

Anita's First Three Months at BEEPL: Elasticity Experiences?

Anita Chauhan (Anita) was an ambitious girl from a remote village, 15 kilometers from Gorakhpur, in Uttar Pradesh. Anita's village was sparsely populated and was underdeveloped. For instance, it was not connected by a *pucca* road, lacked electricity and had just one primary school. Anita completed her schooling from Gorakhpur and graduation (engineering) from Lucknow. Thereafter, she pursued her MBA from the New Delhi Management College (NDMC).

In the fourth semester of her MBA, Anita was placed as a management trainee in the corporate office of Blue Earth Engineering Products Ltd. (BEEPL), located in Udyog Vihar, Sector-18, Gurgaon. BEEPL being one of the leading engineering and manufacturing companies of India, it was a dream company for Anita. She was one of the five students who were offered final placement by the engineering giant. The job profile too was exciting with equally encouraging pay package. The first three months of her work life reminded her of what her Economics Professor

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had taught in the elasticity session of Business Economics course. As a rational and utility-maximizing consumer, Anita's responses – to price changes, her new found source of income and the decision to buy her own scooter when shared auto rickshaws didn't suit her – resonate with several consumers' economic behavior.

Residence Selection

The fourth semester exams were over in May 2014 and the students still had around 3 months' time on hand before they could start working. BEEPL had conveyed to the students that the joining date would be in the end of August 2014 or beginning of September 2014 and they would be informed about the exact joining date over e-mail, sometime in August 2014.

Of the five students who were offered campus placement by BEEPL, Aakash and Surendra were residents of Delhi, Anita was from Gorakhpur and Meera and Sonal were from Pune. Before leaving for their hometowns, on May 24th 2014, Anita, Meera and Sonal went to Gurgaon to look out for accommodation and get details of the same. Anita's expectations were clear – she wanted a PG accommodation which was close to the work place, was safe (with many untoward incidents being reported in Gurgaon area) and which had some of her acquaintances living nearby or within the same apartment. The proximity/company of her friends would not only give her the mental comfort but would work out to be more economical for reaching office, she thought. Also, Anita did not want a room on sharing basis as she planned to do a course in Hadoop and her family members were also expected to visit her once in a while.

With these requirements, Anita identified a PG accommodation through a rental classified advertisement. The next day, on May 25th 2014, Anita along with her two friends (Meera and Sonal) decided to visit the PG accommodation. The owner had a group of eight flats in the newly constructed building and every flat had 4 rooms each. Thus in all, there were 32 rooms for PG accommodation and the landlord offered each room at the rate of ₹15,000 per month.

Each occupant had to pay ₹2,000 for food which included morning tea or coffee, breakfast, evening tea/coffee and dinner. Anita however did not require morning tea/coffee as she was habituated to taking milk with Bournvita. Anita thought that she would additionally need to purchase quarter litre of milk per day and 500gm bottle of Bournvita per month. She, however, did not mind that expense as she had always spent additionally on milk and Bournvita since the time she had started staying in a hostel.

Anita liked the place and decided to take it on hire once she had the confirmation on joining date. She was sure that she would find accommodation in the said building as at that juncture, 20 rooms were vacant. Moreover, she learned from the landlord that including her only five people had come looking for rooms. Meera and Sonal decided otherwise. They took a two bedroom flat on rent close to Anita's chosen PG accommodation instead.

After checking for accommodation, the three friends went back to their home towns. Anita went back to her village to spend time with her family. Her native village being quite remotely located, there was no internet connectivity and mobile network was also quite poor. She would therefore visit Gorakhpur, which was 15 kilometers of distance one way, every three-four days to check mails and get in touch with her friends who were also to join BEEPL.

On August 22nd 2014 (Friday), Anita accessed her e-mail when she went to Gorakhpur. She had received a mail from BEEPL sent to her on Monday (August 18th 2014), informing that August 27th 2014 would be the joining date. Anita hurriedly planned her travel and reached Gurgaon on Monday (August 25th 2014). Anita was entitled to company accommodation for a week which could be extended to 10 days. But after that, she had to move into her own accommodation.

Anita visited the apartment that she had liked for a PG accommodation for ₹15,000 per month. However, to her surprise, she found that the landlord had increased the price to ₹18,000 per month. Anita was shocked and wondered how could the price go up by ₹3,000 in just 3 months?

Anita learned that including her, nearly 10 people had already shown their inclination to take the rooms on hire, even at ₹18,000. The additional ₹3,000 was exceeding what Anita had planned for accommodation. Yet, she was inclined to take the room as it fulfilled all her requirements. Apart from her individual requirements, there were several facilities such as laundry services, a small grocery store, 100% power back up, geyser, an electric kettle, 24 hours continuous water supply as well as security that made the apartment attractive for the tenants. Anita also found the services quite attractive. She was particularly happy with the availability of laundry services and was sure to avail the same if she decided to move into the apartment although she had been doing the laundry herself until then.

Anita thought that if she delayed in making a decision, she was likely to lose the room and the price also might go up given the increasing demand for the rooms. The landlord had conveyed to Anita that of the 10 people who had enquired for rooms, few had paid token advance while few others were going to confirm their interest by that evening. Anita paid ₹30,000 as advance and checked into her room the same evening.

New Job, New Clothes and Online Fashion Apparel Retailer

Although Anita had settled for an expensive PG accommodation for ₹18,000, she was happy in her new found residence. At the end of 1st week at work, Anita was looking forward to spend the weekend with friends at her room. On Saturday (September 6th 2014) morning, as she picked up the day's newspaper, she saw a full page advertisement by one of the leading online lifestyle stores announcing flat 50% off on most of the apparel and footwear labels from 9:00

am to 3:00 pm on Sunday. Anita was excited. She spoke to her friends – Meera and Sonal – over phone and they all decided to sit together for the sale and make purchases on Sunday (September 7th 2014). The friends had anyways decided to go shopping the following weekend (September 13th and September 14th) to purchase formal wear. Anita had decided to spend around ₹5,000 and was hopeful of buying three new shirts/*kurtis*, at an average price of ₹1,500. Her friends also had similar budgets. However, by shopping online, the friends had purchased more dresses than they had planned for. Anita spent ₹6,000 and purchased eight pieces of clothing at an average price of ₹750. She spent beyond her budget as she was getting branded clothes at much lower prices due to the sale. She did not want to miss the opportunity. Her friends also had the same purchasing pattern. Thanks to the online sale, the girls' demand for new clothes was met which left the three of them quite contented. They were so happy that they looked forward to their first salary to make some more purchases.

First Salary and First Signs of Brand Preferences

The first month at work was very exciting for Anita, Meera and Sonal. Not only were they learning the ways of professional life, they also got a chance to participate in several events. On one such occasion, tickets were offered to BEEPL employees for a rock concert being held in Gurgaon. Each ticket was available at a subsidized rate of ₹1,500. However, Anita, Meera and Sonal decided not to go for the concert as they found the tickets to be expensive and they had not even received their first salary. That was the case with most of the team members. Out of total team strength of 25 members, only 12 members purchased the concert tickets. The following week, the tickets were offered at ₹400 exclusively for the new employees. Despite the huge reduction in prices, only four more people purchased the tickets. Most of the new employees did not want to spend before receiving their first salary.

After an exciting and challenging first month at work, like everyone else, Anita was eagerly waiting for her first salary. She was known to be thrifty and a meticulous spending planner. As a student, while living in Gorakhpur and then in Delhi in the hostels, she cautiously utilized the money given by her parents each month and she saved quite a lot from the pocket money. Once she even presented a designer *saree* to her mother on her birthday with her saved pocket money. While purchasing any product, the cost-benefit analysis always worked at the back of her mind.

She had already planned how to spend her first salary. After settling all the monthly payments such as rent, mobile bill, electricity bill, laundry, etc., and having kept some money for the rest of the month's expenses, Anita went to one of the malls in Gurgaon for shopping with her friends. Among other things, Anita had planned to buy few hair care products. Until then, Anita had been using Ayur Herbal's 'Ayur Protein shampoo' (Ayur). However, she no longer wanted to buy Ayur and she bought Hindustan Unilever's TRESemmé Keratin Smooth shampoo instead. She thought, now that she was earning and she could purchase products of superior

quality, she should switch to better brands. Likewise, she bought Revlon lipsticks as against her regular Elle18 lipsticks. With an increase in her disposable personal income, she switched to 'better' products.

After shopping, Anita and her friends took an auto rickshaw and headed back home. On their way back home the girls discussed the transport related problems that they faced to and fro to work.

Travel Travails and the Honda Activa

To travel to office each day, the girls walked up to the main road, where they could hire shared auto rickshaws which plied till the office campus. Similarly, to go back home in the evening, the girls followed the same routine. They paid ₹25 for each trip (per head).

Although the girls managed their commute to and from office in shared auto rickshaws, Anita wanted to explore other options as the shared auto rickshaws were not only uncomfortable due to the crowd but also had bothersome co-passengers. Moreover, the girls ended up wasting a lot of time in travelling by shared auto rickshaws. Either the shared auto rickshaws were too crowded to accommodate more passengers making the girls wait for the next vacant auto rickshaw or they didn't have enough passengers for them to start the travel.

Nevertheless, the girls continued commuting using shared auto rickshaws for two months. However, at the end of two months, while Anita's friends continued travelling in shared auto rickshaws, Anita contemplated buying a two-wheeler. Riding a two-wheeler was not new to her as she used to ride her cousin's two-wheeler when she was studying in Gorakhpur. She calculated that by travelling in a shared auto rickshaw, she spent an average of ₹1,100 only for office-related travel per month. However, if she spent the same amount on petrol on a two-wheeler, she would not only be able to travel to office and come back as per her convenience, she could also undertake other personal travels, she thought. Considering the benefits, Anita decided to buy a two-wheeler the coming month. After consultation with family and friends, she decided to purchase 'Honda Activa' two-wheeler. Honda also offered a 20% discount to employees of BEEPL which encouraged Anita to buy a Honda vehicle.

On receipt of salary in the third month, Anita immediately purchased a Honda Activa. The next day onwards, she started going to work, riding her own scooter. As she rode back home that day, she had a sense of pride and happiness about her economic decisions and independent life.

Assignment Questions

- I. Explain Anita's residence selection and shopping for fashion apparel online with the help of concept and types of price elasticity of demand.
- II. Anita's first salary undoubtedly changed her brand preferences. How do you categorize the new found demand for preferred brands of shampoo and lipstick? Explain with the help of the concept and types of Income Elasticity.
- III. While Anita's travel discomfort with shared-auto rickshaw influenced her to buy Honda Activa, was there cross elasticity of demand at work? How do you characterize the cross elasticity of demand for Honda Activa – as a substitute or as a complementary good?

Mandatory Reading

- Paul A. Samuelson, et al., "Supply and Demand: Elasticity and Applications", *Economics*, 19th Edition, McGraw Hill Education (India) Private Limited, 2010 – To have an understanding of the concepts in elasticity of demand