

# Market structure and supply and demand of starbucks



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Market structure refers to the physical characteristics of the market within which firms interact. It is determined by the number of firms in the market and the barriers to entry. The definition of monopolistic competition is “ a market structure in which there are many firms selling differentiated products and few barriers to entry”. The market structure of Starbucks is a monopolistic competition. In the coffee industry, many producers and consumers exist, the goods and services are mixed, but firms are still able to differentiate their, products.

Starbucks is a textbook example of a monopolistically competitive firm: many sellers, low barriers to entry, slight product differentiation. As an example of monopolistic competitive firm, Starbucks understands how that market structure works, thus giving them substantial profits in the past few years. Starbucks has managed to maintain its success even during unprofitable times with its other branches through customer loyalty, quality private goods, and knowing the labor market. Monopolistic competition also provides consumers with the greatest benefit of all: diversity in the world of coffee.

Supply and demand analysis of Starbucks Price is a factor which affects Starbucks on both the demand and supply side. The price of coffee will determine how many individuals are willing to buy and will buy at a higher price. The company has to keep in mind the maximum price that the customer would be willing to pay or the reservation price beyond which sales would dip to negligible. In short an increase in the price charged by Starbucks will cause a decrease in the quantity demanded while a decrease in price will result in an increase in the demand for coffee at Starbucks.

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However, as Starbucks offers good quality freshly ground coffee and positions itself as “ Quality Coffee”, the demand curve will shift to the right because of a population who pays for good taste. This shift also takes place because there is an increase in the population or in their income bracket or an increase in the price of the substitute i. e. tea. Other factors which will affect the demand curve and because a shift to the left are change in trends or belief i . e.

Coffee intake is bad for health, change in the size of population, competitor offers inferior product at lower price. Supply on the other hand would be affected by an increase in price of coffee beans, as Starbucks has to keep in mind that the price of coffee needs to be sustainable at the consumer end, high costs at the supply side may not be sustainable. An increase in the production of coffee beans would result in a decrease in price and hence increased available quantity for Starbucks. Competition is a factor which will affect both demand and supply.