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Competition (Economics)

Customers might not think about competition when they're walking through the grocery store or making an online purchase, but it happens to be a cornerstone of business and the free economy that impacts every single thing that's bought and sold. Technically, competition consists of the cumulative force of actions taken by companies that're designed to improve their market standing, sales, and ultimately, profits. But really, competition is simply what allows businesses to try and get ahead of each another, and consumers to get the best possible value.

Like many business ideas, competition is best explained through an example. Imagine that a company opens a profitable retail location and sells bread at an enormous profit. After another company notices all the profits that're being made through bread sales in this neighborhood, they may open a store of their own and undercut the competition, or sell similar items or services for lower prices. The first company may respond by lowering their own prices (so they sell more bread to their former customers, who're presumably buying the cheaper bread), and the end result is much cheaper bread for consumers. In this way, businesses going head-to-head benefits customers.

Reverse competition, or the tendency of some businesses to purchase items that're being sold below market value (or the price that an item can reasonably be expected to sell for) and reprice them, is also a business practice that's worth considering. Imagine that a bread company, to limit the success of other businesses, sells their bread that's worth five dollars per loaf elsewhere for one dollar per loaf. Instead of being pushed out of the market, a competing business could recognize the discrepancy between the bread's value and its sale price, and then proceed to purchase all the first company's bread for one dollar and resell it for two dollars with their own label.

The effects of not having competition, in a particular professional sphere or entire economies, are devastating to consumers and the wellbeing of citizens generally. Consider the example of railroad companies in Europe and America a couple centuries back that owned a multitude of tracks and land; essentially no other companies existed to create competition (because the major railroad companies bought all the land and kept others from doing so), and they were able to charge whatever high prices they wanted. This described scenario is an example of a monopoly, or a situation when one company has complete control over an industry and its prices due to a lack of competition.

Lastly, an oligopoly is a style of competition wherein businesses are small in number and coordinate with each other to raise prices—thus making goods and services more expensive for consumers. Modern-day examples of oligopolies are satellite television and internet services, which, although they cost companies very little to provide, are billed to consumers for sizable sums. Thus, something of a general understanding has been reached by leading internet and television companies, as they would make far less money if they competed rigorously.

Did you understand the text?

1) What is competition in business?

a) An annual physical competition between company executives
b) Steps taken by companies to enlarge their profits and success by taking business away from others
c) One of the most important business elements, and one that's responsible for drastically reducing prices
d) B and C

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More questions about the text:

2) What is reverse competition in business?

a) The process of giving products away for free, to improve brand recognition
b) The process of undercutting companies that are selling products for less than the market value
c) The process of helping another business improve their profits
d) Nobody is quite sure

3) What are some of the effects of a monopoly?

a) Little-to-no competition
b) Increased prices
c) Massive profits at the expense of consumers
d) All of the Above

4) What is an oligopoly?

a) A business phenomenon characterized by one company ruling a market with little to no competition
b) A business phenomenon characterized by a group of companies limiting their competition to keep prices high
c) A business phenomenon characterized by full competition
d) A business phenomenon characterized by artificially low prices

5) How do consumers benefit from competition?

a) By enjoying lower prices
b) By being able to choose from optimized products
c) By being able to enter the business world themselves, if an opportunity arises
d) All of the above