SESSION 12: TYPES OF INDUSTRY COMPETITION

PRBE001 - Economics for Managers
Session 12
Presenter Script:

This presentation deals with:

- Defining the main types of industry competition.
- Outlining the characteristics of perfect competition, a monopoly and monopolistic competition.
- Identifying and discussing 'key success factors' for an industry and how these affect industry competitive structures.
‘Perfect competition’ refers to a model of industrial structure in which many small firms compete in the supply of a single product. ‘Monopoly’ refers to a market in which there is only one supplier. ‘Monopolistic (or imperfect) competition’ refers to competition in an industry in which there are many firms each producing products that are close, but not perfect, substitutes. ‘Oligopoly’ refers to a market that is dominated by a few large suppliers. Such markets are often characterised by product differentiation through marketing strategies, with long periods of price stability occasionally disrupted by aggressive price competition. ‘Monopsony’ refers to a market in which there is only one buyer of the product sold, and hence that buyer would have an impact on the market price.
'Duopoly' refers to a market in which there are only two sellers of a product or service. 'Duopsony' refers to a market in which there are only two buyers of a product or service. 'Bilateral monopoly' refers to a market in which a single seller exists ('monopoly') and deals with a single buyer ('monopsony').
Perfect Competition and Monopoly

• Characteristics of Perfect Competition
• Characteristics of Monopoly

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The key characteristics of ‘perfect competition’ are:

• There is a multitude of firms, buyers as well as sellers, all of which are too small to have any individual impact on market price.
• All firms aim to maximise profit.
• Firms can enter and exit the industry at no cost.

The key characteristics of ‘monopoly’ are:

• The monopoly firm is motivated by profits.

• The monopoly firm stands alone and barriers prevent new firms from entering the industry.
• The actions of the monopoly firm affect the market price of its output.
The key characteristics of ‘monopolistic (imperfect) competition’ are:

Firms make products between which consumers differentiate slightly, and hence the demand for any individual firm’s product is not perfectly elastic. This means that each firm has a small amount of market power.

Firms are able to enter the industry if the level of profits is attractive, as in a perfectly competitive industry but not in a monopoly.

Producers are assumed to maximise profits, as with both perfectly competitive and monopolistic firms.
Changing technologies such as the Internet and e-commerce are causing a business revolution as they change opportunities in a business-to-business and a business-to-consumers sense. It is sparking competition from new and different types of enterprises and causing major changes in business practices. Very few industries and businesses are unaffected by changing technologies. While the impact is likely to vary across industries and businesses, the challenge for management is to assess how the growing use of technology will alter the industry and competitive environment. Increasing globalisation of industries as nationally prominent firms move to win a globally dominant market position, demand for the firm’s products grow in overseas markets, countries deciding to reduce trade barriers in previously closed markets, and significant differences in labour costs all create a strong reason to relocate plants for labour-intensive products into low wage countries. Changes in the long-term industry growth rate affects industry supply and demand, entry and exit to the industry and the character and strength of competition. An increase in growth is usually accompanied by an increased demand for the goods and services of the industry. This leads to competition for growth among established firms. New entrants may be attracted by the prospect of high growth. Competition becomes a contest about who can best capture the opportunities provided by growth in the form of increased market share, revenue and profitability.
Competition becomes a contest about who can best capture the opportunities provided by growth in the form of increased market share, revenue and profitability. Alternatively, a declining market leads to increased competitive pressures, inducing mergers and acquisitions in an attempt to ‘rationalise’ existing market shares. Some firms may exit the industry and others may be forced to consolidate and close less efficient plants leading to retrenchments. Changes in buyer demographics and new ways of using products can alter the state of competition by forcing adjustments in customer service, opening the way to market the industry’s products through a different mix of dealers and retail outlets, and encouraging manufacturers to broaden or narrow product lines. For example, the popularity of the Internet is creating new opportunities for electronic shopping, online brokerage services, email services, bulletin board services, data services, and Internet service providers. As a further example, the changing demographics generated by longer life expectancies are creating growth markets for aged care facilities, residential golf courses, retirement planning services and health care.
Product innovation can shake up the structure of competition within an industry by broadening an industry’s customer base, rejuvenating industry growth and widening product differentiation among sellers in an industry. Advances in technology make it possible to produce new and better products. Technological developments can also result in changes to firm’s capital (plant and machinery) requirements through changes in efficient plant sizes, distribution channels and logistics. When firms are successful in introducing new ways to market their products they can increase the demand for their goods and services, increase product differentiation and lower costs. This can alter the competitive positions of rival firms. For example the Internet is causing a wide range of marketing innovations. The entry of one or more foreign companies into a market once dominated by domestic firms can shake up competitive conditions. Likewise, when an established domestic firm from another industry attempts entry either by acquiring an existing firm or by launching its own start-up venture, it usually applies its skills and resources in some innovative fashion that pushes competition in new directions. Similarly, exit of a major firm from an industry changes the competitive structure by reducing the number of market leaders and causing competitive strategies to emerge to capture the exiting firm’s customers.
Key Success Factors and Industry Competitive Structures (cont)

- Differences in costs and efficiency
- Regulatory influences
- Government policy changes
- Emerging social issues and changing attitudes/lifestyles
- Climate change concerns

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Widening differences in costs and efficiency among competitors alter the state of competition. For example, the relatively low cost and high speed of email has put competitive pressure on the cost and speed of the postal service. Regulatory influences and government policy changes can force significant changes in industry practices. For example, deregulation has proved to be an important competitive force in the airline, banking and telecommunications industries. In international markets, governments can drive competitive change by opening up domestic markets to competition or by closing them off to foreign firms. Emerging social issues and changing attitudes and lifestyles can be powerful instigators of industry change. For example, growing anti-smoking sentiment as a driver of change in the tobacco industry, and the response of the car industry to increasing safety concerns. Concerns about climate change are having a major impact on the manner in which energy is produced and other products are manufactured, as concerns emerge about the production of carbon emissions.