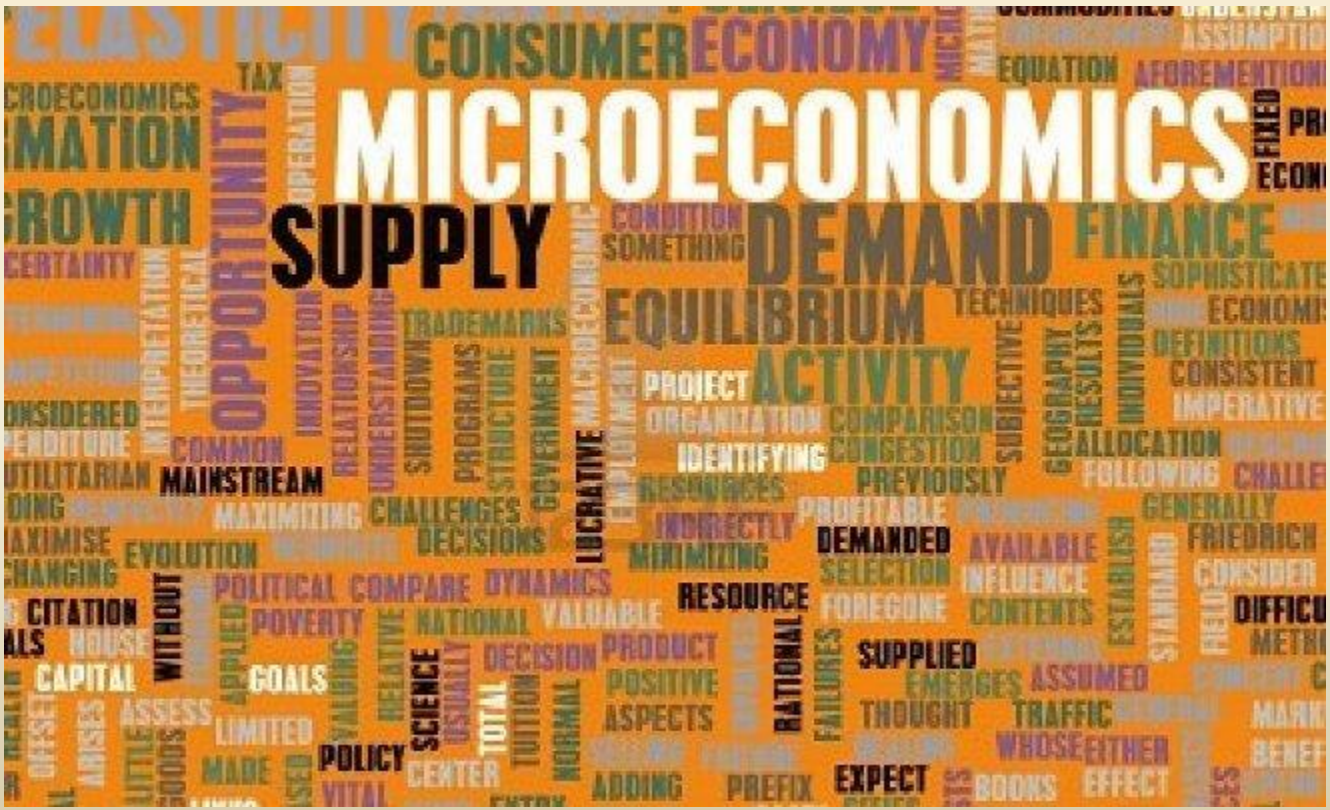
presentation 24
Market types 2



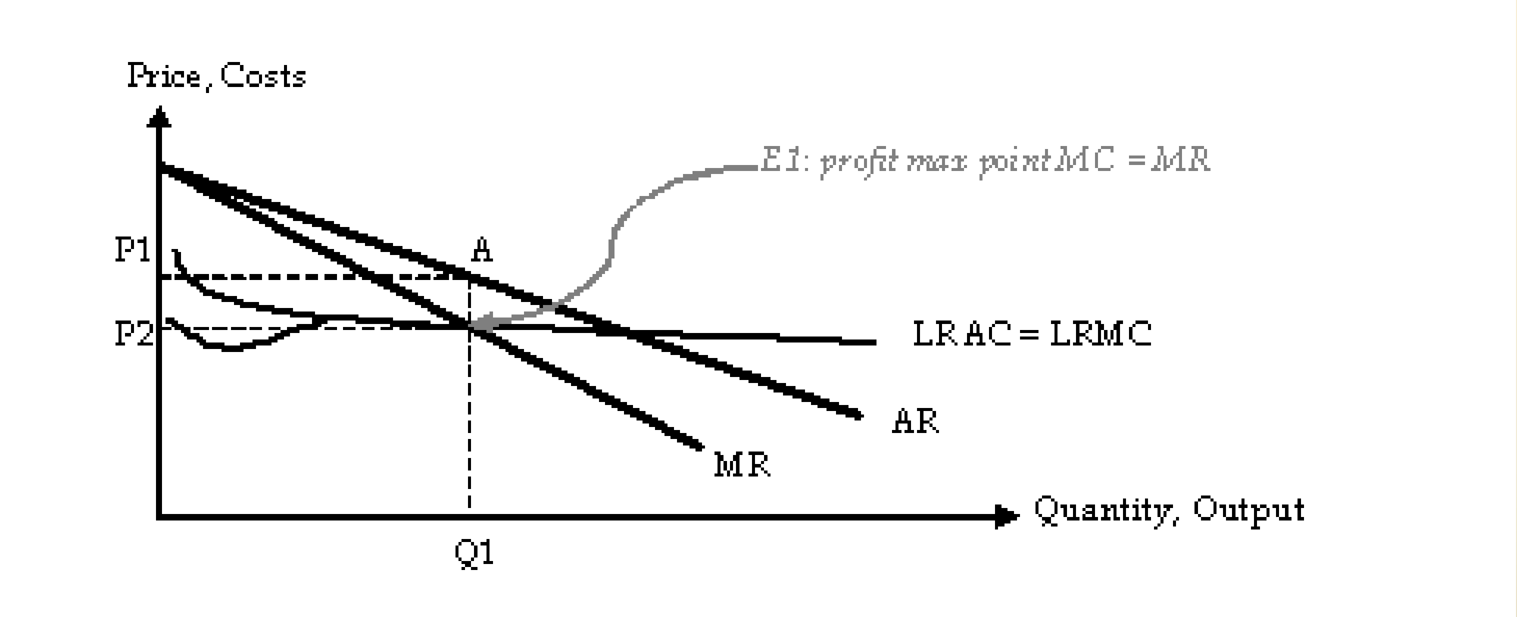
Dynamic Competitors

Features of Dynamic competitors

- Number of firms present in the market = quite a few
- Number of consumers present in the market = a lot
- Business/operations share relative to the market = small to important depending on industry
- Ability to impose a price on consumers = yes; the firm is a price maker
- Barriers to enter the market = presence of patents and need for important capital investments to set up corporations
- Product knowledge = imperfect – choosing one band makes that the others can be unknown

- Degree of product differentiation = very important – RnD investments
- Degree of product substitution = limited
- Degree of state intervention = little – only to streamline investments
- Examples: IT, pharma, cars, electronics, movies, games, luxuries – attract 80% of world’s investments
- Competitive elements: decided locations, new/improved products, marketing efforts (30% annual turnover), share valuation

Cost and revenue analysis



a/Costs

LRAC = *LRMC* at the minimum efficient scale.

b/Revenue

A dynamic competitor is faced with a downward sloping demand curve AR as well as MR because an increase in prices leads to a loss of consumers.

c/Profit maximization

Where *MC* = *MR* (at E1) for price P1 and quantity produced Q1; the monopolistic competitor earns revenue R = P1*Q1.

But because P1>MC, the monopolistic competitor makes above normal profits P1-A-E1-P2.

These additional profits are used for maintaining monopoly advantages.

Origin

Dynamic competition can be the result of structural and strategic barriers that include:

1. Control of resources – K and L
2. Economies of scale – improved production
3. Economies of scope – mergers and aquisitions
4. Financing enterprises – investment ventures
5. Information costs – knowing the competition

6. Legal restrictions – laws in force
7. Predatory pricing – price-strategies
8. Excess capacity – capacity to overproduce
9. Product differentiation – research & development
10. Technology costs – research and development
11. Market differentiation – marketing & advertizing
13. Strategic behavior – market leadership

Pricing Strategies

Pricing strategies refer to the set of prices a business sets on an array of products – pricing structure. These include:

a/ New-product pricing:

- ✓ Market-skimming: offering products with high mark-up when competition cannot follow immediately
- ✓ Market-penetration: offering low prices to attract consumers

b/Product mix pricing

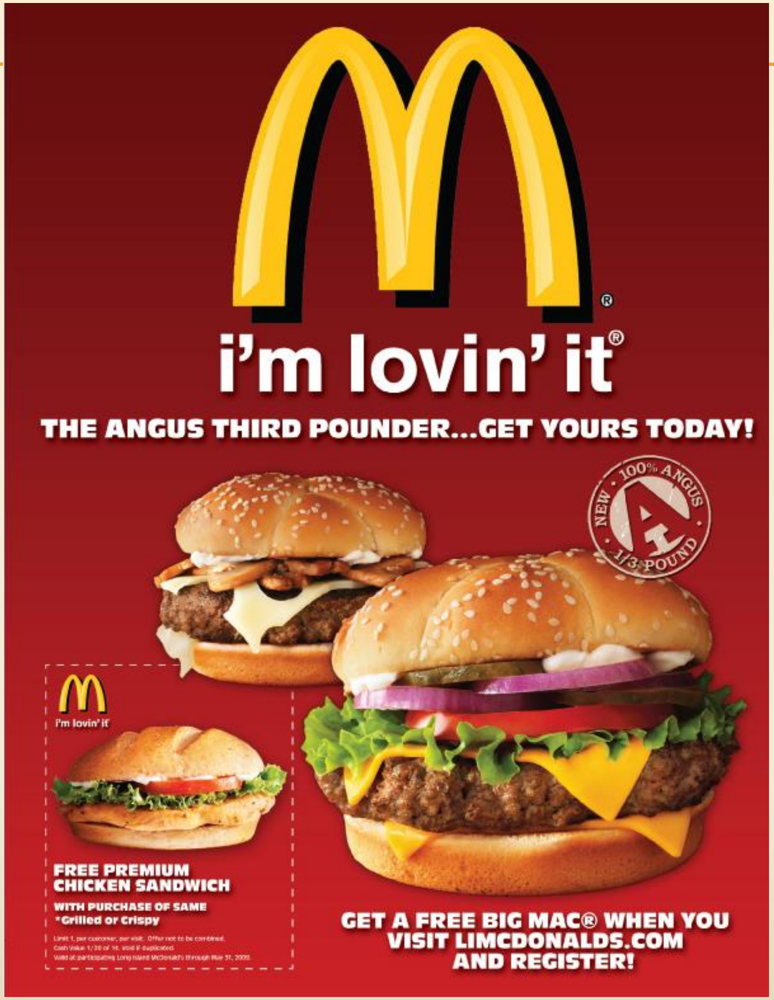
- ✓ Product line: offering a variety of products at different prices
- ✓ Optional-product: pricing accessories
- ✓ Captive-product – two-part pricing: fixed price + variable price according to services
- ✓ By-product: pricing secondary products

c/Price-adjustments

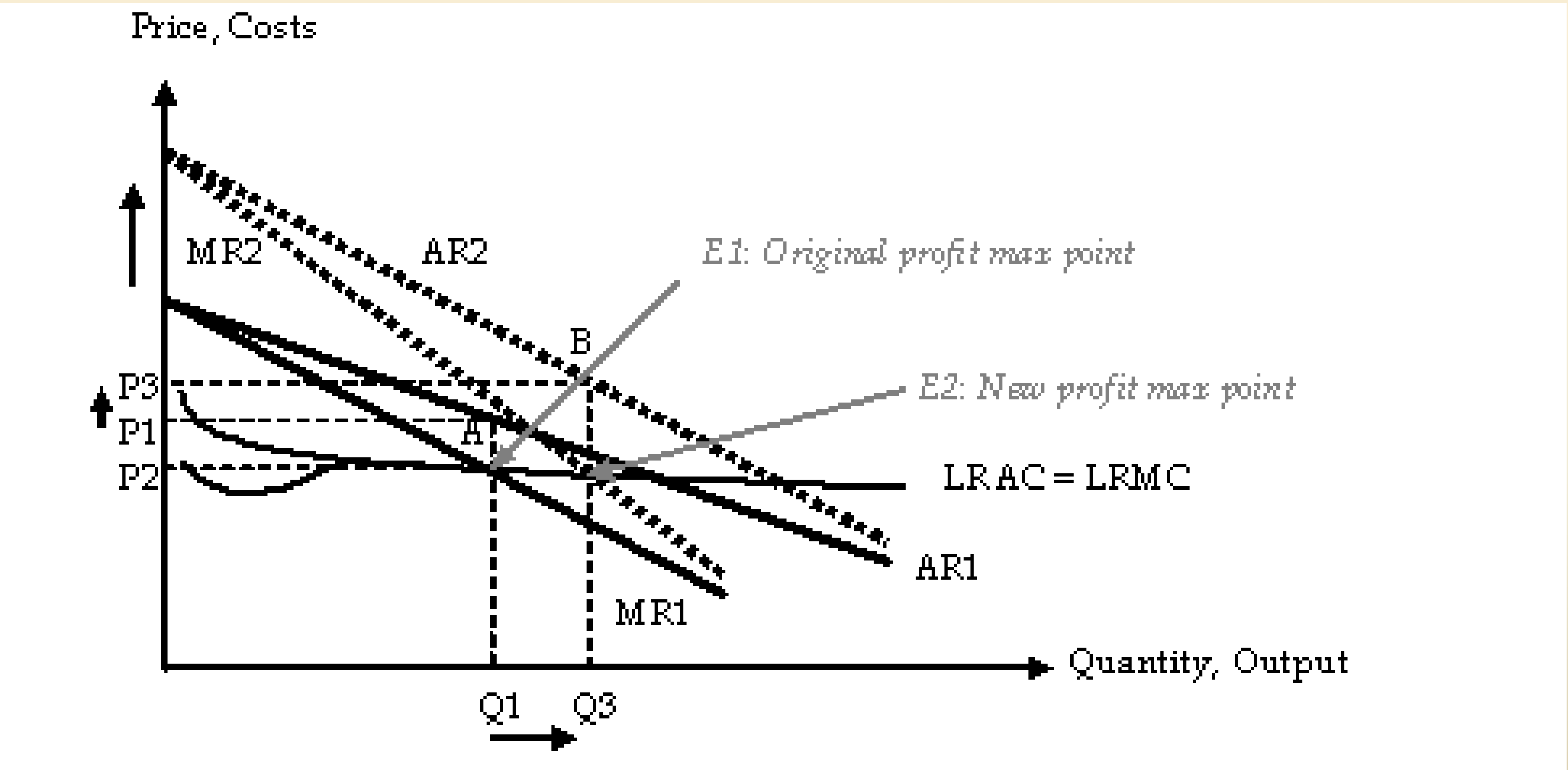
- ✓ Seasonal
- ✓ Geographical
- ✓ International
- ✓ Discounts : as per price or quantity
- ✓ Segmented : according to market segments
- ✓ Psychological : according to consumer perceptions – min P below which the guest will not pay; max P above which the guest will not pay
- ✓ Promotional : to push sales

Advertizing

Advertising is about informing potential consumers of existing and new products thus acting as an important tool for the market to function.



The effect of advertizing:

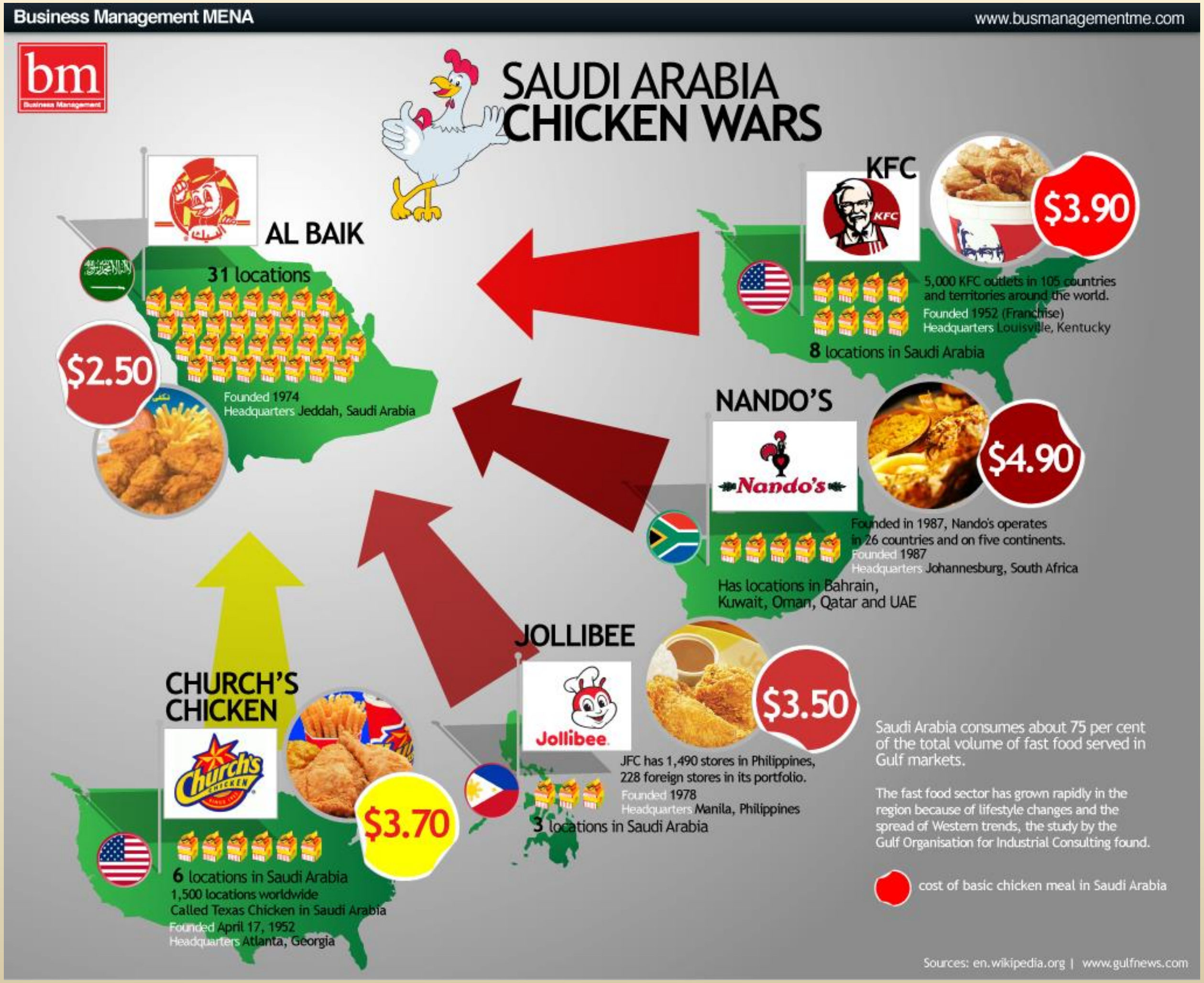


Losing Market Leadership

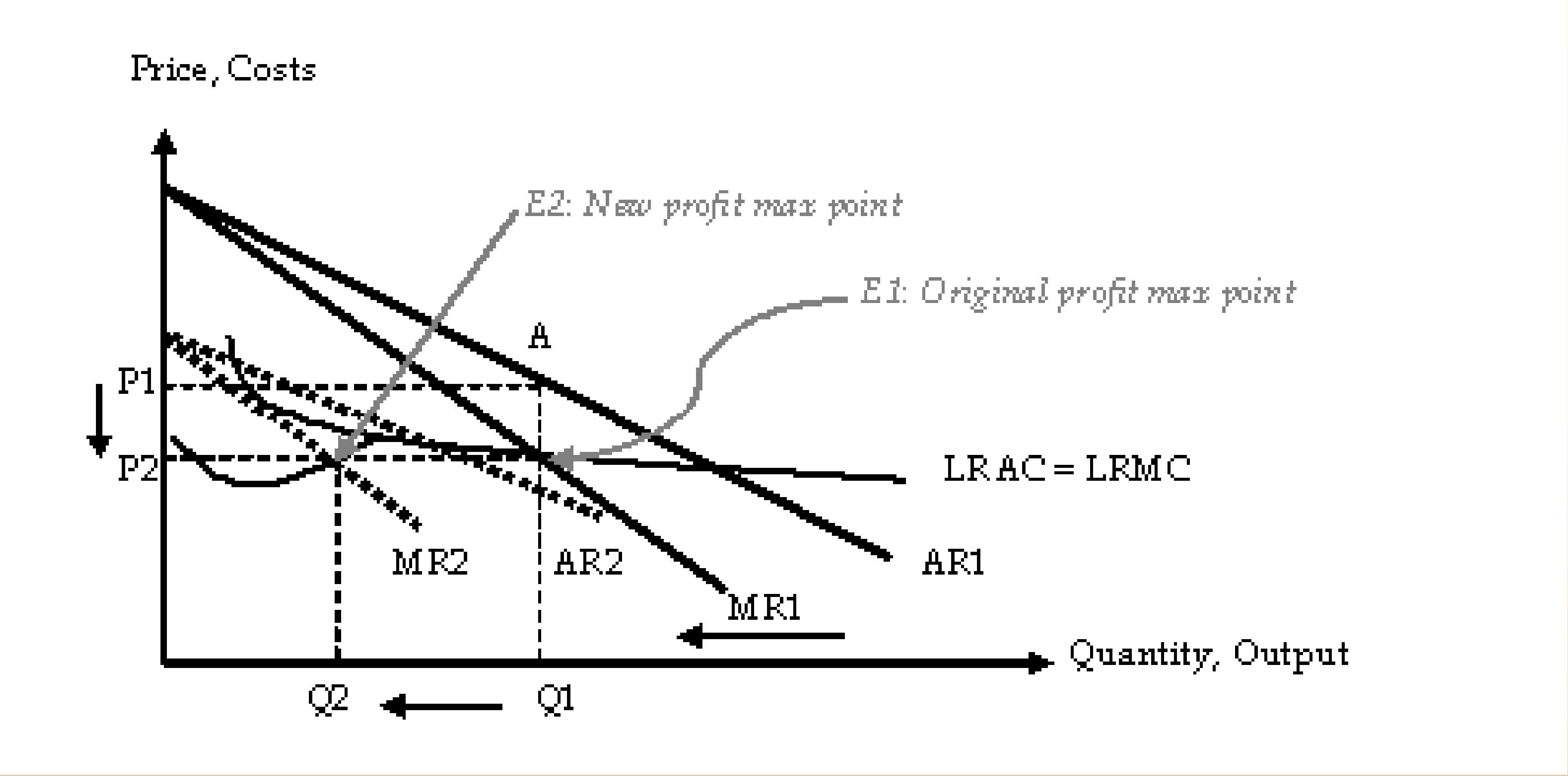
Monopoly advantages are likely to be maintained in the short run and so long as innovation and advertising are able to keep the enterprise in its monopoly position.

In the long run however, new competitors are likely to enter the market attracted by the above-normal profits.

Example:


Business Management MENA
www.busmanagementme.com
bm
SAUDI ARABIA CHICKEN WARS
AL BAIK
31 locations
$2.50
Founded 1974
Headquarters Jeddah, Saudi Arabia
KFC
$3.90
5,000 KFC outlets in 105 countries and territories around the world.
Founded 1952 (Franchise)
Headquarters Louisville, Kentucky
8 locations in Saudi Arabia
NANDO'S
Nando's
$4.90
Founded in 1987, Nando's operates in 26 countries and on five continents.
Founded 1987
Headquarters Johannesburg, South Africa
Has locations in Bahrain, Kuwait, Oman, Qatar and UAE
JOLLIBEE
Jollibee
$3.50
JFC has 1,490 stores in Philippines, 228 foreign stores in its portfolio.
Founded 1978
Headquarters Manila, Philippines
3 locations in Saudi Arabia
CHURCH'S CHICKEN
$3.70
6 locations in Saudi Arabia
1,500 locations worldwide
Called Texas Chicken in Saudi Arabia
Founded April 17, 1952
Headquarters Atlanta, Georgia
Saudi Arabia consumes about 75 per cent of the total volume of fast food served in Gulf markets.
The fast food sector has grown rapidly in the region because of lifestyle changes and the spread of Western trends, the study by the Gulf Organisation for Industrial Consulting found.
cost of basic chicken meal in Saudi Arabia
Sources: en.wikipedia.org | www.gulfnews.com

Losing market leadership:



Spotting Dynamic Competitors

Spotting the dynamic competitors: the advertizing index (AI)

The advertizing index is about measuring the effectiveness of promotional campaigns for either one enterprise of various enterprises across the industry.

- Extrinsic elements: frequency
- Intrinsic elements: AIDA