How to use: Learn, cover, write and check

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** though one of these methods to order to encourage repeat custom and great reviews

Be aware:



- 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 (economies of scale)
- Remember than improving quality may also 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