



Volume 7, Number 1, 2008

5

ADVANCES IN MANAGEMENT

*A Publication of
The Department of Business Administration,
University of Ilorin, Nigeria.*

pages 114 - 123

Advances
In
Management

Journal of the
Department of Business Administration
University of Ilorin, Ilorin, Nigeria.

A Publication of
The Department of Business Administration
University of Ilorin, Ilorin,
Nigeria.

ISSN: 0795-6967

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AN EVALUATION OF VALUE ANALYSIS AS A CORPORATE STRATEGY IN THE ATTAINMENT OF ORGANIZATIONAL OBJECTIVES IN NIGERIA

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Abstract

The focus of corporate performance had been on reporting higher profits rather than shareholders wealth maximization. The ability to report such higher profit was a reflection of corporate efficiency even to the detriment of other crucial organizational objectives ranging from customer retention through improved product quality to employee satisfaction. All these are expected to be achieved within the framework of the industry regulation.

Today, profitability alone had been adjudged as an inadequate measure of corporate efficiency. This therefore call for a more pragmatic approach of producing goods/services at lower costs without a reduction in value (value analysis). The efficiency of this approach supersedes the traditional approaches of cost reduction and cost control in achieving other organizational multifarious objectives.

This study evaluates the applicability and extent of practice of value analysis in comparison with traditional approaches to achieving organization objectives in Nigerian Manufacturing companies, using Cadbury Nigerian Plc; as case study through interval estimates method of analysis.

The study revealed a fairly satisfactory level of practice of value analysis in spite of the company's major focus on traditional techniques. It equally revealed a sharp customers response to price-quality relationship and recommends a more dedicated efforts towards improving the practice of value analysis.

Introduction

Recently, the common concern to every participant in a market economy is the

ADVANCES IN MANAGEMENT

Vol. 7, No. 1 (2008)

(A Journal of the Department of Business Administration, University of Ilorin, Ilorin, Nigeria.)

magnitude at which prices of goods multiplied in recent times in Nigeria. This is in addition to the multiplier effect associated with the process of transacting business in Nigeria; for instance, as customers complain bitterly of exorbitant prices, likewise sellers and manufacturers remain worried about low profitability returns in the face of ever increasing competition in both domestic and international markets that are characterized by differentiated products while investors remain skeptical about investment returns.

As a result, customers shift from one product to another in search of value that rarely comes despite their readiness to purchase. All they are confronted with are higher prices, low quality, and at times temporary scarcity in place of value for money objective they pursue. The management of companies also seeks for cover everywhere to justify low profitability returns while trying to checkmate competition and its resultant effect on sales (revenue and profitability reduction) caused by product proliferation and imitation.

The new world order marked by global uncertainty with hard economic times had made every potential buyer to seek value for every unit of his expenditure and the ability to report higher profit had failed the litmus test for corporate performance measurement for manufacturing companies due to its highly subjective nature. In addition, the value of company's product is a factor that cannot be dispensed with, as emphasized by International Standard Organization (ISO) in performance measurement.

To satisfy the above multifarious requirements, companies have adopted a new strategy called value analysis. This means a reduction in cost without necessarily reducing the value of the product. This can be achieved through a systematic analysis of every work performed in every department in order to formulate the most effective way of obtaining an ideal system of utilizing people, machines and material in the work places. Therefore, if cost management is to be really effective, there should be an integration of all functions within the business in such a way that costs should add up and be managed by competent hands. This is perhaps the bedrock of value analysis.

Statement of the Problem

The need to satisfy the conflicting demands of various stakeholders while operating within the regulatory framework is an issue that continues to bother the management of manufacturing companies in their quest to attain greater heights. The management is thus placed in a difficult position that hinders high returns in terms of dividends to shareholders. High profits and dividends can be achieved through increased prices that customers are not ready to pay. Worse still, customers equally demand for high quality products at reduced prices while providers of funds lend at prohibitive interest rates and for shorter repayment period while regulatory bodies such as International Standard Organisation (ISO) and National Agency for Food, Drug and Administration and Control (NAFDAC) set minimum standards below which companies' products must not fall. But manufacturing must of course continue if human existence is to be guaranteed. What then is the way out? This calls for an approach that is capable of achieving organizations multi-faceted objectives in the face of competing socio-economic demands as constraints. This vacuum can be filled by value analysis.

Justification for the Study

The early scientific management pioneers advocated seeking the best way to attack waste with the admonition to work smarter and not harder while cost reduction and cost control had been variously emphasized and discussed in the literature either

separately or collectively but they all failed in solving organizations problems.

Today, the changing nature of industry calls for a switch in emphasis to a more conceptual technique of a total system approach, which goes beyond formulating of dos and don'ts for direct labour and material control and leave all other areas to a superficial examination of the methods used for absorbing overhead costs. This approach also seeks to maximize efficiency in terms of profit, employee and customers' satisfaction, return to shareholders without reducing product quality (Courtney 2002).

It is in the spirit of providing remedy to inadequacies of the hitherto discussed methods that value analysis is justified and discussed in relation to cost management.

This study will therefore be of assistance to production and purchasing managers as well as operation managers in decision-making that are related to how cost can be reduced while retaining product quality. It will also improve the nation's standard of living as good quality products are made available at a lower cost while at the same time maintain adequate returns to shareholders.

Objectives of the Study

The primary objective of this study is to evaluate the extent of practice of value analysis (cost management) by Manufacturing Companies in Nigeria, using Cadbury Nigeria Plc., as a case study as well as to determine its impact on organization objectives with respect to profitability, customer satisfaction, market share and shareholders satisfaction.

The specific objectives of the study are to:

- (i) estimate the degree of customers' response to value analysis in terms of price-utility relationship;
- (ii) determine the extent of practice of traditional cost reduction techniques and compare same with the practice of value analysis;
- (iii) determine the extent of applicability of value analysis and its impact on profitability; and
- (iv) proffer policy recommendations based on the findings from the study.

Scope of the Study

This study considers Nigerian Manufacturing Companies only with particular reference to Cadbury Nigeria Plc., over a seventy eight weeks period (between July 2005 and December 2006)

Literature Review

In this section, the following are discussed namely; Organizations Goal and Objectives in line with cost reduction and cost control. These are the anvil upon which value analysis spine revolves.

Organizational goals and objectives

Organizational objectives are numerous ranging from profit maximization, maximizing earnings per share to shareholders wealth maximization (Pandey, 1991). But in the new business environment, profit maximization is regarded as unrealistic, difficult, inappropriate and immoral because it suffers from definitional problems, ignores timing of returns and risk while maximizing Earning Per Share (EPS) is considered

consistent with survival goal and with the personal objectives of the managers, such as recognition, power, status and personal wealth (Anthony, 1962).

The objective of shareholders wealth maximization is an appropriate and operationally feasible criterion to choose among the alternative organizational objectives and this implies that the fundamental objective of a firm is to maximize the market value of its shares (Pandey, 1999). But shares value is maximized if profit is maximized while cost are constantly reduced and kept under control. This is the concept of value analysis.

But any firm seeking to maximize its profit in the long run must select the economically and technically efficient method, which is the method that produces its output at the lowest possible cost and the best company therefore is the one that produces goods/services at the lowest cost without quality reduction while simultaneously satisfying its shareholders and the employees through adequate returns. (Courtney, 2002).

Cost Reduction and Cost Control

Cost reduction should not be confused but differentiated from cost control. Olowokure (1981) defined cost reduction as a "systematic approach to the achievement of real and permanent reduction in the unit cost of producing goods or rendering services without impairing the quality and functional elements of outputs". It starts with an assumption that current or planned cost levels are too high, even though cost control might be good and efficiency levels high.

Cost control on the other hand is:

the regulation of the cost of operating a business and is concerned with keeping cost within acceptable limits, the limit will usually be specified as a standard cost in a formal operational plan or budget. If the actual cost differ from planned cost by an excessive amount, cost control action will be necessary (Ayinde 1999).

Cost is any consideration given up in exchange for a benefit while profit is revenue less controllable divisional costs and apportioned central administration costs Lucey (1988).

Profit can be improved either by increasing the sale value/quantity or reducing the cost or both, but in most cases, sales revenue depend on market forces which can seldom be substantially influenced by manager and even a real increase in cost cannot be passed on fully to customers because if demand falls and there is the need to reduce price to boost sales, hence a portion of the costs is borne by the manufacturer. In this spirit, Ayinde (1999) therefore was of the view that it is not always possible to improve profit by increasing the sales value but believe that cost reduction is generally the only alternative for improving the profitability of a product.

David and Kogan (2001) had identified the problem involved in cost control in industries as always complex and became further complicated due to international competition, fast changing technology and paradigm shift in information and communication. They observed that traditional budgeting mechanisms are more mechanical and trend based because decision are taken at the top and there is parroting back syndrome, which inhibits critical analysis.

Arunajatesan (2001) was skeptical about the efficacy of corporate rushing to information technology if made without analyzing the cost compatibility, staff competence and problem of obsolescence. However, he opted for the pursuit of cost improvement as a permanent objective to guide the management in daily business and not just an ad-hoc effort of cutting cost and get distracted with main focus of customers' retention.

Many companies are retrenching in the face of economic downturn or reduce cost to maintain financial stability because they see cost reduction as an end in itself, but they need to broaden their vision by recognizing that cost reduction is only one component of cost management (Courtney 2002).

A virile tool of cost management is value analysis, which is needed to achieve sustained growth because it addresses other components of the company's management structure, process and technology (David and Kogan 2001). In the operation of value analysis, product design features are evaluated relating to cost and construction while elements not contributing to functions are eliminated (Jarvis, 2002).

According to Courtney (2002), value analysis takes a company through three levels in evolutionary cycle. These cycles are:

Business Function (Tactical): Here, a company's processes are concentrated on the business function within a single department. Manager tends to fixate on isolated cost centers such as human resources, real estate, training or research and development.

Business Aligned: The Company's processes are focused on cost- enterprise efforts that involve the whole value chain. For example, a company creates a business to cross-sell to customers through online and traditional channels, realize cost efficiencies, build customers loyalty and increase sales.

Ecosystem aligned: At this highest level, a company moves beyond its own boundaries into the connected world. Its processes are highly involved, enabling it to develop alliances and partnerships with other companies to better manage cost. Here, cost management is fully integrated into a company's culture, strategies and operations that bring benefits of sharing centralized facilities and resources such as corporate headquarters, top management, and research and product development (Adekanola, 2007). Companies at this level see cost management not only in terms of reducing expenditures or increasing operating efficiencies, but also in term of doing things in new, different and imaginative ways.

Courtney (2002) concluded that the growth of the ecosystem had opened up more opportunities for the formation of organizations that can adapt quickly to change, deliver predictable value and efficiency, achieve significant competitive advantage, and realize significant cost saving but it requires imagination and bold leadership.

The Value Analysis Process

Jarvis (2002) asserted that value analysis is based on the application of a systematic work plan that may be divided into six steps namely orientation, information, analysis, innovation, evaluation, implementation and monitoring.

At orientation stage, what to be analyzed is identified and this will typically be one of manufactured items, a process or service while information stage identified and prioritise the customer of the item.

Analysis phase is the stage where functions of the product are analyzed by

functional analysis, which aimed at identifying functions given by a product or part of it. Functions have an important (weight) and a cost. These costs are quantified and this leads to a list of functions ordered by their importance and value

At innovation phase, alternatives are generated starting from the analysis of functions and costs, as well as a search for means that allow elimination, change or improvement and functions. The evaluation stage represents a confrontation of ideas, a collection of information about the feasibility and cost of those ideas and measures the values of the best idea. The implementation and monitoring phase summarizes and concludes the work that has been done here along with specific proposals. Action plans for implementation are equally described.

Benefits of Value Analysis

Some of the major advantages of using value analysis according to Jarvis (2002) can be summarized into a high customer orientation focusing on those aspects of the product/service that better satisfy customers' needs. Value analysis equally brings cost reduction by eliminating functions that do not supply specific advantages to satisfy customers' requirements.

Also, new ideas that arise from the creativity/innovation phase may add radical changes and therefore competitive advantages that will be regarded by the market. In addition, value analysis creates a new systematic mentality to be taken into account for the designs of new products or to systematically improve the existing ones.

By eliminating cost functions, Jarvis (2002) pointed out that the only drawback to the value analysis process is that it requires thorough supervision, lesser number of staff but with higher intelligence than is required by ordinary traditional approach to achieving organizational objectives.

Methodology for the Study

Only primary data were used in this study and were obtained through questionnaire administration on the staff of Cadbury Nig. Plc. as well as customers selected from different Supermarkets and Market places in Ilorin metropolis. These questionnaires were designed and used to obtain information on the extent of practice of value analysis concept by Cadbury Nigeria Plc, in relation to its wealth maximization objective. This is in comparison with the traditional approaches to achieving the same objectives. It also measures how customers perceive receipt of value for their pay.

In this regard, the five (5) Supermarkets selected for questionnaire administration were Fas, Gomola, Chuppet, Winners and B-System Supermarkets while the four (4) Market places selected were Oja Oba, Oja Tuntun, Ipata Market and Yoruba Road. These sample units were selected based on customer/consumer concentration in the sales outlets in Ilorin metropolis.

One hundred (100) out of the One hundred and twenty (120) staff of Cadbury Plc, in the Production, Purchasing and administrative segments were selected for questionnaire administration in the ratio 2:2:1, (40:40:20) which is the ratio of their staff strength. Also, One Hundred (100) Questionnaires each was administered on customers of each of the Supermarkets over a seventy eight weeks period, with larger quantity administered after the working hours and weekends. This was done to capture higher purchases that usually occur during those periods. However, In each of the Oja Oba, Oja Tuntun, Ipata Markets one hundred (100) questionnaires were successfully

administered. In Yoruba Road, two hundred (200) questionnaires were successfully administered due to organised nature of the market making a total of one thousand (1000) questionnaires in all. Late hours as well as Weekend buyers were also taken into consideration.

The data collected were analyzed using:

Arithmetic Mean: This is the sum of all values of a given variable divided by the number of value in a set of data, and;

Interval Estimate: This is the estimate of the population value using the sample value.

Formula = $X - 1.96S/\sqrt{N} < \mu < X + 1.96S/\sqrt{N}$. Where:

X = Sample mean

μ = Population size

N = Sample size

S = Population standard deviation and sample standard deviation and 1.96 is a value of 95% confidence limit.

The variables used are the weights assigned to the extent of practice of value analysis by the Cadbury Plc; and customers' perception of utility and price of Bournvita.

Variables	Weight
Extremely satisfactory	3
Fairly satisfactory	2
Quite satisfactory	1

(Adapted from Likert Scale of 1- 5 to reflect the circumstances in this study)

If by evaluation an interval estimate of 3 results, it means the company is practicing the concept of value analysis to a point that can be classified as extreme satisfaction.

On the other hand, if any of 1 or 2 weights come out of interval estimates evaluation that means the practice of value analysis still leave room for improvement, which translates to mean that the company still operate inefficiently

Data presentation, Result analysis and Discussion of Findings

The data collected as well as the summary of analysis were presented in the appendices I and II while the discussion of findings is as follows:

Items in the appendix I show an interval estimate of between 2.7 and 2.9 i.e. a 97% consciousness of Cadbury Plc. to cost of electricity, telephone, fuel, waste, and other overhead cost. This means that the performance of the company in keeping these costs under proper control is close to extreme satisfaction of 3, which carries a weight of 100%. The control and reduction of these costs emphasizes the traditional approaches to achieving organizational objectives, which had been proved to be out of vogue in efficiency improvement.

Concerning regular evaluation of products-utility, esteem as well as market values, the interval estimate is between 1.79 and 2.09, which accounts for 60% to 70% performance by the company.

Cadbury Nig. Plc's performance in respect of assessing customers' opinion and feedback for decision-making ranges between 1.93 and 2.25. The company's performance in respect of review of cost functional relationship of product component

and idea construction, information collection and selection of the best alternative ranges from 58% to 71% as reflected by an interval estimate of between 1.75 and 2.14.

Also, appendix II reveal the following responses from the staff of Cadbury Nig. Plc:

The common components of Bournvita mentioned by staff of the company are:

- (a) Cocoa powder, glucose, sugar, eggs, milk, vitamins and minerals.
- (b) They mentioned component vitamins to include: Vitamins A, C, E and B complex while component minerals to include: iron, protein, phosphorous, magnesium and potassium.
- (c) The customers equally assert that the group of vitamins that performs relatively the same function is vitamin B2 and vitamin D, while those minerals that serve relatively the same function are zinc and calcium.

However, the examination of Bournvita components reveal the following:

- (a) That Vitamins A, C and D performs interwoven functions of bone growth that are relatively the same.
- (b) In the category of minerals, phosphorous and potassium aid nerve and muscle proper functioning while magnesium and carbohydrates helps in energy supply.
- (c) The components of Bournvita include: malt extract, sugar, glucose, cocoa powder, milk protein, emulsifier, vitamins and minerals.

In terms of customers' perception of the price utility relations of Bournvita consumption, the interval estimate was between 1.94 and 2.26, which represent a 65%, -75% awareness.

The customers' survey revealed a preference for tin package as opposed to paper package as well as increased quality at reduced prices. The percentage of performance for these is 70% and 87% respectively and customers promise an increase in demand if quality Bournvita is offered at reduced prices

The company's evaluation of the practice of value analyses in totality is measured in terms of value analysis process, procedures and attributes. This reveals a fairly satisfactory performance as reflected by an interval estimate range of 1.75 and 2.25, a percentage performance of between 60% and 75% while its consciousness to cost of electricity, telephone, fuel, waste, wages and salaries and others is between 90% to 97% which is a traditional approach to efficiency improvement.

By inference therefore, the current profitability returns of Cadbury Nig. Plc. Could have been better if an improved technique of cost reduction and cost control is adopted instead of the current traditional approach being emphasized.

Conclusion

Some components (vitamins and minerals) of Bournvita perform the same function. Customers' response to price-quality relationship is swift. Since Value Analysis is only practiced on a fairly satisfactory level and customers demand for reduced prices and improved quality products, there is still need for improvement in term of quality and price which will increase productivity, enhance sale revenue and goodwill, ensure satisfaction of customers, creditors and suppliers as well as employees (corporate efficiency) through the spiral effect on sales, return and profitability as well as dividends.

The staffs are not well informed of the practice of Value Analysis Concept which

results in the current low level of practice of value analysis as well as the company's current low level performance (profitability) of Cadbury Plc.. This result is adjudged less satisfactory if an improved practice of value analysis is capable of improving corporate efficiency as revealed by Courtney's (2002) study where one of the world's leading managing companies dramatically increased its efficiency and saves more than seven million dollars (\$7m).

This translates to mean that the company can still do better by jettisoning the outdated, less effective traditional approach, adopt the new mantra 'value analysis' and thereby overcome corporate inefficiency.

Recommendation

Sequels to the above conclusion, the following are suggested for efficiency improvement and achievement of corporate objectives:

- Increase application of value analysis through critical analysis of Bournvita
- components with a view to carrying out a careful formula-decomposition
- especially among those components that performs similar functions with a view to increase quality and to reduce price.
- Evaluate alternative sources of material procurement distribution channels with a view to reduce cost.
- Carry out traditional cost reduction and control along with value analysis.

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Appendix I Extent of practice of value analysis

S/N	Concept Assessed	Mean x	weight %	Standard Deviation	Interval Estimate	% I
1.	Evaluation of product's utility esteem and market values.	1.94	65%	0.75	$1.79 < \mu < 2.09$	60% - 70%
2.	Review of cost functional relationship of Product components	1.98	63%	0.76	$1.75 < \mu < 2.00$	58% - 69%
3.	Construction of ideas, information collection and selection of the best alternatives	1.98	66%	0.79	$1.82 < \mu < 2.00$	61% - 71%
4.	How conscious the company is to cost of electricity, telephone, fuel, waste, overtime, salaries and wages etc	2.8	93%	0.5	$2.72 < \mu < 2.90$	90% - 97%
5.	Assessing customers' opinion and feedback for decision making	2.09	70%	0.79	$1.93 < \mu < 2.01$	64% - 75%
6.	Customer perception of the price-utility relationship of Bournvita consumption.	2.1	70%	0.77	$1.94 < \mu < 2.10$	65% - 75%

Source: Authors' Computation

Appendix II - Customer's survey

	Questions	Respondents	Percentage%
1.	What type of needs does Bournvita provides you? (a) Basic (b) Psychological (c) Social/Esteem	428 147 405 980	43.6 15.0 41.4 100
2.	What kind of package do you prefer? (a) Tin (b) Paper (c) Indifference	682 221 77 980	70.0 22.1 7.9 100
3.	How often did you make your Bournvita Purchase? (a) One tin per month (b) When there is no more stock (c) Where there is excess money	365 233 382 980	37.2 23.8 39.0 100
4.	What factor will induce you to buy more Bournvita? (a) Increased quality with increased price (b) Increased price for the same quality (c) Increased quality at reduced price (d) No option (indifference)	— 70 852 58 980	— 7.1 87 5.9 100
5.	How will your buying pattern shift if increased quality Bournvita is offered at reduced price? (a) I will buy more (b) I will be unaffected (c) I will buy less	928 50 2 980	94.7 5.1 0.2 100

Source: Authors' Computation