

MANAGERIAL ECONOMICS

TIME:3 HOURS

MBA 105

MM60

SECTION-A

Q.I Write short notes on the following(any five):

(4*5=20)

- Role of Managerial Economics in decision making.
- Factors determining the elasticity of demand.
- Revenue curves under different market forms.
- Degrees of Price Discrimination.
- Balanced Budget and Foreign Trade Multiplier.
- Any to methods of measurement of National Income.

SECTION-B

(8*4=32)

- Q.II a) "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by the management." Explain.(08)
- b) Suppose there is a sudden increase in the preference for chocolates. But the cost of production rises due to a rise in the price of milk. Use a demand and supply model, to determine what happens to the equilibrium price and quantity in that case. (08)

- Q.III a) Despite its pitfalls forecasting is indispensable to a business firm. Discuss the importance of forecasting in light of this statement. (08)
- b) Explain the law of variable proportions with its various. What are the basic assumptions behind this law. (08)

- Q.IV a) Distinguish economies from diseconomies of scale, and suggest possible causes of each.(08)
- b) To what extent does the kinked demand curve help in explaining price rigidity under oligopoly? (08)

- Q.V a) National Income does not necessarily refer to income produced within the borders of a country. In the context of this statement explain the difference between GNP and GDP. (08)
- b) Globalisation has magnified the effects of business cycles. Discuss in the light of US recession and its impacts on the Indian economy, (08)

SECTION-C

Q.VI Answer the questions following the paragraph titled-'David fights Goliath: The Nirma Story, (2*4=8)

The story of Nirma is a classic example of the success of India entrepreneurship in the face of stiff opposition by big players in the market. Nirma entered the detergents industry with its product based completely on home-ground research and development, clashed head on with the giant multinationals, and wrote a new chapter in the India corporate history.

Indian Soaps and detergents industry

The Indian soaps and detergents industry is characterized by the coexistence of a number of small scale manufacturers of large companies (including MNCs). The late 1960s saw the detergent powder market featured mainly the premium segment dominated by big players, and small players restricted to a smaller share of the market. Presently there are four price-based segments. There are a large number of players in the unorganized sector, which together have 25% of market share; this apart, the market features big brands like HLL, P&G and Nirma, with Nirma as the leader with a 38% share.

On the demand side the fabric wash industry in India is characterized by low per capita consumption and substantial potential in rural markets (in terms of category penetration and per capita consumption). The industry is divided into laundry, soaps, synthetic detergents cakes and powder. The market for soaps and

detergents has increased manifold, thanks to factors like changing lifestyle of consumers, growing purchasing power, increased awareness about personal hygiene, responsiveness to brands offering superior value and penetration of media.

Emergence of David: In 1960s and 1970s the domestic market saw establish companies selling laundry detergent in the form of bars to most Indians; detergent powder was considered a luxury meant for the upper classes. This was the reason behind the inception of a low cost detergent like Nirma.

Founder of Nirma, Dr. Karsanbhai Patel, a qualified Science graduate, bet that the Indian masses would buy powdered detergent if it were affordable. In the summer of 1969 he set up his first small detergent-making unit in the backyard of his home in Ahmedabad. He priced the detergent at Rs. 3 per kg, when the available cheapest brand in the market was Rs. 13 per kg. Every packet of Nirma that Patel sold to his consumers came with a money back guarantee. In a short span of time Nirma created an entirely new market segment and quickly emerged as a household brand.

Hindustan Lever Limited (HLL) was leading the FMCG in detergent powder market with its premium produce Surf. HLL had positioned surf as a premium product of the elite segment, accessible to a select few, due to its high price. HLL used high quality (and high price) ingredients like Active Detergent (AD), builder, buffer, etc. to ensure a superior wash. Nirma powder confirmed to none of HLL's carefully developed product formulae. It did not contain any ingredient to improve the whiteness of fabric and the level of AD it used was half that of Surf. It also did not have any perfume agent. Because of all these reasons, it was able to keep the price of the detergent low.

Product Differentiation: Nirma successfully countered competition from HLL and carved a niche for itself in the lower-end of the detergents and toilet soap market. The brand name became almost synonymous with low-priced detergents and toilet soaps. However, Nirma realized that it would have to launch products for the upper end of the market to retain its middle class consumers, who would graduate to the upper end. In 1990 Nirma entered the toilet soap market to target the premium segment and today it is the second largest toilet soap brand in India.

To stand up against Nirma that kept growing in both volume and market share, HLL had to defend Surf with all its might. HLL had been operating a differentiation led strategy, highlighting the distinctive merits of Surf as a detergent and marketing it as premium product. This policy was successful for two decades, but Nirma compelled HLL to change its strategies. The company decided to enter a price of Rs. 11. Per kg.

Products: Since the launch of Nirma detergent powder in 1969, the Nirma portfolio has expanded to include fabric care products, personal care products, food products, packaging and chemicals. In the fabric care category, Nirma has three products for the lower-end market. The Nirma Yellow Washing Powder is available in pack sizes of 30 gms, 200 gms, 500 gms and 1 kg., and ranked as the largest selling single detergent brand in the world. The Nirma Detergent Cake also also yellow in colour, is ranked as the most distributed detergent cake brand in the country. The launch of the cake came sixteen years after the introduction of the detergent powder. Its success was almost a foregone conclusion. With the launch of the high-TFM content Nirma Beauty Soap, Nirma has already started expansion of its product portfolio. To counter the success of Nirma Beauty Soap, HLL launched Breeze. Nirma countered this by launching another brand, Nirma.

Price

Nirma provides a fine example for a price-led marketing strategy that shattered the near monopoly of HLL. The company had built cost leadership right from the beginning and enjoyed concessions as an SSI unit. Moreover it chose the price conscious segment as its market. Nirma relied on low cost technology, process and raw materials.

Immediately after its launch, the lower priced product became a rage with the middle-income customer, who was finding it difficult to make both ends meet the high priced Surf. Nirma also had an impact on upper middle income and higher income families, which used Nirma for washing their inexpensive garments and linen.

How did HLL respond? Initially it reacted by launching sales promotion campaigns on Surf, by offering a bucket as subsidized price for every 1 kg of surf, or by trading premium brands of toilet soap with every kilogram of Surf. HLL then launched a head-on attack on Nirma. Without naming it (though it was obvious) they came up with an advertising commercial comparing 1 kg of Surf with 1 kg of low priced yellow washing powder-and hence it was economical to by Surf.

The conclusion is that Nirma gave a new connotation to differentiating by creating a similar product available at much lower price. It took a "premium" product form the classes to the masses. Its price-lead strategy was so successful that even the market leader was forced to review its strategy.

1. Would you regard detergents as an industry or a product group? Justify.
2. Which features of monopolistic competition are exhibited in the above case?
3. As a managerial encomiast can you visualize long term sustenance of a company that sells a product that has lower quality but also lower price in comparison to its rival companies?
4. Can success of Nirma be extended to other product groups?

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