MF 03

MMS-III
(Mktg.)

26-10.2012

Marketing Finance

Roll No. **Total No. of Printed Pages:5**

Total No. of Questions : 7 **Maximum Marks : 30**

Duration (hrs.) : 2 Hours

Section , if any : None

Note : Q.1 is Compulsory of 10 Marks.

Attempt any 4 Questions from Q. 2 to Q.7 carrying (5) marks each.

Q.1) Read the following case and answer the question given at the end of the case. Each Question carries equal marks. (Total = 10 M)

Roger Smith, the executive vice president for sales and marketing at carpenter Motors looked at the new model – the C100 – that the company was about to release to the U.S market. Based on the success of the C200, the C100 was a smaller version with a smaller engine. However, it contained lines and the details similar to those of its big sister. Of course the price for the C100 was relatively less, too. This was important to senior management who had supported the model. In fact, several senior executives had told smith that his marketing efforts should focus on the car's price. Smith had thought about value pricing as the primary pricing strategy before the car was unveiled several months earlier. Value pricing, which had been used to reflect real-world selling prices and to reduce their dependence on rebates, had worked to a certain extent for the other models. But not as well as smith had liked. Nonetheless he was willing to use this pricing strategy for this model.

Glossary:

- ***Rebate*** is an amount paid by way of reduction, return, or refund on what has already been paid or contributed. It is a type of sales promotion marketer use primarily as incentives or supplements to product sales.

- ***Value Pricing:*** The price is determined by the competition's prices for the same or similar product or service.

- ***Perceived Value pricing***: The price is determined by the value that customers have of the product or the service. Usually customer's perception of value or quality is a result of advertising and /or promotion of the product or service.

- ***Market Skimming pricing***: The price can be determined by the uniqueness of the product or service or by customers who are willing to pay a premium (high) price for the product or service.

- ***Market Penetration Pricing:*** The price is determined by the company's desire to gain the market share. Consequently, the price may be set unusually low for a certain period of time. The price may be increased later.

- ***Competitive or going rate pricing:*** The price is determined by assessing the average price for the product or the service in the market or by assessing the average of the competition.

Q.1.a) Which pricing strategy should Mr. Smith use? Why (4 M)

Q.1.b) Do you think C100 may cannibalize its big sister? Why / Why Not? (4 M)

Q.1.c) Give any one example of such a scenario faced by Indian company in some other sector apart from automobile? (2 M)

Q.2) Family store wants information about the profitability of individual product lines: soft drinks, fresh produce, and packaged food. The store provides the following data for the current year for each product line:

Particulars	Soft drinks	Fresh produce	Packaged food
Revenues	793500	2100600	1209000
COGS	600000	1500000	900000
Cost of Bottles returned	12000	0	0
No. of purchase orders	360	840	360
No. of deliveries	300	2190	660
Hours of shelf stocking time	540	5400	2700
Units sold	126000	1104000	306000

The family store is currently allocating the support costs as a % of the COGS. The family store also provides the following classification of support cost (indirect OH) information for the current year:

Activity	Total Cost in INR	Cost allocation
Bottle returns	12000	Direct Tracing
Ordering	156000	1560 purchase orders
Delivery	252000	3150 deliveries
Shelf Stocking	172800	8640 hours of shelf stocking
Customer support	307200	1536000 units sold

Required: Calculate the operating income and the profit margin for the 3 product lines based on the:

1. Traditional costing used by the family store
2. Activity Based Costing

Q.3) XYZ ltd is considering the revision of its credit policy with a view to increasing its sales and profits. Currently all its sales are on credit basis and the customers are given one month time to settle the dues. It has a contribution of 40% on sales. It raises funds at a cost of 20% per annum. The marketing director of the company has given the following options with draft estimates for consideration:

Particulars	Current	Option 1	Option 2	Option 3
Sales (Lakhs)	200	210	220	250
Credit period (months)	1	1.5	2	3
Bad debts (% of sales)	2	2.5	3	5
Cost of credit administration (Lakhs)	1.2	1.3	1.5	3

Required: Advise the company to take the right decision.

Q.4) A small industry finds from the past data, that the cost of making an item is Rs.25, its selling price is Rs.30, if it is sold within a week. It could be disposed at Rs.20 per unit at the end of the week. The past records show the following demand

Weekly Sales	≤ 3	4	5	6	7	≥ 8
No. Of Weeks	0	10	20	40	30	0

Find the optimum no. of items per week the industry should produce.

Q.5) Data for Herman Corporation is shown below:

Particulars	Per unit in Rs.
Sales	90
Less Variable Expenses	63
Contribution margin	27

Fixed expenses are Rs.30000 per month and the company is selling 2000 units per month.

Required:

1. The marketing manager argues that a Rs.5000 increase in the monthly advertising budget would increase monthly sales by Rs.9000. Should the advertising budget be increased
2. Referring to the original data, the management is considering using hiher quality raw material which will increase the variable cost of rs.2 per unit, and would help in increasing the sales by 10% per month. Should the higher quality components be used?

Q.6) Packaging Cost is not a variable cost. Do you agree or disagree?. Explain with suitable examples.

Q.7) Mr. Mahendra Works for a MNC which is into B2B industry. The control system used in the organization for each of the responsibility center is profitability of that respective center. Mr. Mahendra is on a senior post in a marketing department of that company. His job is to liaise with distribution department and production department of that company in order to deliver his KRA's.

What is transfer pricing ? What is its significance for marketing personnel like Mahendra? Explain stating appropriate assumptions and situations.

All the best