What is ‘supply and demand’ in business?

Business

‘ Supply’ and ‘ demand’ are valuable concepts in both business and economics, in their own right. However, put the two together (as supply and demand, or The Law of Supply and Demand) and you now have a world-recognized economic model which defines price determination in a market. In this article, we’ll be introducing you to the terms ‘ supply’, ‘ demand’, and ‘ supply and demand’ — as well as explaining the concepts to which they refer — in an approachable and informative way

What Is Supply?

Supply is the amount or quantity of something that providers are willing to bring to the market at a given price. The supply of a product can be determined by the following factors:

- The willingness of the provider to take their product to market, influenced by:
  - The demand for the product at a particular price point
  - Forecasts for the future price of the product
  - The ownership of the product
  - The taxes that will be incurred
- The physical availability of the product, influenced by:
  - The speed at which the product can be produced
  - The efficiency at which the product is created
  - The availability of resources (physical and human) required to create the product

- The ability to provide the market with the product, influenced by:
    - The legality of the product
    - Trade bans or sanctions
    - The logistics involved in selling the product

The supply of a product is an important quantity, because not only does it determine whether or not something can be bought, but also (at least partially) the price at which it can be bought.

What Is Demand?

Simply put, demand is the amount or quantity of something that consumers want to buy at a given price. As with supply, there are a number of factors than can influence the demand for a product:

- The appeal of the product
- The necessity of the product
- The price of the product
- The logistics involved in receiving the product

Demand is also a very noteworthy quantity, as it can decide whether or not something will sell and influence the price at which it is bought.

So, What Is ‘ Supply and Demand’?

Supply and demand is an economic model which states that the price at which a good is sold is determined by the good’s supply, and its demand.

When the supply of a good is equal to its demand (known as economic equilibrium), it reaches a stable price which buyers and sellers can agree on.

If the supply of a good is higher than its demand, then the price will drop (various sellers will have to compete with each other by offering lower prices, which will in turn create more demand), until eventually the supply and demand equalize. When the supply for a good is greater than the demand, it is referred to as a surplus.

If the demand for a good is greater than its supply, then the opposite will occur. Suppliers will increase their prices to earn more profit with the products they already have, until eventually the supply and demand reach an equilibrium at some peak price. When the demand for a good is greater than the supply, it is referred to as a shortage.

Conclusion

Not only are supply and demand two very important factors in a competitive market, but they also make up one of the world’s most popular economic models. Supply is the amount of a good at a given price that can be provided to the market, while demand is the amount of a good at a given price that is desired by buyers in the market. Together, the two form the basis of The Law of Supply and Demand which states that products reach a stable price when the demand is equal to to the supply (known as economic equilibrium). In case of shortages and surpluses, the market is capable of self-correcting by price adjustment.

This can mean a number of different things for your business — including how you might have to adjust the prices of products, or how you should be prepared for particularly low or high volumes of sales.

Do you have any questions or comments? Be sure to leave them below and we’ll get back to you ASAP!

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