

The market mechanism is characterized by the supply-demand relationship. Balancing the supply and demand, identifying competitive advantages and pricing over time periods are important task for all business owners. In the competition for market share, all producers must pay attention to the cyclical nature of production and consumption.

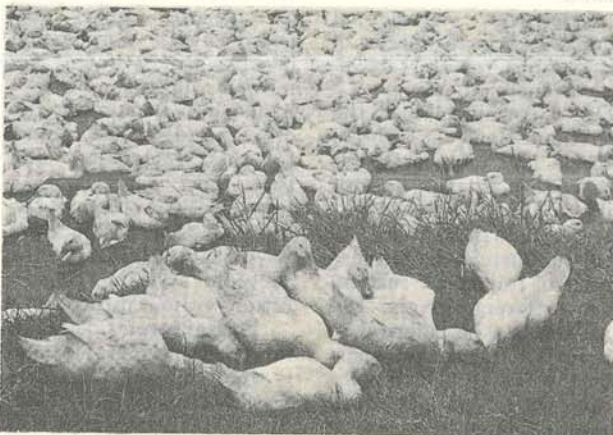
In Vietnam, production of ducklings is a traditional occupation that has developed for a long time. Like other businesses, this production also involves investment, competition and profit making,

associations?

In any industry where investment is mobile, pro-

duction capacity is high and competition is keen, crisis is the inevitable.

Before a crisis, prices of duckling usually become excessively high. This makes the production of ducklings become more attractive and generates a lot of investments. All producers want to increase output and market shares, therefore the supply increases. At present, the production cost can't prevent producers from enlarging their herds of ducks because of many technical innovations (mass production of feed, control of epidemic, etc.), moreover, the production cost is reduced remarkably by application of new techniques (for example, the use of egg-hatching machines allows the output of duckling to increase



SUPPLY - DEMAND RELATIONSHIP AND PRODUCTION OF DUCKLINGS IN SOUTHERN PROVINCES

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and in my opinion, the competition in this business is rather keen.

In the years 1988-89, 1992-92 and 1996-97, this business met with crises that caused prices of ducklings to drop sharply (by 60% at times) within short periods, trading to become thin and customers to require quick delivery. And as a result, many traders and producers suffered multibillion losses. Questions posed to us are:

-Are crises in the production of ducklings cyclical and inevitable?

-What are measures to avoid crises and limit damage? And what is the role of duckling producers



by 30-50%). Thus, the supply curve tends to shift to the right, that is, the supply exceeds the demand and duckling producers are brought to the edge of crisis.

Where does the duckling demand curve shift? Duck farming is a seasonal business so the demand for duckling is changeable over time. If a fall in prices of ducklings isn't sharp enough to encourage duck farmers to enlarge their herds of ducks or to do unseasonable farming, the demand ducklings will not increase. Moreover, because of low personal income and traditional customs, seasonal duck farmers aren't ready to specialize in duck farming. Reasons for a fall in demand for ducklings are:

-Duck farming is usually done after harvests, that is, during the first, fourth, fifth, sixth, ninth, tenth and twelfth months of the lunar year. In other months of the year, the demand for ducklings reduces to the minimum.

-Prices of ducks are low and unstable and this business seems to be less profitable in the future because of eating habits, prices of other meats and a fall in demand for duck meat during certain periods of the year.

Thus, there is always a gap between the supply of and demand for ducklings. The supply of ducklings doesn't change over time while the demand tends to fluctuate remarkably over months. Sometimes duckling producers can't sell their products and sometimes ducklings become so scarce that duck farmers have to pay high prices for them. Unlike other products that could be kept in stock and offered for sale when the demand rises, duckling must be sold within a limited length of time. When the demand curve doesn't shift and price and quantity can only vary along

the length of the demand curve, a large cut in price will generate only a very small increase in quantity demanded.

Thus, duckling producers will certainly suffer losses: all price cuts will serve to reduce their revenue and the loss will equal the value they would have earned if they had produced other products instead of ducklings.

The market mechanism forces them to cut price although this cut can't increase the demand. So the questions are how much should they cut the price and what benefit will they receive from this cut?

According to our estimate, the minimum selling price must be higher than the production cost, or VND3,160 in January 1997. This selling price can only help them survive the crisis, but it can prevent new rivals from coming to the business, that is, it helps to establish a new and favorable balance.

After a crisis, there is usually a recovery and a boom. The recovery period starts when prices of ducklings become stable, all ducklings are sold out, and then, prices rise sharply during the duck-farming season and herds of ducks expand. However, the expansion of herds of ducks can't help to increase the supply of ducklings before a nine-month period. In addition, after a boom period, producers of ducklings can accumulate some capital, and because they don't know any other businesses, they tend to invest in production of ducklings and it's the new investment that paves the way for a future crisis. However, the maximum price in this cycle is always lower than the maximum price in the last one, and the minimum price in this cycle is always higher than the minimum price in the last one. This fluctuation will lead to a bal-

ance in price where both duck farmers and producers of ducklings can make some profit.

This analysis shows that prices of ducklings must be adjusted according to seasons and locality in order to prevent sudden increases in new investment. The relationship between the supply of and the demand for ducklings is vivid and changeable. In this relationship, changes in the demand tend to repeat year after year, but the demand changes over months while the supply tends to increase over time. Those two different changes will certainly upset the supply-demand balance. It's difficult to believe that the price of a duckling is lower than the price of an egg, but this is what has happened in Vietnam because at times the supply is from three to four times higher than the demand for ducklings.

Thus, to balance the supply-demand relationship, producers of ducklings had better take the following measures:

(1) Finding out new markets: besides expanding the local market demand, it's necessary to think of export of duck meat. In the coming years, new strains of duck must be found in order to replace the old and low-quality strains.

(2) Reducing production cost: in a long run, a fall in the production cost of duckling will serve to reduce the production cost of duck, encourage duck consumption and help to promote export of duck. A cut in the production cost of duckling could be done by increasing the amount of eggs laid by ducks (by giving them better food) and the amount of ducklings (by using egg-hatching machines introduced by the Association of Duckling Producers recently). These techniques can help to cut the production cost by 30%, and increase the

amount of duckling hatched by 30%.

(3) Marketing activities: main buyers of ducklings are farmers, so in carrying out marketing activities, producers must help customers get access to business information. Each customer usually buy some 500 ducklings for a season, the producer had better improve the distribution network with a view to saving farmers from suffering high transportation fee.

(4) Controlling duckling output: because the demand for ducklings is price-inelastic, when the supply exceeds the demand, the total revenue of producers will certainly decrease in spite of any measures they take. Therefore, they must control the duckling output strictly in order to prevent all possible losses.

(5) Cutting the buying price of eggs: A number of farmers have specialized in supplying eggs to producers of ducklings. When the supply of ducklings exceeds the demand, duckling producers had better cut the buying price offered to suppliers of egg in order to force them to reduce amount supplied.

(6) Cutting the selling price of ducklings: this cut can't make the demand curve shift to the right but it can help to reduce the supply of ducklings.

(7) Auctioning surplus ducklings: all producers of ducklings can cooperate in this activity so as to reduce losses when the supply exceeds the demand.

All these measures can help to increase the demand and reduce the supply in order to balance the supply-demand relationship and ensure normal development for the duck farming business.

In the long run, the Association of Duckling Producers had better control the size of duck herds with a view to making it suitable to the demand for duckling in the region ■