Difference between price and non price competition economics essay

\n[toc title="Table of Contents"]\n

\n \t

\n[/toc]\n \n

Q. Explain the difference between price and non-price competition and elasticity and the contexts which give rise to it. (50)

Visit a local super market or departmental store. Focus on the section where shampoos are displayed for sale. Observe and analyze the space allocated, brands, different brands under the same company, pricing, etc. Elaborate on the economic concepts based on your observation and learning. (50)

MARKET: Market is a place where buyers and sellers interact to trade goods, services, contracts and instruments for money or barter system. Consumer oriented companies should understand the value consumers give for a product the marketers use this for pricing a product. In the market we can see two types of competitions.

In order to minimize the risks and increase the profits a company has two ways

Price competition.

Non price competition.

Price competition is nothing but competing on the basis of price which may involve price cutting. This may not involve in maximization of profits because price cut by one firm will force others to do the same, in a way every player is more or less having the same market share and no profits or less profits. A monopolistic market is very competitive and a price competition will exist or can sustain only in the short run like the monopolist, the monopolistically firm maximizes short run profit by following the MC= MR rule. As under the monopoly, if the price equals the ATC curve, the firm earns a short run normal profit. If the price is below the ATC curve, the firm suffers a short run loss, and if the price is below the average variable cost curve curve, the firm shuts down.

In the words of Nicolson " Non price competition is the competition by sellers for sales by means of other than price cutting".

In the long run the monopolistically competitive firm, unlike a monopolist, will not earn an economic profit in the long rum. Rather , like a perfect competitor, the monopolistically competitive firm earns only a normal profit in the long run. The reason is that the short run profits and easy entry attract new firms into the industry. So in the long run competition is more likely using the non

price factors. This refers to the attempt to attract the customers through changing the quality of the product, changing the market place, intense publicity service etc. Non price competition is the competition through product differ.

Coming to the oligopoly market, because each oligopolist is a major factor in the market, oligopolist's pricing decisions are mutually interdependent. The price one producer asks significantly affects the others' sales. Hence when one oligopolistic firm lowers it price, all the others can be expected to lower theirs, to prevent erosion of their market shares. The oligopolist may have to second-guess other producers' pricing policies-how they will react to a change in price, and what that might mean for its own policy. In fact,

oligopolistic pricing decisions resemble moves in a chess game. The thinking may be so complicated that no one can predict what will happen. Thus, theories of oligopolistic price determination tend to be confined almost exclusively to the short run.

Another line of thought arising from the kinked demand curve model is that, if firms are inhibited from changing their price competitive in some way because of their conjectures about rivals reaction, they will turn instead to non price forms of competition, such as advertizing and product variation, either separately or in combination. However, if a firm A increases its advertising expenditure, and that expenditure is successful in attracting more buyers, there may be some increase in the total market for the product but the main gains will be at the expense of rival's products. Competing firms can, therefore be expected to match any increase in advertising expenditure in an attempt to retain their market any increase in advertising expenditure in an attempt to retain their market share for exactly the same reason that they would match any price reductions. In the end, all firms would be faced with higher advertising costs, but not much to show for it in term of extra sales or profits. Conversely, if A reduced its advertising expenditure, it would lose sales to its competitors who, having benefited from the situation, would appear to have little incentive to

match A’s reduced level of expenditure. So again, it can be argued that changes in either direction from the status quo are likely to be unprofitable.

However, it can also be argued that firms are likely to be more willing to risk an increase in advertising expenditure than a price reduction. A price reduction is, in a sense, a crude weapon that can be easily matched by rivals, whilst advertising has a more qualitative dimension that can less easily be countered. If a firm, therefore, has a good advertising idea or new improved product to market, it might be willing to embark on an advertising campaign to exploit the situation even in the almost certain knowledge that its action would provoke retaliation from competitors, whilst remaining reluctant to engage in a price war. The qualitative dimension to advertising may also lead firm to be less willing to be to act collusively, either formally or informally to reduced advertising expenditures than to rise price. Hence the issues raised in receving two sections are likely to be less constraining influence on advertising and product behavior than on price change.

ELASTICITY:

The change in demand or supply curve relative to the change in price is called as curve’s elasticity. Different products have different elasticies depending on the essentiality the elasticity differs from product to product. The products that have the functionality of meeting the necessities are not so venerable to price, because people any way would buy those products.

A good is said to be highly elastic if an iota change in price leads to great change in demand or supply. In the same way an inelastic good is something where any change in price would not effect the demand.

The equation for elasticity is:

Elasticity = percentage change in quantity / percentage change in price

If elasticity (e) >= 1, then the curve is said to be elastic.

If e < 1, then the curve is said to be inelastic.

Basically the demand curve is a negative slope, and if there is a large decrease in the quantity demanded with a small increase in price, the demand curve looks flatter, or more horizontal. This flatter curve means that the good or service in question is elastic.

The inelastic demand small change in quantity due to large change in price.

Elasticity for supply : change in price results in a huge change in the amount supplied. Elasticity in this case would be greater than or equal to one.

big change in price only results in a minor change in the quantity supplied.

Determinants of Elasticity:

Many factors influence elasticity, some of which are:

Necessities versus Luxuries – To find a substitute is extremely difficult so demand will change very less.

Availability of Close Substitutes.

Definition of the Market – bigger the market more is the chance of finding the substitutes

Time Horizon.

Relative Size of Purchase.

SHAMPOO INDUSTRY:

Hair care products consist of hair oil, shampoos, conditioners and hair color. The size of the shampoo market reached Rs 850 crore and 30, 000 tonnes in volume terms. The shampoo Market is the fastest growing item with in personal product category and it has expanded by nearly two and a half times in last few years, though the market is confined mainly to the urban locations in India.

Shampoo usage in India:

shampoos remain in low penetration category when compared with soaps and detergents whose penetration level is more than 90 percent. As per industry estimates, the urban Markey penetration of shampoo was about 36 per cent whereas in the rural market, usage was of the order of 12 per cent of the total population. Thus, there is a considerable scope for expansion by converting non-users.

In respect to function, shampoo are of the following types:

a) All purpose shampoos

b) Special shampoos for dry, normal, oi! y, tinted, and bleached hair formulated on the principle that these hair conditions require special products

c) Baby shampoos formulated to be nonsmarting to the eyes

d) Medicated dandruff shampoos

e) Color shampoos

Factors for selecting a shampoo(Consumer point of view):

Ease of application

Lather

Manageability

Fragrance

Luster

Low level of irritation.

Good stability.

Economical.

Look and feel of shampoo.

Benefits offered by shampoo.

Major barriers shampoo use in India are:

common beliefs that shampoos contain chemicals and so it could damage hair;

shampoo is viewed more as a glamour value and lack of conviction about the functional usefulness of shampoo.

Until pouch packet was introduced, a large section of the market found even the price quite high and not affordable.

Over the last decade or so, marketers have tried different possible experiments to expand there market penetration. Initially major players have tried to create awareness and dispel some of the myths by heavy advertizing. Among many innovative strategies like offering of

shampoo for particular major of hair or special formulations, small size packs, especially introduction of sachets etc., shift from the glass bottles to plastic bottle pouch pack lowering of unit price seams to have been most effective. For instance, CavinKare introduced a 50 paise sachet of Chik shampoo, when most other shachets were sold at Rs 2. Such a lower price strategy was an instant success. HUL has also offered its 50 paise pack for Lux shampoo. The claims the 30 ml bubble pack for Clinic Plus, is a cost effective alternative for sachet users.

Innovation in features:

The creation of an anti dandruff shampoos was the first step. Clinic plus, a word known to every one has bought the first anti dandruff shampoo in to the market. HUL experimented with Sunsilk to make different products for normal, dry, and oily hair. P&G' s Head & Shoulder's, Menthol and Pantene

Lively Clean offer distinct function benefits to the target users. This strategy enable those brands to gain volume as well as earn better margin.

The company that I selected is P&G (Proctor & Gamble) which has the second largest market share in India. When I visited the departmental store I came across a whole rack of P&G products and when I keenly observed the shampoo's section there were three different brands. The first one was Head & Shoulders which basically aims at solving dandruff problems, when spoken with people I came to know that most of them are suffering from dandruff problems and their choice of selecting this particular shampoo was mainly because of the availability and the trust they have in the company no wonder the company enjoys such a huge market share. This particular brand also has a pinch of conditioner features which is also a valid reason why people select this.

The second brand I came across was P&G's Pantene which mostly targeted at a niche market however I can confidently say that people's choice of any shampoo is not on price, this is very dangerous to conclude but this was too evident in my study. The other observation that I made was many were hating Pantene because of the more usage of chemicals which are harmful to hair this can be profited by P&G by

reducing the amount of chemicals used. The demand curve of Pantene is falling in the recent years and the only reason that I found was the usage of chemicals that in turn lead to hair loss.

The third brand that was a bit difficult to find was P&G's brand Rejoice my study shows that not many people were opting for rejoice, in an other study

Rejoice was ranked as number 1 in Asian market. The typical characteristics, which were evident, are like low price and attractive cover image.

Key Strategies Absorbed:

As we now that P&G is late entrant into the shampoo segment so it’s main target was to increase its market share. During it’s time of entry HUL was a huge company and had maximum market share in shampoo segment, so to compete with HUL’s product P&G released a low price shampoo product. We can see that a Price competition took place. As time went on P&G increased it’s products category to compete heavily with HUL and this competition can be called as Non-Price competition. P&G have shampoo products catering to all kinds of segments. When I visited the departmental store the products that were targeted for the niche market occupied a considerable amount of space relative to the products that cater the needs of mass market. Pantene and Head & Shoulders are the products specially for the niche market and Rejoice was for the mass market.

Head and Shoulder priced at Rs. 62 for 100ml and for 200ml Rs. 120 and Rs. 3 for single sachet which contains around 6ml. Pantene shampoo sachet price is of about Rs. 3, for 100ml pack the price is Rs. 89, for 200ml pack the price is Rs. 169, for 400ml pack the price is Rs. 325. Rejoice shampoo sachet price is of about Rs. 2 and for 100ml pack the price is Rs. 33.

Space allocated: Two major principles in the success of retail market are sales and profits. The sales volume and the profitability can be measured in the amount of space consumed for the particular product. Depending upon the product category the products are allocated. The amount of space is allocated based on the previous performance of the particular product.

If the demand for a particular product is growing then more space is allocated product or else the space allocated is decreased. Allocating the space according to the number of sales done. Allocation of the space for the particular product differs from store to store. The characteristics of the product determine the space allocation in both quality and quantity of space.

CONCULSION:

My keen observations made me to comment that Pantene has high price and low demand, Head & Shoulders enjoys an equilibrium price and Rejoice has a very less demand when compared to other P&G products which shows that supply is also on the lower side and hence less availability of Rejoice shampoo. Being it a Oligopolistic market P&G spends a lot of amount on Non Price factors to have a Non-Price competition with it’s main rival HUL.