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NON-PRICE AND PRICE COMPETITION

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ABSTRACT: - Exists when marketers complete on the basis of price. In price competition, the marketers develop different price strategies to beat the competition.They generally set a same or low price of a product than that of the competitors to gain the market share. Generally, the prices are changed to cover the costs or increase the demand. For instance, Coca-Cola and Pepsi are close competitors, thus, they often engage in price wars. The major disadvantage of price competition is that the competitors have flexibility to change the prices of products.

KEYWORDS: Price, marketing, advertisement, economy.

INTRODUCTION

Focuses on the factors other than the price of the product. In non-price competition, customers cannot be easily lured by lower prices as their preferences are focused on various factors, such as features, quality, service, and promotion.

Thus, the marketers focus on these factors to increase the sale of products. For instance, customers prefer buying expensive luxury products for gaining status in the society. The demand for these products does not shift even if their prices increase.

Thus, in case of non-price competition, the marketers try to promote the product by exhibiting its distinguishing features. However, a marketer who is competing on non-price basis cannot ignore the prices set by the competitors as price remains a significant marketing element.

Non-price competition is a marketing strategy "in which one firm tries to distinguish its product or service from competing products on the basis of attributes like design and workmanship".[1] It often occurs in imperfectly competitive markets because it exists between two or more producers that sell goods and services at the same prices but

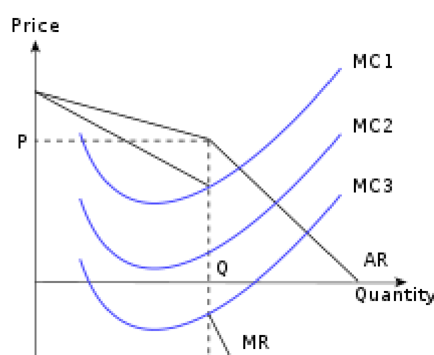
compete to increase their respective market shares through non-price measures such as marketing schemes and greater quality.[2] It is a form of competition that requires firms to focus on product differentiation instead of pricing strategies among competitors. Such differentiation measures allowing for firms to distinguish themselves, and their products from competitors, may include, offering superb quality of service, extensive distribution, customer focus, or any sustainable competitive advantage other than price. When price controls are not present, the set of competitive equilibria naturally correspond to the state of natural outcomes in Hatfield and Milgrom's two-sided matching with contracts model.[3][4]

It can be contrasted with price competition, which is where a company tries to distinguish its product or service from competing products on the basis of low price. Non-price competition typically involves promotional expenditures (such as advertising, selling staff, the locations convenience, sales promotions, coupons, special orders, or free gifts), marketing research, new product development, and brand management costs.

Businesses can also decide to compete against each other in the form of non-price competition such as advertising and product development. Oligopolistic business normally do not engage in price competition as this usually leads to a decrease in the profit businesses can make in that specific market.

Non-price competition is a key strategy in a growing number of marketplaces (oDesk, TaskRabbit, Fiverr, AirBnB, mechanical turk, etc) whose sellers offer their Service as a product, and where the price differences are virtually negligible when compared to other sellers of similar productized services on the same market places. They tend to distinguish themselves in terms of quality, delivery time (speed), and customer satisfaction, among other things.

Although any company can use a non-price competition strategy, it is most common among oligopolies and monopolistic competition, because firms can be extremely competitive. Firms will engage in non-price competition, in spite of the additional costs involved, because it is usually more profitable than selling for a lower price, and avoids the risk of a price war.

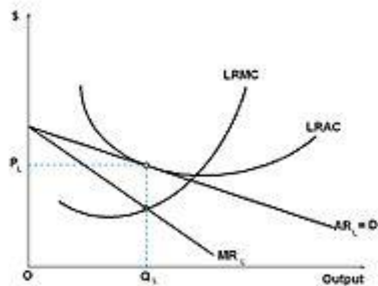


Kinked demand curve model

Oligopolistic competition

Non-price competition often occurs in oligopoly, where few firms dominate the market. Due to the little or few firms in the market, these firms tend to compete in non-price measures to distinguish themselves. Such competition would be otherwise known

as quality competition where oligopolistic firms depend on their quality improvement intensities to survive.[5] In order to distinguish themselves well, These firms can compete in price, but more often, oligopolistic firms engage in non-price competition because of their kinked demand curve. In the kinked demand curve model, the firm will maximize its profits at Q,P where the marginal revenue (MR) is equal to the marginal cost (MC) of the firm. Hence, a change in MC would not necessarily change the market price, implying rather stable and sticky market prices.



Long-run equilibrium of the firm under monopolistic competition

Monopolistic competition

Monopolistic market structures also engage in non-price competition because they are not price takers. Due to having rather fixed market prices, leading to inelastic demand, they engage in product differentiation. Monopolistic markets engage in non-price competition because of how the market is designed where the firm dominates the market. In order to sustain in the market, they have to innovate and improve on their product development to appeal to consumers. The new trade theory suggests that the model of monopolistic competition plays a big role in explaining trade trends in trade patterns where product development drives product differentiation. Under monopolistic competition, firms engage in non-price competition to innovate and further boost their brand image.

Main types

There are two main branches of non-price competition. This is where firms branch out to create new avenues for themselves to remain competitive in a market where prices are rather sticky. Such streams of non-price competition include product differentiation and/or development and advertising and/or promotion.

Product differentiation

Engaging in custom packaging to differentiate products from competitors

Product differentiation allows for a firm to establish its products from its competitors to win over a greater market share. The more different the products of rival firms are, the lower the cross effects between their markets with regards to both non-price and price variables.[6] By offering a wide range of products, firms can not only achieve economies of scope, but also be able to expand their market base. However, such product differentiation measures may result in significantly higher overhead costs.

Advertising and promotion

Example of a promotional material to capture customer attention: Marilyn Monroe and Tom Ewell in a promotional photo for the movie The Seven Year Itch, 1955.

Promotion can be considered an umbrella term to include all advertising, branding, public relations and packaging. This strategy includes all aspects of non-price strategies to continuously capture market attention. Advertising is divided into two categories:

1. Informative: This form of advertising includes informing consumers about product features, details descriptions.[2]

2. Persuasive: This form of advertising engages with the consumers on an emotional level. Such advertising methods are highly linked to behavioural economics which takes advantage of the heuristics and bounded rationality of consumers when making decisions.

Advertising mediums can be designed specifically to meet with the expectations of consumers as well as the size of the market. Firms aim on reaching as high targets as possible by making use of the network effects of advertising.[6]

Promotional means depend on a number of factors such as the nicheness of the market, and allocated promotional budgets.

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