

Competition

Competition occurs when two or more organisations act independently to supply their products to the same group of consumers.

There are two bases on which firms can compete:

- * price - where firms are selling identical or very similar products, they must compete on price with each firm trying to undercut the others. Successful price competition depends on cost leadership – the ability to supply the product at a lower cost than any other competitor.

- * differentiation - non-price competition depends on making a product different from those of competitors and by giving it distinctive qualities that are valued by the target market. These might include branding, styling, special features or higher levels of customer service. Such factors can allow a premium price to be charged while still offering target customers competitive value-for-money.

In practice, many firms compete on a mix of price and differentiation, aiming to attract customers with a superior overall proposition.

Notice that direct competition involves firms whose products are fairly similar or an approximate substitute for one another. Indirect competition occurs where the products are essentially different but still competing for the same pounds of consumer expenditure – for example, gas versus heating oil or air versus rail travel.

The effect of competition is to bring the consumer a greater variety of products at a lower price. All firms aim to add value. Retaining some of that value as profit is their incentive to produce efficiently, to improve quality and to innovate continuously.