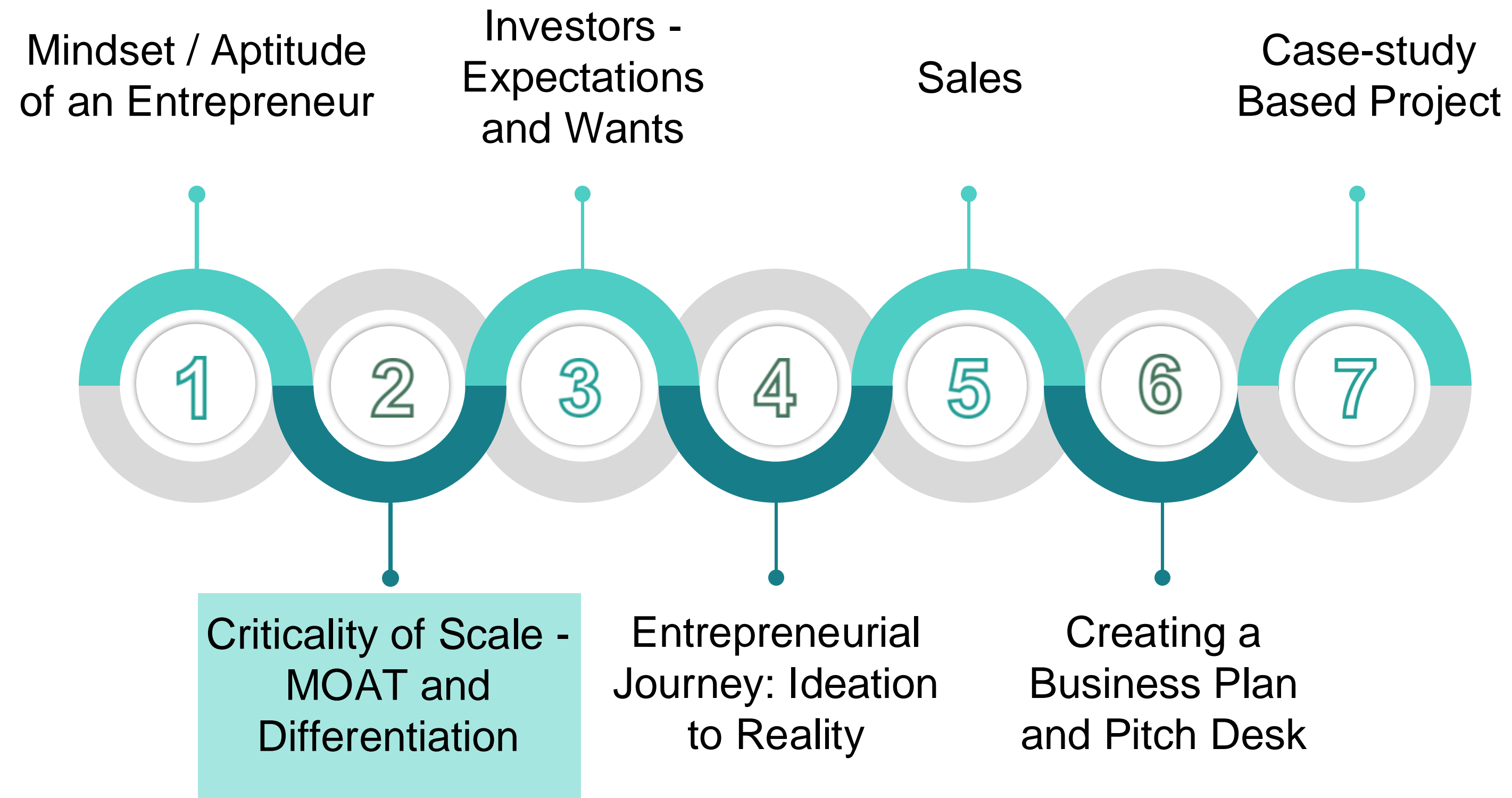


Semester 1



Economies of Scale

Sanjeev Yamsani

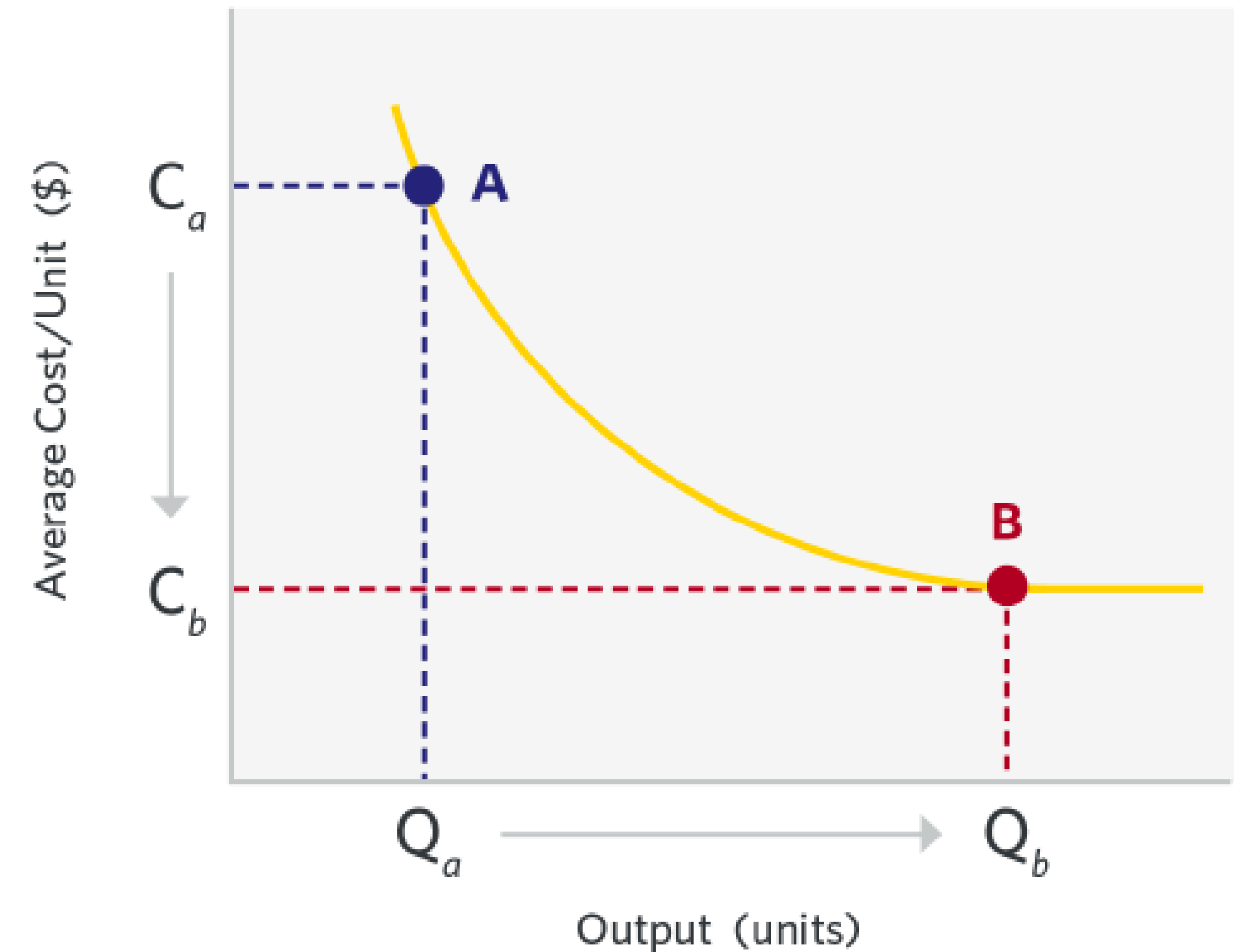


What is Economies of Scale?

Average cost declines as production volume increases

“Economies of Scale” reflect the presence of fixed costs

Implies that a company needs to produce a minimum volume to be cost-competitive



What is Economies of Scale?

Economies of Scale not only determine cost positions, but

- Influences selling prices and
- Profitability

High fixed costs limit the number of companies that can enter a market of a specific size



Walmart: Economies of Scale?

For much of its history, it operated in the US rural market.

Built distribution centers and warehouses to stock the merchandise it bought at low prices.

Created a network of stores to create economies of scale (Hub and Spoke).

These high fixed costs to operate created an effective barrier to entry and kept most of its competition out.



Walmart: Economies of Scale/Density?

For every mile a store is closer to a distribution center, Walmart's profits increased by \$3,500 annually.

With close to 5000 stores in the US, “**Economies of Density**” made a substantial fraction of the profits.

Having shut out its competition, Walmart **increased prices** by as much as 6% where it had no rivals.






Maruti: Economies of Scale

Maruti: Synonym for 'Car' in India

 Maruti enjoyed the largest share in the Indian Passenger Car Segment

 **Two production facilities** in 2014 producing >1.4 million cars

-  Three key strategies to generate sales
- Very **competitive pricing** strategy
 - R&D focused on creating more **fuel-efficient cars**
 - Reliable **after-sales service**



Market Landscape



Highly competitive market in India:

Not a single price change by any of the players had gone without a reaction from the rival firms



Prices could not be raised for years/decades:

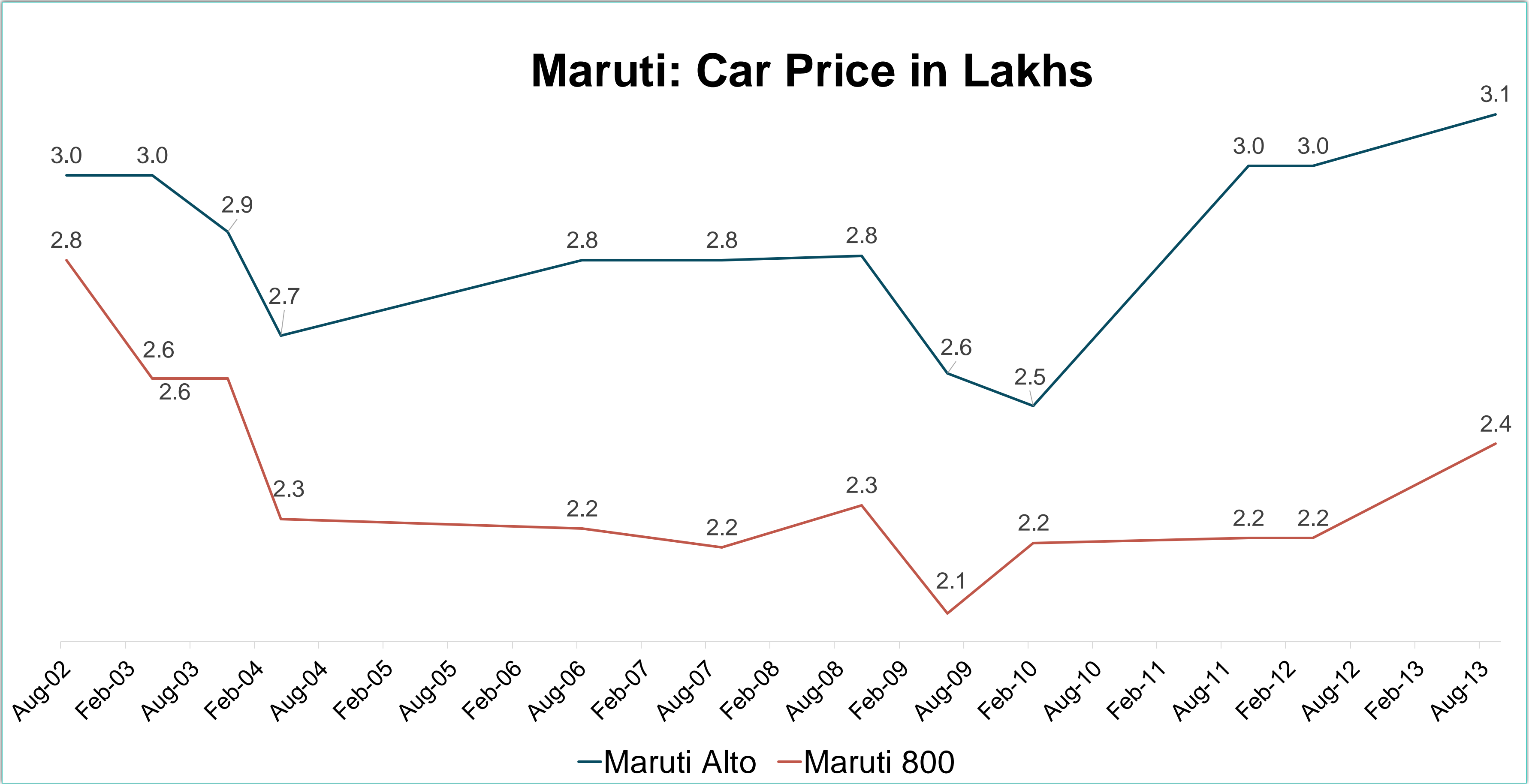
Had to reduce prices to retain market share



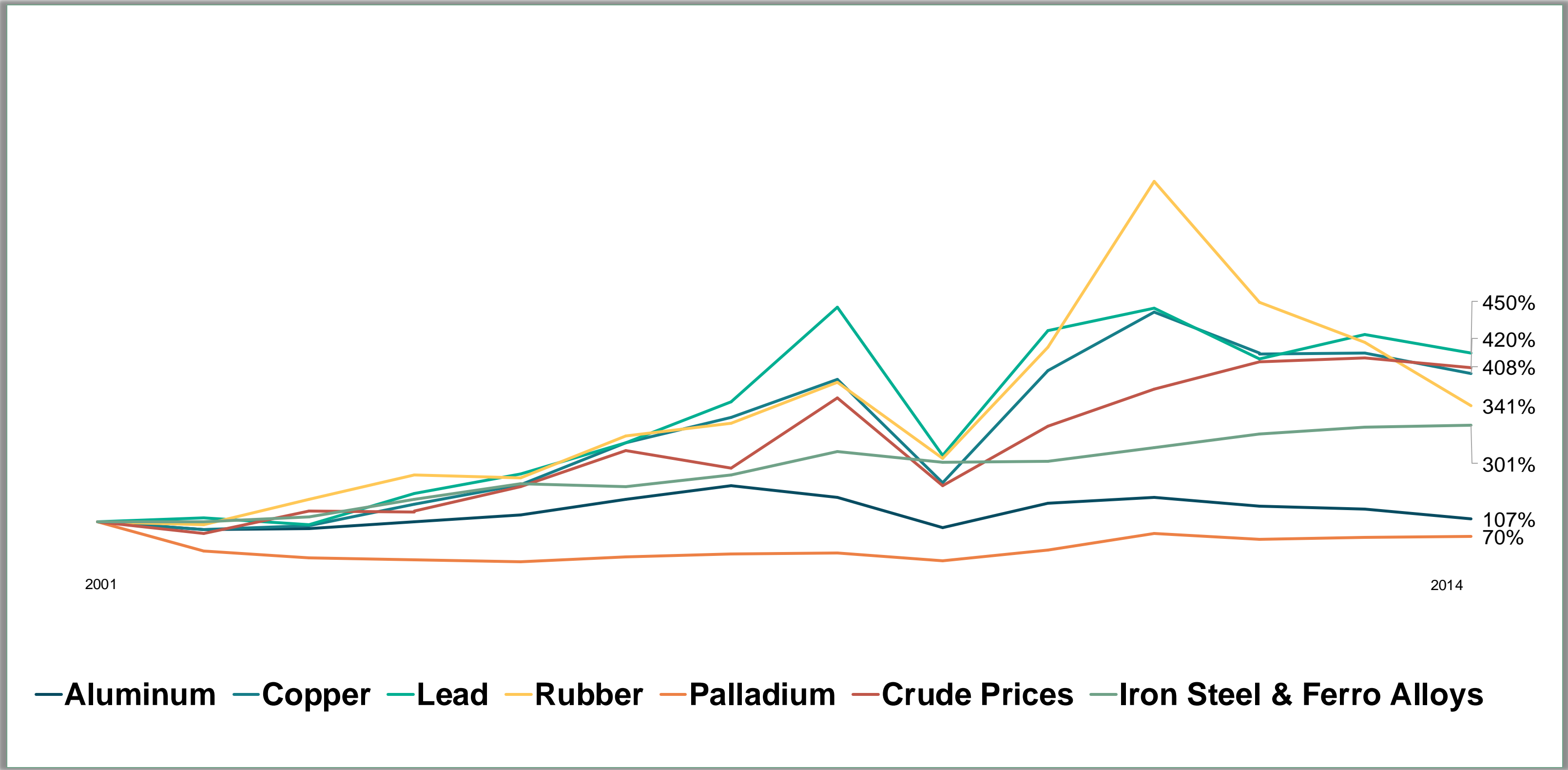
Though the company had retained its market leadership positions, its market share had fallen due to **intense price competition**.



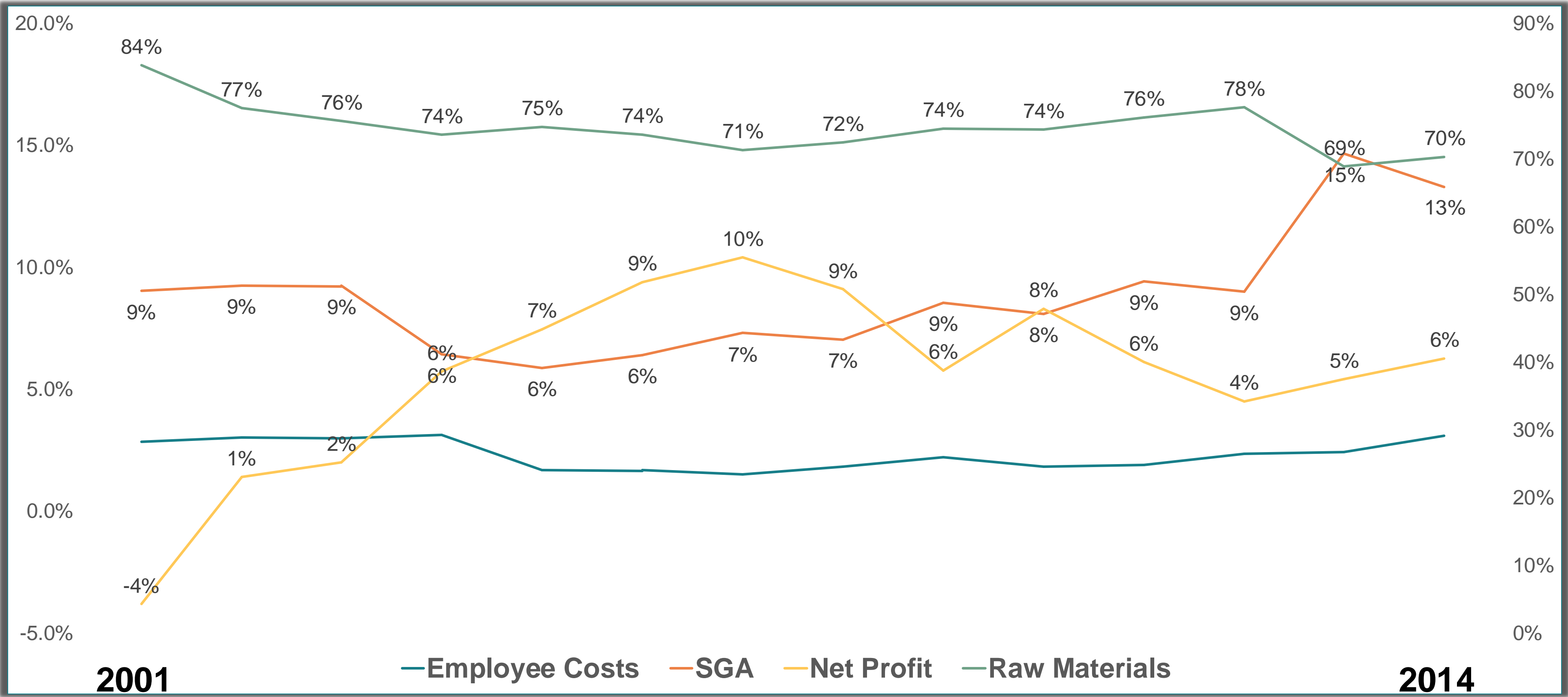
Maruti: No Growth or Rather Degrowth in Car Prices



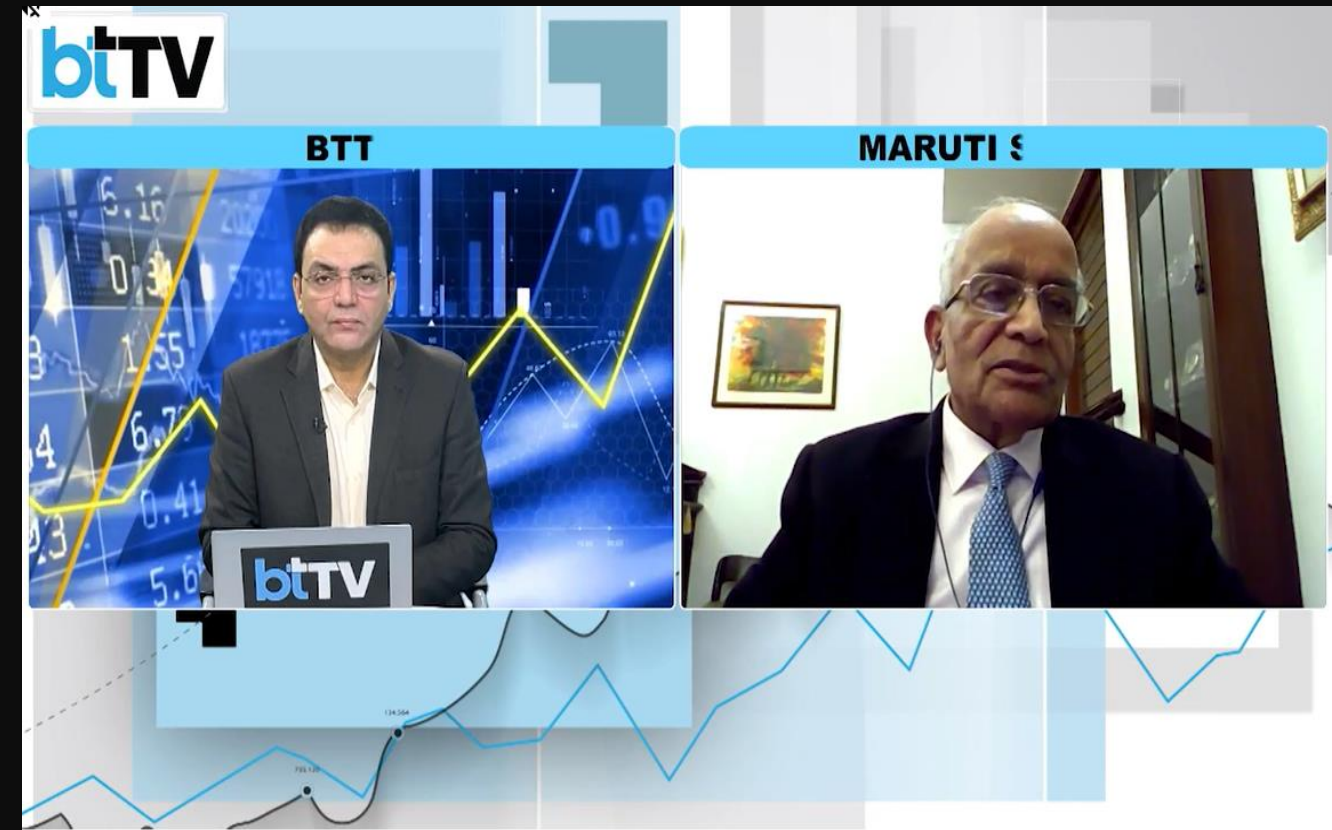
Cost of Raw Materials: At a Decade High



Maruti: Economies of Scale Enabled it to be Profitable in a High Intense Pricing Environment



Grocery Retailing: Segmentation



The background features a smooth gradient from a light tan on the left to a dark brown on the right. Large, semi-transparent circular arcs are visible on the left side. On the right side, there is a solid orange circle and a thick white curved line that arcs across the top right corner.

HAPPY LEARNING!

