

Chapter 43 the competitive environment

1. The effects on business of competition

The impact on businesses might be influenced by the numbers of competitors, the size of competitors or their behaviours.

1) Number of firms

The effect of large number of rivals on business

1. Price : Many competitors have to compete each other by lower price.

However, some businesses can charge high prices than rivals because the quality of their products is superior.

2. Profit

However, businesses may be faced to reduce cost and they might enjoy high profit.

3. Communication with customers

Business will be pressured to meet customers needs.

4. Innovation

Large firms can create barrier to small firms by developing new products & technology.

However, small firms can still be innovative, by responding customers demand quickly.

2) Size

- The large size of rivals can reduce competition as they can exploit economies of scale and lower their costs.

- **The size of competitors have a number of effects on a business.**

1. Price : Dominant firms have power to set price

However, if a business can differentiate its product, they can charge high price.

2. Profit : large firms is likely to get higher profit.

3. Communication with customers.

↳ Smaller firms can communicate more effectively with customers than large rivals.

However, large companies are employing social media to interact with customers which has helped to improve communications in recent year.

4. Innovation

↳ Large firms develop new products and technology.

3) Behaviour

- There are a wide range of tactics to win a large market share at the expense of their business opponents.

- 1.) Charging low price to prevent new firms to enter
- 2.) Marketing e.g. promotion and advertising
- 3.) Product development
- 4.) Collusion in oligopoly market, firms might work together and behave like monopoly and they agree to set price and quantity together.

However, it is illegal in some countries.

- 5.) Barriers to entry is low : it is easy for new business to set up.

However, some industries such as pharmaceuticals competition is prevented by patents.

Ways for a small firm to compete in competitive market.

1. Develop niche market.

↳ Niche market; is a small market segment-segment which is not served by large businesses.

2. Flexibility

↳ Small firms can adapt to change more quickly e.g. personalised cake for individual customers

3. Personal service

↳ In small businesses, the owner can deal with customers directly and it is more preferable for customers.

4. Lower wage paid

↳ Small business can employ workers who are not belong to trade union.

5. Better communication

↳ Small firms have low layer in organisational structure leading to better communication

6. Innovation

↳ Small firms lack of fund for R&D but they can be creative.