

## 2. Duranjaya Packaging

For 20 years, Nirav Duranjaya has operated a cardboard manufacturing facility on the outskirts of Mumbai specializing in selling mass-produced, low-cost cardboard boxes for industrial users. Price is the most important factor in determining the demand for the boxes. Gross profit and net profit margins in the business are low, and the workers are unskilled and low paid. *Duranjaya Packaging* advertises in specialized publications for the industries in which it sells.

In recent years, with the economy rapidly growing, the market for higher-margin, distinctive and creative packaging solutions has boomed in India. To enter this lucrative higher-margin market and satisfy growing demand, *Duranjaya Packaging* would have to hire three highly qualified packaging designers and create a more flexible workforce. The decision to move into this new market may require a restructuring of the business and a new more democratic management style, with employees taking more responsibility for their work. *Duranjaya Packaging* is currently organized as a tall hierarchical structure with a low span of control. Nirav supervises his employees closely and all decisions have to be passed through him.

Nirav estimates that fixed costs for producing the new creative packaging solutions would be as follows:

- rent: \$36 000
- utilities: \$6000
- packaging designer's salary: \$30 000
- Nirav's salary: \$16 000.

Variable costs for the new creative packaging solutions will be \$0.12 per box and the sales price will be \$1 per box. In the first year Nirav estimates that *Duranjaya Packaging* will produce 140 000 boxes.

(a) Define the following terms:

(i) *fixed costs* [2 marks]

(ii) *variable costs*. [2 marks]

(b) Prepare a fully labelled break-even chart for *Duranjaya Packaging*. [6 marks]

(c) Comment on **two** factors that will determine whether Nirav adopts a new management style. [4 marks]

(d) Examine **two** elements in the marketing mix, **other than price**, that *Duranjaya Packaging* will need to adapt in order to move into the creative packaging solutions market. [6 marks]