



P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belgaum)

First Semester, Master of Business Administration (MBA)

Semester End Examination; Jan - 2017

Business Economics

Time: 3 hrs

Max. Marks: 100

Note: Answer all FOUR full questions from PART - A and PART - B (Case study) is compulsory.

PART - A

- 1 a. What is Managerial Economics? Explain the two major branches of Economics. 10
 b. Examine critically profit maximization as the objective of business firms. 10

OR

- 2 a. Write a short notes on : 10
 (i) Marginal analysis (ii) Incremental principle.
 b. Discuss the role and responsibilities of Managerial Economists. 10
 3 a. Define demand and describe its determinants with suitable examples. 10
 b. Explain the different degrees of Price elasticity. 10

OR

- 4 a. Explain Law of supply. 10
 b. Assume that there is a fruit seller who has 20 kilograms of apples to be sold and he wants to fix a price so that all the apples are sold. There are three customers in the market and their individual demand functions are given below : 10
 $D_1 = 25 - 1.0 P, D_2 = 20 - 0.5 P, D_3 = 15 - 0.5 P$
 Determine the market demand equation for the fruit seller. And find out the price at which he can sell all the apples.
 5 a. Explain the features of oligopoly market. 10
 b. Explain the 'Laws of Returns to Scale'. 10

OR

- 6 a. Explain the pricing strategies for a New Products. 10
 b. What are the economic entry barriers which create monopoly? Illustrate with examples from Indian economy. 10
 7 a. Discuss the methods of measuring National Income. 10
 b. Explain the determinants of economic growth. 10

OR

- 8 a. Explain the policy measures used to control inflation. 10
 b. Discuss the different phases of business cycle. 10

PART - B (Compulsory)**9. Case Study:**

The Indian soaps and detergents industry is characterized by the coexistence of a number of small scale manufacturers and large companies (including MNCs). The late 1960's saw the detergent powder market featured mainly the premium segment dominated by the big player, and small players restricted to a smaller share of the market. Presently there are four price-based segments. There are large numbers of sellers in the unorganized sector, which together have 25% of market share; this apart, the market features big brands like HUL, PIG and Nirma, with Nirma as the leader with a 33% share.

On the demand side the fabric was industry in India is characterized by lower 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 detergent cakes and powder. The market for soaps and detergents has increased manifold, thanks to factors like changing lifestyle of consumer, growing purchasing power, increased awareness about superior value and penetration of media, in 1960's and 1970's the domestic detergents market saw established 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, qualified science graduate, bet that the Indian masses would buy powder detergent, if it were affordable. In the summer of 1969 he set his first small detergent making unit in the backyard of his home in Ahmedabad. He priced the detergent at ₹ 3/- per kg. Every packet of Nirma that Patel sold 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 household brand.

Hindustan Lever Ltd. (HLL) was leading the FMCG in detergent powder market with its premium product 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), builders, buffer, etc, to ensure a superior wash. Nirma powder conformed to none of HLL's carefully developed product formulations. 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 performance agent, because of all these reasons, it was able to keep the price of the detergent low.

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 became almost synonymous with low-priced detergents; toilet soaps. However, Nirma realized that it would have to launch products for the upper end. In 1990s Nirma entered the 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 making it as premium product. This policy was successful for two decades, but Nirma compelled HLL to change its against Nirma, by setting a price ` 11/- per kg.

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 lower-end market. The Nirma yellow washing powder is available in the pack size of 30 gms, 200 gms, 500 gms and 1 kg, and is ranked as the largest selling single detergent brand in the world. The Nirma detergent cake, also yellow in colour, is ranked as the most distributed detergent cake brand 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 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 Breezed. Nirma countered this by launching another brand, Nirma.

Questions:

- a) Would you regard detergents as an industry or a product group? Justify.
- b) Which features of monopolistic competition are exhibited in the above case?
- c) As a managerial economist, 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?
- d) Can success of Nirma be extended to other product group?

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