

THE INTENSITY OF COMPETITION

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Summary:

The Intensity of Competition refers to the potential performances of a certain field, which are measured by profitability indexes of the organizations pertaining to this field. The intensity of Competition can be different from one organizational group to another and is determined by a number of factors, gathered in five forces.

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According to the specific literature, the competition forces are the following:

- *the threat of new entrants;*
- *the threat of substitute products or services;*
- *the negotiating power of providers;*
- *the negotiating power of consumers;*
- *the level of competition.*

1. *The threat of new entrants*

New entrants are the organizations appearing among the competition or which are starting to compete with the organizations already existing in a competition field.

The new entrants are defined by the desire to be profitable and by using some important sources in order to take part in the competition.

Their behavior can be influenced by a number of *decisive factors* (as known as entry barriers):

- a) *the scale economy;*
- b) *products and services differentiation;*
- c) *necessary resources;*
- d) *access to distribution channels;*
- e) *the governmental policies.*

a) *The scale economy* represents the process of decreasing the medium costs, on long term, due to increase of production volume. This phenomenon is not present in all organizations or fields of activity. The scale economy was identified and analyzed for the first time, in the cars industry and afterwards in other fields of activity.

There are some limits of the competitive advantages associated with the scale economies. The competitive advantage connected to the cost is not necessarily determined by competition. The scale economy is not necessarily stable in time and presents symptoms which are different from one competitor to another. The scale economy is not necessarily limited to production; other activities can share the same effect.

b) *Products and services differentiation*

For the new entrants, the differentiation of products and services needs increased expenses on the following lines: ensuring a name for the products and services, which would make them identifiable by the consumers, the aggressive promotion through publicity, personalized sales, public relations, sponsorship, the alignment to national and international quality standards requests. Ensuring such differentiation depends on:

c) *Necessary resources*

The new entrants must use a great deal of financial resources in order to ensure the carrying of research-development activities, promotion of products or attending exhibitions.

d) *Access to distribution channels*

The structure of distribution channels in a country, in a certain field of activity, and within a certain economic sector depends on the economical-social development level of the organization, on the level of consumers' incomes, on the infrastructure quality and on environment factors.

The new entrants can do the products and services distribution themselves, or they can collaborate with intermediates (agents, distributors, wholesalers).

e) The governmental policies

This factor influences the new entrants through the level of taxes, the control form, or the ways of enforcing prices by limiting or denying the access on a market, by imposing quality standards, both domestic, as well as foreign.

2. The threat of substitute products or services

The threat of substitute products or services represents the fact that, at any time, the consumers are willing to replace, from different reasons, a product or service with a similar one, as far as the quality is concerned and which is made by competition.

The threat of substitute products or services materializes through the following decisive factors:

- the consumers' trend to accept replaceable products or services;
- performance-for-price index for replaceable products or services;
- the level of substitution among products or services;
- the degree of costs coverage through the payments that the consumer is making.

3. The negotiating power of providers

The negotiating power of providers, representing their capacity to communicate and obtain advantages regarding the deliveries towards different organizations, materializes through the following *decisive factors*:

- differentiating of entries;
- the presence of substitution entries
- the number of providers;
- the concentration degree of providers
- the impact of entries upon costs;
- the threat of upstream or downstream integration;

- the structure and features of the field where the organization is acting.

4. *The negotiating power of consumers*

The negotiating power of consumers reveals their quality to gain advantages within the selling-buying process and materializes through the following *decisive factors*:

- the consumers concentration;
- the purchased quantity;
- the information level of consumers;
- the consumers' incomes;
- the existence of substitution products or services;
- the structure of distribution channels;
- the differentiation of products or services through price or quality.

5. *The level of competition*

The level of competition is determined by the competition intensity within a certain field of activity. The competition is materializing as the struggle to occupy a market segment. The competition is important when the competitors are numerous and have close sizes.

The level of competition materializes through the following *decisive factors*:

- the development level of the field of activity, generally speaking, and of the competing organizations, specifically;
- the differentiating of products or services through price and quality;
- the identity of the trade mark;
- the complexity of the information on competition and the competitors' diversity;
- the legal provisions;

- the cultural barriers.

The Porter Model with the five competition forces can be useful when determining the features of the competition intensity within a certain field of activity. Thus, we must take into account the forms of expression debating different elements that ensure the differentiating of the competition intensity, on case by case basis: determining the vital forces within a certain field of activity, establishing the forces changes, specifying the possibilities to influence forces, identifying the attractive competitors in other competing fields.

The Porter Model can be supplemented with another force, namely the impact of influential and pressure groups. This force represents the result of the interests of persons or group of persons or institutions (local communities, syndicates, parties, government) towards the development of a certain field of activity or of an organism, or for the development of a certain field of activity or organization.

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