

# Demand and supply essay examples

[Business](#), [Company](#)



The following paper uses Walmart for analyzing economic phenomena related to demand and supply. The choice of this organization could be explained by a number of reasons. Firstly, Walmart appeals to a large number of customers and supplies items that are usually used in nearly every household, therefore the broadly described demand and supply for its products are determined by the general economic theory of supply and demand. Additionally, since Walmart is a global company, conclusions related to the operations of Walmart are not going to be biased by cultural and geographical factors. Secondly, Walmart pursues a cost-leadership strategy, according to the description of generic strategies by Porter, therefore the demand for its products is related only to its price, with no differentiating factors distorting the price – quantity demanded/supplied relationship (Porter, 1998).

The example of Walmart gives a number of possibilities to explore economic theories. One of the key terms related to Walmart operations is efficiency, which describes the continuous effort of the company to achieve maximum output with given resources. Efficiency has become the cornerstone of the price and cost leadership of the company. In order to achieve that, Walmart has developed a sophisticated supply chain system, which heavily relies on automation and bulk procurement. Moreover, the size of Walmart gives the retailer a strong bargaining power, which helps to negotiate lower input prices and to engage in partnerships with the most favourable suppliers. This fact also allows Walmart to operate without an intermediary, thus purchasing directly from manufacturers and reducing costs even further. The company also implements improvement initiatives and constantly adjusts its product

offering and operations to the demand trends and the market environment (Daft, 2012).

Elasticity is another term that could be explored on the example of Walmart. In particular, some general conclusions related to price and income elasticity for Walmart products can be drawn. Since Walmart pursues a cost-leadership strategy, its products usually do not have much differentiation and provide no “frills” to the buyers. Price elasticity for such products is quite high, due to a large number of alternatives, offered by other retailers. Therefore, the change in quantity demanded exceeds the change in price for those items. Hence, Walmart should keep its prices quite low to generate higher revenues (Jones, 2008).

Income elasticity of Walmart products is likely to be positive but below 1. This fact indicates that although consumers usually increase their consumption with the increase of their incomes, nevertheless Walmart products are mostly necessities and their consumption does not change significantly in relation to changes in income. Moreover, if the income level rises above a certain level, people may actually shop less in Walmart, giving preference to more expensive stores, which offer a differentiated service. Conversely, with a decline of incomes people are likely to switch to shopping in low-cost Walmart stores, as it has happened during the 2008 global economic crisis (Froeb & McCann, 2010).

The effect of Walmart's on the economy can be also evaluated using the fundamental assumption that for the economy as whole expenditures should be equal to the income and to the value of production. However, this can be

only true for a local economy. Instead, Walmart operations by far exceed the boundaries of a single country and the network of transactions goes beyond simple export/import mechanisms. Thus, Walmart's outsourcing activities in IT and manufacturing generate income for foreign employees, thus increasing the Gross Domestic Product of the host country (Mishra, 2009).

Changes of demand for Walmart products can be understood by evaluating the nature of the business it is engaged in. The basic service offered by the company is distribution through their retail chains. WalMart operates large-scale stores across the U. S. and some other countries, offering low-cost products to its customers. The demand for WalMart can be affected by a number of factors that are mostly related to the place of operations, consumer incomes, buying habits and general trends in purchasing behaviour. The size of most WalMart stores makes it unprofitable for the company to operate in location where real estate prices are high. If people are unwilling to travel outside of the city to do their shopping, the demand in the area is likely to be very low. The change in transportation opportunities to the Walmart stores may also have an effect on the demand for the products. Thus, if the road traffic makes it hard to access the store or if there is no opportunity to get there using public transportation, people will be inclined to switch to retailers located in proximity.

The general perception of the quality of products sold in Walmart could change the demand. Thus, if consumers believe that the quality of the brands in Walmart stores is inferior, they may choose to shop elsewhere. Consumer perception may be affected not only by public opinion regarding the products sold in the stores, but also regarding the company in general.

Thus, customers may be willing to shop in Walmart more if the retailer is committed to social responsibility and to community service.

The taste in preferences could also affect the demand for Walmart products. Thus, if consumer incomes increase, they may choose to buy from other retailers that are able to provide more differentiated products and services. Additionally, if other retailers manage to offer prices as low as those of Walmart, people are likely to switch to other retailers. This fact is a threat in particular due to a non-differentiated nature of Walmart. Since Walmart is attracting customers only by offering low prices, they hardly create any customer loyalty, therefore people will be likely to switch in case any other retailer is able to reduce prices below those of Walmart. Customer expectations may also have an impact on the purchasing patterns. Thus, in the unstable post-crisis environment people tend to spend less and the demand decreases.

Walmart provides a good example for evaluating supply and demand patterns. Its international operations, vast customer base and the cost-leadership strategy make it a good subject for studying supply and demand patterns. However, the complexity of its business model makes it hard to make general conclusions or to generalize some of the results obtained.

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