PART 3: SPECTRUM OF MARKET COMPETITION

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Will non-price competition indeed lead to increase in profits?

Yes If SUCCESSFUL + ↑TR > ↑TC	**No If UNSUCCESSFUL + ↑TR < ↑TC**
Non-price competition also known as product differentiation can either be: • Real (quality or material used) • Imaginary (branding/packaging) OR • Tangible (new design, models) • Intangible (convenience like location; operating hours/ reliable/friendly service) **↑TR > ↑TC** Non-price competition that aims to improve the quality of the products and also to increase awareness will lead to higher demand that enables the producers to earn higher revenue and thus profits, assuming the increase in revenue is more than cost.	Influence but not dictate tastes/preferences Non-price competition may not lead to higher demand. No one can guarantee that consumers will be attracted to the new product or the marketing tactics. Producers can influence taste and preferences but cannot dictate it. **↑TR < ↑TC** Profits will only increase if the increase in revenue is higher than the cost incurred in the non-price competition. Example, if the sales revenue increase for a particular product cannot cover the cost of advertisement, the firm will not make more profits than before.

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How can concepts of PED & CED be relevant to analysis of non-price competition?

Product development and product promotion makes the product more unique and less substitutable hence the demand for this product becomes more price-inelastic. Since this product is less substitutable such that value of (positive) CED is lower, a fall in prices of similar products (weak substitutes) will not affect the demand for it significantly. If there is a fall in demand for it, the fall could be very little or negligible.

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There is increase in supply of oil by US shale producers, and a fall in demand, mainly due to China's slowing economic growth.

February 2015 (http://www.bbc.com/news/business-31107688)

Using a diagram, show how British Petroleum's profit is affected by the abovementioned events.

Note: Qn is on impact on BP's (a firm's) profits → you need to use cost-revenue aka firm's analysis!

- British Petroleum (BP) – extracts own oil + refines oil related products + retailer
- Since there is an increase in supply of shale oil, there will be a fall in price of shale oil, ceteris paribus.
- Shale oil is a substitute of crude oil, the CED of crude oil with respect to the price of shale oil is positive. (Students may argue that it is not a close substitute yet, such that CED value is low)
- Hence when price of shale oil falls, demand for crude oil falls.
- ~~In the context, it is the crude oil market in which SS has increased mainly due to US firms + DD has fallen mainly due to China so price of oil has fallen.~~
- When demand falls for crude oil, we can assume, the demand for BP oil related products also falls.
- But when supply of crude oil continue to increase~~s~~ (as crude oil producers did not want to cut back on production), will cost of BP be affected? No if BP does not buy from the world market as it produces its own crude oil.
- So the diagram will be a fall in AR/MR and fall in price, output and profits – may be still supernormal, normal or subnormal profits.

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Do you think monopolistic competition is a common market structure in Singapore? Justify your answer.

Thesis: Yes monopolistic competition is found mainly in those sectors dominated by SMEs.	**Anti-Thesis: No monopolistic Competition is not commonly found**
Approach: **Characteristics** and **behaviour** of monopolistic competitive firms *FYI: 60% of workforce are employed by SMEs i.e. 6 in 10 workers. There are 180,000 SMEs in Singapore. 99% of enterprises in Singapore are SMEs. SMEs contribute more than 50% of GDP.* *Definition of SME (source: Spring Singapore):* *(1) Annual turnover < $100m*	in many sectors dominated by big firms mostly MNCs and some home grown big corporations like 3 big local banks (DBS; OCBC and UOB); GLCs like NOL; PSA corp; Sembcorp; Keppel Corp and Singtel.

(2) Headcount < 200 *2015 BT Feb 15 report* They are recognisable by the following characteristics: (1) Market Size: SMALL market e.g. HDB estate/neighbourhood (usually family owned or privately owned and they have limited capital; usually unincorporated.) (2) Low barriers to entry and exit (3) Slightly differentiated Product and make independent decisions **Characteristics & Behaviour** (1) • Each Seller is a small firm in the sense that their share of the market is insignificant. • Market concentration ratio is very low or insignificant. • Thus, there is no fear that rivals will be able to capture substantial market share by cutting prices. Conversely, sellers are unlikely to lose a significant market share by raising prices. • Due to the firm's small size, there is very little scope for internal economies of scale • In Singapore, many of these businesses are found in the HDB heartlands. They are the "neighbourhood stores" and the markets they are serving are mainly residents living around the housing estates/neighbourhood. • Typical examples: Neighbourhood hawker food, cafes & restaurants; clothing & tailor shops; and personal services such as hairdressing saloons, spas; clinics, pet shops and optical shops. • These firms are typically small businesses (family owned/privately owned), not big corporations. • With an insignificant market share, the firm cannot influence market price. (2) • Barriers to entry are low and entry into the market is easy. Entry is not an issue. There are no formidable entry barriers to overcome e.g. absence of high legal, costs, technical barriers etc. • This is exemplified by the fact that if there are supernormal profits to be made, for example cafés craze or bubble tea craze, one can witness a sudden sprouting out of such outlets all over the island 'almost overnight'. For such a business does not entail high costs, patent rights or technology to operate. Similarly, when the fad or craze dies off, one could observe a noticeable rapid exit of such outlets from the market. (3)	<u>Big markets (e.g. export/regional & global markets)</u> Many foreign MNCs are located in Singapore for the purpose of manufacturing or servicing their clients in regional and international markets e.g. Giant biomedical companies such as GSK, Novartis; Electronics firms producing computer chips and wafer fabs for Smartphones and other hi-tech gadgets; Oil rigs manufacturers such as Keppel and Sembcorp Marine producing oil rigs for overseas customers; large foreign banks and financial institutions serving an international clientele. Elaborate on why Oligopoly indeed is very common in Singapore both in characteristics and behaviour.

• Selling slightly differentiated products e.g. The product could be just common hawker food like chicken rice. However, the chicken rice sold by different hawkers are not identical but very similar or close substitutes. They vary in terms of taste; service quality and location. • Firms typically focus on providing a slightly "differentiated" product (i.e. close substitutes) to attract customers which may include creating a special dining experience e.g. ambience for restaurants and friendly customer service. • Moreover, such firms typically do not invest heavily in R&D, innovation and marketing campaigns to differentiate their products. • The sellers make business decisions independently- each seller does not watch the actions and reactions of rivals closely.	
Conclusion/Synthesis: • In reality, market structures are identified not just by the features/structure (i.e. number/size of firms and entry barriers) but also the behaviour/conduct of firms i.e. competitive strategies and decision is not made independently. • For instance, several years ago there was a famous chicken rice war which erupted between two adjacent chicken rice stalls located in Tampines. Both stalls went all out to undercut prices to the extent that a plate of chicken rice was sold for only 50 cents. In this case, the sellers were behaving more like oligopolists than monopolistically competitive firms. • Definition of market size is not cast in stone. In the context of the whole island, the 2 chicken stalls belong to a monopolistically competitive market. They are insignificantly small relative to the total size of the market. 2 amongst perhaps thousands of chicken rice stalls spread out all over the island. However, in the context of the neighbourhood in which they are located, they are like "giants" – there are only 2 of them selling chicken rice within the vicinity. Thus, they behaved like oligopolist (watching each other like a hawk and reacting to each other business strategy). • Furthermore, overtime, we do see small traditional firms growing in size – e.g. Yat Kun Toast and Jean Yip Saloon, reaping internal economies of scale and revenue advantages. More common nowadays to have the presence of slightly more dominant players in traditional monopolistic competitive market.	