



So What?



You've probably heard the old expression "a little competition doesn't hurt anybody" at some point or another in your life. Competition exists all around us—in school, in sports, even in the workplace. We compete for positions, for attention, for the best grades, for the most interesting things. It's a good thing. It helps individuals excel and makes the workplace more efficient, the school better performing, the team higher scoring, and the social scene more exciting. Life would be pretty boring without competition, don't you think?

So what about competition in business? Is it a good thing there, too? It sure is! In fact, it's what turns the wheels of our private enterprise economy. When businesses compete successfully, they grow and prosper, and when they don't compete, they often fail. But what is competition exactly, against whom do businesses compete, and how do they compete against their rivals? Read on to find out!

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Competition: Game On!



Competition is the rivalry among two or more businesses to attract scarce, or limited, customer dollars. Suppose you owned an Internet-based, downloadable music business—the *only* business of its type on the web. If you were the only music download seller, you wouldn't need to worry about competition. If customers wanted to get the latest albums or songs, they would have to come to you. But, in reality, there are many Internet businesses of that type, including iTunes, Rhapsody, and others. Customers have a choice of sellers, and competition is fierce.

All of these music download businesses are trying to capture the attention and dollars of the same group of customers, or market. All of them offer goods or services that will satisfy the same customer needs and wants. As a result, these businesses compete directly against each other.

Direct competition occurs between or among businesses that offer similar types of goods or services. In this case, it's music downloads. However, there are many examples of direct competition. Fast-food restaurants, such as McDonald's, Wendy's, and Burger King, are direct competitors of each other because they all sell hamburgers and French fries. Clothing stores, such as Abercrombie & Fitch, Gap, and American Eagle, are also direct competitors because they all sell clothing for young adults. What direct competitors can you name?

Objectives:

- A** Explain the nature of competition.
- B** Distinguish among market structures.
- C** Describe the effects of competition in a private enterprise system.



Ready, Set, Compete!



Other times, service and convenience might make the difference. Think about the supermarket industry, which has fairly uniform prices. What attracts you to do business with one supermarket versus another? Is it the bank, the coffee shop, the pharmacy, and the gas station all located in or at the store? Or, is it the longer hours, the self-checkout, and the childcare service available while you shop? At times, it is truly amazing what lengths a business will go to in order to make shopping more convenient and appealing for customers.

Most businesses use a combination of price and nonprice competition. Nordstrom department stores, for example, offer half-yearly and anniversary sales, as well as fantastic customer service. Toyota, on the other hand, offers rebates while emphasizing its vehicles' great gas mileage. Whether it's price competition, nonprice competition, or a combination of the two, the goal is the same. Businesses compete for customers, and they do whatever they can to convince people to buy their products.



Summary

Competition is a rivalry among two or more businesses to attract scarce customer dollars. Businesses compete either directly or indirectly. They generally use price or nonprice competition.



1. What is competition?
2. Explain the difference between direct and indirect competition.
3. Explain the difference between price and nonprice competition.
4. What are two examples of price competition?
5. What are two examples of nonprice competition?

The Gray Zone

Not so long ago, the hardware store industry was populated by many small, privately owned businesses. Every small town had at least one local hardware store, and larger cities had several of them. In almost every case, each store was owned by an individual or small company.

Today, though, the hardware store industry is dominated by corporate giants, including Lowe's and Home Depot. These "big box" do-it-yourself stores, and other large hardware store chains, have wiped out the small, privately owned hardware stores. Why has that happened? How did chains like Lowe's drive the small stores out of business? Is that fair? Is that ethical? Was it right for the government to let so many small, privately owned businesses disappear? Should the government step in and stop the big-name hardware store chains from getting even bigger?

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Maintain or improve the quality of existing products.

In the hunt for customer dollars, businesses continually try to upgrade their existing products. Improvements often include such changes as making more powerful digital cameras or making cars safer and more fuel-efficient. The benefit to the customer is a better product.

Provide more and better services. Competition encourages businesses to offer more services. If all other factors remain the same, the availability of services can attract and keep customers. You might have noticed that many auto-repair shops now provide customers with free transportation to and from work. Customers enjoy the convenience at no additional cost.

Provide wider selections of goods or services. Because there are many types of customer needs, businesses try to offer many types of goods or services. An example of a business that has worked hard to provide a wider selection of goods is Wendy's fast-food restaurant. Instead of offering only hamburgers and fries, Wendy's menu includes chicken sandwiches, chili, baked potatoes, salads, and desserts. The restaurant chain's hope is that most, if not all, customers can find something they like on the menu.

Keep prices down. Price is often a main factor when customers decide what and where to buy. When given a choice between two similar products of the same type, customers often choose the lower priced one. Therefore, competition forces businesses to keep their selling price as low as possible. As a result, customers get a good value for their money.

Society Wins!

Competition also benefits society. Because of competition, businesses develop new and improved products that make people's lives easier and more convenient. Think of all the frozen foods that can be microwaved and ready to eat in minutes. Think of all

the businesses that provide housekeeping service, pet-walking service, or child care. As a result, people enjoy a high standard of living.

Some of these products even help people to be healthier and live longer. Pharmaceutical companies, for example, continuously do research to develop new drugs to prevent or cure diseases. In addition, health spas and workout facilities are available everywhere.



Competition also helps to create new businesses that make jobs available to a lot of people. Consider the Internet and the growth of e-commerce. Many businesses in that industry didn't even exist a decade ago. Now, there are thousands of web-based companies employing hundreds of thousands of people. This leads to a prosperous society in which people have jobs, earn an income, and spend money for more goods and services. This type of prosperity usually does not exist in economic systems without competition.

Summary

Competition is essential in a private enterprise society, and it benefits businesses, customers, and society. Among other things, it keeps profits up, prices down, quality good, production efficient, and the standard of living high.

Make It Pay!

Think about the business where you work. Who are the business's direct competitors? What are your business's direct competitors? What forms of competition does your business face? What forms of price and quality competition does your business face? How does your business attract people? How could the business be improved? How could the business be improved against its rivals in the marketplace? Record your responses in your notebook.

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1. Explain three ways that competition benefits businesses.
2. Explain five ways that competition benefits consumers.
3. Explain three ways competition benefits society.