Marketing mix worksheet assignment

ASSIGN BUSTER

Do not underestimate the importance of persuading the examiner that you are a credible candidate. In an assignment (as opposed to an exam), there is plenty of mime for the candidate to research and consider the material. Answers which do not signal a careful and thoughtful approach will be at a considerable disadvantage relative to this kind of very open and clear statement. The answer follows a logical path, starting by explaining the concept of equilibrium, then considering in detail factors that Influence the components of equilibrium, demand and supply. A) Identify and explain the main economic factors that determine the price of a good or service. Let us first understand the market equilibrium price of the product and then Identify and analyze how factors such as change in demand and supply, elasticity, separating and pooling equilibrium, market structure determine the price of a good or service. In free market, equilibrium price is the price at which there is no surplus or shortage and therefore quantity demanded equals quantity supplied (Slogan 2008).

At equilibrium, any change in quantity demanded or quantity supplied will move the market towards disequilibrium. Graph 1 Table 1 Market Equilibrium is at the combination POGO where consumers demand and firms supply are equal. (Lowest AAA) 2 Re: Graphics Graphs and tables are all labeled and the source provided. Though the graphs have clearly been copied from texts, with two exceptions (graphs 10 and 1 1) the quality of reproduction Is good. Also note that the graphs seem to have been extracted from one source, so there Is consistency In size and presentation.

This Important because it again demonstrates a concern for the clarity of presentation. It is time consuming to re-create graphs from scratch, so this

approach of pasting from text books is fine if position of equilibrium (Lowest 201 Oh). Graph 2 Table 2 In shortage, buyers bid higher price due to scarcity of product whereas suppliers tend to increase the supply to earn higher profits leading to higher equilibrium price (Lowest AAA) Graph 3 Table 3 In surplus, suppliers sell at lower price to clear the stock and buyers buy more quantity at lower price thereby establishing lower equilibrium price P*. Lowest 201 oh) Let us identify different scenarios for change in demand and supply and its effects on the price of a product. 3 Re: Writing style There is a mixture of prose and bullet points, in about the right proportions. Bullet mints have been used where a list of points is required, and that is appropriate. However to answer this question well, there an underlying narrative must be developed to provide context and to link the sections. Re: Referencing A variety of references has been used, so there is not reliance on, for example, the core text.

All references are from reliable or academic sources, which is also important because it signals rigor and reliability. Change in demand: The demand curve illustrates the relationship between price and quantity demanded of a good. As the price decreases, quantity demanded by consumers increases. Graph 4 (Lowest 201 oh) Change in demand can be due to below main categories other than the price of product as below: 0 Price and number of substitutes: Increase in price for substitute goods will increase the demand for this good as people will switch from substitutes.

For example, if the price of margarine goes up, the demand for butter would rise as people switch from one to the other. 0 Price of complementary goods: Complementary goods are consumed together. Therefore, higher price of

complementary good will lower the demand for this good. For example, increase in price of petrol would cause decrease in demand of cars. Consumer income: As consumer income rises, the demand for most goods would rise. As people become richer, they demand higher quality goods and thereby demand for cheaper goods decreases. 0 Tastes and preferences: People tend to buy desirable products.

Demand for highly advertised product is likely to rise. 0 Price expectations: If we expect the price of product to go up, we buy it now before price go up. (Slogan and Stifle 2001) 4 Graph 5 An increase in Demand Table 4 As the demand shifts to right, new equilibrium is established at higher price Pl . A decrease in demand Table 5 As demand shifts to the left, new equilibrium is established at lower price Pl . (Lowest 5 Change in Supply Supply curve illustrates the relationship between price and quantity supplied of a good. As the price increases, quantity supplied by suppliers increases.

Graph 7 Other than the price of the good, supply is determined by other factors as below: 0 Cost of Production: As the cost of production increases, profit margins shrink and firms cut production and switch to alternate products. 0 Profitability of alternate products (Substitute in supply): If profits on substitute good increases, producers will witch their production to substitute product and thus supply of the first good decreases. 0 Profitability of goods in Joint supply: Supply of one good affects the supply of other good produced in Joint supply.

For example, if more petrol is produced then other grade fuels such as diesel will also be supplied more due to refining of crude oil. 0 Aim of producers:

Profit maximizing firm will supply different quantity than revenue maximizing firm. 0 Expectations of future price changes: If price of good is expected to rise, suppliers will produce less now to earn future profits. (Slogan and Stifle 2001) 6 Re: Structure – Content Having explained the basics, the answer then introduces the concept of elasticity, which as we know, is critical to understanding how prices and quantities vary in response to shifts in demand and supply.

Graph 8 Increase in supply Table 6 As supply shifts to the right, new equilibrium is established at lower price Pl . Graph 9 Decrease in supply Table 7 As supply shifts to the left, new equilibrium is established at higher price Pl . (Lowest Elasticity Elasticity of demand is measured as the responsiveness of quantity demanded of a product to change in price (Beg and Ward 2010). Elasticity is useful in determining y how much price and quantity would change due to a shift in demand and supply (Lowest 201 Oh). Therefore, it is an important factor for pricing decisions of a company. As noted earlier, ideally I would like to have seen Graphs 10 and 11 recreated. Re: Structure – Content: The answer then provides some analysis of elasticity in real life, drawing on appropriate examples which are drawn from cited references. The use of examples than is simply regurgitating material from the core text. Graph 10 Change in supply for elastic and inelastic demand Table 8 For elastic demand, change in supply causes small change in price and significant hang in quantity whereas for inelastic demand, change in supply causes rapid change in price and small change in quantity. Beg and Ward 2009, Lowest AAA) Graph 11 Change in demand for elastic and inelastic supply Table 9 For elastic supply, change in demand causes small

change in price and significant change in quantity whereas for inelastic supply, change in demand causes rapid For example, Copper mines of the largest copper producer Chile have been extracted to a large extent and digging new mines will take 20-30 years. Therefore, copper supply is inelastic and increase in demand by China and India led too large change n price and small change in quantity supplied (Lowest AAA). The next step is to discuss price determination in two different types of equilibrium, which again shows evidence of wider reading and good understanding. Re: Structure – Content: Finally, a table illustrating different market structures is presented. Although there is some commentary on the table, I would have liked to see a little more discussion of what the various structures may mean for prices. In other words highlighting the material in the final column and explicitly linking elasticity and prices, perhaps taking just two examples from the table.

Re: Graphics What is less acceptable is pasting poor quality images from random online sources and bundling them onto the page. Ideally I would like to have seen table 10 recreated – it would not have taken long to generate the table in Word, and original tables are always much more professional looking. Lastly, if you include a graphic, you MUST discuss it carefully. There is no point at all in including graphics then ignoring them – the marks are gained from the correct interpretation of the material in the graphic.

Changes in demand in goods market often leads to price change in factor market. For example, due to large demand of steel from China, India and Japan, steel prices increased by 200 % from 2001 to 2005 which led to coking coal prices movement from $56 a ton in 2002 to $125 a ton in 2004

and 71% increase in iron ore output from Brazil and Australia (Lowest 201 Oh). Price determination in separating and pooling equilibrium A separating equilibrium is where a market can be identified into two sub-markets with separate supply and demand.

For example, good cars selling at EH and bad car selling at EH in a second-hand car market (Beg and Ward 2008). A pooling equilibrium is a market where good and poor products are sold together at the same price. For example, good cars and bad cars both sell at same average price EH in second- hand car market. Good car sellers, who are at disadvantage, must create a separating equilibrium to avoid losses in pooling equilibrium (Beg and Ward 2008). Table 10 (Lowest Bibb) The type of market where the product or service is sold affects pricing decisions for a product.

In perfect competition, market is very competitive and firms are price taker whereas going towards monopoly, due to less competition, the firms have more intro over price of product. 9 First the background to the problem is provided. Graph 13 and the accompanying narrative is used to provide evidence of the claim that reduced average has lead to reduced supply and high prices. This is very good, and is the basis for insightful analysis regarding short and long term strategies of firms. A real understanding of the importance of elasticity is provided in paragraph 2.

The candidate shows an appreciation of how businesses may adopt a different strategy according to customer type, and how this is expected to affect the ability to preserve margins. Again, there is good use of literature to support the point being made. 1 b) Using this example, or one from your

own professional experience, examine within your answer the circumstances that will enable a company to pass on cost increases to customers and protect profit margins. The issue here is of significant increase in cotton prices and its impact on clothing companies.

Due to floods in Pakistan, Indian export ban, cold weather in China and storms in US, supply of cotton has decreased thereby creating shortage of cotton in the market (Hall 2010). At the same time, demand for textile products has recovered faster than expected. Due to this shortage owing to lower supply and higher demand, cotton prices have increased to above $1 a pound for the first time since 1995 (Canary and Cue 2010). Graph 13 Another factor for high cotton price is lower cotton prices in recent years.

Due to low cotton prices in recent years as can be seen in above figure, farmers had reduced their cotton acreage leading to lower supply of cotton in 2010. Production for 2009/10 crop year has been 15. 3% lower than in 2004/05 (Cotton Incorporated AAA). However, due to price increases, farmers tend to grow more which can be seen in USDA forecast of 10. % increase in world cotton harvest from 2009/10 to 2010/11 (Cotton Incorporated 201 Oh). Therefore, in longevity, due to estimated increase in supply of cotton, cotton prices might move down to its average value.

This leads us to conclude that companies should consider different long-term and short-term strategies for price rise. For short-term, companies can absorb the costs or pass on the costs to customer whereas for long-term, cotton price may not be important factor for pricing strategy. Clothing can be categorized into fashion items (higher price) and commodity-type products

(low price) according to prices. Demand for fashion item is inelastic due to less sensitivity of customers towards its cost. Therefore a change in price will not make a big difference in quantity traded.

Thus, company can maintain its revenues and 10 Notice the excellent use of references. They are used to support claims, e. G. “ raw materials make up between a quarter and half of the cost to produce a garment (Canary and Cue 2010)”, and the evaluation of what this evidence means in the present context – the change in cotton price would have an effect on the costs of manufacturers and its effects. Thereby profit margins on these items. However, items and will wait to buy till prices goes down. Therefore, in this case it would be difficult to pass cost increases to customers.

This reflects in the price rise expectations by Jones Group from 5% to 10% on selected products, with commodity- type products rising at the lower end of that range and fashion at the higher end (Change 2010). Thus selective price increase is one of the ways to pass on the costs to customers. Pricing has become difficult throughout the cotton supply chain due to volatility of fiber prices. At one end, spinning mills are facing huge cotton prices whereas at the other end, retailers face economy affected by deepest US recession in more than fifty years (Cotton Incorporated Bibb).

Thus rate of consumer spending and increased cost to the suppliers determine the extent to which the cost can be passed on by retailers to the consumers. Figure 1 (Cotton Incorporated 201 Oh) Passing the cost to customers depend very much on the understanding by companies of their supply chain by the companies. Raw materials make up between a quarter

and half of the cost to produce a garment (Canary and Cue 2010). Therefore, change in cotton prices would lead to a significant change in cost for fabric manufacturers. Big manufacturer or retailer could pressure its upstream suppliers to get the costs down.

However, along the supply chain the highest risk is for discount retailers who compete on price and sell large quantities of basic cotton items (Canary and Cue 2010). Big retailers may absorb the cost among themselves to gain larger market share thereby driving small retailers out of the market. 11 Finally, the consumer is brought into the picture with a succinct analysis of consumer behavior tied to the macroeconomic environment in the UK and the potential implications for the ability of firms to maintain margins. The answer is a well structured answer that draws on the concepts introduced in la in an intelligent way.

The candidate has presented their evaluation entirely using prose, which I feel is appropriate for the question. By contrast to la. , this part of the answer involves developing a narrative and bullet points would not be the right way to go about developing it. Figure 2 (Cotton Incorporated coca) As per the consumer survey by lifestyle monitor in US, apparel stands second on consumers’ holiday shopping list and even more than half of consumers surveyed are planning to purchase gift cards for clothing stores (Cotton Incorporated 201 Co). Thus clothing sales are set to go up due to improved consumer confidence.

This surge in future demand could lead retailers to pass some of the costs to consumers. However, many consumers plan to buy apparel during holiday

due to the potential discounts they could get on their purchase (Cotton Incorporated 201 Co). Therefore, companies should make a strategic decision on the amount charged to consumers as higher cuts on holiday discounts could impact consumers' purchasing decisions. However, if we consider I-J market, prospect of price rises, and government cuts would mean low consumer confidence. Just to maintain the profit margins, I-J retailers chains will have to lift prices in 2011 by 10. Percent as per the analyst Simon Irwin (Elder and Home 2010). I-J retailer Next has revealed that it would aim to lift prices by 5-8 per cent in July (Elder and Home 2010). To what extent companies can maintain their by the consumers. If consumers do not accept the prices, there will be decrease in order volume which in turn will impact profit margins throughout the supply chain (Cotton Incorporated coca). Companies that understand the causes of current situation and cyclic nature of these events may gain from current situation by absorbing costs for short-term thereby gaining market share in long term. 2 General comments on the assignment This is an excellent answer which is difficult to fault. Discussion of specific aspects of the answers are given above, but another reason that this is such a good answer is that it is more than the sum of its parts. In other words, the whole assignment conveys a strong narrative in an authoritative manner. Having read it, I feel well informed and have confidence that what I have read is not simply opinion. Economics is a technical subject, but it is also a social science.