become less popular as customers place a greater emphasis on natural and talc-free alternatives. Parents may decide to switch to talc-free powders or investigate other possibilities that they feel are more secure or ecologically beneficial. The market for conventional talc-based baby powders like Johnson's baby powder may decline as a result of this shift in customer preferences (Borgatti, Everett, and Johnson, 2018).

Johnson & Johnson has increased its line of natural and organic infant care products and offered talc-free variants of its baby powder to adjust to shifting consumer tastes. They want to preserve and gain market share among customers

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looking for more natural and environmentally friendly solutions by providing options that are in line with changing consumer tastes.

## **Consumer expectations of price**

Several elements, such as market circumstances, inflation rates, and industry trends, might affect consumer expectations regarding pricing. However, in general, customers may be prompted to make quick purchases to avoid greater expenditures if they anticipate that the price of a good or service will grow in the future. As customers attempt to buy the goods at the present price, this can temporarily raise demand. On the other hand, if customers anticipate a price drop, they could put off making purchases, which might lead to a brief drop in demand.

It's important to note that elements other than price, such as brand recognition, utility, and customer trust, also have a big impact on how much demand there is for items like Johnson's baby powder. Consumers may still be eager to buy a product even though they expect a price increase if they believe it to be a reliable and practical solution for the care of their infant (Stoesser, et al, 2016).

To make intelligent price decisions and adjust their strategy appropriately,

businesses like Johnson & Johnson must regularly analyse consumer expectations, market dynamics, and competition.

## Demographics

The fact that more people are purchasing Johnson's baby powder typically denotes a favourable trend for the product's demand. An expanding customer base that appreciates the worth and advantages of the product is implied by a rising number of buyers. Growing sales of a product can be attributed to a variety of causes,

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including:

**1. Population growth:** A greater pool of prospective customers for infant care items like Johnson's baby powder may result from an overall rise in population, particularly in the target market of parents or carers.

**2. Increasing knowledge and education:** More parents are cognizant of utilising certain items for their new-born as awareness of the value of baby cleanliness and skin care grows. This increased knowledge may prompt more customers to look for reputable infant care companies like Johnson & Johnson (Blanton, et al, 2017).

**3. Excellent word-of-mouth and recommendations:** Pleased customers frequently tell others about their excellent experiences and suggestions, which can persuade their friends to buy the same thing. Marketing through word-of-mouth has the potential to expand a company's customer base.

**4. Increasing distribution channels:** Johnson & Johnson can improve accessibility and draw in more customers if it increases the number of pharmacies and supermarkets it works with or increases the number of retail marketplaces it enters.

The demand for Johnson's baby powder is directly impacted by the growing number of customers. Demand increases when more people buy the goods, which might lead to higher production and sales levels. This may also result in economies

of scale, which can enable the business to cut production costs and provide competitive pricing.

Additionally, an expanding customer base shows that Johnson's baby powder is satisfying the demands and tastes of a larger market. As more consumers select Johnson & Johnson for their newborn care requirements, it can also signify brand

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trust. This encouraging tendency may help the product succeed over the long run and rule the market.

## **Factors that influence the Price Elasticity of Demand**

### **Luxury vs. Necessity**

Johnson's baby powder might be viewed as a need rather than a luxury from the perspective of the consumer. Baby powder is frequently applied to infant skin to keep it dry, lessen friction and avoid diaper rash. Baby powder is a crucial component of many parents' routines for caring for their infants since it's crucial to maintain their comfort and well-being.

The demand for Johnson's baby powder is often more rigid because it is a requirement. Price changes have a substantially lower influence on the quantity sought when there is inelastic demand. When it comes to important infant care goods, parents place a higher priority on their children's health and sanitation than on price fluctuations (Corrigan, O'Connor, and Rousu, 2020).

Parents are more inclined to keep buying Johnson's baby powder even if the price goes up rather than look for less expensive options. This is because they have grown to trust the company, respect its reputation, and think it is suitable for their baby's requirements. The perception of Johnson & Johnson as a high-quality, trustworthy brand that has been around for a while plays a role in the infant powder

Parents may also be reluctant to move to new brands or alternative goods because

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they are worried about the hazards involved with untested or unfamiliar alternatives. This provides additional evidence that Johnson's baby powder demand is more inelastic.

The demand for baby powder may be more elastic for certain people due to their diverse tastes or budgetary restrictions, thus it's crucial to keep in mind that customer behaviour might vary. Although Johnson's baby powder demand is often seen as being inelastic due to its requirement and brand recognition, elasticity can be somewhat influenced by specific customer situations and preferences (Johnson and Khoshgoftaar, 2019).

## **Percentage of income**

The average consumer spends only a little amount of their money on Johnson's baby powder. Compared to other infant care items or necessities, baby powder is a comparatively inexpensive item. As a result, a wider range of consumers, including those with different economic levels, are more likely to find it inexpensive.

It usually means that the demand for that product is more inelastic when it just makes up a tiny fraction of a consumer's income. Price changes have a substantially lower influence on the quantity sought when there is inelastic demand. Even if the price goes up for Johnson's baby powder, it could not have a significant effect on customers' overall spending habits.

When it comes to purchasing infant care necessities like baby powder, parents are less likely to be particularly price sensitive because their babies' comfort and well-being come first. They are more likely to keep purchasing the goods despite minor price changes since it is affordable given their income (Tan, Xiao, and Zhou, 2019).

Additionally, Johnson's baby powders perceived value and need also contribute significantly to its inelastic demand. To avoid diaper rash and maintain their baby's dry skin, parents frequently see baby powder as an essential component of their baby's care regimen. Even with slight price increases, people are still eager to buy Johnson's baby powder because of its perceived advantages and brand image.

The amount of money spent on a product might vary depending on the user, and some people with lesser means can find that the cost of baby powder is comparatively more onerous. Therefore, even if a consumer's spending on Johnson's baby powder normally only accounts for a small fraction of their income, certain conditions might nevertheless have a minor impact on the elasticity of demand.

## **Pricing policy**

Utilising a penetration pricing approach would be advantageous for Johnson's baby powder. Setting a product's price comparatively low to increase market share and draw in more consumers is known as penetration pricing. Here's why Johnson's baby powder might benefit from such a price strategy:

**1. Market Share Expansion:** By establishing reasonable pricing, Johnson & Johnson may be able to draw in more clients and maybe increase its market share. Parents, particularly those with limited funds, could be more prone to select a less expensive choice while still appreciating Johnson & Johnson's well-known brand name.

**2. Competitive Advantage:** Johnson & Johnson may set itself apart from rivals by using penetration pricing. It could persuade customers who are debating between Johnson's baby powder and less well-known brands by positioning it as an

economical and accessible option.

**3. Stimulating Demand:** A lower price point may boost demand, especially among people who are sensitive to pricing. Johnson's baby powder's cost and value may entice parents to try it or switch from rival products.

**4. Creating Loyal Customers:** By providing reasonable pricing, Johnson & Johnson may create loyal customers and forge lasting bonds with parents. After using the product, buyers may be more willing to stick with it even if the price rises in the future since they will have seen for themselves how well-made and useful it is.

**5. Market Entry and Expansion:** When breaking into new markets or launching new product iterations, penetration pricing may be very beneficial. Johnson & Johnson benefits from swift market share growth, brand recognition, and presence establishment.

It's crucial to remember that while penetration pricing may work well at first, Johnson & Johnson should think about making price modifications as the product gains traction and client loyalty is cemented. It's critical to maintain a balance between affordability and profitability while gradually raising the price to correspond with market demand.

With the use of a penetration pricing plan, Johnson's baby powder may expand its market, gain a competitive edge, boost demand, and win over customers' loyalty, laying the groundwork for long-term success in the infant care industry. Johnson & Johnson may draw in new clients, set itself apart from other businesses, and cultivate a devoted following by providing competitive pricing. This strategy promotes demand, expands the market, and positions the product as an affordable

option, all of which contribute to the brand's overall expansion and success in the

## **Conclusion**

This report gave a general overview of Johnson & Johnson, a large global company well-known for its consumer goods and healthcare offerings. The consumer healthcare division of Johnson & Johnson and its well-known infant care products were featured in the study. Johnson's baby talc was specially picked out of this group to be the featured product because of its enduring reputation, ability to effectively treat diaper rash and dedication to safety. The significance of Johnson's baby talc as a reputable brand for parents, as well as its gentle formulation and stringent quality control procedures, were emphasised in the research. Overall, parents looking for dependable and efficient infant care products continue to choose Johnson & Johnson's baby talc.

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