Production and demand banana republic retail store

Banana Republic is an American clothing brand. It was bought by Gap Inc. in 1983. It offers casual luxury and semi-formal apparel and is the elite brand of Gap Inc, above both Gap and Old Navy. It has over 500 stores located internationally.

Market Structure

The apparel industry that Banana Republic operates in is extremely competitive, with many firms, small and large, being a part of it. The products you offer are homogeneous but differentiated through marketing and advertisement. In addition, due to effective market segmentation within the industry, firms targeting a specific segment of consumers do have some control over the prices they charge, at least in the short run. Considering all of these characteristics, we can confidently apply the model of monopolistic competition to the apparel industry you operate in.

Factors Influencing Costs of Production

As the manufacture of merchandise for Gap Inc. is internationally outsourced, trade restrictions like tariffs, quotas, and embargos affect its cost of production.

Banana Republic is an international clothing brand with plans to continue its international expansion, therefore prices in the real estate industry, which have been generally rising since the financial crisis of 2009, affect its cost of production.

The economic climate also affects the cost of production for Banana Republic as it determines the availability of credit and the ability of international suppliers to provide merchandise. From the 2009 annual report of Gap Inc., “

The current unfavorable economic conditions are having an adverse impact on businesses around the world. Vendors' reduced ability to access sources of capital could lead to their failure to deliver merchandise and could reduce the supply of apparel available to us."

Also, the cost of production are dependent on demand since many components of the cost of production, such as labor, have a derived demand based on the demand for company's products. Therefore, the higher the demand for apparel by Banana Republic, the higher its demand for merchandise will be, and the higher will be its total costs of production.

If the cost function is formulated, the hypothetical shape it would assume would be as follows:

C= F + w1 (L)+ w2(L)+r(K)+ Q(RM)

The fixed costs in the cost equation include the cost of maintaining and running over 600+ outlets, leases, minimal research and developments, costs of textile contracts and outsourcing of production to foreign firms not to forget the extensive marketing and advertising incurred to compete in this monopolistic market.

Factors Influencing Quantity of Production

As stated earlier, Gap Inc. imports its merchandise, so its production function depends on the productive capacity of its merchandise suppliers.

Also, since Banana Republic sells its products through stores and online, thus your total production depends on the number of stores you operates, which is currently rising due to its international expansion.

Furthermore, it varies with the number of countries where its online store is available (which is also rising, as in 2010, Banana Republic’s online store launched its online shipping service to over 50 countries). In short, the number of consumers in the market demanding its products will affect its production function. The higher the number of consumers, the higher its demand, and the more will it produce.

Of the internal process, Labor unions often tend to pose a problem especially in economies like China to which Banana Republic outsources its production and solicits retail services. Unhappy labor often cause strikes or resort to industrial action at an average of every three years and these can have detrimental impacts, not only on cost, but also on production and supply chain.

Over the years, micro chip technology has added to efficiency in the global production, but your company may not be able to reap great cost production from technological changes as labor is still the main input when it comes to luxury hand tailored clothes as is your case. Production potential can be increased in the near future but it will still be almost impossible to replace labor as the main factor of production.

Labor management techniques can be further used to increase production. This involves giving financial incentives to the workforce and non-financial perks which would boost morale and dedication to the company. Delegation of important tasks to the center may further improve efficiency as the working labor force will be able to identify themselves with your firm. It would also not be wrong to add that the quality of communication can have a direct affect on supply chain and the general liquidity of the structure. Better communication simply implies better production.

Function analysis-Though Banana Republic outsources its production activities to third world countries, it would still incur a production function which would generate diminishing return over a longer period of time(in terms of a single variable input). The above can be broken down, for the sake of a simplistic analysis, in terms of a piece wise function.

For the range from 0 X^2 âˆšx

A third aspect of the production function, not shown in any of the diagrams above highlight how the production actually comes to fall as more and more of a variable input is employed. All these stages with their respective gradients can be modeled in a single yet defined production function by the following equation F(x) = -Cos (. 5x) +1 defined between the Radians (r) range 0 < r < 4Ï€.

This is assumed so that the production function never actually reaches the x axis yet still delineates the decline in the production due to inefficiency or in the longer run, due to diseconomies of scale.

F(x) = -Cos (. 5x) +1

A conundrum must be acknowledged here which is that Banana Republic will find it hard to compute its input variable in terms of radians degrees. Also the function has a fairly defined restrictive radian range (to be applicable) so its use is further limited when it comes to production analysis.

Factors Influencing Demand

The analysis of the factors that affect demand for Banana Republic's clothing line and the estimates of how such factors can affect the sales of banana republic are very important and essential for making the best management and operating decisions as well as respond to the policies of other competing firms. Internal factors may include the prices charged the level of expenditure on promotion etc while external factors which the firm has no control over include consumer incomes, price expectations, competitor pricing and promotional policies.

Although price is factor of demand but as an apparel company, Banana Republic's demand is highly dependent on other non-price factors. These include changing trends and consumer preferences in fashion. In this volatile and ever changing society consumer tastes change very quickly. Anything Banana Republic offers can go out of fashion and the firm can face huge losses with too much money spent on unsold stock which would then be wasted. In such a market the firm should know about the latest trends and fashion prevailing in the market and the life of each item which can be an estimate of how long a particular outfit is going to last in the fashion world. Banana Republic should continue its market research on latest trends to remain competitive and abstain from incurring huge losses.

Banana Republic's marketing and promotion affects the demand for its products. Due to the fierce competition in the industry, every firm has to advertise itself to stay in the limelight and be in the consumer’s mind. In the clothing market the elasticity of a firm’s sales with respect to advertising and other forms of promotion is positive and very high. This means that an increase in advertising expenditure will result in a more than proportionate increase in sales.

Also, due to the highly competitive nature of the apparel industry, demand for its products is affected not only the prices charged by the competitors but also by the promotion and marketing strategies of its competitors. Some of its major competitors are Ann Taylor, J. Crew, Urban Outfitters, Ralph Lauren and Abercrombie. If a competitor firm is first to advance in promoting its products, it can steal the customers away from Banana republic. For this reason your firm needs to keep a close eye on the promotional strategies of its competitors and should be ready to respond to them if it wants to save itself from being thrown away by the competition. It should charge competitive prices and use similar if not better promotional strategies.

The number of consumers in its target market affects the demand for products of Banana Republic. For example, when it was founded in 1978, Banana Republic was a travel-themed clothing company, with relatively fewer consumers in its market. However, following its acquisition by Gap Inc., it gradually moved away from the travel theme, including more consumers in its target market, and therefore making it more successful due to the increased demand it faced. As the market is segmented into different groups, Banana Republic should use specific pricing policies and promotional campaigns for people according to different segments. This will promote more targeted efforts to satisfying consumer requirements.

Economic climate also affects the demand for Banana Republic apparel. This includes aspects such as consumer spending and interest rates. For example, in its annual report for 2009, Gap Inc. mentions how “ consumer spending has declined recently” and “ consumer purchases of discretionary items, including our merchandise, generally decline during periods of economic uncertainty.” So consumers incomes have a huge impact on the demand of Banana Republic. It should set its operational plans according to level of economic situation prevailing in the economy. It would be unwise to increase production and marketing at a time of recession as all the efforts would be in vain because the consumers will have no buying power to purchase specially from a large and expensive brand like Banana Republic.

The linear form of demand function faced by Banana Republic can be formulated as follows-

QX = a0 – a1PX + a2N + a3I + a4PY + a5T + a6A -a7AY

QX = quantity demanded of Banana Republic clothing per year

PX = prices charged by Banana Republic

N = Number of consumer’s in the market or the population

I = Consumers’ disposable incomes

PY = The prices charged by competitors

T = Consumers’ Tastes and Preferences and Trends in the market

A = Advertising and Promotion

AY = The promotion and advertising done by competitors