

# Introduction to Business

Topic 2: Business  
Environment

Lecture 2: Competition and  
Market Structures



# Learning Objectives

- ▶ **What is:**
  - *Competition*
  - *Market Structures*



# What is *Competition*?

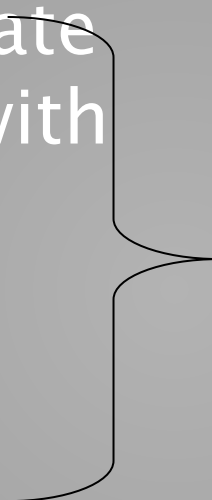
- ▶ **General:**

- ▶ Any rivalry

- ▶ **Business:**

- ▶ Businesses acting independently to offer the consumer the most favourable terms

# Competition

- ▶ Businesses operate in competition with each other
  - ▶ This creates a healthy business environment that benefits both businesses and the customers.
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# Why Competition is Important?

If there is only one retailer

the product may not be competitively priced.

If there are several retailers

each retailer will lower the price in an attempt to win customers.

# Class Exercise

▶ Think about a local company with which you are familiar and discuss:

- who their competitors are

- how these might effect them and their customers

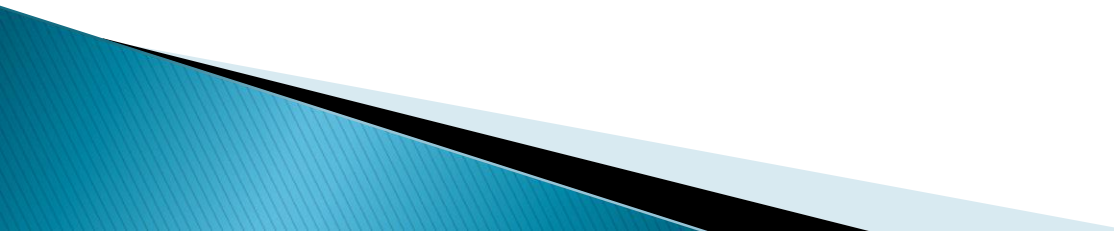


▶ 10 minutes

# Definition of a Market

- ▶ A **market** is an arrangement whereby goods or services are exchanged for money.

# Barriers to Entry into a Market

- High start-up costs or other obstacles that prevent new competitors from easily entering an industry or area of business
  - These benefit existing companies already operating in an industry because they protect revenues and profits from being reduced by new competitors.
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# Some Examples of Barriers

- Technological patents
- Patents on business processes
- Strong brand identity
- Strong customer loyalty
- High customer switching costs
- Trademarks
- High funding requirements



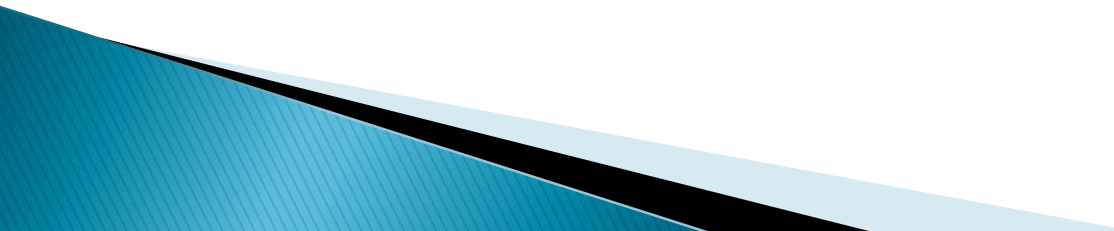
# Low Barriers

- ▶ If only a small amount of capital is needed to set up business in a market the **barriers to entry** in that market are low.
  - Likely that many firms will be operating in that market so...
  - Likely that competition will be **high**

# High Barriers

- ▶ In markets where a large amount of capital is needed to start up operations, the barriers to entry are said to be **high**.
  - Likely that only a few firms will be operating so...
  - Likely that competition will be **low**

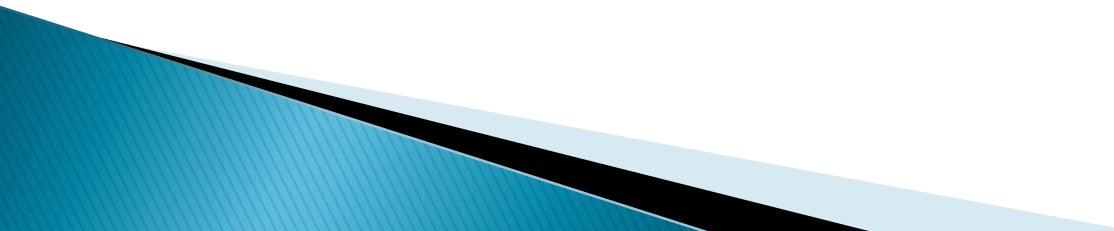
# For Example

- If you want to open a fruit and vegetable shop, it is relatively easy to do so; the barriers to entry are low.
  - If you wanted to become a manufacturer of cars, the barriers to entry are considerable. You will need several billion dollars to be able to compete with existing firms in the market.
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# Market Structures

- ▶ Market structure refers to the state of a market with respect to competition.
- ▶ Broadly, there are four major market structures:
  - Perfect Competition
  - Monopoly
  - Oligopoly
  - Monopolistic Competition

# Perfect Competition

- Many buyers and sellers
  - Sellers have to accept the market price
  - Individual seller cannot influence price
  - All companies sell the same product
  - Buyers and sellers the price charged by each company
  - Free entry and exit to industry
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# Examples of Perfect Competition

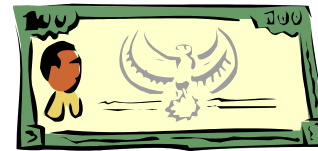
- ▶ Although a perfectly competitive market is never found in practice, the following all have a lot of the characteristics:



Agriculture



Currency  
Markets

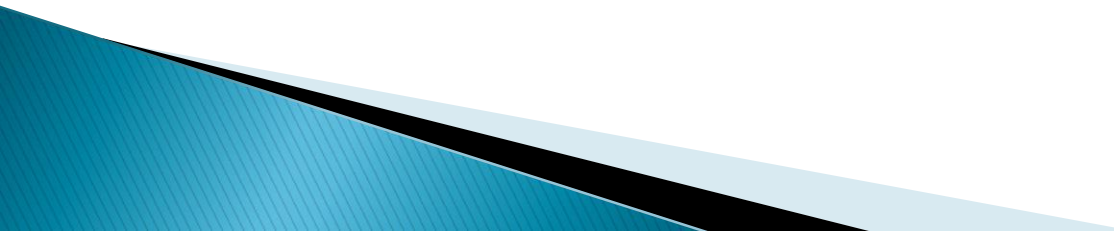


Bond Markets



Stock  
Exchange

# Monopoly Definition

- ▶ The process by which a **company** gains the ability to raise prices or exclude competitors.
  - ▶ In economics, a **monopoly** is a single seller.
  - ▶ In law, a **monopoly** is a **business** entity that has significant market power, that is, the power to charge overly high prices.
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# Monopoly

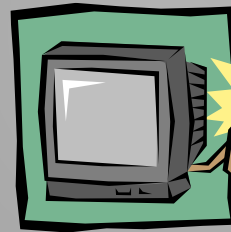
- A *monopoly* is when all, or nearly all, of the market is dominated by one seller, producer or group.
- The business may make higher profits.
- Noted absence of competition which may lead to:
  - Higher prices
  - Low quality products
  - Less choice

# Examples of Monopolies

▶ Utilities such as:



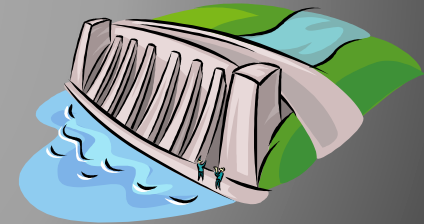
Electric



Cable Television

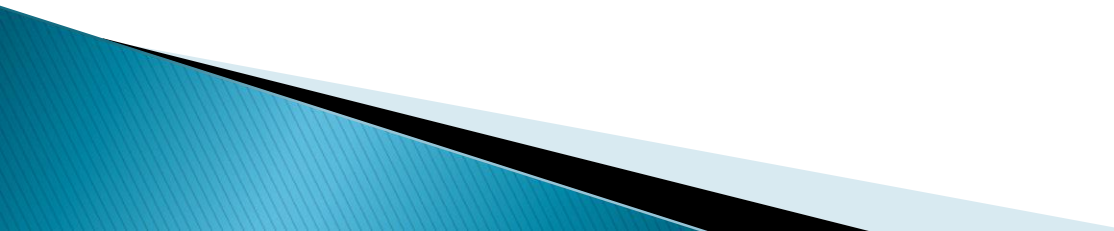


Gas



Water Companies

# Oligopoly

- May be large number of firms in the industry
  - Industry is dominated by small number of very large producers
  - Competition amongst the few
  - High Barriers to entry
  - Price stability
  - Abnormal Profits
  - Interdependence between firms
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# Examples of Oligopolies



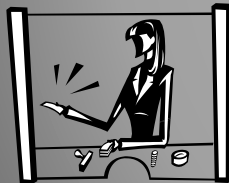
*Broadcasting*



Supermarkets



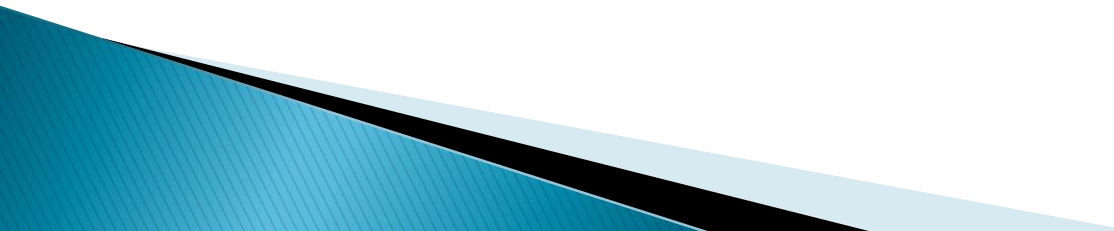
Medicinal Drug  
Companies



Banks and building societies  
Oil companies



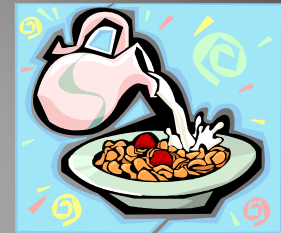
# Monopolistic Competition

- Many Buyers and Sellers
  - The product differs from other products in some way.
  - The exact product cannot be obtained from another source.
  - Some control over price
  - Brand loyalty
  - Can raise prices without losing all of its customers
  - Tiny monopoly over product
  - Relatively free entry and exit
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# Examples of Monopolistic Competition



▶ Restaurants



Cereal



Clothing

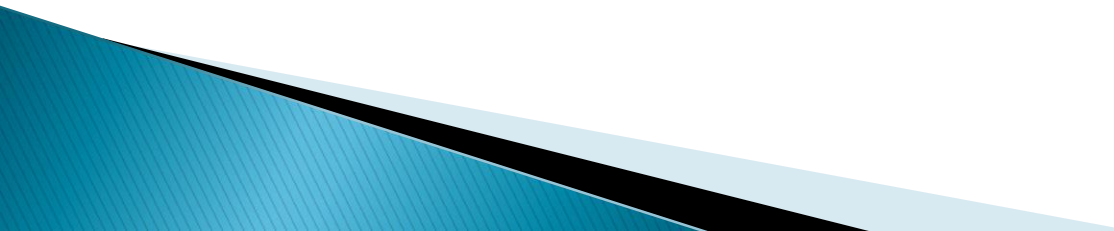


Shoes

# Class Activity

- ▶ Monopolistically competitive markets can be found in a wide range of industries:
  - ▶
    - One major area is in clothing retailing, and other *small businesses*.
    - Many *service markets* are monopolistically competitive, e.g. restaurants and shoe shops.
    - Make a list of other examples
- ▶ 10 minutes

# Conclusions

- Businesses operate in competition with each other and this creates a healthy business environment.
  - Market Structures comprise of perfect competition, monopolies, oligopolies and monopolistic competition.
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# Topic 2 Lecture 2

- ▶ Any questions?