

Demand and supply in price determination report samples

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The world has been migrating from the analogue era to the digital era for the last couple of years. In the digital era, electronics are very essential components and hence their demand has increased. The number of electronics manufacturers has consistently increased over the years, and the level of production has surpassed the growing demand. Lenovo has been affected by the situation and therefore the company needs to take keen note on the demand and supply concepts.

Price determination using demand and supply curves

The price of any product should be derived from the demand and supply curves. The place at which the two curves intersect is called the equilibrium point and it is the best price for the commodity. The graph below shows demand and supply curves and the equilibrium point.

{Demand and supply curve (Ghosh and Choudhury, 2008)}

The intersection point dictates the price and quantity of a product with regard to the prevailing market conditions (Ghosh and Choudhury, 2008). It is important that the marketing team at Lenovo keep developing new demand and supply curves so that they can understand the market conditions and set prices that are favorable for their continued existence in the market.

Any change in demand or supply leads to a change in the equilibrium point and hence the price of the commodity being sold is expected to change (Teunter and Van Wassenhove, 2003). The company should monitor any demand changes since a growth in demand leads to an increase in the price if no changes are done on the supply (McEachern, 2013). Lenovo should, therefore, constantly monitor the market so that they can adjust their prices

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according to the prevailing demand. The actions of competitors affect demand and hence are also a matter to be considered (Glazer and Hirshleifer, 2005). The quality of products of the Lenovo Company should match the quality of the similar products in the industry so that they can contend on level grounds. Equality with competitors will enable them have an equal chance on the available market (Smith and Kiesling, 2003).

The quantity of similar products being supplied in the market affects the price of the product. When the level of supply is high, the price of Lenovo products is expected to move downwards. To remain competitive, the company should adjust their prices depending on the amount of supply in the market so that they can maintain a constant amount of sales (Business International S. A, 2003).

Derived demand

The price of the final commodities depends on a combination of factors. The Lenovo Company depends on other electronic companies to get certain parts in order to develop their final products. Other competitors in the market also depend on similar suppliers and hence an increase in demand for the supplies leads to a corresponding increase in demand for the final products (Tucker, 2011). The production process requires high-end technicians and the competing companies fight for such people. The demand for such kind of labor leads to a derived demand to the final products of the company (Shone, 2001). Lenovo Company also produces spare parts for the machines that they produce. The high demand of the computers they produce leads to a high demand of their spare parts. The Lenovo Company has been

expanding rapidly in the last two years and hence their production levels are growing rapidly. An increment in production leads to an addition in the companies demand for labor and resources to produce their commodities (Mankiw, 2011). The marketing team should be prepared and should anticipate such cases of derived demand so that the organization can be prepared (Dwivedi, 2012, p. 59).

Price elasticity of supply

It is the measure of the number of commodities or services supplied when prices of the services or goods is altered. Price elasticity of supply measures the sensitivity of supply to changes in market prices (Mansfield, 1990). In most cases, sellers tend to supply more commodities when the market price is high and supply less when the market prices are low. In the occasion when the price elasticity of demand is greater than 1, the suppliers are sensitive to changes in price, and when it is less than one, the suppliers are not sensitive to price changes. A price elasticity of 1 indicates that the supply is of unit elastic. Every company should adjust their asking prices depending in the economic situations (Klein, 2003). Lenovo should adjust to the market price and maintain constant suppliers so that the company can avoid extremely low sales during poor economic times

{Different kinds of price elasticity of supply (Mansfield, 1990)}

Price elasticity of demand

Price elasticity of demand is the evaluation of how consumers adjust their demand depending on the market prices of certain commodities. A high price elasticity of demand depicts that the market is sensitive to changes in prices

while a low price elasticity of demand indicates that the market is not reactive to price changes (Hirschey, 2009). The marketing team in Lenovo should do research on its markets so that they can know the PED. Different markets have different PED and hence different strategies should be adopted depending on the nature of the market (Boyes and Melvin, 2009). In a market with a low PED the company should not be reluctant to alter their prices. On the other hand, in a market with a high price elasticity of demand, the company should be reluctant to adjust their prices (Lehman, 2007)

Different kinds of price elasticity of demand (Hirschey, 2009)

Excess demand and supply

Excess demand or supply of a commodity occurs when the market prices are not at equilibrium (Samuelson & Marks, 2006). Excess supply occurs when a company sets high prices for their products. The amount of goods demanded will be relatively low as compared to the goods manufactured and supplied. In such a situation, the manufacturer will have much dead stock and have high chances of experiencing losses. Excess demand occurs when a company sets very low prices for their products leading to a situation whereby the amount of supply cannot satisfy the prevailing demand. Such conditions are risky, and the company should review their prices to make sure they are not operating under losses (Kennedy, 2000). In the last five years, the two situations have been happening interchangeably in the Lenovo Company. When they began operating, their prices were very high, and most people could not afford their products. However, their recent reduction in prices has led to a high demand and hence the company should

improve their speed of production in order to satisfy the market (Mirza, 2008). The marketing manager should however be careful with the price since low price makes the consumers think that the product is of low quality (Hirschey, 2009). The company should ensure that their prices match the market prices of their competitors or either lower them a little below those of the competitors.

Competitive strategies to support the pricing strategies

Lenovo Company operates in a very competitive industry, and some of its competitors are well established and have even gained customer loyalty. The current market prices of Lenovo are low considering to those of other companies and hence they require proving to the consumers that their prices are of good quality. The company should embark on massive advertising so that their brand becomes well known in the china market as well as the global market (Hall and Lieberman, 2010). Constant advertisement instills confidence in buyers and hence they will have no doubts when purchasing the brand.

Warranties have a great impact in convincing the customer to purchase a product. Lenovo should offer long term warranties to their entire products so that consumers are confident about the quality of their products (Arnold, 2010). The company should also open repair centers for their products so that customers can feel that the company values them. Lenovo should develop a customer help line whereby the customers can make enquiries on problems they may experience with the purchased devices. Lenovo should involve itself in community work such as providing free laptops to needy

schools so that they can build a good image to the public. In conclusion, due to their lower prices the company requires some actions to prove to the customers that their products are of high quality.

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