Edexcel (B) Economics A-level

Theme 1: Markets, Consumers and Firms

1.3 Introducing the Market

1.3.6 The competition

Notes

Market positioning: market mapping and market maps

- A market map illustrates all of the positions a product can take based upon two dimensions which are significant for consumers.
- Possible dimensions include
    - high vs low price
    - large vs small volume
    - light vs heavy
    - good vs lesser quality
    - young vs old
    - necessity vs luxury

- A map then identifies which existing products meet which customer needs. Gaps can then be identified and firms can enter the market to fill the gaps.

Competitive advantage of a product or service

- A firm has competitive advantage over another when its products are deemed to be better than its competitors by customers.
- A firm can gain competitive advantage using price, quality, cost or through a niche market. Essentially, the firm has a unique feature which allows it to stand out and be superior to its competition.
- A firm gains a cost competitive advantage when it can lower its average costs and create maximum value to consumers. For example, it might have a skilled workforce, cheap raw materials or effective technology. However, it is hard to maintain a cost competitive advantage, so firms have to offer consumers other benefits, in addition to a low price. This could be a strong brand reputation and loyalty, or exceptional customer service.

Product differentiation

- Product differentiation is the act of distinguishing a product from another. Firms do this to make the product seem more favourable than those from a competitor. This allows the firm to gain a competitive advantage over other firms.
- Differentiating a product involves pointing out the unique features of a product to give it some value.
- Firms can use brands to give their products an identity so their goods and services can be differentiated. Goods and services can be differentiated using a unique selling point, having a better design or being in a more convenient location.

Adding value to products/services

- The added value of a product is the additional value a firm creates during the production process.
- The added value of a product is the difference between the price of the finished product and the cost of the inputs used to make it.
- For example, the cost of ingredients of a meal in a famous restaurant is much less than the final price of the meal.
- Value can be added to a product using a brand, quality, good service, unique features and convenience for the consumer.
- The higher the added value of a good, the more profitable the firm.

How firms decide on price and level of output

- Generally, firms aim to maximise their profits and minimise their losses. However, this varies between managers and firms.
- For a profit maximising firm, the output level chosen is where the difference between total costs and total revenue is widest. This is where the firm's marginal revenue is equal to its marginal cost. In other words, each extra unit produced generates no extra profit and causes no loss.
- The market price of a good or service is established using supply and demand. Firms in perfectly competitive markets have to accept this market price for their goods and services.

Nature and range of markets: stable and dynamic markets

- A stable market is one where trade can be conducted in large volumes without causing the price to change significantly. Any changes that occur are slow and predictable.
- A dynamic market is one which changes constantly and rapidly. Technology markets, such as that of mobile phones, are dynamic.