Assessing product demand issues for mrs acres pies

Mrs. Acres good quality homemade pies in reasonable price have made her business success in the market. It sparked the interest of costumers – local supermarkets and select family restaurants – to stock her homemade pies and created high demand for her product. To meet demand, Mrs. Acres decided to increase the supply, so that she expanded operations, borrowing money and increasing staff to four full-time employees. But the demand for the pies continues to rise up beyond what Mrs. Acres can supply in the market, while production and sales increased to 8, 000 pies per month, and profit soared to $12, 000 per month after the operational expansion.

Mrs. Acres has several options to solve this dilemma which every option will cause the changes in supply, demand and price of the product:

maintain current production level and raise the prices;

expand the faculty and staff while maintaining the current price;

contract the production of pies to a national restaurant chain.

Discuss what you think will happen to the supply, demand, and price of the product in the short-term.

In economic concepts, supply is the number of products – goods and services – that businesses are willing to sell at different prices at a specific time and demand is the number of goods and services that consumers are willing to buy at different prices at a specific time (Ferrell, Hirt & Ferrell, 2009).

In short-term, Mrs. Acres can maintain current production level, which will result with the changes in supply, demand and price of the product. In this situation, the quantity of pie supplied in the market will be lower than the quantity of pie demanded, so that the demand will exceed the supply and will cerate the shortage. This shortage will cause the increase in price of Mrs. Acres homemade pies in the market. Moreover, Mrs. Acres can increase production to meet the demand. In other words, the supply could be increased by expanding the facility and staff, while maintaining the current price. In order to accomplish this expansion, it will require additional financial recourses. But I would expect in the short-run for Mrs. Acres to increase the price of product without substantial changes in supply, because demand is high and this option will enable Mrs. Acres to gain more profit in the short-term.

Discuss what you think will happen to supply, demand, and price of the product in the long-term.

Mrs. Acres should expand the operation in the long-term, otherwise keeping the production level and raising the prices will result in losing the profit in long-term operations. But according to the economic concepts – the law of supply and the law of demand – the price of a product will go down, if the supply decreases or if the demand for that product increases. In this point, Mrs. Acres should be careful in her production that any changes in the supply may cause the surplus, which means more products supplied in the market than the demand for those products and requires the seller of product to decrease the price and supply to meet the demand, and the shortage, which is opposite of surplus and means less products supplied in the market than the demand for those products and requires the seller of product to increase the price and supply to meet the demand (Farnham, 2010).

In the long-term, Mrs. Acres should consider contracting the production of her pies out to a national restaurant chain. I think, this option would be a better option for long-term operations, as a national restaurant chain already has the financial, human and natural resources to supply enough pies and meet the demand (McConnel & Brue, 2008).

Explain why you think supply, demand, or equilibrium price will be different, if at all, in the short-term and the long-term.

The supply, demand, or equilibrium price will be different in the short-term and the long-term. In short-term, more demand for the pies and less supply of pies in case of keeping the production level, will induce Mrs. Acres to raise price for decreasing the quantity demanded for the pies, thus eliminating the shortage and taking the market to equilibrium. But in the long-term, as time goes on the supply and demand will fluctuate due to varying factors. These factors periodically affect the changes in the price to alter supply curve thus causing a new equilibrium price.

Identify the factors of production (economic resources including natural, human, and financial resources) and for each factor of production give an example of what might be needed to operate that business.

Consider the laundry detergent market. The major factors of production include a large number of chemical ingredients, machinery, technology and labor used to manufacture, to package and to convey laundry detergent, assets – land, building, machinery, delivery trucks etc. – and management. For example, natural resources such as the land, water, some chemicals etc. are definitely needed in production as well as the land is required to construct the building and building is required to install the machinery to manufacture the detergent. Technology needs to be implemented to manufacture using latest possible techniques. Also, human capital such as management expertise on operating a production line, expertise on efficient distribution of the final product, and expertise on making good quality detergents and workers operating the machine and performing other tasks (packaging, delivering etc.) would be needed. Funds are required to purchase assets as well as support working capital.

Explain how that factor could be used to give the business a competitive advantage.

Human resources can be used to provide competitive advantage in numerous ways. For example, human resources can be extensively trained on latest technologies as well as motivated via appropriate incentives and compensation to improve productivity and efficiency and thus, reduce cost of operations. Similarly, company can set up manufacturing in low cost nations such as Mexico to take advantage of low cost labor force available in such countries.

Technology and machinery can be a source of competitive advantage if organization implements latest technologies and machinery and improves product quality and efficiency of processes via such technology. Superior technology will provide an edge over players in terms of product quality and features as well as cost and thus, provide competitive advantage.

In terms of funds/finances, organization can exploit low cost source of capital to reduce cost of capital and thus, obtain competitive advantage. Similarly, location of the land is also important in terms of choosing a strategic location for manufacturing that offers cost, human resources and distribution related advantages for the organization.