

Operations Decision on Demand Estimation

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Introduction

This assignment is based on the operations decision on 'Demand Estimation,' in which case the primary focus is to establish the market structures in which the firm operates. In this case, the primary business line of the company is frozen low-calorie food products. In this case, the analysis will focus on the industry competition that the company will face, judging from the analysis of its market structure, as well as the operations strategies that the company will develop to stay afloat in the market, including pricing strategies, profitability analyses, as well as strategic business relationships not only in its domestic markets but also across the international scale.

Operations Decision Question One

Initially, the company operated within a perfectly competitive market structure whereby the sellers and the buyers had absolute knowledge of the market. Furthermore, the sellers have no control of the market, especially regarding price setting. However, recent market changes have brought about a significant transformation in the market structure to the extent that the firm now exercises significant control in the market, considering its new power over setting the price of its products, going by the price margins that are optimal. This could be considered an oligopoly market structure whereby the firm exercises significant control in price setting, in addition to other critical aspects of the market including market entry and exit. This assertion is because the company's price-setting power can only be long-term if the threat of new entrants to the market is very low (Heizer, 2016). However, if new firms can easily penetrate and establish themselves in the market, they will water down the supernormal profit margins that the existing firms enjoy, subsequently leading to [normal profits](#) if not losses. Furthermore, the company gains significant market control through price-setting powers by gaining a competitive edge over other industry players.

Conversely, the best approach to employ in evaluating how effective the market structure of the company is in terms of its operations is by conducting an econometric market analysis assessing the players in the market, the customers, as well as their respective bargaining powers, not to mention a critical analysis of the available substitutes of the low-calorie frozen food products, which is the primary product that the company deals with (Bromiley & Rau, 2016). This analysis will also reveal the right strategies the company must employ to maintain its price-setting powers in the market, subsequently maintaining a competitive edge in the market, and making supernormal profits from the sale of its products.

Operations Decision Question Two

The transformation in [market structures results from changes](#) in market forces and market positioning of the industry players. Essentially, the perfectly competitive market structure entailed a group of buyers and sellers who were all fully aware of the market operations, such as the type of products and the prices charged for each product. Furthermore, these markets are characterized by high product homogeneity among the traders and the high presence of product substitutes, hence a low-profit profile (Hitt, Carnes & Xu, 2016). As such, the change in market structure is largely attributable to the extermination of these market characteristics, which subsequently gives the market players, including the company, significant market control and power, and significant price-setting powers.

In this regard, it is worth asserting that the company strategies effectively transformed its market structures, such as Business Process Reengineering (BPR) and Product Differentiation. In this regard, the company managed to set itself aside from the other market players, elevating itself to a higher level than the other businesses within the perfectly competitive market structure (Krajewski, Malhotra & Ritzman, 2015). As a result, the company advanced into a higher market structure, subsequently gaining the market power and the control that come with the new market structure settings. In this case, it is possible that the company gained price-setting power because it produced a higher quality product than its competitors, in addition to the absence of substitutes for its line of products.

Conversely, it is worth noting that BPR and Business Differentiation played an instrumental role in facilitating the transformation in the market structure of the company from perfectly competitive to imperfectly competitive. Nonetheless, this transformation in market structures will also significantly impact the company's business operations given the different business environments in the new market structure (Smith, Maull & CL Ng, 2014). For one, the company will invest heavily in Research and Development (R&D) to maintain a highly differentiated high-quality product to maintain its competitive edge. Moreover, the company will also be required to invest heavily in marketing and advertising to create a reputable as well as strong brand image and identity that will enable it to maintain its market control and power.

Operations Decision Question Three

The tables above show the specific cost functions that determine the company's short- and long-term operations. The TC cost function provides that the company can significantly reduce its operations costs by increasing its sales volumes while considering the quantity function (Q) and the Q^2 function. The VC cost function provides that the company will incur high costs if it disregards the Q^2 function. The MC cost functions provide that the company will incur costs by its sales quantity, as provided under the Q function (Heizer, 2016). Therefore, in applying the above cost functions, the company can determine its optimal production levels in such a way that it will have an average cost function, subsequently maximizing its profit margins. In essence, the MC cost enables the company to establish

the optimal quantity of products to deal with to ensure profitable operations. It is one thing to have the price setting power, but it is another thing to waste this power through the overproduction of products so that the company incurs more expenses in the production of the products compared to the profit margins obtained from the sales.

Operations Decision Question Four

The company should discontinue its operations immediately when its costs become so high that it cuts the profits due to the company. In essence, the purpose of doing business is to make profits. However, because of market changes and operational activities, sometimes it becomes untenable to undertake business activities profitably, with the main constraint being the cost of operations (Bromiley & Rau, 2016). Therefore, when the company realizes that its operations costs or the cost of doing business are higher than its profit margins, it should discontinue its operations immediately.

Nonetheless, the company can improve on this turn of events by maximizing its sales volumes so that it still makes profits, regardless of the minimal profit margins earned from the business venture. However, this approach will only take too much of the company's resources regarding asset allocation and cash flow injections. Therefore, the minimal profit margins earned from the business venture will only be appreciated when they come in a lump sum, and the best way to achieve this is through maximization of the company's sales volumes (Hitt, Carnes & Xu, 2016). Another approach that the company should use is to try and reduce its operational costs by cutting down on its variable costs, which would enable the company to increase its profit margins in the long run. Another approach would be to increase the price of the products, now that it has the price setting power, even though this will have a negative impact on the company's market control as a significant number of customers will shy away from consuming the company's products because of its high prices. Nevertheless, this approach is tenable in that the final price of the company's products should cover the Average VC incurred by the business in the short run and the Average TC incurred by the company during its long-run operations.

Operations Decision Question Five

The best way for the company to maximize its profit margins is by matching its marginal revenues with its marginal costs so that the two equations are equal to one another, as in the profit equation ($MR = MC$). As such, this sets the optimal price at which the company can sell its products, as well as establish the optimal level of output that the company should maintain to keep the cost constraints in check, now because the company has market control regarding price setting (Krajewski, Malhotra & Ritzman, 2015). Therefore, the most effective pricing policy of the company should be the cost-plus pricing technique, in which the company takes into consideration all the costs incurred in the production of the product, in this case, the low-calorie frozen microwavable food products, plus a slight consideration of the expected profit margin on each product. As such, this approach will be

effective in accounting for the company's cost of operations, in addition to ensuring that the company also makes a substantial profit from the product sales at the end of the day.

Figure 3: Oligopoly market structure profit equation

Operations Decision Question Six

The best way for the company to evaluate its financial performance is by analyzing its output margins in the long run, considering all the key drivers involved in determining its performance outputs, and, as such, playing a significant role in determining its long-term profitability. As such, this approach involves calculating the output levels of the firm for a particular period such as a single fiscal year and compares these values against the costs incurred during the entire period (Smith, Maull & CL Ng, 2014). Therefore, the company will be able to easily discover the profits it made during a specific period, such as quarterly, bi-annually, and monthly, in addition to the costs incurred during the same period. In this regard, the company will make an informed managerial decision based on the results obtained, such as reducing the cost constraints while promoting the sales constraints to maximize profit margins.

Operations Decision Question Seven

The company can improve its profitability through maximization of its sales volumes. There are many ways of maximizing its sales volumes, key among them reducing the price of its products to attract more customers and subsequently increase the number of sales, or reducing the cost of production, and subsequently increasing the profit margin earned in each product (Bromiley & Rau, 2016). One way of reducing the cost of production is through adopting economies of scale, whereby shared costs in product production for each unit significantly reduce the overall cost of production incurred. However, the second approach is most tenable as it keeps both the shareholders as well as the customers fully satisfied and engaged in the company's operations.

References

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