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CONTEMPORARY MECHANISMS OF COMPETITION IN THE ECONOMY AND IN BUSINESS

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ABSTRACT

Nowadays, in most markets, there is strong competition (rivalry for the customer). Moreover we are dealing with an information revolution that has brought new challenges and opportunities for managers (in businesses of every type). The ability to use the opportunities associated with globalization and facilitated access to information becomes a key skill of contemporary managers. Dynamic changes in the environment (strong competition) does not allow for long reproduction of patterns in operating a business. Currently, it is only those companies that are able to quickly adapt to changing environmental conditions that gain a competitive advantage. The aim of this work is an attempt to present the modern competitive mechanisms that exist in the economy and in business, and show the sources for achieving competitive advantage in the digital economy.

Keywords: Competition, digital economy, information services, business.

INTRODUCTION

In recent years, an indicator for companies seeking their own business strategy has been competitive advantage. They have been searching for answers to the question of what are the sources of this advantage, and how to ensure its durability. The answers were different. Challenges and transformations in the macro scale found their reflection in changes in the strategic functioning of economic entities.

The environment in which modern enterprises operate is becoming more and more complex and demanding. Trends occurring in this environment affect the perceived value of offers, stemming from companies competing with one another. Bearing in mind changes occurring in the business environment, creating long term relationships with customers (business partners) is one way to acquire competitive advantage.

Current dogma says that competitors can quickly duplicate any innovation, and competitive advantages is –at best- a temporary nature. Company managers must constantly observe their competitors and adapt their best practices. They must also have a few flagship competencies (skills) that will cause domination over rivals and give them an advantage.

Today’s markets are characterized by a significant change in the system of market forces. Purchasers, in the role of recipient of company offers, have become not only partners but also the decision makers in terms of relationship building. The importance of the customer in the development of the company’s strategy, has already been pointed out much earlier, however, contemporary conditions of enterprises have situated the client in a role as the main source of the company’s value.

RESEARCH METHODOLOGY

There is still insufficient knowledge on the topic of how to gain a competitive edge in the market. An important issue is the lack of information in the area of science - how to manage the organization in a highly competitive environment to ensure it measurable economic results. The author of this publication has set a target to fill, at least partially, this gap.

The aim of this work is to show the main mechanisms of competition in economic and business spheres. The work is thus an attempt to present contemporary competition and its importance in the economy. The study also presents different concepts of competitive advantage. These concepts, despite their many differences, insinuations and abstract nature, designate a certain way and direction of thinking about competition in the economy and in business. The paper also presents sources for obtaining competitive advantage in electronic commerce.

The theoretical output used includes Polish and foreign, mostly English-language, literature on the mechanisms of competition and business management in the era of modern information technologies. The use of foreign literature was necessary because of the dearth of Polish studies. This enriched reasoning and reflection on new aspects, and allowed to show the research problem in a broader perspective.

Competition and its importance in the economy

Competition is a key issue, both in economic and managerial theory, as well as in economic policy. Without a doubt, a well- functioning mechanism of competition is a priority for economic development of the country. This mechanism forces an adequate level of efficiency in many areas of economic life.

In classic economics, competition was regarded as an organizing force in the economy. Competition is treated as a process in which prices reach their natural level. Competition is a process of rivalry between independent entities that relate to the exchange of market relations. Classic economists saw the important practical role of free competition, which they treated as opposite to monopoly; and they also understood that free competition didn't occur alone, but needed the support of the state to function properly. In the absence of adequate supervision, entrepreneurs were always tempted to limit competition (Casadesus-Masanell & Ricart, 2010, pp. 195-198).

Harvard University, mostly J.M.Clark and his successor, developed the concept of competition as healthy for business, which in their opinion was characterized by a large number of companies in the market, product differentiation, uncertainty of opponent's reaction, the occurrence of substitutes, the possibility of launching new products on the market, the absence of unfair and deceptive practices, collusion and price discrimination. The theorists recognized oligopolistic competition as the basic structure of the contemporary market, and believed that such competition should be protected (Śliwińska 2013, p. 211).

The evolution of views on the process of competition on the market has resulted in competition being considered a basis of economic life. Economic entities compete with one another for scarce resources, in accordance with the rules delineated by law.

Competition policy often focuses on activities related to the promotion of competition (creating market conditions in the business environment, especially in sectors where there has been a lack of or limited competition, an important activity for countries going through system transformation) (Chorób 2013, p. 173).

The task of economic policy is often to undertake activities related to the restructuring of certain economic areas identified as priorities (supporting selected sectors in strengthening the competitive potential and increasing international competitiveness). Competition policy should also rely on a reduction in the use of public support for most sectors (companies), because public aid is seen as a violation of economic freedom (Czarniewski, 2014, pp. 88-94).

It should be noted, that the process of competition in the market economy doesn't develop smoothly. Therefore, we can indicate a number of threats which limit its smooth functioning and development. These threats arise from the activities of entrepreneurs who wish to reduce competition in order to increase their profits. Another important threat is anti-competitive intervention of public authorities which are meant to realize other objectives. These objectives, whether social or economic, can introduce anti-competitive legal or organizational barriers, as well as interfere with the competitive process. Hence there is a need for legal protection of competition in the economy.

In most markets, competition is a naturally developing phenomenon and the most desirable action on the part of the state is the elimination of competitive interference. However, one can point to areas of the economy, where for structural reasons or historical circumstances, emergence of competition without regulatory actions by public authorities is not possible or significantly impeded. These areas may include infrastructure sectors: the power industry, rail and air transport and postal services, which in the twentieth century were run as monopolies by the state in most countries.

The process of competition can be intensified by the process of building sufficient awareness in all stakeholders, which means not only entrepreneurs, but also consumers, public authorities, non -governmental organizations (NGOs) etc. The key is knowledge of the rules governing the functioning of the market economy, as well as competition law, which gives one the opportunity to put pressure on businesses and induce socially desirable behaviors. This awareness is built through properly conducted informational and educational activities and through the whole area of social communication (UOKIK, 2011).

Concepts of competitive advantage

B.D Henderson referred to the principles of evolutionary biology in the analysis of competition. He noticed that all competitors who survived and continued to operate had their own unique competitive advantage. If they didn't, they would be pushed out by others.

The school of positioning focuses primarily on the analysis of the market structure and the behavior of market participants and their mutual interactions. In its assumptions, a dominant role was attributed to the conditions in a given sector, recognizing them as the determinant in the performance of the company. The influence of resources owned by the company was considered to be insignificant. There were assumptions that there was a lack of diversity of companies within a given sector in terms of controlled resources or that this diversity was unstable, resulting from the high mobility of resources.

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As part of the school of resources, there was a change in the dominant paradigm of the recognition of competitive advantage. Emphasis was placed on resources as the main source of this advantage. This required assumptions opposite to those existing in the school of positioning, that is recognition that companies in the sector may differ in terms of the resources they control, and that resources cannot be moved easily. Limitations in mobility were associated with those resources which could not be acquired on the market.

Scientists pointed out that if a company wanted to use non-tradeable resources, they had to produce them on their own. Therefore, I. Dierickx i K. Cool presented the concept of the accumulation of assets, treating the term assets as interchangeable with resources (Dierickx & Cool, 1989). According to these authors, reserve assets are created by forming the flow of respective streams within a certain time. This means that the production of assets such as reputation, in terms of the quality of products or services, requires the making of coherent decisions related to such activities as: staff training, quality control, market communication etc.

The distinction between streams and assets is to indicate, that in the short term, the company only has influence on the formation of streams; the level of reserve assets remains relatively constant. I. Dierickx i K. Cool found that durability of the privileged position of the company (which is connected with competitive advantage) in terms of their assets, depends on the possibility of duplicating these assets. Therefore, strategic reserve assets include those assets which cannot be acquired on the market and are difficult to imitate and substitute.

R.A. D'Aveni i R. Gunther presented their own concept of hyper-competition and moved away from a permanent competitive advantage in favor of a series of successive short-term competitive advantages (D'Aveni & Gunther, 1994). There has also been a change in the approach to resources as a source of competitive advantage. The key to achieving an advantage is not resources but the ability to acquire and transform them. The focus has moved away from the analysis of competitive advantage and its sources to the analysis of the process of creating this advantage.

The sources of competitive advantage in the digital economy

According to Barney, competitive advantage occurs when a company implements a strategy that contributes to value creation, and competing companies are not able to achieve similar results (Barney, 1991). In his opinion, durability of advantage does not refer to the length of time in which advantage exists. Competitive advantage is stable only when it survives efforts to eliminate it. There is no doubt that competitive advantage means being a more attractive partner to recipients than other companies. Competitive advantage also means improving the relationship between investment and results.

In the context of competitive advantage, internet companies and traditional businesses using modern information technology can benefit from being first on the market. This is seen as the ability of the company to earn above-average profits as a result of being the first to offer selected products or services on the market. Being first, resulting in the achievement of above - average profits, is one source of competitive advantage.

Lieberman conducted studies on the benefits of being first on the market, which took into account more than 200 Internet companies from 46 sectors (Finney, Lueg & Campbell, 2008). Although their value may grow, Internet companies are often not profitable.

Lieberman studied the benefit of being first on the market through the prism of market capitalization (|the market value of a company listed on the stock exchange) and studied their revenues from 1999 – 2003. The research showed that the benefits of being first only occurred in markets with network effects or with pioneer companies patenting technology. Companies using network effects and benefiting from being first are largely companies operating in multilateral markets. The study takes into account data up to 2007. There is no correlation between being first in offering the product and the number of years the company is on the market.

S. Min i M. Wolfinbarger come to similar conclusions regarding the benefit of being first in the US e-commerce sector (Min & Wolfinbarger, 2005, pp. 1030-1039). Their research shows that pioneers don't have a significant advantage over imitators in terms of market share, margin on sales or effectiveness of spending on market communication.

An important issue in achieving a sustainable competitive advantage may be the mechanism of isolation, which is a way to prevent, or at least hinder, the imitation of competitive advantage. In the context of companies in the sector of computer products and services, researchers provide three mechanisms of isolation (Bach, Judge & Dean, 2008, pp. 507-525). These include: patents, reputation of the organization and partnerships with other organizations. Their research shows that patents and reputation contribute significantly to the success of IT companies when going public.

Strategic control points are similar to the isolation mechanism. These are ways to secure revenue to protect the flow of profits generated by the business model. A well-managed company should secure its revenue in at least one way.

Strategic control points can have different forms or dimensions. The company Amazon.com focuses more on managing their portfolio of customers than their portfolio of products, bringing them closer to their customers (Quinn, 2014, pp. 80-88). Brands and copyrights are ways of securing revenue in many online stores or information services. Information services frequently copyright content which they have created and published on the Internet. One-year or two year advantage in product development occurs in the case of companies that are characterized by being first in offering the product.

Other methods of securing revenue can rely on the sale of undifferentiated products at a higher, equal or lower price than the market price. Lower price can be achieved thanks to the benefit of scale or scope, wherein this kind of advantage is difficult to maintain because the Internet has a high price transparency and customers can easily find companies offering products at a lower price, which increases pressure to bring prices down among some retailers. Well developed and trusted brands can sell at a higher price than the market price. Sale at a higher price is also possible to people who are less oriented about what is being offered on the market (Liu, Wei & Chen, 2009).

The high rate of technological change makes successive generations of products age rapidly in the perception of customers. It is uncertainty, in terms of technology, which could cause reluctance among customers to make decisions to purchase the current generation of products. Pioneer companies that offer products in the category where technology changes rapidly, encounter problems in the form of strong competition based on product innovation and customer inaction.

The fast pace of market change, triggered by the rapid growth of the market or changing customer preferences, causes the entry of new players to the sector, attracted by the ability to easily acquire customers. According to many researchers, the growth of the market increases the chances of new players and reduces the benefit of being first (Suarez & Lanzolla, 2007, pp. 377-392).

Companies operating in a sector in which there are fast changes in two dimensions (market and technology) at the same time, operate under conditions of particular uncertainty, which the research shows, can cause the making of poor decisions (Suarez & Lanzolla, 2007). The fast pace of change in the market and in technology can reduce switching costs, which are one of the main isolation mechanisms used by pioneer companies in the market. A slow pace of change in technology and in the market makes it easier to benefit from being first.

Today, various key features of competitive advantage are of importance. These features, which create a competitive environment, allow companies to dynamically respond to changing customer needs, and to be able to customize their offer of value. Building new, key qualities of competitiveness in new industries, means the ability of the company to offer a specific category of benefits to the customer, and not just create products for the established market.

CONCLUSION

1. Competition in domestic markets should be seen as one of the achievements of political transformation and an inherent part of the market economy. The task of public authorities is creating conditions for development, protection and support of the market economy.
2. It is important to strive to implement solutions that can intensify competition where it already exists. Any improvements to the company or the removing of unjustified obstacles to their effective operation, cause an increase in their competitiveness and innovation with positive results for the market and for customers, and are considered important activities to support the development of competition in the economy.
3. Key features of competitiveness, as shown in this work, are important in the long term. The skills and experiences of company management can allow for the creation of value that changes over time, which ensures customer retention in the long term, guaranteeing the continuity of the company’s existence and its high value. These qualities are the result of competitiveness and a source of future activities in the field of research and development.
4. Competitive advantage can be created as a result of innovative activities and more efficient use of resources than the competition. Companies are able to generate a competitive advantage by using their resources more effectively to produce and offer products that are at least comparable to the offer of competitors or provide value for customers at a lower cost (and price), or when the goods are valued higher than the competition at a comparable cost.

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