Best practice in writing up a case study report

Writing a case study report involves following a few rules.

These are as follows:

• A case study report is not an essay: it is a call for action, to be read by the company's managers and executives. Thus, it is of the utmost importance to state immediately, in the introduction, the report's conclusion (the action to be considered). This will avoid lengthy argument and digression. The report should then set out the reasons for this recommendation, rather than being written in an "investigative" mode which only identifies the solution at its conclusion.

• A written report is a means of communication: to facilitate this, it should include a table of contents, page numbering, and all the other basic requirements of a properly formatted document.

• A case study report should follow the structure: "This is the main problem of the case study [...] The secondary problems are these [...] To solve these problems, this is what we recommend [...] and here are the reasons why [...]" Finally, some pitfalls to avoid:

• A case study report should not simply paraphrase the text provided. Avoid at all costs rewriting the case word-for-word, or copying figures, tables or graphs already included in the case study.

• Recommendations should be clear and unambiguous, and supported by as much corroborative data as possible.

• The presentation style of a document is as important as its content: both elements affect the reader's perception of the analysis proposed. The report should be written in a simple, direct and concise style.

• Finally, subjective phrases such as "it seems", "I (we) believe", "in my (our) opinion", and "it is obvious that" should be avoided.

Case Study – 1:

Objective of Firm

The REFCO Icematic Pvt. Ltd. manufactures ice-cube making machinery in India. REFCO acquired the rights to produce such machinery from one of the world's largest manufacturers of this machinery. Machines produced by REFCO are of international standard. In order to meet demand of different kinds of institutional buyers like hotels, clubs, hospitals, etc., machines of varying capacities are manufactured. Being in the business of ice-making machines, REFCO identified a dormant demand for readymade ice cubes. Given $1 billion ice cube market in a cold country like U.S.A., it was expected that India will provide even higher demand for ice cubes. So, ice cubes under the name "Perfect Ice" were launched in India for the first time in 1986, its target group being affluent and upper middle class consumers and commercial institutions like hospitals, clubs, hotels, airports, etc.

A well thought-out publicity campaign was launched and the facility of supplying ice cubes on just a phone call was made available. Except for the initial organizational and managerial hiccups which were sorted out over time, the company did not face the usual problem of shortages of inputs, government constraints, etc. Perfect Ice turned out to be successful product and was found to be complementary to ice-cube making machinery.

The company finds that its cost structure dictates that it should produce a minimum of 300kg ice cubes per day at which its cost is Rs.5 per kg. This cost declines when output expands. REFCO found that market price of block ice being Rs.1 per kg, the maximum price it should fix for the cubes was Rs.2 per kg. This price could be increased once consumers developed preference for ice cubes in general and perfect ice in particular. So it started with Rs.2 and gradually raised it to Rs.6 per kg over a 3 year period. Though the cost of water and electricity per kg of ice is only Rs.0.26 per kg, it has several other costs like wages, salaries, delivery charges, maintenance of vehicles, interest charges, advertisement costs, etc., given its costs, the present price of Perfect Ice provides the company a reasonable return. Having already met the demand of target consumer, REFCO does not seem to be interested in expanding the market to the other strata of society. Further the threat of potential competition exists for Perfect Ice.

Given the nature of product where there is no scope for further improvements, the only way left to regain or ward off competitors is to expand the market share.

Q. What is the objective of REFCO?

Ans. The REFCO Icematic Pvt. Ltd. manufactures ice-cube making machinery in India. It provides machines meeting international standards. The company has launches itself in India with the name of “Perfect Ice”. The target market for Perfect Ice is the upper middle class consumers and commercial institutions like hospitals, clubs, hotels, airports, etc. It has following objectives:

To meet the demands of different kinds of institutional buyers like hotels, clubs, hospitals, etc.

To manufacture the machines of varying capacities.

To achieve higher demand as compared to USA markets for ice cubes.

To expand throughout India with even higher demand for ice cubes.

To achieve the cost structure with minimum production cost and maximum profit.

To increase customer preference for ice cubes.

Q. What alternative goal would you suggest?

Ans. Perfect Ice turned out to be successful product and was found to be complementary to ice-cube making machinery. It did not face any problems of shortages of inputs, government constraints, etc. Having already met the demand of target consumer, REFCO does not seem to be interested in expanding the market to the other strata of society. Further the threat of potential competition exists for Perfect Ice. Given the nature of product where there is no scope for further improvements, the only way left to regain or ward off competitors is to expand the market share.

Therefore the only alternative goal for Perfect Ice is the expansion of market share. The company should compete with the potential companies manufacturing ice cubes.

Case Study – 2:

Elasticity of Demand

Despite stiff increase in tariff by Doordarshan (DD) in March 1987 actual revenue declined. This study indicated that the number of small and medium advertisers which was on the increase before the tariff hike has now been on decline. Further there has also been a noticeable shift in favour of 20 and 10 seconds spots from 30 or more seconds spots before the hike in tariff. The study found that there has been a steep decline in the actual number of advertisements on Doordarshan. This is across all T.V. centres and programme segments. But it was more significant in the case of Channel II of Delhi and Mumbai.

The second channel of Bombay DD T.V. had no advertisements since the increase in tariff as against revenue of Rs.15,000/- to Rs.20,000/- per month in the corresponding months of the previous year.

In case of Delhi T.V.'s second channel, the number of advertisements declined from a rate of 40 to 65 per month in May to July 1986 to a rate of 12 to none between May to July 1987. Even the actual revenue has fallen. It was about Rs.55,000/- to Rs.71,000/- per month in May-June period of 1986. In the current year, however, it developed to Rs.28,000/- in June and was nil by July 1987.

Questions:

A) What happened to revenue after tariff hike for advertisement in DD?

Ans. The revenue after tariff hike for advertisement in DD declines in March 1987. It was Rs.55,000/- to Rs.71,000/- per month in May-June period of 1986 in Delhi DD T.V. But in 1987 it declined to Rs.28,000/- in June and was nil by July.

B) Why has revenue declined?

Ans. The revenue was decline due to the following reasons:

(i) The various small and medium advertisers have decreased after increase in the tariff.

(ii) There was shift of advertisers from 30 or more seconds spots to 20 and 10 seconds spots as the price of 20 and 10 seconds spot was less as compared to 30 or more seconds spots.

(iii) The number of advisers got reduced as due increased the cost for the advertisers for advertisements on DD Doordarshan.

C) Is the price-elasticity of Demand for DD T.V. advertisements high/low/zero?

Ans. The price-elasticity of demand for DD T.V. advertisements is high because it is the case of elastic of demand.

The elastic of demand refers to the percentage change in price is less than the percentage change in quantity demanded then price elasticity of demand is greater than one.

D) What tariff or prize policy should DD follow for T.V. advertisements?

Ans. DD should follow for T.V. advertisements following tariff policy:

(i) The channel should lower the prize of 20 to 10 second slot for the small or medium advertisers as the number of small and medium advertiser is more. So, they will get more revenue as the number of advertisers will increase due to decrease in prize.

(ii) The channel should provide some additional discount to the advertisers which advertise in 30 seconds spots as they will pay more for that spot and it will increase the revenue of the channel.

(iii) In case of programmes falling in more than one time band, sponsorship fee should be the consolidated amount of the slots covered by the programme.

(iv) The prize of the advertisement while any movie is being telecasted should be more because the number of viewer at the time of movie will be more.

(v)The prize time of the 30 second spot and 20 second to 10 second spot for the prime time show should be more for the advertisers.

Case Study – 3:

Production Function

For a particular economy, the following capital input K and labour input N were reported in four different year:

Year	Capital (K)	Labour (N)
1	200	1000
2	250	1000
3	250	1250
4	300	1200

The production function in this economy is Y = K0.3 NO.7

Consider the Cobb-Douglas production function in the same economy Yt=AtKbLt 1-b

Where Y is Output; K is Capital; and L is labour hours worked. A is total factor productivity and b is 3.

Questions:

A) Find total output, the capital-labour ratio and output per worker in each year. Compare year 1 with year 3, and year 2 with year 4. Can this production function be written in per-worker form? If so, write algebraically the per-worker form of the production function.

Ans.

Year	K	N	Y	K/N	Y/N
1	200	1000	617	0.20	0.617
2	250	1000	660	0.25	0.660
3	250	1250	771	0.20	0.617
4	300	1200	792	0.25	0.66

This production function can be written in per-worker form since

Y/N = K.3 N.7 = K.3/N.3 = (K/N).3.

Note that K/N is the same in years 1 and 3, and so is Y/N. Also, K/N is the same in years 2 and 4, and so is Y/N.

B) Analyze how the marginal productivity of labour changes when:

(i) A increases by 10%

(ii) K increases by 10%

(iii) Increases by 10%

(iv) b falls from 0.4 to 0.3

Ans. Yt = At Kbt L 1-bt

The marginal productivity of labour (MPL) is 1-b. (At(Kt/Lt)b)

where b is initially 0.30

(i) if A increases by 10% then so does the MPL

(ii) If K increase by 10% then K/L is 10% higher and MPL is higher by a factor of (1.10)0.3 = 1.029. Thus MPL rises by 2.9%.

(iii) If L increases by 10% then K/L is 10% lower and MPL is lower by a factor of (1/1.10)0.3 = 0.972. Thus MPL falls by 2.8%.

(iv) If b was 0.4 and then fell to 0.3 (its current level) the new level of MPL relative to the old level is: (1-03). (At(Kt/Lt)0.3) / (1-.04).(At(Kt/Lt)0.4) = (0.70/.060). (Kt/Lt)-.01

This is greater than one (and so MPL rises) if (K/L) is less than 4.67. If K/L is greater than 4.67 then MPL falls as b declines from 0.4 to 0.30.

Case Study - 4:

Pricing Analysis:

A major ago chemical company planned to sell a new insecticide called 'NETEX' to different markets. The company had to reconcile a number of different interest in the pricing process. The financial people favoured a cost-plus approach, focusing on unit costs and associated margins. The marketing and sales people wanted a low penetration price. Counterbalancing a competitive price with the one, which would provide an acceptable commission for the sales personnel. Senior management was acceptable commission for the sales personnel. Senior management was tending to come down in favour of price mark UPS, but lower than accountants. In the backdrop of this complex situation, answer the following questions:

Questions:

A) What considerations will you make in setting the prices?

Ans. Considerations for setting up the Prices

The factors governing prices may be divided into external factors and internal factors.

External factors include elasticity of demand and supply competition, goodwill of the firm, trend of the market, purchasing power of buyers, etc.

Internal factors include cost considerations, Management Policy etc.

The following are certain general consideration, which must be kept in view while formulating a suitable pricing policy:

(i) Objectives of the Business: There may be various objectives of the firm, which it wants to achieve. The pricing policy should been in conformity with the objectives of the firm.

(ii) Competitors" Prices: Competitive conditions affect the pricing decision of the firm. The company considers the prices fixed and quality maintained by the competitors for their products. It may fix a price lower than or more than or equal to the prices of competitors taking the quality of its own product into consideration.

(iii) Cost of the Product: Costs and price are closely related to each other. Normally prices cannot be fixed below the cost of production (including administrative and selling costs) of the product. Price also determines the costs in the long run.

(iv) Market Position of the Firm: The position of the firm (goodwill for quality products) in the market may also influence the pricing decisions of the firm. It is only why the different producers of identical products sell their products at different prices.

(v) Distribution Channels Policy: The nature of distribution channels, trade discounts allowed to them and distribution expenses influence the prices of the products. The longer the channel, the higher would be the distribution costs and consequently higher prices would be fixed for such products. If, on the contrary, channel is short, prices may be fixed lower.

(vi) Prices Elasticity of Demand: Price elasticity refers to consequential change in demand due to change in price of the commodity. As there is an inverse relationship between the price and demand, the demand will increase with the fall in prices or vice versa. So, a high price may be fixed for inelastic goods and on the other hand, price of elastic goods cannot be fixed at a higher end. A price reduction policy may suit the highly elastic goods.

(vii) Product's Stage in the Life Cycle: Pricing policy may be different in different stages of product's own life cycle. In the introductory stages prices are fixed lower to increase the demand of the product or higher to earn the maximum profit, considering the competitive situations in the market. The policy may then, lead to slow reduction of prices with a view to expand the market. In the maturity stage, penetrating pricing may be followed.

(viii) Product Differentiation: In a non-price sensitive market, the price depends more on the differentiation of the product in its size, colour, quality etc. In such markets different characteristics are added to the products in order to attract the customers and high prices may be charged. Customers may happily pay higher prices for new style, fashion, quality or packaging etc.

(ix) Buying Patterns of Consumers: Buyers patterns of the consumers also affect the pricing decision of the concern. If the purchase frequency of the product is higher, lower prices should be fixed to have a low profit of margin resulting in higher total profits of the firm. All consumer items of daily use have high purchase frequency. Low purchase frequency items may be sold at high price. Durable consumer products like T.V and refrigerators are, therefore, priced higher.

(x) Economic Environment: In recession, prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, prices are charged higher in boom period to cover the increasing cost of production and distribution.

B) What factors do you think are influencing the price?

Ans. The pricing decisions are influenced by many factors. The price policies should be consistent with pricing objectives. The influencing factors for a price decision can be divided into two groups:

(i*) Internal Factors*: These factors are as follows:

(a) Organizational Factors: Pricing decisions occur on two levels in the organization. Overall price strategy is dealt with by top executives. They determine the basic ranges that the product falls into in terms of market segments. The actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies.

(b) Marketing Mix: Marketing Experts view prices as only one of the many important elements of the marketing mix. A shift in any one of the elements has an immediate effect on the other three - Production, Promotion and Distribution.

(c) Product Differentiation: The price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product, such as quality, size, colour, attractive package, alternative uses, etc. Generally, customers pay more prices for the product which is of the new style, fashion, better package etc.

(d) Cost of the Product: Cost and price of a product are closely related. The most important factor is the cost of production. In deciding to market a product, a firm may try to decide what prices are realistic, considering current demand and competition in their market. The product ultimately goes to the public and their capacity to pay will fix the cost; otherwise product would be flopped in the market.

(e) Objectives of the Firm: A firm may have various objectives and pricing contributes its share in achieving such goals. Firm may pursue a variety of value-oriented objectives, such as maximising sales revenue, maximising market share, maximising customer volume, maintaining an image, maintaining stable price, etc. Pricing policy should be established only after proper considerations of the objectives of the firm.

(ii) *External Factors*: These factors are as follows:

(a) Demand: The market demand for a product or service obviously has a big impact on pricing. Since demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay, their preference, etc. are taken into account while fixing the price.

(b) Competition: Competitive conditions affect the pricing decisions. Competition is a crucial factor in price determination. A firm can fix the price equal to or lower than that of the competitors, provided the quality of product, in no case, be lower than that of the competitors.
(c) Suppliers: Suppliers of raw materials and other goods can have a significant effect on the price of a product. If the price of cotton goes up, the increase is passed on by suppliers to manufacturers. Manufacturers, in turn, pass it on to consumers.
(d) Economic Conditions: The inflationary or deflationary tendency effects pricing. In recession period, the prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, the prices are increased in boom period to cover the increasing cost of production and distribution.
(e) Buyers: The various consumer and business that buy a company's product or service may have an influence in the pricing decision. Their nature and behaviour for the purchase of a particular product, brand or service, etc. affect pricing when their number is large.
(f) Government: Price discretion is also affected by the price-control by the government through enactment of legislation, when it is thought proper to arrest the inflationary trend in price of certain products. The prices cannot be fixed higher, as government keeps a close watch on pricing in the private sector.

C) Which pricing approach would you suggest and why?
Ans. Generally two kinds of strategies are suggested for pricing of a new product, i.e., Skimming Pricing and Penetration Pricing
Skimming Pricing: This is a pricing policy in which a very high price is fixed in the beginning that skims the demand from outside. By this policy, the company earns a huge amount of profit in the initial marketing of the product. When the competitors enter the field, the prices are allowed to fall gradually.
This policy is suggested due to following reasons:
(i) Demand is likely to be more inelastic with respect to price in the early stages than it is when the price is fully grown. This is true only for consumer goods.
(ii) Launching a new product with high price is an efficient device for breaking up the market into segments that differ in price elasticity of demand. The initial high price serves to skim the

cream of the market that is relatively insensitive to price. Subsequent price reduction tap successively more elastic sectors of the market.

(iii) This policy is safer, or at least appears so. Facing an unknown elasticity of demand, a high initial price serves as a "refusal" price during the stage of exploration.

(iv) Many companies are not in a position to finance the product floatation out of distant future revenues. High cash outlays in early stages result from heavy costs of production and distributor organising, in addition to the promotional investment n pioneer product.

The company is able to recover the investment made in the product in a short period. this type of policy is used in case of products where the company expects heavy competition after some time, and wants to take the cream before it happens.

Penetration Pricing: In contrast with skimming price policy, the penetration price policy involves a reverse strategy. It requires fixing a lower initial price designed to penetrate the market as quickly as possible. This policy is intended to maximise the profit in the long run.

Therefore, the firms pursuing the penetration price policy set a low price of the product in the initial stage. The following conditions generalise and indicate the desirability of an early low-price policy.

(i) A high price elasticity of demand in the short run, i.e., a high degree of responsiveness of sales to reduction in price.

(ii) Substantial savings in production costs as the result of greater volume - not a necessary condition, however, since if elasticity of demand is high enough pricing for market expansion may be profitable without realising production economics.

(iii) Product characteristics such that it will not seem bizarre when it is first fitted into the customer's expenditure pattern.

(iv) A strong threat of potential competition.

This policy is suggested due to the following reasons:

(i) The objective of penetration pricing is to gain a foothold in a highly competitive market. While introducing new products or entering a new market, firms may deliberately set a relatively lower price in the hope of penetration into the market.

(ii) The motive is to establish market share first and then gradually move to a more profitable price. This requires that the demand be highly price elastic and the nature of product differentiation be such that many consumers are in a position to get attracted by the low price.

(iii) The threat of potential competition is a highly persuasive reason for penetration pricing. One of the major objectives of most low-pricing policies in the pioneering stages of market development is to raise entry barriers to prospective competitors.

Case Study 5:

Inflation of India

Inflation is the rise in prices which occurs when the demand for goods and services exceeds their available supply. In simpler terms, inflation is a situation where too much money chases too few goods. In India, the wholesale price index (WPI), which was the main measure of the inflation rate consisted of three main components – primary articles, which included food articles, constituting22% of the index; fuel, constituting 14% of the index; fuel, constituting 14% of the index; and manufactured goods, which accounted for the remaining 64% of the index. For purposes of analysis and to measure more accurately the price levels for different sections of the society and as well for different regions, the RBI also kept track of consumer price indices. The average annual GDP growth in the 2000s was about 6% and during the second quarter (July-September) of fiscal 2006-2007, the growth rate was as high as 9.2%. All this growth was bound to lead to higher demand for goods. However, the growth in the supply of goods, especially food articles such as wheat and pulses, did not keep pace with the growth in demand. As a result, the prices of food articles increased.

According to Subir Gokarn, Executive Director and Chief Economist, CRISIL, "The inflationary pressures have been particularly acute this time due to supply side constraints [of food articles] which are a combination of temporary and structural factors. "Measures Taken In late 2006 and early 2007, the RBI announced some measures to control inflation. These measures included increasing repo rates, the Cash Reserve Ratio (CRR) and reducing the rate of interest on cash deposited by banks with the RBI. With the increase in the repo rates and bank rates, banks had to pay a higher interest rate for the money they borrowed from the RBI. Consequently, the banks increased the rate at which they lent to their customers.

The increase in the CRR reduced the money supply in the system because banks now had to keep more money as reserves. On December 08, 2006, the RBI again increased the CRR by 50 basis points to 5.5%. On January 31, 2007, the RBI increased the repo rate by 25 basis points to 7.5%...Some Perspectives

The RBI's and the government's response to the inflation witnessed in 2006-07 was said to be based on 'traditional' anti-inflation measures. However, some economists argued that the steps taken by the government to control inflation were not enough…Outlook several analysts were of

the view that the RBI could have handled the 2006-07 inflation without tinkering with the interest rates, which according to them could slow down economic growth.

Others believed that high inflation was often seen by investors as a sign of economic mismanagement and sustained high inflation would affect investor confidence in the economy. However, the inflation rate in emerging economies was usually higher than developed economies.

Question

A) Explain the concept of Inflation in Indian context.

Ans. Inflation is normally associated with high prices, which causes decline in the purchasing power or the value of money. Inflation refers to the substantial and rapid increase in the general price-level. Inflation is primarily a monetary phenomenon. Prices keep on rising due to excess supply of money and lower production of exchangeable goods. In the Keynesian sense, true inflation begins when the elasticity of supply of output in response to increase in money supply has fallen to zero or when output is unresponsive to changes in money supply.

The declining trend in inflation during 1999 to 2005 was the result of structural changes in the macro economical framework due to liberalization. The improved supply response, improved financial and real economy, better monetary policy and emphasis on fiscal consolidation all helped bring down inflation.

Post 2004-05, a new phenomenon was observed, i.e., demand conditions (especially non-government) influencing inflation along with the supply side. The Indian economy grew between 2004-05 and 2009-10, fuelled by the growth rate in the service sector. This implied a rise in real per capita income, as inflation was below 6 per cent during those three years (2004-06). Increase in income raised aggregate demand, which the supply side found difficult to match, at least in the short run. Accompanying this increasing demand were the increases in prices of food and fuel in 2008.

India recovered quickly from the financial crisis. However, the drought of 2009 followed by the uneven rainfall in 2010 and increase in aggregate demand have kept food prices inflation in double digits. The recent Middle East political crisis has added to the inflation pressures. These uncertain times have also increased volatility, in CPI and recently in WPI.

When the current inflation rates to the 1990s are compared to the current rates, they seem high but compared with four decades of data, the trends are not so worrisome. However, the increased volatility displayed by the both inflation rates is troubling. India has experienced an unusual combination of factors in a short span of time after 2004-05 which have affected inflation volatility, i.e., rise in prices of food and fuel (partly fuelled by increase in global demand), uncertain monsoon, the financial crisis and then domestic rise in demand.

Not only does volatility deter private investment, it also affects inflation expectations. Considering that majority of the population in India is relatively poor, double digit food inflation and high inflation in general hits the poorest and the weakest sections the hardest.

B) Give out the ways of curbing inflation.

Ans. The various measures which can be taken to establish a better balance between aggregate supply and demand for money can be studied under the following three main heads:

Monetary Measures: Monetary measures aim at reducing money incomes.

Credit Control: One of the important monetary measures is monetary policy. The central bank of the country adopts a number of methods to control the quantity and quality of credit.

Demonetisation of Currency: However, one of the monetary measures is to demonetise currency of higher denominations. Such a measure is usually adopted when there is abundance of black money in the country.

Issue of New Currency: The most extreme monetary measure is the issue of new currency in place of the old currency. Under this system, one new note is exchanged for a number of notes of the old currency.

Fiscal Measures: Monetary Policy alone is incapable of controlling inflation. It should, therefore, be supplemented by fiscal measures. Fiscal measures are highly effective for controlling government expenditure, personal consumption expenditure, and private and public investment. The Principal fiscal measures are:

Reduction in Unnecessary Expenditure: The government should reduce unnecessary expenditure on non-development activities in order to curb inflation.

Increase in Taxes: To cut personal consumption expenditure, the rates of personal, corporate and commodity taxes should be raised and even new taxes should be levied, but the rates of taxes should not be as high as to discourage saving, investment and production.

Increase in Savings: Another measure is to increase savings on the part of the people. This will tend to reduce disposable income with the people, and hence personal consumption expenditure.
Surplus Budgets: An important measure is to adopt anti-inflationary budgetary policy. For this purpose, the government should give up deficit financing and instead have surplus budgets.
Public Debt: At the same time, it should stop repayment of public debt and postpone it to some future date till inflationary pressures are controlled within the economy. Instead, the government should borrow more to reduce money supply with the public.
Control over Investment: Controlling investments is also considered necessary because, due to the multiplier effect, the initial investment leads to large increase in income and expenditure and the demand for both the consumer and capital goods goes up speedily.

Other Measures: The other types of measures are those which aim at increasing aggregate supply and reducing aggregate demand directly.
Increasing Production: The following measures should be adopted to increase production:
One of the foremost measures to control inflation is to increase the production of essential consumer goods like food, clothing, kerosene oil, sugar, vegetable oils, etc.
If there is need, raw materials for such products may be imported on preferential basis to increase the production of essential commodities.
Efforts should also be made to increase productivity. For this purpose, industrial peace should be maintained through agreements with trade unions, binding them not to resort to strikes for some time
The policy of rationalization of industries should be adopted as a long-term measure. Rationalisation increase productivity and production of industries through the use of brain, brawn and bullion.
All possible help in the form of latest technology, raw materials, financial help, subsidies, etc. should be provided to different consumer goods sectors to increase production.
Rational Wage Policy: Another important measure is to adopt a rational wage and income policy. Under hyperinflation, there is a wage-price spiral. To control this, the government should freeze wages, incomes, profits, dividends, bonus, etc.
Price Control: Price control and rationing is another measure of direct control to check inflation. Price control means fixing an upper limit for the prices of essential consumer goods. They are

the maximum prices fixed by law and anybody charging more than these prices is punished by law.

Rationing: Rationing aims at distributing consumption of scarce goods so as to make them available to a large number of consumers. It is applied to essential consumer goods such as wheat, rice, sugar, kerosene oil, etc. It is meant to stabilise the prices of necessaries and assure distributive justice.

Starbucks Price Increase – A Case Study in Analysis

Starbucks decided to raise its drink prices by as much as 8% (5 cents to 30 cents), They are doing this just when customers are cutting back on their Starbucks trips and switching to cheaper alternatives from McDonalds and Dunkin Donuts.

The conventional "wisdom" on pricing is, when recession pushes customers to cut back on expenses and switch from your products to cheaper alternatives, you cut your prices to keep the customers. While this is a usually accepted and followed practice, it is neither wisdom nor based on analysis.

To be successful, businesses cannot make decisions based on hunch, gut feel, latest management fad, or so called conventional wisdom. Decisions need to be based on data and analysis which is easier said than done.

In the case of Starbucks, how did they arrive at price increase, going against the flow? The simplest calculation here is, when price conscious customers moved out all they are left with are price insensitive customers who prefer their products. Hence it makes sense to charge more for them as long as the loss in profit from further drop in customers is less than the increase in profit from higher price. (Here is an attempt at formal proof on why increasing prices yields better profits).

Starbucks has a gross margin of 22%. This is however the average. On their high priced premium drinks we can assume that their margins are at least twice as much. So let us say it is 44% gross margin. Their premium drinks retail for $3.75 or higher, so the new price is $4.05 and at 44% margin, their profit per cup is $1.78. (Please note that gross margin numbers from GAAP income statements are not based on just marginal costs and include fixed cost allocations.)

Let us say they sell 'N' premium drinks in a year at the current price. The increase in profit from 30 cent price increase (if the number of drinks sold remains 'N') is $0.3N$. You will see the value of N is not important to the analysis.

However, there is bound to be fall in sales. But how far should the sales fall to negate the benefits of price increase?

Let us say the sales fall from by ΔN cups, and then lost profit from this lost sales is $1.78\Delta N$

Their price increase will result in net loss only if $1.78\Delta N > 0.3N$, that is sales has to fall by 17% from its current levels. One in six people has to stop buying the premium drink. (Note: We assumed a 44% margin, if it is lower that then the sales have to drop much more than 17% to make the price increase option unattractive)

Another way to look at this is from price elasticity of demand – % change in volume for one % change in price. For the price increase to be unprofitable, price elasticity of demand must be just over 2 (every % increase in price should result in drop in volume of 2%).

The New York Times asks, "Will the hard-core customers pay more"? How likely is a 17% sales drop? Not very given that most price sensitive customers have moved out and what they are left with are those who prefer Starbucks over other brands. So their price sensitivity is most likely to be lower than it would have been before the recession.

Hence a 17% drop in sales is highly unlikely. In terms of elasticity, premium drinks moved to inelastic part of the demand curve. As long as the sales drop stays below the 17% mark, the price increase is a profitable and a smart move for Starbucks.

You can see how Starbucks would have made this counter-intuitive decision – because it is based on evidence and analysis. Unfortunately this does not come naturally to most marketers, because no one wants to go against the flow or stand-up to authority. Worse, most marketers accept conventional wisdom without a challenge because they lack inclination and wherewithal to seek the right data and do the relevant analysis.

How was your last marketing decision made?