

MANAGEMENT PROGRAMME

Term-End Examination

June, 2013

04004

MS-9 : MANAGERIAL ECONOMICS

Time : 3 hours

Maximum Marks : 100

-
- Note :**
- (i) There are *two* Sections : *Section-A* and *Section-B*. Attempt both the sections.
 - (ii) Attempt *any three* questions from *Section-A*. All questions carry **20** marks each.
 - (iii) *Section - B* is *compulsory* and carries **40** marks.
-

SECTION-A

1. Economics has developed several concepts and analytical tools to deal with the question of allocation of scarce resources. Discuss this statement in context of **Three Choice** problems of an Economy. 20
2. (a) Define and explain Point Price Elasticity of demand. 10
(b) For a demand function. 10
 $P = 200 - .50Q$
 $Q = 800 - 8p$
Calculate Point Price elasticity when $P = 40$ and $Q = 240$ and Interpret the result.
3. (a) What are Short - run Cost Functions, and the costs incurred in the short run ? Give examples. 10
(b) Describe the relationship between Marginal cost and Average costs. 10
4. A Multi National Company faces barriers to entry, when it opens its branch in a country. Discuss these barriers to entry. 20

5. Write short notes on *any four* of the following :

20

- (a) Opportunity Set
- (b) Demand Forecasting
- (c) Accounting Method of Cost Function
- (d) Peak Load Pricing
- (e) Monopolistic Competition
- (f) Envelope curve

SECTION-B

Read the case given below and answer the questions given at the end.

THE INDIAN AUDIO MARKET

The Indian audio market pyramid is featured by the traditional radios forming its lower bulk. Besides this, there are four other distinct segments: mono recorders (ranking second in the pyramid), stereo recorders, midi systems (which offer the sound amplification of a big system, but at a far lower price and expected to grow at 25% per year) and hi-fis (minis and micros, slotted at the top end of the market).

Today the Indian audio market is abound with energy and action as both national and international majors are trying to excel themselves and elbow the others, ushering in new concepts like CD sound, digital tuners, full logic tape deck, etc. The main players in the Indian audio market are Philips, BPL and Vidieocon. Of these Philips is one of the oldest and is considered as the leading national brand. In fact it was the first company to introduce a range of international products such as CD radio cassette recorder, stand alone CD players and CD mini hi-fi systems. With the easing of the entry barriers, a number of new international players like Panasonic. Akai, Sansui, Sony, Sharp, Goldstar, Samsung and Aiwa have also entered the arena. This has led to a sea of changes in the industry and has resulted in an expanded market and a happier customer, who has access to the latest international products at competitive prices. The rise in the disposable income of the average Indian especially the upper-income section, has opened up new vistas for premium products and has provided a boost to companies to launch audio systems priced as high as Rs. 50,000 and beyond.

Pricing across Segments

Super Premium Segment : This segment of the market is largely price-insensitive, as consumers are willing to pay a premium in order to obtain products of high quality. Sonodyne has positioned itself in this segment by concentrating on products that are too small for large players to operate it profitably. It has launched a range of systems priced between Rs. 30,000 and Rs. 60,000. National Panasonic has launched its super premium range of systems by the name of Technics.

Premium Segment : Much of the price game is taking place in this segment, in which systems are priced around Rs. 25,000. Even the foreign players ensure that the pricing is competitive. Entry barriers of yester years compelled the demand by this segment to

be partially met by the grey market. With the opening up of the market, the premium segment is witnessing a rapid growth and is currently estimated to be worth Rs. 30 crores. Growth of this segment is also being driven by consumers who want to upgrade their old music systems. Another major stimulating factor is the plethora of financing options available, bringing more and more consumers to the market.

Philips has understood the Indian listener well enough to dictate the basic principles of segmentation. It projects its products as high quality at medium price. In fact, Philips had successfully spotted an opportunity in the wide price gap between portable cassette players and hi-fi systems and pioneered the concept of a midi system (a three-in-one containing radio, tape deck and amplifier in one unit). Philips has also realised that there is a section of the rich consumer which values not just power but also sound clarity and is willing to pay for it. The pricing strategy of Philips was to make the most of its image as a technology leader. To this end, it used non-price variables by launching of a range of state of the art machines like the FW series, and CD players. Moreover, it came up with the punch line in its advertisements as, "We Invent For you."

BPL stands second only to Philips in the audio market and focuses on technology as its USP. Its kingpin in the marketing mix is its high technology superior quality product. It is thus aimed at being the product-quality leader. BPL's proposition of fidelity is translated in its punchline for its audio systems as, '*d-fi your imagination*' (d-fi stands for digital fidelity). The company follows a *market skimming strategy*. When a new product was launched, it was placed in the top end of the market, and priced accordingly. The company offers a range of products in all price segments in the market without discounting the brand.

Another major player, Videocon, has managed to price its products lower even in the premium segment. The success of the Powerhouse (a 160 watt midi launched by Philips in 1990) had prompted Videocon to launch the Select Sound range of midi stereo systems at a slightly lower price. At the premium end, Videocon is making efforts to upgrade its image to being "quality-driven" by associating itself with the internationally reputed brand name of Sansui from Japan, and following a *perceived value pricing method*.

Sony is another brand which is positioning itself as a premium product and charges a higher price for the superior quality of sound it offers. Unlike indulging into price wars, Sony's ad-campaigns project the message that nothing can beat Sony in the quality and intensity of sound. National Panasonic is another player that has three products in the top end of the market, priced in the Rs. 21,000 to Rs. 32,000 range.

Monos and Stereos : Videocon has a 21% share in the overall audio market, but has been a major player only in personal stereos and two-in-ones. Its history is written with instances where it has offered products of similar quality, but at much lower prices than its competitors. In fact, Videocon launched the Sansui brand of products with a view to transform its image from that of being a manufacturer of cheap products to that of being a company that primes quality, and also to obtain a share of the hi-fi-segment. Sansui is being positioned as a premium brand, targeting the higher middle, upper income groups and also the sensitive middle class Indian consumer.

The objective of Philips in this segment is to achieve higher sales volumes and hence its strategy is to expand its range and have a product in every segment of the market. The pricing method used by Philips in this segment is providing value for money.

National Panasonic offers products in the lower end of the market, apart from the top of the line range. In fact, it reduced the price of one of its small two-in-ones from Rs. 3,500 to Rs. 2,400, with the logic that a forte in the lower end of the market would help in building brand reliability across a wider customer base. The company is also guided by the logic that operating in the price sensitive region of the market will help it reach optimum levels of efficiency. Panasonic has also entered the market for midis.

These apart, there also exists a sector in the Indian audio industry, with powerful regional brands in mono and stereo segments, having a market share of 59% in mono recorders and 36% in stereo recorders. This sectors has a strong influence on price performance.

1. What major pricing strategies have been discussed in the case ? How effective these strategies have been in ensuring success of the company ? Discuss. 40
2. Is perceived value pricing the dominant strategy of major players ?
3. Which products have reached maturity stage in audio industry ? Do you think that product bundling can be effectively used for promoting sale of these products ?
4. Which other pricing strategies can be used for audio industry ?