

The Competitive Environment

You must be able to:

- Understand that businesses operate in a competitive environment
- Discuss the strengths and weaknesses of competitors
- Discuss the impact of competition on business decision making.

Competitive Environment

- Small start-up businesses must be aware of and investigate other businesses offering similar goods/services.
- Competition occurs when separate businesses provide goods and services to the same group of customers.
- A **competitive environment** is a market where there are many businesses selling similar goods and services, e.g. consider the choice available when buying a smartphone – this is a competitive environment.
- Businesses operating in competitive environments need to find ways to make their goods and services different from the competition; this is referred to as **differentiation**.
- To investigate the strengths and weaknesses of potential competition, a business will look at different criteria.



How do Businesses Compete?

Price

- One business may offer lower prices to attract consumers.
- Price lowering can result in more sales but will also increase costs for the business, as they must produce more to meet the increased demand – if they don't make enough extra sales, their overall revenue may be less than before and thus profits may be lower.
- Reducing prices may also encourage other businesses to reduce prices as well, creating a price war. If prices are reduced too much, consumers associate the goods or services with poor quality.

Quality

- A business may decide to focus on quality and choose to offer better quality goods/services.
- A high-quality product can attract consumers that want a good quality product, and are also willing to pay a higher price.
- Using better quality raw materials or ingredients or offering additional customer support will increase costs for a business.

Key Point

Businesses need to consider the strengths and weaknesses of competitors based on: price, quality, location, product range and customer service.



Location

- A business may have a superior location over another business – it may be easy to access and be more convenient for consumers – resulting in higher sales.
- A factory may have good transport links for suppliers and distribution.
- An online business may have a more user-friendly website.
- A business may not be able to change location but can instead focus on offering more to customers, e.g. free wi-fi or comfortable seating.

Product Range

- Having a large **product range** gives consumers more choice and businesses can meet different customer needs.
- A business may decide to specialise in a specific good or service and this will attract consumers that want a more dedicated service.

Customer Service

- A business can decide to compete through offering a good selling experience or excellent after-sales service.
- Good customer service can help to secure repeat custom.
- Satisfied consumers leave good reviews and provide word-of-mouth recommendations.
- Training staff in good customer service can increase training costs.



Competition and Decision Making

- Operating in a competitive environment is more challenging for a small start-up business. Rather than trying to match the strengths of competitors, a small business will need to focus on differentiating their goods/services.
- Market research is key here to stay up-to-date with the actions of competitors.
- Once a business can identify potential opportunities to better meet customer needs, they can improve what they have on offer.
- A business can gain a **competitive advantage** by:
 - Buying cheaper raw materials to make cost savings
 - Offering exceptional customer service
 - Providing excellent quality
 - Offering promotions and loyalty discounts.



Quick Test

1. Define a competitive environment.
2. Name **one** disadvantage of competing on price.
3. How does competition affect a business's decision making?

Key Words

competitive environment
 differentiation
 product range
 competitive advantage