

Sample Assignment

# **Business Economics**

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## Executive summary

As, the present market is a Buyer-centric market that is why now companies are resorting to all possible ways to increase their consumer base. These tactics include reduction in price heavy discounts, exchange offers, EMI options, home delivery, and many more. Also, it has been observed that almost all companies are indulged in the production of consumer goods. Cell phone companies are spending a very high amount on marketing and advertising; if getting into details of the advertising budgets of any company, a substantial increase in the advertising budgets can be observed. This changed market scenario is compelling the corporate to reduce their prices and expand their consumer base.

Let's analyze why this is happening? What are the reasons behind these factors? And what are the key issues behind this changed market scenario? Why suddenly these companies are spending such a substantial amount on marketing and advertising.

Sample Assessment

## Introduction

The market structure of consumer goods is changing continuously due to the various aspects as under mentioned:

1. Increase in earnings (Higher disposable Income)
2. Technological advancements in production
3. Consumers spending habits
4. Globalization and changed market scenario
5. Market competition

As a result of this, there is a paced increase in the demand of consumer goods sold through supermarkets. Compared to the past trend, Consumers now are said to be the king; even it has been concluded that the market is now a buyers-market rather than being a sellers-market earlier. That is an evident reason the production houses (companies, brand) are trying to attract customers in all possible ways.

## Discussion

This all is happening due to the various reasons and the most important thing is the technological advancements in production. With the development of technology in various aspects of production of various consumer goods, the cost of production going down and the companies and production houses have started passing on a certain percentage of this benefit to consumer just to attract and increase the existing consumer base. The competition or in other words the price war among these manufacturers just started in order to increase the

customer base. Manufacturers have started to produce more and more just to ensure the adequate supply of goods in the market, increasing inventory was also a cause of worry for these manufacturers. This was the time when price war started and companies have started to follow different strategies in order to secure the maximum market share of their domain.

Now, the microeconomics rules of Demand and supply can be experienced. Manufacturers was producing the goods in greater quantity in order to save cost, and the same was increasing inventory, on the other hand they were also trying to sold their goods aggressively in the market to clear their inventor, at this point customer have different choices to buy the same goods. At the same time, the manufacturers have been passing on some proportion of benefits to consumers out of their cost savings saved in manufacturing. (Antwi, 2014)

#### **A. Theory of Microeconomics in Cell Phone industry:**

Apart from this demand and supply factor various other microeconomic factors are also involved in the cell phone market. If talking about Cell Phone industry, a drastic change is observed in the consumer's habits. Other than the basic function of voice call, Cell phone is also used for various other purposes such as banking, Travelling & Commuting, business usage etc.

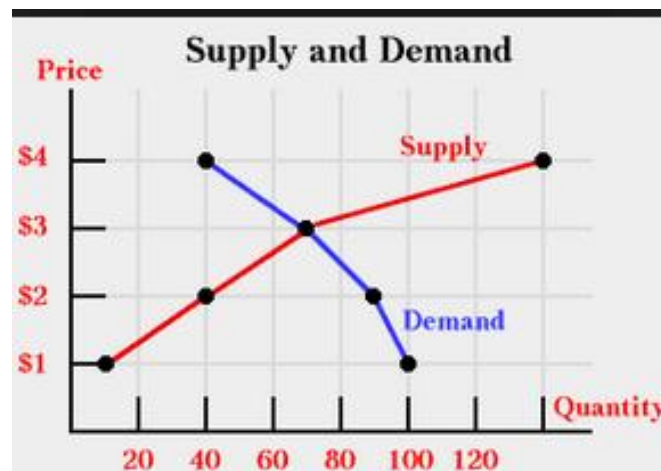
In a nutshell, the mobile phone market is based on technology. Due to various technological advancement like value added services and the use of internet has resulted in the demand of the mobile phone services. On the other hand, it has also benefitted the manufacturing process of the mobile phones.

#### **Law of Supply and Demand:**

The law of Supply and Demand defines that the availability of the product drives the price. The greater the supply of the product, the lower the demand will be and subsequently the

lower the price would be. It can be learnt in other way around. If the demand of the product is higher than the supply available in the market, the price would certainly be greater. Let us understand this business economics rules with help of a diagram.

**Graphical representation:**



**Basic demand and supply curve**

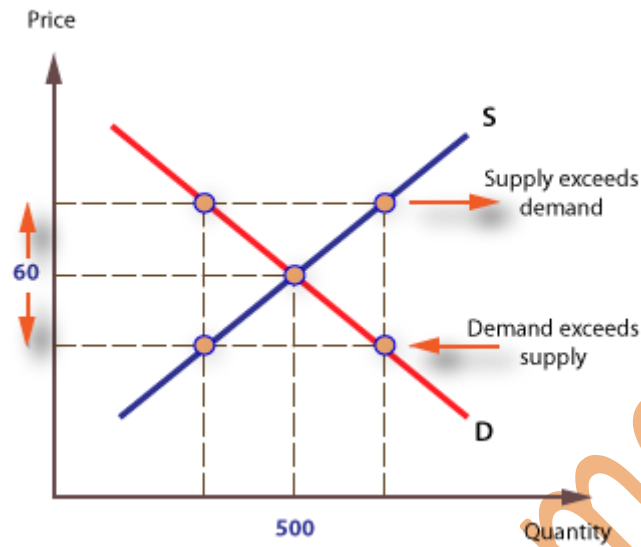
In the diagram above, blue lines represents demand curve and red line supply curve. The rise of demand curve is accompanied by the rise in price of the product. At the price level of \$3, the supply available is matched with the market demand.

**Market Equilibrium:**

In Economics, market equilibrium is a state when the supply of the product matches exactly to its demand by the consumers. In other words, it is a specific price point where the quantity that the manufacturer produces will be bought by consumers without leaving any product as leftover.

To understand the market equilibrium point in the context of Cell phone industry, a graph is drawn as below:

### Graphical representation:



In the graph above, it can be seen that at a price point of a cell phone at \$60, the supply of 500 units of cell phones is exactly in sync with the demand in the market. Demand of the cell phone is 500 units and the manufacture manages to supply the same units of the phone. This point is said to be a point of Market Equilibrium.

At any price higher than equilibrium point, the demand will any way be less than 500 units. (Economicsonline.co.uk, 2014)

Now the consumer can spend more with multiple options in the market. Cell phone service provider was also under the pressure to transfer the benefit of their cost savings to consumers in order to retain their consumer base and the same applies on mobile phone manufacturers as well. (Baird, 2010)

However behind this only demand and supply and technological advancement are not only the reasons, as it has already been described that certain other microeconomic factors was responsible behind this.

### **Opportunity Cost:**

Opportunity cost from the perspective of cell phone is a cost when a consumer is buying a phone with some added feature by leaving the other brand phone with features he may not require. This is not actually a number. Choosing the best one out of the alternatives available is the Opportunity cost for the product. In economics, it means that a consumer can now compare the prices of different suppliers and according to his requirement he can choose the best one with multiple options of payment. Some time prices alone are not factors to decide the buying from consumers even payment options are also matters, if s manufacturer or supplier provide the EMI options for payment obviously consumer goes with those supplier and manufacturers. These are the factors which make a consumer king and ultimately consumer is always beneficial in the price war as every company always try to increase its consumer base in order to survive in this era of cut throat competition.

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## Part 2

Technology is changing day by day and it's impacting the consumer's daily life as well moreover now it becomes an essential part of their life. Even the situation is such an extent that living without the cell phones just cannot be perceived especially the mobile phone as an integral part of the life. This entire change is within ten years. Now it becomes the part of our daily routine.

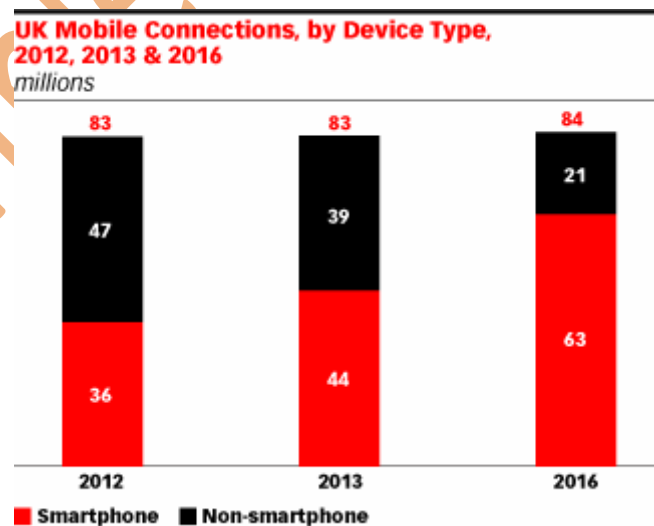


Apart from making calls to someone to making payment and surfing the internet, consumers depend on their cell phones, a lot of popular internet website are also providing their services via their mobile application such an mind changing concept, if the trend continues, a drastic turnaround is imminent with a paperless world and a paper free currency world within 20 years. Till the time approximately every one will have access to the mobile phone and the world will become shorter however this may take some time and there are some challenges that will be discussed in detail.

### Macroeconomics Factors:

Let's look at some of the macroeconomics parameters from the cell phone industry view.

- a) Growth: The growth of cell phone in UK can be assessed by looking at the diagram as below.



**Source:** Portio's research "Worldwide Mobile handset installed base"

The diagram shows the growth story of cell phone especially in the sub-segment of smart phone users. Consumers have been switching their preferences from a feature phone to the smart phone. This change in habit will definitively bring about the major changes in the overall economy.

- b) Inflation: From Inflation angle, cell phone industry is contributing to a significant extent in order to release the pressure on inflation matrix. Consumer Price index (CPI) is one of the critical parameter to assess the quantum of Inflation. Lowering cost of cell phones due to intense completion, is contributing to the economy by way of easing out the pressure on Inflation figure.
- c) GDP contribution: Burgeoning usage of Mobile data using the cell phone has attributed to a growth in the GDP per capita growth rate of 0.5 percentage point. (Deloitte, 2014)

Within a time span of ten year, the users of mobile phone have crossed a limit of more than 5billion. And now it becomes one of the most lucrative markets of the world. Not only had the India certain other countries like Brazil and China had the same story. The following are the main reason behind this. (Stiff, 2006)

1. Passing the benefit to the customers by lowering down the prices with help of improved technology
2. Cut throat competition among the manufacturers
3. Entry of Foreign companies in the market
4. Best after sales services
5. Economical factors such as interest rates, subsidy, inflation

6. Continuous growing demand
7. Government policies (Malhotra, 2008)
8. Internet availability
9. Education and awareness
10. Social pressure
11. Dependency on internet and mobiles phones

Apart from this there are a lot of other reasons behind the growing demand of mobiles phones, even for many people's mobile is just not a phone it becomes a status symbol as well.

These factors persuade the mobile phone manufacturers to lower down their prices so that they can increase their customer base, and also compelled them to lowering down their prices to substantial level. As compared to last ten years we can see a drastic decrease in the prices of mobile phones.

### **Recommendations**

Competition among the manufacturers and internet expansion are the two key factors apart from the economic factors working behind this, we cannot deny also that the economy of these emerging markets are becoming more stronger day by day as a result peoples are earning good and they are investing substantial amount on mobile phones because the same has impacted their personal life to a greater extent. (Keller, 2000)

### **Conclusion**

A drastic increase in the GDP of these emerging markets with the rapid developments in service sector, service sector alone contributes around 50 percent in the economies of their emerging markets and mobile phone market is one of the vital parts of service sectors.

Government policies of these emerging markets are also making it sure that the cost of mobile phone can be lowered down to a substantial level, different types of taxes are also lowered down by government to bring down the cost. As development in technology is also a key factor in determining the cost of mobile phones which is improving day by day. So keeping in view all the points mentioned above, it can be concluded that after some time mobile phone will be available to a larger segment of society.

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