Lesson 6: The competitive environment

🎯 Learning goals

- ✓ Explain what a market and competition are
- ✓ Explain the impact of competition on businesses
- ✓ Explain why businesses face uncertainty and risk, and how to reduce it
- ✓ Apply these ideas to a fashion retailer

🔑 Key words

Market Where buyers and sellers meet to exchange goods or services.

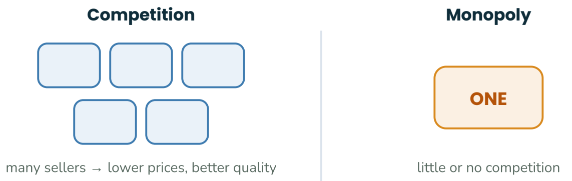
Competition Businesses trying to attract the same customers.

Monopoly A market with little or no competition.

Uncertainty Not knowing how costs, demand or competition will change.

Market research Gathering information about customers and the market.

📘 What you need to know



Many sellers compete; a monopoly faces little or none.

1. Markets and competition

A **market** is where buyers and sellers meet to exchange goods or services — this can be a physical place or online. **Competition** is businesses trying to attract the same customers. A market with little or no competition is a **monopoly**.

2. The impact of competition

High competition puts pressure on businesses to keep **prices low** and to **improve quality**, design and service to win sales. This is good for customers, but tough for businesses, who must keep improving or lose customers to rivals.

> *"Competition pushes businesses to lower prices and improve quality to keep their customers."*

A competitive market

- ✓ Lower prices for customers.
- ✓ Better quality and choice.
- ✗ Harder for businesses to make profit.

Little competition (monopoly)

- ✓ Easier for the business to set higher prices.
- ✗ Less choice for customers.
- ✗ Less pressure to improve.

3. Uncertainty and risk

All businesses face **uncertainty** because costs, demand and competition can change. **Entrepreneurs** still start businesses to earn **profit** and to **fill a gap in the market**. One way to reduce risk is **market research** — finding out what customers want before spending money, so a new range is less likely to fail.

✅ Test yourself

Cover the answers below, answer Q44–Q50, then check.

Q44 What is a market?

Q45 What is competition?

Q46 Which type of market has little or no competition?

Q47 One impact of high competition on businesses?

Q48 Why do all businesses face uncertainty?

Q49 Why do entrepreneurs start businesses?

Q50 One way businesses can reduce risk?

ANSWERS

A44 Where buyers and sellers meet to exchange goods or services.
A45 Businesses trying to attract the same customers.
A46 A monopoly.
A47 Pressure to keep prices low and improve quality.
A48 Costs, demand and competition can change.
A49 To earn profit and to fill a gap in the market.
A50 Market research.