

Managing During Recession

Name

Institution

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### **Introduction**

While strategizing on how to sell a product in both the domestic and global markets, it is significant to consider the micro and macroeconomic concepts such as competitiveness, pricing, elasticity, market structure, market segmentation and changes in currency. These concepts are very significant in determining the marketing and promotion strategies that will yield excellent results.

### **Cost of Production**

The recession recovery is expected to be slow for the next half of the year 2016. GDP for the OECD members is projected to increase by 2% on average (OECD, 2016). Macroeconomic policies and low prices should continue to support a modest recovery in developed economies. However, this is only if the investments grow, wages increase, and tensions in financial markets do not occur again. The recession can recover or get worse. If the economy does not recover fast, firms have to reduce the cost of production. One of the ways to achieve this is by laying off workers thus reducing the cost of labor. Another way is to reduce production, which means buying less raw materials (Gans, King & Mankiw, 2012). The reduced production level will also reduce the energy consumption. This scenario will result in reduced cost of production at the expense of the consumers. Another scenario is that the economy can recover in which case the firms need to increase production. Increasing production will increase the raw materials required but does not have to affect the cost of labor. Whichever scenario occurs, businesses have to make a choice on the cost of production.

### **Elasticity of Demand**

Product X is the NIKE AIR FORCE 1 '07 WB shoe. Its current price is listed as US\$180 in the company's website (Nike n.d.). Nike is recognized globally as a provider of quality products. This is a high-end shoe which is stylish and thus not a basic product. Nikes operates in a competitive market indicating there are other firms out there who sell the same kind of shoe. Also, Nike has other brands of shoes, which customers can buy in place of NIKE AIR FORCE 1 '07 WB. Consumers can also choose not to buy the product since it not a necessity.

The elasticity of demand measures the responsiveness of the quantity demanded when one of the demand variables changes. When the price of the shoe increases the quantity demand decreases and vice versa *ceteris paribus* (Mucka, 2016). When the income of the consumer increases, the consumer has a higher buying power and can afford to buy such a stylish shoe. Thus, the quantity demand increases. Holding all other factors constant, the vice versa occurs when the income reduces (Mucka, 2016). For this product, there are other substitutes with lower prices meaning that its cross-price elasticity of demand is high. A slight increase in price, for example, will lead to a large decline in quantity demanded since consumers will opt for other cheap substitutes and complements.

### **Market Structure**

The market structure for the product is monopolistic competition. There are several firms in the industry, and the market is open for entry. However, each firm in the industry produces differentiated products thus ensuring that all players have some control over their prices (Gans, King & Mankiw, 2012). To increase demand, firms in the industry employ different strategies. Several strategies can be used by competitors to increase demand. One of the strategies is skimming. The strategy involves charging a high price for a new product and then reducing the price with time. This strategy ensures that the company makes high profits at first and then

lowering the price when new products are released to attract more customers. This strategy is common in the shoe industry where new products are regularly released.

Another strategy is the premium pricing strategy. The strategy involves robust marketing and promotions to ensure the product is packaged as quality products. The products are marketed as the best in the industry, and then the company sets high prices as compared to other competitors. The high price is seen by consumers to cater for the best quality thus attracting more consumers. For Nike, my strategy would be to package the shoes as premium products but charge a relatively low price. Rather than charging a high price, I would use the markup strategy to determine a profitable price. This will ensure that my products are competitive in the very competitive market (Fujita, 2015). Also, given that there are several established players in the shoe industry, adopting a lower price will help in the acquisition of high market share.

### **Market Segmentation and Pricing Strategies**

Market segmentation is the process of sorting out the existing and prospect customers into groups. The shoe industry is segmented based on demographic, psychological, behavioural and geographic (Cross, Belich & Rudelius, 2015). Demographically, the shoe industry can be segmented based on Age, gender, income and occupation. Psychologically, the market can be segmented based on lifestyle and social standing. Behavioral market segmentation divides the population based on their behaviours such as uniqueness and stylish. The geographic market segmentation divides the population based on geography (Wedel & Kamakura, 2013). Different shoes will be sold in a hilly country as opposed to a flat country.

There are different pricing strategies that can be applied in the shoe industry. One of the strategies is premium pricing. Premium pricing ensures that consumers perceive the product as high quality (Olbrich & Christian Jansen, 2014). Again, it ensures that the firm makes high

profits. Another pricing strategy is skimming. This strategy helps firms to maximize sales by setting a high price for a new product and then lowering the price gradually when a competitor's product is released into the market. Another pricing strategy is competitive pricing. This strategy ensures that the price is set based on the price of competitors. This strategy gives the firm three options, which include setting a lower price, same price or higher price than competitors do. Another pricing is cost-based pricing where the price is set based on the cost of production. A profit markup is added to the unit cost to determine the price.

### **Development in Market Demand and Effect on Product Demand**

By the start of 2016, the domestic economy was doing badly. It is estimated that the S&P 500 will fall by 20% as the recession continues (Pento, 2016b). This kind of uncertainty is not unique to the domestic economy rather it is global. One of the major contributors of the recession is the faltering Chinese economy. The Chinese government has increased debt by 28% since the start of this century (Pento, 2016a). The global economy has thus become debt disabled, and the governments have distorted market prices. This will have adverse effects on aggregate demand in the economy. Based on the simple circular flow of income, when the demand is low, firms have to lay off workers thus reducing their income. Consumers have less to spend meaning that aggregate demand for goods and services will fall.

Due to the recession, the demand for the NIKE AIR FORCE 1 '07 WB shoe will decrease. The shoe is not a necessity since one can still service without a shoe. The shoe is stylish, and one can acquire other common shoes at a low price. A recession leads to a decrease in GDP, increase in unemployment and increase in national debt. This in turn decreased the income per capita. A decrease in income translates to less buying power. With less income, consumers have to make a choice, which is to satisfy the basic needs (Lindauer, 2012). In this

scenario, the demand for NIKE AIR FORCE 1 '07 WB shoe, which is a luxurious want, will decrease.

During a recession, the government can undertake several policies. One of the policies is the expansionary fiscal policy, which involves lowering taxes or increasing government spending. This policy is aimed at increasing the money supply to encourage economic growth (Lindauer, 2012). Increasing the money supply means that the consumers have more money to spend and this will increase the demand for AIR FORCE 1 '07 WB shoes. Another policy that a government can take is the Expansionary monetary policy, which seeks to increase the money supply by lowering interest rates to encourage borrowing. Just like the Expansionary fiscal policy, it will increase the demand for the shoes.

### **Development in Currency Markets**

Different currency interacts in the currency market, and the resulting exchange rate is influenced by factors such as demand and supply of the currency, inflation, capital flows, and economic performance. In the currency markets, two development scenarios can occur, which include the currency, can gain or lose (Lindauer, 2012). Nike sells its products using the US dollar currency. When the US dollar gains value, it will take more money to purchase Nike products while using other currencies. This translates to an increase in price for foreign consumers thus negatively affecting the price competitiveness of Nike. The other scenario is when the US dollar loses value. A loss of value indicates that it takes less money to buy a dollar using other currencies. For foreign consumers, this will translate to a decrease in price, which will improve the price competitiveness of the company. For the domestic consumers, there is an inverse relationship between changes in the value of the dollar and the perceived changes in prices.

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