

Name: Adelina Sisianu

Student ID: 2020528

MANAGEMENT ECONOMICS

LCBB5003

(Company - Ferrari)

Table of Contents

Introduction.....	3
Brief description of the company.....	3
Identify Demand and Market Equilibrium.....	4
Indicate whether demand is more elastic or more inelastic	8
Substitution Effects. Luxury vs. Necessity -	8
Income effects. Percentage of income -	8
Analysing the pricing policy that businesses should employ? Why?	9
Conclusion	9
Reference	11

Introduction

Management economics can be considered as the application of economic theories to cater to problem management plans. Management economics could further be viewed as the process to solve the financial problems evolving at an organisation, that enables the organisation to assume, analyse, and execute their operations. It can further be stated that managerial economics helps in analysing the decision-making processes with the short and long-term goals with the factors to look upon their business decisions from multiple perspectives. The main aim of this report is to provide Ferrari with an effective management economic plan by critically evaluating the economic data within the guiding policies within the national and organisational context. Furthermore, the application of various economic concepts with the respect to making managerial decisions within the organisation will be discussed briefly in this report.

Brief description of the company.

Ferrari S.P.A. is an automobile brand that manufactures luxury sports cars and is headquartered in Maranello, Italy. This Italian car brand is most commonly known for its speed and sophisticated luxury designs (RewindandCapture, 2022). Furthermore, in the beginning, stages, the organisation started as a normal automobile manufacturer to become the most powerful and recognised automobile brand in the industry. Named after Enzo Ferrari, the automobile manufacturing organisation epitomises their power for becoming a lifelong passion for speed and racing spirits with a limitless achievement to create icons for changing the perspective of the world by providing the best design sports cars (RewindandCapture, 2022). The organisation is based on the values that have been categorised as,

- ***Individual and Team***

Their talented workforce is considered the organisation's greatest asset and valuable resource. The automobile manufacturing company pursues to fulfil the dreams of its customers by working together as a team (Ferrari, 2022a). Furthermore, the organisation fosters integrity, generosity, and excellence to express its talent and unleash its potential to serve its customers.

- ***Tradition and Innovation***

The organisation considers tradition as the main root of innovation, which further quests for the everlasting racing combination to provide speed and luxury within their products. Furthermore, they combine their modern technological solutions with their traditional handcrafted craftsmanship, which helps them to create icons within a changing world.

- ***Passion and Achievement***

The racing spirit within Ferrari's automobile transcends the roads and tracks to implement towards the lives of their customers. Furthermore, the organisation believes that nothing excites its employees more than the target set of its customers (Ferrari, 2022a). They tend to push their limits to offer the safest and most operative cars within a high-range segment. The passion of their customers provides the power of achievement for their designs.

Their symbol prancing horse symbolises the quality and performance, upon which the company is built upon. Their business areas are divided into various segments to gain recognition for the brand that consists of,

- ***Racing***

The organisation has competed in over 900 racing events and "***Formula 1 World Championships***" since its launch and won over 15 driver's titles and 16 "constructor world titles" (Ferrari, 2022a).

- ***ESports***

The automobile organisation sponsors teams for competing in various online virtual racing championships and MOBA-driving games especially looked after by the "Driver Academy ESports Team".

- ***Lifestyle***

The organisation further sponsors various fashion shows, dwelt into timeless elegance for the devotion to selected quality and design (Ferrari, 2022b).

Identify Demand and Market Equilibrium

Demand refers to the customer's desire to buy a particular commodity. Market demand is the demand for a particular commodity in the economy. The combination of demand and supply plays a huge role in the determination of the price of a commodity (Leamer and Stern, 2017). The revenue of Ferrari is expected to reach 3.86 billion US dollars by the end of 2022 (Statista, 2022). The expected annual growth of 5.12% reflected that there is an increase in the demand for Ferrari products. A report by Reuters (2022), also attested to the rise in demand for Ferrari luxury cars. ***Market equilibrium*** refers to the economic state in which the number of goods supplied and the goods demanded are equal (Llull, 2018). According to a report in Wionews, (2022), Ferrari is facing a shortage of products to meet the market demands. Hence, it can be concluded that ***Ferrari*** has failed to reach Market equilibrium. Market Equilibrium is depicted in ***Figure 1***.



Figure 1: Market Equilibrium

(Source: Economicsonline, 2022a)

Factors that influence demand and how it affects products

Demands have a huge influence on the performance of an organisation. Demand used an insight used by companies to plan their production and supply chain. Demand also affects the profit and loss margin of the organisation while sales are directly affecting the demand for the product in the markets. However, it should be noted that there are factors that can affect the demand and also indicate the rising or decrease of the products. These factors are:

The **price of substitutes** refers to the price of the alternate options that are available to the consumers. It can be understood that alternate products providing the same level of utilisation as Ferrari but at less price are likely to entice customers. This will result in a fall in the price of Ferrari products. The substitutes in the case of **Ferrari** are cars that provide equal utility. Consumers when having a chance to get a product with the same utility is likely to save their money and buy substitutes. According to Li et al. (2017), it is a consumer's natural habit to look to save money during purchases. It is also natural for consumers to assess a number of options before committing to buying a particular product.

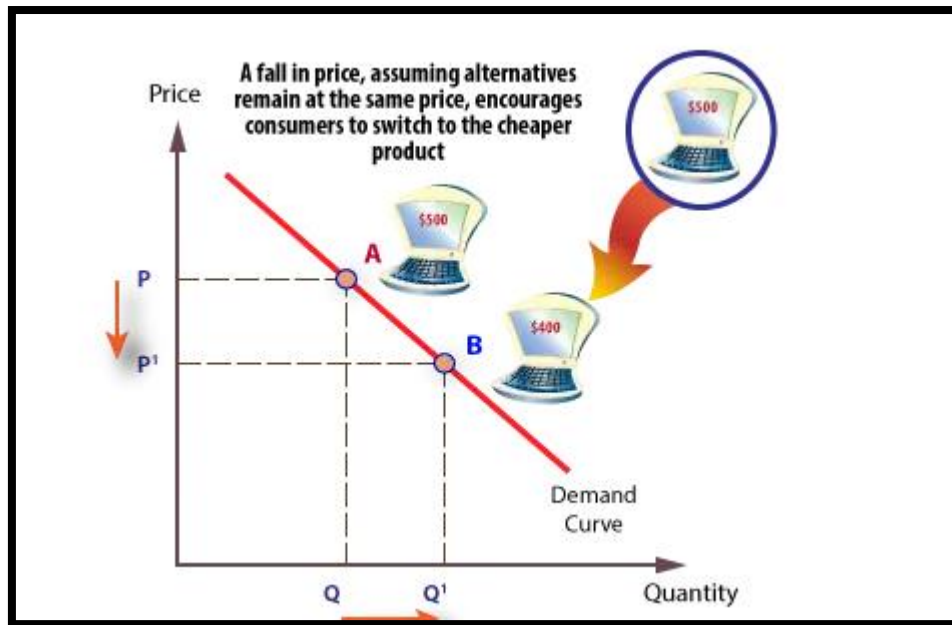


Figure 2: Substitution goods and quantity demanded

(Source: Economicsonline, 2022c)

The price of complements refers to the price of goods that are used simultaneously. It can be understood that **Ferrari** being a car requires fuel to run. The rise in the price of fuels may affect the decision of customers to purchase Ferrari cars. Since to operate the car the consumer has to spend more for the purchase of fuel. Hence, it can be said that the rise in the price of fuel can affect the demand for Ferraris. A report in Gov (2022), attests that a rise in fuel price has an effect on the demand for cars. The rise in **Consumer Income** refers to the collective income of the consumers. It is to be noted that when the income of the consumer increases they tend to buy more and contribute to their desires and demands of products. It can be understood that consumers may desire to buy **Ferrari** products but they may not have the financial resources to buy them. However, if the same consumers get the desired income, they will be buying Ferrari products. Hence, it can be said that the income of the consumers affects the demand positively. According to Bayer et al. (2019), the income of the consumers has a direct and positive impact on the demand for the products. The relation between demand and income is depicted in **Figure 3**.

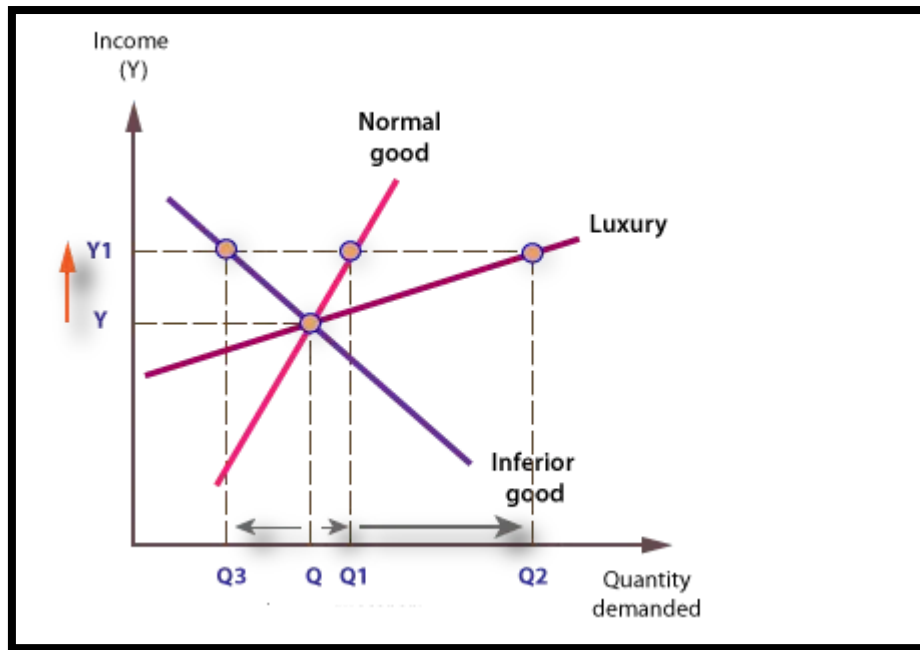


Figure 3: Household income and demand

(Source: Economicsonline, 2022b)

Consumer tastes & preferences are important with context to the demand in the market of a product. In the case of **Ferrari**, it is important to understand that if the market comprises a group of people that are not enticed into buying luxury cars, then the cars are likely to have less demand in the market. In contrast, in a market of people with a high interest towards luxury cars, the income to adhere to the interest is likely to have a high demand for **Ferrari** products. Hence it can be concluded that customer taste and preference have a moving impact on demand. **Consumer expectations of price** also have an influence on demand. When the price is higher than the expectations of the consumers. In general, consumers refrain from buying these products. While, in contrast, when the price of a commodity is lower than the expected price of the commodity, the commodity is likely to witness an increase in demand. Ferrari cars are expensive, the demands are very sensitive to the price expectation of consumers.

Demographics: According to a report in Theguardian (2022), the profits of the car company have increased with an increase in sales. This can be used to understand that there is an increase in the number of buyers of the company. According to Akram *et al.* (2018), an increase in the number of buyers results in an increase in the demand for the products. When the number of buyers will increase, Ferrari will experience an increase in demand and to meet the demand the organisation will be needed to increase the manufacturing of their cars. Increasing the supply will help the organisation to meet the required demands of the consumers. However, it has also been noted in some cases that to control the increase in the demand for commodities companies,

in general, choose to raise the prices of their products. According to Taylor (2018), a rise in the prices of the products results in a reduction in the demand for the commodity. It is important for the organisation to frame their operations in a way that is sufficient to meet the demands of the market. The demand in the market for the commodity of the organisation is a huge factor in the growth and sustaining of the businesses.

Indicate whether demand is more elastic or more inelastic

Substitution Effects. Luxury vs. Necessity -

- ***From the consumer's point of view is this a luxury or a necessity?***

From the customer's perspective, the cars of Ferrari are considered more in the luxury segment than necessity. The price range of a Ferrari model tends to become sensitive to the income or purchase capacity of an individual. This means due to the inclined rise of wealth, the purchases of luxury items increased. Conversely, with the decline in income status, the demand for luxury items decreases, which fosters an individual to purchase the items necessary for survival. The price range of Ferrari is at a higher segment, and being a luxury item, only the upper-income group of people could afford and maintain the service cost of these cars. Furthermore, it can be discussed that cars could be considered luxury if bought at a definite price range that could be available for all income groups of people. However, Ferrari being sold at an upper range of price segment and added requirements for services would not be affordable for the middle- and lower-income group of people. Furthermore, Ferrari being the epitome of providing social recognition for their customers is deemed from being an item of necessity.

- ***Does this factor indicate demand is more elastic or more inelastic?***

The items purchased through the position of comfort or luxury goods, the demand for the product is highly elastic due to their added price segment if compared with the goods that provide necessity to the customers (Profillidis and Botzoris, 2018). The demand for these essential goods based on necessity such as food is considered inelastic as the customers would purchase them even if their prices are within the fluctuating range. Furthermore, the elasticity and inelasticity for luxury items are based upon the alternatives of goods and services to be bought by the customers. Ferrari being a high-range product within the automobile segment has fewer competitors due to its popularity. However, their competitors could buy a cheaper product providing the same segment of luxury and speed offered by Ferrari. It can further be stated that with a large group of substitutes available within the industry, the demand for the products that are highly sensitive to the price changes of demand and elasticity within the ongoing market.

Income effects. Percentage of income -

- ***Does the purchase of the good or service represent a large or small portion of the consumer's income?***

The purchase of the products sold by Ferrari depends on the income sources of its customers. People with a large proportionate income category would contribute a small portion of their income to buying luxury items (Hymel, 2019). However, if a customer buys this car with a

large portion of income, it would be considered a necessary product. Ferrari sells their products to selective customers with unique product tastes. Furthermore, there are only a limited number of cars manufactured by Ferrari for their selected customer base, those who can maintain their brand image in accordance with the service costs (Continentalautosports, 2022). Furthermore, it can further be discussed that with the raise in added comfort and technological services, the income of the customers who buy Ferrari products is deemed to make it available to be bought by the higher income group of people. Therefore, it can be concluded that these products are available for customers investing a small proportion of their income to buy luxury items.

- ***Does this factor indicate demand is more elastic or more inelastic?***

The demand for products that are positioned as comfort or luxury goods is very elastic because of their increased price range when compared to products that meet customers' needs. Food is one example of an important good whose demand is deemed inelastic since consumers would still buy it even if the price was fluctuating. Furthermore, the alternatives that buyers have for the goods and services they can purchase affect the elasticity and inelasticity of luxury goods. Due to its popularity, Ferrari, a high-end product in the automotive industry, faces less competition. However, their rivals could purchase a less expensive product that delivered the same level of elegance and speed as Ferrari. Additionally, it may be said that a huge number of alternatives are readily available in the market, making demand for products that are very elastic and sensitive to price changes.

Analysing the pricing policy that businesses should employ? Why?

Ferrari should employ a ***Value-based Pricing Policy*** that responds to their potential customer base that is willing to pay a segregated price range for their products. This pricing policy would help in determining the expectations of their customers and the offerings provided by their customers. Furthermore, through the ***Value-based Pricing Policy***, Ferrari would gain inferences too,

- ***Focus on the specific market segmentation***

It would help the organisation to focus on its market segment and provide better functionality for every range of buyers within the automobile industry.

- ***Analyse and excel in the competitive market***

The high competitiveness within the automobile sector for Ferrari could be analysed and effective strategies could be implemented to excel within the automobile market.

- ***Refrain their pricing policies to provide value for their segregated customer base.***

Value-based Pricing Policy could help Ferrari to determine the investments required for creating a difference in their products, in terms of design and technological advancement to provide satisfaction to their customers.

Conclusion

It can be concluded from the above report that demand is an important aspect of businesses and the performance of organisations. There are various factors that affect the demand for a

commodity like the income of consumers and preferences of the consumers. It is concluded from the report that the number of buyers of Ferrari has increased and this will result in the demand for the cars of the Ferrari. In the case of Ferrari, it can be stated that the purchase of the Ferrari car represents a large portion of the customer's income.

Reference

Akram, U., Hui, P., Khan, M.K., Yan, C. and Akram, Z., 2018. Factors affecting online impulse buying: Evidence from Chinese social commerce environment. *Sustainability*, 10(2), p.352.

Bayer, C., Lütticke, R., Pham-Dao, L. and Tjaden, V., 2019. Precautionary savings, illiquid assets, and the aggregate consequences of shocks to household income risk. *Econometrica*, 87(1), pp.255-290.

Continentalautosports 2022. All About Ferrari's Customer. [online] Available at:<<https://www.continentalautosports.com/ferrari-information/how-much-do-ferraris-cost/>> [Assessed on 12 December 2022]

Economicsonline, 2022a. *Market Equilibrium*. [Online]. Available at: <https://www.economicsonline.co.uk/competitive_markets/market_equilibrium.html/> [Accessed on 12th December 2022].

Economicsonline, 2022b. *Demand and Income*. [Online]. Available at: <https://www.economicsonline.co.uk/competitive_markets/demand_and_income.html/> [Accessed on 15th December 2022].

Economicsonline, 2022c. *Demand curves*. [Online]. Available at: <https://www.economicsonline.co.uk/competitive_markets/demand_curves.html/> [Accessed on 14th December 2022].

Ferrari, 2022a. Ferrari About Us. [online] Available at:< <https://www.ferrari.com/en-EN/corporate/about-us>> [Assessed on 12 December 2022]

Ferrari, 2022b. Ferrari Fashion Collections. [online] Available at:<<https://www.ferrari.com/en-EN/corporate/business-areas>> [Assessed on 12 December 2022]

Gov, 2022. *Behavioural impacts of rising automotive fuel prices on consumer fuel demand, UK: July 2021 to August 2022*. [Online]. Available at: <<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/behaviouralimpactsofrisingautomotivefuelpricesonconsumerfueldemandukjuly2021toaugust2022/2022-09-02>> [Accessed on 16th December 2022].

Hymel, K., 2019. If you build it, they will drive: Measuring induced demand for vehicle travel in urban areas. *Transport policy*, 76, pp.57-66.

Leamer, E.E. and Stern, R.M., 2017. *Quantitative international economics*. Routledge.

Li, W., Long, R., Chen, H. and Geng, J., 2017. A review of factors influencing consumer intentions to adopt battery electric vehicles. *Renewable and Sustainable Energy Reviews*, 78, pp.318-328.

Llull, J., 2018. Immigration, wages, and education: A labour market equilibrium structural model. *The Review of Economic Studies*, 85(3), pp.1852-1896.

Profillidis, V.A. and Botzoris, G.N., 2018. *Modelling of transport demand: Analyzing, calculating, and forecasting transport demand*. Elsevier.

Reuters, 2022. *Defying gloom, Ferrari sees strong demand for luxury cars*. [Online]. Available at: <<https://www.reuters.com/business/autos-transportation/ferrari-lifts-year-forecasts-after-strong-q3-results-2022-11-02/>> [Accessed in 12th December 2022].

RewindandCapture, 2022. Why is Ferrari Called Ferrari? [online] Available at:<<https://www.rewindandcapture.com/why-is-ferrari-called-ferrari/>> [Assessed on 12 December 2022]

Statista, 2022. *Ferrari (Passenger Cars) - Worldwide*. [Online]. Available at: <<https://www.statista.com/outlook/mmo/passenger-cars/ferrari/worldwide>> [Accessed on 15th December 2022].

Taylor, T.A., 2018. On-demand service platforms. *Manufacturing & Service Operations Management*, 20(4), pp.704-720.

Theguardian, 2022. *Ferrari reports record profits as supercar sales boom*. [Online]. Available at: <<https://www.theguardian.com/business/2022/aug/02/ferrari-reports-record-profits-supercar-sales>> [Accessed on 16th December 2022].

West, S.E. and Williams, R.C., 2017. Estimates from a consumer demand system: implications for the incidence of environmental taxes. In *Distributional Effects of Environmental and Energy Policy* (pp. 117-140). Routledge.

Wionews, 2022. *Already expensive Ferrari supercars to get even more costly. Supply chain and inflation to be blamed.* [Online]. Available at: <<https://www.wionews.com/world/already-expensive-ferrari-supercars-to-get-even-more-costly-supply-chain-and-inflation-to-be-blamed-503260>> [Accessed on 16th December 2022].