Chapter 1
Understanding Market Complexities

ABSTRACT

This chapter addresses various market and competitive environments faced by the firms in the marketplace. The discussions are woven around the uncertainty of markets and diversity of firms to sustain competition. It is argued that a company can outmaneuver the competitors by acquiring market oriented skills and restructuring the business growth in one or more business arenas. The competition theories have been critically examined in reference to various functional dimensions of firms doing business in a marketplace that pose the threats of non-price competitions towards the differentiation in product and quality. The discussions in this chapter describe the broad, strategic issues that trigger uncertainties and complexities in business and demand shifts in the strategic issues a firm that faces across different markets.

INTRODUCTION

…successful enterprises create and adhere to distinct business ideologies… these doctrines contain specific ideas about how to compete, performance measures, organization structures, and whom to reward.

Prahalad C K (2002)

Productivity differs across individual, monopolistically competitive firms in each country. Firms face some initial uncertainty concerning their future productivity when making an irreversible investment to enter the domestic market. In addition to the sunken entry cost, firms face both fixed and per-unit export costs. Only a subset of relatively more productive firms' export, while the remaining less productive firms serve only

DOI: 10.4018/978-1-4666-0969-3.ch001

their domestic market. This microeconomic structure endogenously determines the extent of the traded sector and the composition of consumption baskets in both countries. Exogenous shocks to aggregate productivity, sunken entry costs, and trade costs induce firms to enter and exit both their domestic and export markets, thus altering the composition of consumption baskets across countries over time (Ghironi and Meltiz, 2004). The microeconomic features have important consequences for macroeconomic variables. Macroeconomic dynamics, in turn, feed back into firm level decisions, further altering the pattern of trade over time. The aggregate picture of world economic growth shows a remarkable diversity in growth performance, both geographically and across time. There exist high growth countries and low growth countries on the panorama of global economy. Some countries have grown rapidly over time while others have experienced growth spurts for a decade or two. What is the role of policy in this diversity? How can policy help transform this picture? The increasing globalization tries to answer these questions in terms of catalyzing the economic growth and institutional innovations in the developing countries. Analysis of the success story of China, with an astonishing annual growth rate of 8.0 percent since the late 1970s, together with other well-known East Asian experiences that have taken place in countries such as South Korea and Taiwan, provide the basis to build some stylized facts about the take-off and the process of sustaining economic growth. On the other hand, the experience of liberalization, deregulation and privatization in countries such as Mexico, Argentina, Brazil, Colombia, Bolivia, and Peru have offered substantial evidence that allows us to question the standard formulae used to propel and maintain economic growth (Argentino, 2004).

Market complexities are caused by various factors including consumer behavior, competition, pricing intricacies, and distribution and retailing management. Many consumer markets exhibit traditional forecasting models perform at a level that excludes practical use, for instance when predicting the market shares of new products or the effects of marketing strategies. Interaction among consumers, comprising normative influences and word-of-mouth, is one of the key processes behind this complex market behavior (Gilbert et al 2007). Markets often fluctuate and take long time to reach a sustainable stage. Examples may be referred to the increasing sales of low polyunsaturated oil in North European countries, the shift from conventional cameras to digital cameras as the dominant image digitizer, and the trend toward the digital recording and distribution of music. These examples are markets behaving in a stable way for prolonged periods of time, and then finding a new equilibrium after a short period of volatile behavior. New producers are more volatile and display continuous fluctuations in market share. These fluctuations are often small and incremental, but may sometimes be surprisingly large (Edmonds and Hails, 2005).

UNDERSTANDING COMPETITION

Competition may be defined as an object centered process in business performance. Competition may be semantically described as a combination of two distinct Latin words- *com* (together) and *petere* (to seek). Similarly conflict is derived from *com* (together) and *fligere* (to strike). This distinction between the quest and the blow, to strive or to strike seems precisely the pertinent one for clarity and efficiency in social science (Mack, 1965). Competition may be characterized as striving together to win the race not to destroy the other competitors from the point of view of the supporters of globalization. The local market competition is targeted towards the customers and the competitors strive to win the customer, temporarily or permanently. However, in business-to -business process, the competition may turn more tactical and strategic in order to outperform the rivals firms. In this way competi-