Risk of Competition in Crisis Conditions

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Abstract
For many types of risk affecting the economic existence of firms, risk of competition is among the most important, both in terms of the gravity and intensity and the spread in space and time. In the context of the global economic crisis, - economical, financial, social, image problems etc. encountered by the economic entities are responded through the engage of the companies in the competitive game using various strategic alternatives. The competitive game involves: understanding the nature of the competitive strategy, the demarcation of their playing field, the competition analysis and the competitive decision commitment. Implicit, the new conditions created field of manifestation of the anticompetitive behavior on the various world markets, increasing the inherent role of the decision makers in the competition policy.

Keywords: economic crisis, risk of competition, competitive game, anticompetitive behavior

JEL Code: L21, L25, L40, M11, M21

1. Introduction

The dynamics of the phenomena and economic, social, political, and institutional processes and the transformations that society has suffered from the trigger of the financial and economic global crisis and to date, have reshaped the position and the role of the competition in restoring of the balance and improving the business climate. The effects of the economic crisis, itself a macroeconomic risk, are felt in all the structures and the economic variables, with different intensities, but the consumer is the receiver of the most painful and perennial replicas of the changes in society. That is why, I plead to minimize the risks which are the subject to the consumer - financial, physical, psychosocial, etc., with the proper functioning of the competitive environment and, further, the correlations and the interdependencies of the economic system.

2. Short considerations on the evolution of the global economic crisis

After a period of deepening credit crisis in U.S., financial crisis, which started in September 2008, turned into a economic world crisis [http://web.worldbank.org/WBSITE/EXTERNAL, (2009)]. Economic activity fell sharply at the end of the last quarter of 2008 and the first quarter of 2009, both in the developed countries and the developing. In developing economies, the impact of the economic condition in the social was and is more pronounced, mainly by increasing of the unemployment, poverty, deteriorating living conditions.

The financial crisis has resulted in the diminishing rate of investment, loss of wealth, more general uncertainty. Decreased investment worldwide has resulted the declining production, trade and GDP over the last quarter of 2008 but the first quarter of 2009. The largest decreases...
in the economic activity occurred in the countries specialized in the production of durable goods and equipment but also in the countries with economic and social issues prior to the trigger of the crisis.

Amid of increased vulnerability to global business environment, decreased the material prices raw oil by 60% and food products by 35%. Decreased the oil and the food prices has mitigated the impact on poverty reduction and helped reduce the pressure on current account of the oil importing developing countries.

Even if the governments have adopted policies to mitigate the effects of the crisis, they were not always and in all cases focusing on the specific situations, therefore, have not achieved their objectives. The costs of the government interventions have contributed to increased the budgetary imbalances to cca.3% of GDP in the developed countries and up to 4.4% of GDP in the development. Increasing the indebtedness in the developing countries will have long-term effects on the growth of the credit cost in the developing countries. Therefore, the decrease in the economic activity in conjunction with reducing the flow of capital to the low-and medium-developed countries will, inherently, the financial statements and, in general, economic and social, difficult for the populations of those countries. The current account deficit and deteriorating fiscal position is of concern in the some countries in Europe and Central Asia in which the specific problems of the economic crisis have been combined with the earlier crisis. Such as the experts of the World Bank assessed, the solution of minimizing the deficit or balance the budget is to reduce the domestic demand and the currency exchange rate. Even if the GDP of the developed countries of the world fell in the first quarter of 2009, are clear signals to resume a positive growth, such as the stock market recovery, the moderate growth in the exports in some countries, even amid increased the consumer demand for more flexibility fiscal measures.

3. The involvement of economic entities in the competitive game, in crisis conditions

In this global context marked by economic recession and changes in the substance at the economical, social, political level systems, the competitive environment is the component that validates the viability and the power entities to meet the changes and present challenges but especially the future challenges. In general, training, participating of the companies in the competitive play involves: understanding the nature of the competitive strategy, the demarcation of their playing field, competition analysis and, finally, the decision of undertaking competition [Porter (2001)].

To know and understand the nature of the competitive strategy, the firms need to anticipate the impact of their decisions on the competitors. Management and marketing of the firm depend on the reaction of the competitors - the main feature of the competition being the interdependence of the firms in the market. In the situation in which, in crisis conditions, the company decided to reduce the price of a product to stimulate the sales and increase its part of the market, the competition can answer through the price general reduction on all its products with a higher percentage. In this case, the estimated effect can not be attained because the consumers are not receptive to reduce the price of that product once the strategic alternatives become widespread. The company efforts have focused on other variables of the marketing mix to counteract the competition stronger and more aggressive. The trends of increasing and refining of the methods of counteract competition are evident regardless of the business domain of the companies, however, the size, their dynamics follow, in general, the individual needs hierarchy: the firms that meet the basic needs are less affected from the reduction of the individual income levels and, in general, of entire suite of consequences derived from the manifestation of crisis.
Regardless of size, every company develops, explicitly or implicitly, on the target market, her own competitive strategy, which consisted in offensive or defensive campaigns in order to create her advantageous position on the reference market. The strategic planning of competitive type is, in the current global context, imperative. Must pursued the answers to questions such as: "Where is the most powerful combat: on the current market or on the future market?"; "What strategic maneuvers will make the competitors and who are the properly equipped to respond to them?"; " How can the company position themselves his products to be competitive long term?", etc. To adopt a competitive strategy must be made the market analysis, taking into account the supply and demand ratio. Excepting the monopoly, in which the demand is inelastic, in other cases, the companies should consider the macro-environmental variables - demographic, economic, technological, cultural, legislative, political, natural and also the marketing activities of competitors. The competition study focuses on the strategic options of the players and also on the impact which they have on the profits of the competitors and on the market structure.

“Wheel of the competitive strategy”, as a mix of objectives and means to achieve them, should be set having regard to the premises and the forms of the economic crisis. If, in general, through the objectives of competition fight are: the profit, the market share, the sales, the innovation, the social responsibility, etc., clearly worded, precisely measured, logical ranked, in crisis conditions - the sales, the survival of business, have first place. However, the means of competitive struggle (considered the spokes of the wheel), in all the internal departments of the firm - the target markets, marketing, sales, distribution, technology, qualified labor, R & D, finance, product mix, - not alter their role; what is changed is the position held by one or other of the wheel spokes to ensure functionality.

Beyond the plastic expression of economic reality, remains the message that every component must be managed optimally to ensure optimal functionality of the whole. In the conditions of the economic crisis, the spokes of the wheel become vulnerable; the target markets consist of segments of the market reassess their priorities, the propensity for consumption falls; the activities of marketing operationalized to the level firm have restrictive mission of adapting to the new conditions, marked by shortages; sales decline, distribution is reconfigured providing more facilities for sale, etc.

Starting from the assertion that competition, like any economic phenomenon or process has its own life cycle, closely linked to developments in the reference market the product / the game / the company, etc..., it can be said that in crisis conditions, the phases of this life cycle occurs as follows:

- the embryonic stage, in which the business features are “empty arena, clumsiness, temptation, hope, suspicious distributors”, is apparently non-existent, because situation of purchase of the consumer, the distrust in the business stability, the prudence manifested in the decision-making purchase and consumption, in fact, even if the product is in launch phase (in the more risky launch crisis) will have to met the current competitors, owners who meet the same consumer need with existing products, substitutes;
- if, in a relatively normal development, the growth phase of competition is manifested in the conditions in which the product is already validated by the consumer, being supported by an adequate promotion, pushing the rapid growth in sales, the profit, development of competition to the level of the product distribution - in condition of crisis, competition is higher and moves its center of gravity on the consumer income;
- if, in general, in the maturity stage, competition is strong, the number of customers - large, the orientation towards the product differentiation, recovery of the capital and management, the distributors becoming, in time, careful, the prices falling, culminating in withdrawing of many to the business and the appearance of the signs of recession in industry - in conditions of economic crisis, the strategic alternatives and the tactics which are operationalized in the growth phase, are continued in intensive or aggressive variant.
in the declining stage of the competition, some firms remain in business, the old product is the subject of the research-development, the promotional efforts are weak, etc., is the phase that best fits to the specific manifestations of economic recession.

Once understood the nature of competitive strategy, to achieve the demarcation of the competitive field of the firms, must be competitors defined at the level of: need, consumer preferences, product, brand.

Regarding the competition to the level of the need to satisfy and between product categories (at the level of preferences), the firms believe that they are in competition with all the bidders for products that satisfy the same need. What has changed in the new context of economic recession is the consumer choice, limited to the first levels of the hierarchy of needs, primarily to meet basic needs. So the competition is higher not only to the tenderers of substitutes and /or identical but primarily to the need to satisfy.

In case of competition between products, the company considers its competitors all the companies offering the same product category (which can substitute for consumption or use). The intensity of competition in this competitive environment depends on factors such as: the number of bidders and the degree of product differentiation, the barriers to entry, movement in and out of the industry, the cost structure, the degree of vertical integration and the globalization. In any industry, if the number of bidders is higher, the competition is intense and the products or services are less differentiated in terms of quality. The main differentiating factor of the supply is the price. If before the onset of economic crisis, the industry was characterized by strong competition, once with the installation of the phenomena recession specific, the price variable has more attributes as weapon competitive.

In conditions of the predictable trend of the economic life and the relative stability of the business environment, on base the freedom of entry in an industry with a high profits, increased the supply new firms, but reduced the profits in the industry. In the current conditions, marked by the increased of the competition within the industry, the barriers to entry in sector (high capital investment, creating a positive real images, difficulties in creating a channel of distribution, problems of supply, etc.) are much many not only the cause of the force competition but especially the cause of business conjuncture; on the other hand, are less attempts to input of the new companies in sector, once the already existing firms have major problems.

In terms of exit barriers (difficulties in selling the assets, obligations to employees and creditors, legal restrictions, lack of profitable opportunities in other industries, the psychological barriers of shareholders, etc..), as they stand, even if the profit is less attractive in many industries, the global recession, affecting all structures and segments of activity (but in different measures) is the unlikely the wish of the firms to leave free, volunteer this industry. In the present situation, in which the companies with tradition and world famous companies in a particular industry - cars, insurance, etc.., recorded heavy losses, could be a viable solution, lateral diversification in areas related to the basic, with condition as those areas (industries) adapt quickly to the present needs of a consumer in recession.

The cost structure is another explanatory variable of the intensity of the competition in a branch of industry; the production costs, distribution and marketing differs from one segment to another but minimizing their level is objective pursued by all firms, especially since the in conditions of crisis the motivations to reduce costs derive from the poor state of the economy. The activities with high production costs are less attractive and reduce the production costs can provide great competitive advantage over other companies in the sector. In crisis conditions, cost reduction argument is not only competitive advantage but, first, the possibility of survival. Regarding the potential of globalization, each industry presents specific situations but, beyond the activities developed only locally, most can be included in the global circuit in different
sequences of activity, subject of the globalisation economic life. According to M. Porter, in a global industry, the competitive advantages of cost, quality and technology are achieved with great difficulty and only the companies able to them capitalize will be successful in the market. Given the strategic options of transnational companies, the economic reality has shown that standardization strategy (standardization adapted) is what valorize the strengths of economy of scale and creates to companies significant cost advantages. They are particularly desired at this stage in which the financial component seems to prevail on other.

Competition between brands is disputed between all companies providing to the segments - target, the products or services, identical or insignificant differentiated, the differentiation is accomplished by the brand image; in crisis situations, use of media and techniques necessary to realize the differentiation between competitors may be expensive, therefore is applied with caution.

In conclusion, the delimitation of the field of business competition is arbitrary, depending on the company's objectives and the decision context. Even if the specific conditions of business environment in crisis are difficult, the short-term business objectives can be - increase secondary demand side, market penetration, etc., in conjunction with the narrow definition of the competitive environment, such as the interbrand competition; once leaving the crisis and falling on the trend of refreshing, the economy make possible and create the conditions to achieve the medium or the long term objectives - the integration, the diversification, etc., in which case, it is possible to define the broader the competitive field, such as the competition between products or between categories of product.

Competition analysis aims: identifying the strategies of competitors, their objectives, specific forces and weaknesses, identifying the competitive behavior of the competitors.

Identifying the strategies of competitors supose the analysis of structural factors of industry and the competition within it - the barriers of entry and movement, the product differentiation, the cost structure, etc.. The informational support well-defined and with sufficiently detailed data should include: supply, production, growth-development, finance, human resources, technology, marketing - product quality, consumer services, pricing, distribution channels, communication strategy, sales forces, etc..

To developing competitive strategy, must be known the objectives of the each major competitor. Knowledge the mix of company objectives permits anticipating its response to the attacks and the strategic maneuvers of competition. For example, in these days of recession, if the company aims to increase the sales, will react more strongly to the sales promotion techniques operationalized from the main competitor, than to improve its relations with the internal public. Analysis of the competition objectives must taken into account: the size of competitors, the market segments that it operates, the management structure - the degree of centralization and the organization - the degree of specialization, the expansion plans, etc.. Also, must be considered the competitors objectives, on the medium and long term, even if, in the conditions of the economic crisis, they are less predictable and have less chance to be operational.

Other significant elements of the analysis are: gathering and processing information on the strengths and weaknesses of the competitors, referring to: sales, market share, profit rate, investment efficiency, capacity utilization, plan new investments, cash-flow plan (cash flow), the level of reminder and level of the consumer preferences. An important role, in general, particularly at this stage, has the secondary data and the marketing research on the suppliers, on the distributors and on the customers of the competitors, even if the research budget was reviewed following a risky financial situation. Starting from the factors considered successful in economic practice – image of company, product quality, service quality, quality sales staff, the price -, the analysis of the competitive environment will focus in the present context,
particularly on the weaknesses of competitors, subsequent, taking decision to attack in the area or areas where the competition show the weakness. For developing and implementing programs of action consistent with the evolution of economic phenomena and the concrete situation of company, will be use the technique of benchmarking.

Regarding competitive behavior of the competitors, at this stage of analysis, the firm must anticipate how competitors will react to an attack on a front - for example, launch a new product, reduction of price, aggressive promotion, intensive distribution, etc.. In the context of the current business environment, competitors can not be relaxed or selective, but rather like “tiger” - reacting in force to any attack or the type unpredictable - counterattacking spontaneously, without any competitive strategy. The causes of such behavior may be: insecure consumers, weak sales, managerial incompetence, unfavorable global conjuncture.

Even if, for the companies participating in the competitive game is considered a risk, at the level of the business environment the “competition in running” creates benefits for all the entities which operating in that market, primarily the consumers. Competitors of a sector grow the total demand, contributing to distribution of the market development costs, the technologies and the products, differentiating the products, prices, distribution and promotion. Beyond the tactical alternatives that is recourse to counter the actions of the competitors, quickly and with minimum cost, the attention must always focused on the consumer and the dynamic of its options; on the long term, the competition wars may be destructive, regardless of the size, the strength and the reputation company. Based on confirmation given by the economic reality, over the time, and the specific situation of the present, marked by the recession, the firms who are oriented to consumer win before the firms who are oriented to competition. Best choice is, according to the vision of most experts and practitioners, the combination of the orientation towards the consumer and to competition, ensuring the fundamental objectives of the exponents of supply and demand.

In taking the commitment decision competitive, firms have aim to: the evaluation the competitive position of the company and choose the opponents, setting competitive goals, deciding on the competitive strategies. The domination criterion, used in evaluation of the competitive position on the market, highlights the position of individual dominance or the joint dominance (with the main competitor) or the non-domination. Whatever will be the strategic alternative of domination (thru cost, thru differentiation, thru concentration), the dynamic of the economic phenomena, and, thus, the requirements and choices of the consumer reflects the fact that businesses who want engaging in the competitive struggle with minimal risks (in terms of severity and extension in space and time) must select one of the variants and not combinations or intermediate variants. Of the competition objectives that can be established by the firm, according to market position at this stage of the economic recession, may be viable: stimulating the secondary demand (specific) by maintaining market share (thru the customer loyalty) and increasing the market share by attracting new consumers, especially those dissatisfied with the price-quality ratio, sensitive at price variable. Finally, the company will decide the competitive engagement against one or more competitors by appealing to a mix of competitive strategies.

4. Management of the risk of competition at macroeconomic level

As was predictable, onset and conduct of the economic crisis was reflected in the manifestation of anti-competitive behavior on the different markets of the world [OECD Global Forum on Competition, Eighth Meeting, 19-20 February 2009, Le Rôle des autorités de la concurrence dans la gestion des crises économiques, p.1-11]. In this difficult situation, the strategic alliances and monopolies are in advantage; the firms with low market shares may grow, in this period, thru the expense limitation, the restriction or shift of the activities at the large companies. On the other hand, the firms holding a monopoly position on certain markets, have the opportunity to operate price rises, restricting the supply side, etc., thereby, exploiting the
difficult situation of the economy and consumers. As a result, in the current period, the role of public authorities, their intervention in terms of competition policy should materialize in:
- correct application of specific regulations in this area;
- the application, with some flexibility, the rules relating to mergers, crisis cartels or agreements to export;
- the defense of the weakened competition caused mergers and state aid;
- price control measures, etc..

At the EU level, policy makers in competition are considering the common legislation merger enforcement regarding, mergers, state aid and therefore the economic conditions facing Europe since the second half of 2008, the rescue and restructuring proposed and implemented. Practical actions taken by the European Commission have resulted, in 2008, to adopting the severe measures against cartels, amending the 347 companies with 2 271 million in total, seven cases of cartels; in the case of car's glass cartel, the Commission applied the highest fine imposed for a cartel to date, 1 383 million. The 18 cartels monitored in terms of market size involved, duration and size cartels overcharge in 2005-2007, caused damage between 4 and 11 billion euros of which most are borne directly by the consumer.

The abuse of dominant position held by Microsoft was punished again in 2008 because of "not respect to provide complete and accurate interoperability information on reasonable and non-discriminatory", the penaltyamounting to 899 million euros. The abuse of dominance was observed with Intel and E.ON. In 2006, the European Commission launched investigations of the German electricity market, reaching the preliminary conclusion that E. ON may have abused its dominant position as: the wholesaler market electric power thru strategic reducing capacity production of some of its electric power wholesale market in order to forcing price increase, E. ON would be designed and implemented a strategy to discourage third parties to invest in electricity production and in position of operator transmission system, has fostered its own production on the secondary market for electricity balancing.

Another coordinated the competition - the grant special or exclusive rights to certain undertakings, being in the focus of European policy makers, highlighting cases such as the granting by the Greek state to the Public Power Corporation company access to almost all lignite mines exploited in Greece to obtain electricity.

As regards state aid, in the current economic and financial crisis, the European Commission has provided guidance and has taken steps which permit the aid to 'remedy a serious disturbance in the economy of a Member State', with the end of 2010 deadline (with possibility of extension depending on the development of the crisis). The main beneficiary is the financial sector with the condition 'the recapitalization of financial institutions in the current financial crisis: limiting the aid to the minimum necessary and safeguards against undue distortions of competition'. Although in the past 25 years, state aid has dropped from over 2% in the '80s, at approx. 0.5% in 2007, economic and financial crisis led to its increasing for rescue and restructuring. Among the deviations from the laws related to this area, significant is the case of Romania which, motivating industrial restructuring, to grant the illegal cca.27 million for privatization of Automobile Craiova in terms of ensuring a certain level of production and the number of seats work, accepting instead a lower sales price.

Beyond the situations illustrating failures of the regulatory environment and overall business environment of a country, minimizing the chances of business performance and customer satisfaction, the role competition policy is more than evident [www.wto.org/Rapport sur le commerce world/Les engagements en matière de politique commerciale et les mesures contingentes]:
- the market mechanisms and, consequently, competition, orients the production towards most effective entities;
the economic arrangements, the mergers, may increase the prices by 20-30\% causing disadvantages to the consumers;
developing countries must implement healthy policies in competition domain, to minimize possibility of them put in disadvantage by the developed countries and to increase their bargaining power in international economic relations;
annual cost of operationalizing the policy of competition is lower than annual loss of efficiency due to a single cartel (Baker's opinion, the example USA);
competition policy creates the positive externalities transnational (if an authority prohibits a merger, etc..), protecting the competition, the benefit being for all customers, including foreign ones;
the competition influences business efficiency, changing the incentive for the innovation incentive by acting on the motivation to manage the companies effectively;
the functioning of market mechanisms and devolution the some activity sectors, allows rapid improvement of the productivity of production factors in those areas;
on the context of a viable competitive environment in which the domestic competition intensely manifests, increases the country's performance in export activities and, generally, in all activities established with the foreign;
between competition and efficiency is a positive relationship, competition leading to the efficiency, for all entities involved.

5. Conclusions

Although perceived by companies as a risk, competition is necessary and beneficial to the business environment, enterprise and consumer. Moreover, in the triad: enterprise - the consumer - environment, successful management of the competitive environment to the macroeconomic level provides conditions of better management of relations with the natural environment. The forms of struggle competition are different from one firm to another, from one national environment to another, from one period to another; the motivations, the reasons for the engagement in struggle are, also competitive, largely modeled on the specific situations. In conditions of economic recession, the difficulty of ensuring the survival and continuity of the business on the one hand, consumer satisfaction, on the other but related, leads to making-decision regarding the strategic alternatives, proving, in many cases, an anticompetitive behavior, decreasing the quality of business and consumer interests. The mission of the macro-decision makers is, in this case, imperative - the use of legislative device. The functionality of competitive mechanisms is necessary regardless of the specific stage of economic cycle but is even more significant in conditions of economic crisis and in after-crisis period.

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