Lesson No. 17.

Topic of the lesson: Competition . Factors of competitiveness. Types of competition

Main issues to be discussed at the seminar:

1 Competition. Definition of the concept. Interpretation by A. Smith, A. Marshall.
2 Michael Porter's competitive factors. Give a description.
3 What functions does competition perform in the economy? Expand the content of the main types of competition.
4 What is the difference between price and non-price competition? List the main forms of non-price competition and determine their role.
5 The concept of competitiveness and its properties.
6 Competitiveness of goods and factors influencing the choice of goods, their volume and sales on the market.
7 The mechanism of formation of product competitiveness.

Competition - (from the Latin Concurrence - to collide) - the struggle of independent economic entities for limited economic resources. This is an economic process of interaction, interconnection and struggle between enterprises operating on the market in order to provide better opportunities for marketing their products, satisfying the diverse needs of customers. There is always intense competition between producers on the world market.

Competition refers to economic categories, the essence of which does not have an unambiguous interpretation. Initially, the word “competition” entered economic theory from everyday language and for a long time meant only independent rivalry between two or more individuals

For the first time, A. Smith, in his work “An Inquiry into the Wealth of Nations,” tried to clarify the definition of competition. He wrote that “competition will immediately begin among buyers if there is a reduction in supply, which will entail an increase in prices,” but when supply is too high, the price will fall lower, the greater the competition between sellers, “or, depending on how quickly it will be for them to sell this product"

According to Smith, competition is a process of reaction to a new force and a way of achieving a new equilibrium, the essence of which is the struggle of competitors for relative advantages. .The main method of competition is price changes.

A. Smith identifies a certain set of conditions for free competition:

1) competitors must act independently and not in collusion;

2) the number of competitors, potential or existing, must be sufficient to exclude extraordinary profits;

3) economic units must have acceptable knowledge of market opportunities;

4) freedom of action in accordance with this knowledge must be ensured;

5) a sufficient supply of time is necessary for the direction and volume of resource flow to meet the wishes of economic entities.

The neoclassical version of the behavioral interpretation of competition, one of the founders of which is rightly considered the English economist A. Marshall, connects it with the struggle for rare economic goods and for the consumer’s money with which they can be purchased. Most goods (goods, services, resources) are rare in the sense that their quantity is less than the potential needs of society. Therefore, owners of goods have the opportunity to distribute them, guided by their own benefit. They set conditions or criteria (required level of prices, quality, etc.) and, depending on the fulfillment of these conditions, decide who to provide benefits to and who not. Free competition is interpreted by A. Marshall as a method of organization leading to an optimal division of labor and ensuring economic efficiency. The main advantage of competition, according to A. Marshall, is the formation of an equilibrium of low prices (“normal prices”, in his terms). If there is no freedom of competition, the researcher emphasizes, then low prices can only be ensured by certain non-economic methods - through custom, for example. A. Marshall put forward another statement that has long been dominant in the economic theory of markets. He considered monopoly to be the exact opposite of competition. There is either one or the other on the market. And if free competition is the optimal state of the economy, then monopoly, as its antipode, is an organization that reduces social welfare, always and everywhere.

The idea of the uniqueness, stability and determinism of equilibrium under conditions of perfect competition is reflected in the theory of general equilibrium of Leon Walras. Using the general equilibrium mechanism, based on the premises of a competitive market, L. Walras puts forward a “groping” procedure, showing that relative prices formed in free competition markets exactly correspond to the solutions of a system of equations with unknowns in the form of equilibrium prices and sales volumes

Along with the behavioral interpretation of the concept of competition in the 19th-20th centuries, the structural approach became widespread. Its origins go back to the works of J. Robinson, E. Chamberlin and other major scientists who laid the foundation for the modern Western theory of four types of markets: perfect competition, monopolistic competition, oligopoly and monopoly. E. Chamberlin proved that each competitor, trying to stand out in the market, first of all tries to differentiate its product, which entails the creation of a submarket in which it acts as a partial monopolist that regulates the price. Product differentiation leads to a situation where, instead of a single market, there is a network of partially isolated markets. The theory of monopolistic competition is the ability to consider a modern market with a differentiated product as competition between monopolists, each of which has market power over a portion of consumers.

At the beginning of the 20th century. views on competition and its role in the economy have changed. One of the first economists - representatives of the new functional approach is J. Schumpeter, who, as a distinctive criterion of a competitive market, highlights its ability to initiate new achievements of scientific and technological progress. In a competitive environment, new resources are discovered and the possibilities for using existing ones are expanded, so it is considered as a discovery procedure.

The functional approach shifts the consideration of the economic essence of competition towards the study of its role in economic development. A need can be satisfied in various ways, that is, there are alternative ways to satisfy a need. The functional approach puts forward the concept of competition as the struggle between the old and the new. This struggle is carried out by entrepreneurs - production organizers who introduce new combinations of resources and engage in innovations. M. Porter, exploring the theory of competitiveness, gives the leading place not so much to the structure of the market and the level of development of competitive relations, but to the degree of their adaptation to technological changes. Competition in an industry arises from its underlying economic structure and extends far beyond the behavior of incumbent competitors. The state of competition in the industry depends on the threat of new participants entering the market and the emergence of substitute products (analogs, substitutes), the market power of buyers and suppliers, and the nature of rivalry between existing competitors. Consumers, suppliers, substitutes, potential participants are all “competitors” for companies in the industry. Competition is defined as extended rivalry

A new understanding of competition has emerged from the point of view of the value-network approach:. firstly, competition is the rivalry to enter the most efficient and reliable production value chains; secondly, competition is a struggle for a place in the chain, since the size of the share of profit received depends on this. The current stage of development of competition is associated with innovation (product, technological and organizational). The end consumer, when purchasing a product, evaluates not only the final seller, but also the entire industry chain - from beginning to end.

Competition is a multi-level phenomenon that manifests itself at various levels: macroeconomic, mesoeconomic, microeconomic. It can be considered in various aspects, including:

1) as a way to coordinate economic activities;
2) as a mechanism for interaction between market agents;
3) as a way to achieve economic goals;
4) as a way to gain competitive advantages.

Market typology

Market structure reflects all the most important aspects of the market - the number of firms in the industry, the nature of the product produced, the opportunities for firms to enter and exit it, the number of buyers, the ability of an individual firm to influence prices. The lower a firm's ability to influence the market, the more competitive the industry is considered to be. Since the structure of a particular market is determined by many factors, the number of types of markets is practically unlimited. To simplify the analysis, it is customary to distinguish four basic models in economic theory: perfect competition, pure monopoly, monopolistic competition and oligopoly.

Types of competition.

Depending on the classification criterion, the following types of competition are distinguished:

1) According to the state of the market, they are distinguished: perfect (free), imperfect, regulating.

Perfect (free) competition is based on private property and economic isolation. It assumes that there are many independent firms in the market that independently decide what to create and in what quantities. However, the scheme of perfect competition has mainly theoretical significance.

Imperfect competition has always existed, but it became especially acute at the end of the 19th and beginning of the 20th centuries. in connection with the formation of monopolies. Monopolization of the economy was a natural consequence of a large leap in the concentration of industrial production under the influence of scientific and technological progress.

Regulatory competition. In order to survive the competition, an entrepreneur must offer products that the consumer prefers (consumer sovereignty). Hence, factors of production, under the influence of price, are directed to those sectors where they are most needed.

2) According to the methods of competition, they distinguish: price and non-price.

Price competition occurs, as a rule, by artificially driving down prices for a given product. At the same time, price discrimination is widely used, which occurs when a given product is sold at different prices and these price differences are not justified by differences in costs.

Price competition involves selling goods or offering services at prices lower than those of competitors. Prices can be lowered by reducing production and distribution costs or by reducing the profit margin included in the price of products.

Types of price competition include: 1) competition between firms selling identical goods, trying to force out other sellers by setting extremely low prices and thereby ensure the greatest sales; 2) competition between buyers of the same industry, which leads to an increase in demand for products and, consequently, an increase in prices for the goods offered. Assessing the costs that the buyer may incur for the right to satisfy his own needs for the product, the seller increases the price of this product; 3) competition between buyers and sellers: buyers prefer to buy goods cheaper, sellers want to sell them more expensive. The outcome of this competitive struggle largely depends on the balance of power of the competing parties; 4) inter-industry competition, i.e. competition between enterprises in various industries producing substitute goods. The development of such competition can cause both a decrease and an increase in prices in the market. The regulating element in this case is the price of the substitute product. Price competition is used mainly by outsider firms in the fight against monopolies, to compete with which outsiders do not have the strength and ability in the field of non-price competition. In addition, pricing methods are used to penetrate markets with new products, as well as to strengthen positions in the event of a sudden aggravation of sales difficulties

Non-price competition is based not on the price level, but on the quality of the product (service life, productivity, reliability. Improving quality can be carried out in two main directions: the first is improving the technical characteristics of goods; the second is improving the adaptability of the product to the needs of consumers. Non-price competition through improving quality production is called product competition. This type of competition is based on the desire to capture part of the industry market by releasing new products that are either fundamentally different from their predecessors or represent a modernized version of an old model.

Non-price competition through the sale of products is called competition based on sales conditions. This type of competition is based on improving customer service. This includes influencing the consumer through advertising, improving trade, establishing benefits for customer service after purchasing a product, i.e. during its operation.

The main forms of non-price competition are:

- ✓ product differentiation;
- ✓ improving the quality and consumer parameters of the product;
- ✓ advertising.

Product differentiation increases product variety and allows you to offer customers all kinds of products and services in terms of type, style, brand, quality. By analyzing consumer preferences, a product manufacturer can easily conquer its niche in the market.

Another form of non-price competition is the improvement by competitors of the goods produced and services offered. Improving the quality features or consumer parameters of a product allows the company to expand the market for the sale of goods and displace competitors. In order to maintain presence in the market, other firms are forced to meet a given level. This form has a positive impact on the economy: it promotes the development of scientific and technological progress not only in the field of consumer products, but also in the field of resource and logistics support.

Due to the enormous influence of the media and the press on the public, advertising has become one of the most important ways of competing. With the help of advertising, companies not only convey to customers information about the consumer properties of products, but also build trust in their own product, pricing, and sales policies, trying to make the company’s image favorable. The main purpose of advertising is to stimulate sales by adapting consumer demand to the product.

Illegal methods of non-price competition include industrial espionage, poaching specialists who own production secrets, releasing goods that are outwardly no different from original products, but significantly worse in quality, and therefore usually 50% cheaper, purchasing samples for the purpose of copying them.

The main factor in price and non-price competition is the competitiveness of goods and services, since competitiveness is mainly influenced by factors such as the quality of goods and services and their price.

According to the degree of intensity, competition can be:

- ✓ attractive when in this segment the subject satisfies its needs better or makes more profit than in the previous segment;
- ✓ moderate, when the actions of a competitive entity support the competitive environment in a given market segment;
- ✓ competition that is fierce for the object, when the subject absorbs, destroys or displaces the object from a given segment;

- ✓ fierce competition for the subject, when the object (competitor) absorbs, destroys or expels the subject from a given segment.

The following forms of competition can also be distinguished:

- subject - competition between goods of the same assortment group, between similar objects that satisfy the same need;
- functional - competition between goods (objects) - substitutes.

Methods of competition include the following:

- based on the criterion of improving the quality of the product (non-price);
- based on the criterion of improving the service of the product;
- based on price reduction;
- based on reducing operating costs for the consumer of the product;
- based on the use of all competitive advantages of the object and subject (integral).

Competition is also differentiated depending on the levels at which it can occur:

- ✓ local (in a group, department, organization, etc.);
- ✓ regional (district, city, region, etc.);
- ✓ national (in the country);
- ✓ international (in several countries);
- ✓ global (on a global scale, without specifically defined countries).

The concept of competitiveness and its properties In the economic literature, there is still no single definition of competitiveness that could comprehensively reflect its essence as an economic category. No universal methods have been developed that are applicable to assessing the competitiveness of various economic objects and entities. Based on the economic content of the concept of "competition," many authors expand on the concept of "competitiveness," focusing on its various aspects.

Today, various **definitions of competitiveness are given:**

- ✓ The property of a product, service, subject of market relations to appear on the market on an equal basis with similar goods, services or competing subjects of market relations present there (M. Porter).
- ✓ Possessing properties that create advantages for the subject of economic competition (M. Gelvanovsky)
- ✓ A concentrated expression of the economic, scientific, technical, production, organizational, managerial, marketing and other capabilities of the country, which are realized in goods and services that successfully compete with competing analogues both in the domestic and foreign markets (P. Zavyalov)
- ✓ The ability to successfully operate in a specific market (sales region) in a given period of time by producing and selling competitive products and services (V. E. Khrutsky, I. V. Korneeva)

Differences in interpretations of the category "competitiveness" are due to the peculiarities of its economic essence. First of all, it should be noted the multi-level nature of competitiveness. In modern economics, the term "competitiveness" is used in relation to categories of different levels: the competitiveness of a product, a company, an industry, a region, and, finally, the competitiveness of a country.

The competitiveness of products depends **on a number of factors that** influence the preference of goods and determine the volume of their sales in a given market. These factors can be considered components (components) of competitiveness and are divided into three groups:

- ✓ technical and economic,
- ✓ commercial,
- ✓ regulatory factors.

Techno-economic factors include: quality, selling price and costs of operation (use) or consumption of a product or service. These components depend on: productivity and labor intensity, production costs, knowledge intensity of products, etc.

Commercial factors determine the conditions for the sale of goods in a particular market. They include: market conditions (the intensity of competition, the relationship between supply and demand for a given product, national and regional characteristics of the market that influence the formation of effective demand for a given product or service.); service provided; advertising (the presence and effectiveness of advertising and other means of influencing consumers in order to generate demand); image of the company (popularity of the brand, reputation of the company, company, country).

Regulatory and legal factors reflect the requirements for technical, environmental and other (possibly moral and ethical) safety of using a product in a given market, as well as patent legal requirements (patent purity and patent protection). If the product does not comply with the norms and requirements of standards and legislation in force during the period under review, the product cannot be sold on this market.

These factors have a decisive influence on the competitiveness of products (services).

The competitiveness of a product directly depends on a number of the following factors:

- quality of goods in domestic and foreign markets;
- appearance of the manufactured product;
- market capacity and annual profit;
- ease of consumer access to the market;
- homogeneity and constancy of the market;
- competitive offers from enterprises operating in this area;
- competitiveness of the trading industry;
- the possibility of technical innovations on the market;
- competitiveness of a certain region and country.

It is difficult to determine the nature of this dependence and express it quantitatively, but its presence is an incentive to search for ways to evaluate and improve competitiveness. Expert methods are most suitable for this purpose.

For the purposes of managing the competitiveness of a product, it is necessary to identify the main elements of this integrated indicator in order to develop appropriate control actions.

The competitiveness of a product requires quantitative assessments. Without specific quantitative measures, it is almost impossible to manage such an integrated indicator, formed at all stages of its creation.

There are two approaches to assessing competitiveness: from the position of the manufacturer and from the position of the consumer.

The competitiveness of a product is understood as a higher ratio of the totality of quality characteristics, costs of its acquisition and consumption compared to substitute products, provided they meet market requirements. A product is considered competitive if its total beneficial effect per unit of cost is higher than that of others, and at the same time, the value of none of the criteria is unacceptable to the consumer. A product with low quality may be competitive at the appropriate price, but if any feature is missing, it will lose its appeal altogether. In addition to the requirements for the product put forward by each individual consumer, there are also requirements common to all products that must be met. These are regulatory parameters that are established by current international and national standards, laws and acts, technical regulations, standards of manufacturers of these products, and patent documentation. If at least one of these requirements is not met, the product cannot be put on the market.

At the preliminary stage of assessing the competitiveness of a product, it is necessary to determine:

✓ all its characteristics, including those that can only be identified during its consumption (operation);

✓ goals for assessing competitiveness, which depend on the stage of the product life cycle, on the strategy and development plans of the enterprise;

- ✓ target market segment; if there are several of them, then the competitiveness of the product must be assessed for each segment separately.

The competitiveness of a product on the market is not only its high quality and technical level, but also skillful maneuvering of the product in market space and time, and most importantly, maximum consideration of the requirements of the market and specific groups of buyers. Competitiveness presupposes that a product is provided with market conditions in terms of quality, economic, technical, aesthetic, ergonomic characteristics, and other sales conditions (delivery times, sales channels, service, advertising).

The starting point in developing the competitiveness of a new product is marketing research into the needs and motivations of the consumer, which is the basis for the formation of the concept of a new product, including its technical and economic characteristics. Subsequent stages of the life cycle ensure that the consumer’s needs are met in the areas of sales and consumption (operation) of the product. Service occupies a special place in ensuring and maintaining the competitiveness of a product - in its absence, the product loses its consumer value (or part of it), becomes uncompetitive and is rejected by the consumer. The study of the competitiveness of a product should be carried out continuously and systematically, which will make it possible to timely identify the moment when the competitiveness indicator begins to decline and make appropriate decisions (discontinue the product, modernize it, transfer it to another market segment, etc.). In this case, they proceed from the fact that the release of a new product, while the previous product has not yet exhausted the possibilities of maintaining its competitiveness, is usually not economically feasible. At the same time, any product, after entering the market, begins to gradually consume its competitiveness potential. This process can be slowed down and even temporarily delayed, but it cannot be stopped. Therefore, a new product is designed according to a schedule that ensures its entry into the market by the time the previous product has significantly lost its competitiveness. Particular attention is paid to reducing the price of consumption of goods. This parameter often becomes decisive for the commercial success of a new product, although it is sold at a significantly higher price.

A product with a higher level of quality may be less competitive if its cost has increased significantly due to the addition of new properties to the product that are not of significant interest to the main group of its buyers.

The task of commodity producers is to most fully embody the buyer’s expectations in the product, i.e., to form a set of properties facing the buyer and ultimately influencing the first purchase and the intention to remain committed to the products of this company, to become its regular customer. When building a model of the competitiveness of a product, it is advisable use the basic concepts of product (product) models used in marketing theory

At all phases of the life cycle, a product must generate income for its manufacturer. The consumer properties of a product (utility) can have a quantitative expression (weight, dimensions, power). There are other characteristics (design, packaging) that are difficult to formalize.

In cases where a new product is being developed, its competitiveness must be advanced and sufficiently long-term. If there are no comparable products on the market for direct comparisons on key characteristics, other approaches must be used, particularly in terms of quality levels.

The first level is compliance with the standard (technical specifications, safety precautions, contract). The second level is compliance with use (the ability to satisfy specific customer needs). The third level is compliance with actual market requirements (corresponds to buyers’ ideas about the balance between quality and price). The fourth level is compliance with latent (hidden) needs (prestige, implicit goals).

If it is necessary to analyze the competitiveness of a product in the presence of similar products on the market, it is enough to conduct a direct comparison of them according to the main parameters. The structure of competitiveness parameters depends on the required accuracy of the assessment, the purpose of the study and other external factors. The modern concept of product competitiveness management provides for an integrated approach to managing all stages of the product life cycle

If there is no basis for comparison, the method of analogies can be used. To do this, a sample product is modeled that ideally satisfies consumers, and its parameters are compared with the parameters of the product being evaluated.