Cost and price

Suppose the price of coffee beans increases by $0. 20 per pound. What is the effect of this raw material price increase on the demand for roasted coffee? If one pound produces 50 cups of coffee, would the price of a cup of coffee rising by $0. 01? Explain. Price of the product comes from the production of the goods all the way till it hits the market shelf. So when the price of the product like coffee increases during the productivity of the product then the end cost could increase too.

Changes of the productivity can increase by changes in technology and human capital. This allows the production of the products to become better managed by managers because it can track all the materials that is needed for that product with better technology. The price increase of $0. 20 cents per pound does have an effect on the raw material cost of the product because the increase in price will come to the cost of the product which if the price is to high then the customers will stop purchasing the product.

Demand for the product comes from customers purchasing the product that your company has which makes the demand for the company to purchase the product faster, better, and cheaper or at the same price that it was just at. When companies like the coffee products customers get fixed on this product and will stand by them even with the increase in the price. The raw material increasing only $0. 20 cents per pound will not impact the cost of the product to much that the customers will have to look somewhere else. The demand will still be there with the cost increase of the raw material.

The price of the product will not increase by only $0. 01 cent per every 50 cups sold but the company will increase in the cost of each cup or almost every other cup was to increase more than $0. 05 cents. I would try to make the coffee hold at the cheapest price possible so you don't upset the customers will every price change that has to happen. 2. The article reports that J. M. Smucker Co. plans to increase its coffee prices by 9 percent. If Smucker has a lot of rivals but has a brand name that has value, will this 9 percent increase in retail prices imply that profits will rise by 9 percent?

J. M. Smucker Co. increase the price of the product by 9 percent can impact the cost of the product of the coffee so customers will go somewhere else to purchase a cheaper coffee. When competition is high the smallest impact of the price or quality of the materials that you use for the product will impact the product that customers purchase. The increase has hit most the high quality products like Folgers, Millstone, and Dunkin Donuts. So other companies just like these three will have to increase their prices too because of that raw material increasing.

The cost of the increase will be an impact on the overall cost of the product which would make the overall profits stays the same. If the company was increasing prices just so they have an increase in profit then the customers will eventually find out. This could make them not want purchase the product at that price. Competition is big on getting the other companies customers so when the cost increases overall companies are at the same playing field as they were before the changes happened.

However when companies increase price just because they want a bigger profit they are sacrificing the customers trust and respect which could make them look for a different company to for fill their needs. Customers are the ones that purchase the company products and if you lose them it's harder to get them back. 3. Is it optimal for a firm to slash prices to retain market share? Is cutting prices during a recession and then raising them in a recovery a good strategy?

When a company is looking to slash prices we have to look reasons for the slashing of the prices. During a recession it’s nice for companies that can afford it to lower the cost of the products so the customers can afford their products when recession is hitting them hard. Many companies don’t have the room to move prices because they are at the lowest point possible before they have to go in the negative to give products out to customers. For companies that lower the price it’s okay for them to increase the prices wants the economy is back to a recovery state.

Consumers will not hold it against the company for increases the prices because they know that when times get tough they will do what they can to help each customer out by lowering the prices again. Companies slashing prices to maintain a marker share is okay because they will do what they can to stay ahead of the competition. Market shares are a part of the company’s financial support. When customers by the shares in a company they are investing in that company for the long haul and hoping to make some extra money along the way.

When they lower prices it draws customers to their company name because they want to get a better deal then they possible are at the company they at. On the flip side is that a company lowering their prices could mean that they have increased the price because they want to get more profits. This could cause concern by customers that the company has more room to move the price down because they have just increased it over time because they wanted profits and might not know what the bottom price really is.