

## Topic 1.2.4 Competitive environment

### Key Vocabulary

**Market** – the potential buyers for one product; where goods and services are exchanged

**Competition** – where there is more than one business attempting to attract the same customers

**Monopoly** – a market where there is only one business

**Oligopoly market** – a market where there are a few firms that dominate the market

**Competitive market** – where there are lots of small firms offering very similar products

**Differentiation** – strategies and techniques that a business uses to make their product stand out

**Market share** – the percentage of sales within the market that one business has

**Competitive advantage** – where one business has 'the edge' over the others in a market

### Core Knowledge

A business will need to compete in different ways depending on how competitive the market is. Some firms will choose to use differentiation to stand out from the others, e.g. through the use of branding or offering a USP.

Ways to compete:

- **Price** – offering lower prices can increase demand, but reduces profit margins, and can increase costs. Other businesses may do the same and result in a price war
- **Quality** – improving the quality of raw materials or ingredients, but this increases costs, although customers may be willing to pay higher prices
- **Location** – can attract customers if it is easy to access, has parking, or has a lot of passing trade. However, good premises cost more
- **Product range** – offering lots of choice to the consumer or specialising to provide a better service
- **Customer service** – through great staff, although this costs to train them, or excellent after-sales service

A business may be able to gain a competitive advantage through one of these methods to order to encourage repeat custom and great reviews

### Don't be a "man on the street"

- Don't confuse the term 'market' in a business sense with an actual street market
- Don't assume that a new business can simply compete by offering lower prices – larger firms can negotiate better prices from suppliers
- Remember that improving quality will increase costs



### Wider Business World

**Holiday market** – very few firms now, especially following the collapse of Thomas Cook. An example of an oligopoly

**London Underground** – a monopoly market because there is only one tube firm

**Hairdressers** – very competitive market



### Synoptic Links

**Customer needs** – many of the ways businesses compete are the same as customer needs

**Marketing mix** – this will need to be adapted depending on the level of competition

**Market mapping** – what are your competitors offering? Knowing this can help a business decide on how to compete