

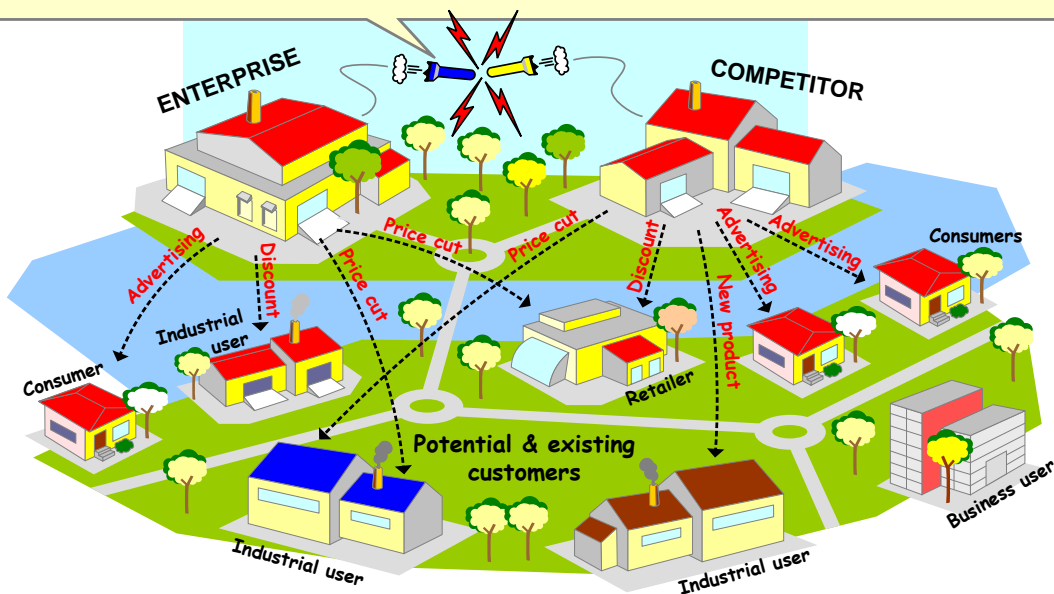
43 - Competition within an Industry

Competition between firms takes place through advertising, sales promotions, price discounts, product innovations, new product introductions, distribution network expansion, increased guarantees or warranties and other business tactics. The nature of competition can either leave the entire industry in a worse of position or improve entire industry standing. Increased advertising, promotional spends and new product introductions help in increasing overall industry demand, whereas, price cuts and discounts are easy to match and drive down entire industry profitability.

Factors leading to intense competition between competing firms

1. When there are too many firms in an industry, each without any significant market share.
2. In slow growth industries, where competition is fierce to retain market shares and profits.
3. In industries with high fixed costs, there is a pressure to produce to capacity even though demand may not exist. Products once produced may need to be discounted heavily.
4. When it is difficult for a business to exit an industry, it is compelled to stay on and compete.
5. For perishable and seasonal products, there is a tendency for firms to compete till inventories are liquidated.
6. When a company is determined to compete. Such determination to compete, may come from a strong product position, a good distribution network or pure financial muscle.
7. When the presence of a company in a particular industry offers a specific strategic advantage, the company will spare no resource to stay in that industry and compete.

INDUSTRY COMPETITION: Advertising, price cuts, product innovation, guarantees, warranties



When companies reach out to the same market of existing and potential customers, competitive warfare may follow as each company tries to tap into or corner the market share of another company. Fierce price-cutting and discounting can take place if the product is a near commodity, or if customers are willing to trade in brand loyalty for cheaper prices.