

ЕКОНОМІЧНА ТЕОРІЯ ТА ІСТОРІЯ ЕКОНОМІЧНОЇ ДУМКИ

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THEORETICAL APPROACHES TO ASSESS THE IMPACT OF NON-PRICE METHODS ON COMPETITION

The research of non-price competition reveals multidimensional approaches and the existence of differences between them. The evolution of views of various schools and directions representatives on non-price methods are the result of market relations, because at every historical stage of development of the market economy with the development of the productive forces and the increasing complexity of the relationship between market players, expanded the content of non-price competition, there were new forms and methods of competitive struggle. In order to justification of the impact of non-price of methods of competition in the functioning of modern industrial markets, we explore the mechanism of its effect on the most common to use method - advertising.

Key words: competition, non-price methods, market structure, monopolization, entry barriers, advertising.

Introduction. Over the past decade under the influence of globalization processes the nature of economic competition in key sectors of developed economies has changed significantly. In the process of competition, new phenomena are emerging: the boundaries of the market are expanding, resulting the increasing level of competition, and the entrance to the international and domestic markets is facilitated; life cycle of product is reducing due to the continuous development of new products or modification of existing products. This serves as an additional factor of increasing competition and the level of product differentiation on industry markets.

This paper examines the impact of non-price methods of competition on market structure because we want to find out how non-price competition influences functioning of modern industrial markets. We show the evolution of views of various schools and directions representatives on non-price methods in order understand that non-price competition may/or may not reflect on market structure, monopoly power and demand elasticity.

The development of information technologies, formation of the Internet-dependent markets, expansion of markets for goods entails the expansion of means of competition. If for the competition of late twentieth century it was possible to compete on price, product quality or some other parameter, the modern firms have to compete on all parameters simultaneously expanding the forms and methods of predominantly non-price competition. The commodity differentiation is deepening. The importance of advertising as a means of

differentiation is growing, as well as an independent factor of non-price competition.

Thus, under the influence of globalization of economic relations competition acquires new features, therefore reasonably arises interest in the theoretical and methodological regulations and scientific ideas, to determine the problems and patterns of competition in the economy, which achieves high results of social production. It is generally accepted that competition is an essential characteristic of the market, efficiency of which depends on its activity and conditions of manifestation in different markets. Most fundamental competition problems, which are considered by scientists, concern the content of competition, monopoly and competition relationship, the evolution of competition, price and non-price methods of its expression.

Historical development defined the evolution of forms and methods of competition and competition relationship. Monopolization, the same as competition, emerged in the process of evolution of economic systems. But evolution does not create only negative or positive forms. In the process of evolution new forms that are viable in this particular economic conditions and globalization of economic relations are emerging, and the transition to post-industrial economy and the development of innovative market creates new conditions and incentives to activities of economic agents. There are structural changes in markets, competition intensifies and takes global, with increasingly growing role of non-price methods of competition.

In this regard, the effectiveness of many "classical" methods and tools exposed to competition scientific criticism requirements of the modern world in which price methods are side-lined. Knowledge management techniques become widespread, that allows workers to activate their potential to address key challenges of the company. This entails active, broad discussions among researchers in the field of competitive processes in product markets and among economic theorists to develop classification of methods of non-price competition.

The active use of non-price methods of competition is typical for of a number of modern industrial markets. Under the influence of market relations, especially in the context of globalization, their number is increasing, and the impact on the economic and social processes is growing. The use of non-price methods - such as commodity differentiation, improving the quality of manufactured goods, improve pre- and after-sales services, using advertising and other means to inform and persuade consumers of different methods of obtaining market power - requires their theoretical justification addition of new research methods which are being formed by globalization of markets.

Thus, the study of non-price methods, mechanisms of their impact on market competition, opportunities and consequences of their use and the need for regulation in the current market conditions becomes essential. In this paper, I want to describe and analyse the evolution of theoretical approaches of non-price methods of competition in order to identify the development of its content, and types and the need and possibility of state regulation.

Methodology. This paper uses both general scientific and special methods of research of non-price methods of competition. Methods of scientific abstraction, analysis and synthesis, induction and deduction, historical and logical unity were used to highlight the evolution of the theory of competition, to determine the nature and classification of non-price competition, to explain nature and the components of the mechanism of regulation of competitive relations. System-structural analysis was used in the process of disclosure of the essence and specificity of the functioning of modern industrial markets, trends and contradictions in their development; Table, statistical and graphical methods allowed to process and generalize theoretical data, to investigate the dependence of the development of theories dealing non-price competition and and processes of modern global competition. The informational base of research are scientific publications of Ukrainian and foreign economists on the problems of functioning and regulation of the industrial markets of the last century.

Definition of non-price competition. In the theory of industrial markets non-price competition methods studied in the context of different theoretical concepts, theories and paradigms in which they were considered as determinants of effect on the competitive landscape.

Tables 1-2 present the main features and aspects of the study of non-price competition within the primary schools and directions of economic thought.

In 40-70 years of the twentieth century, as already noted, two approaches to the analysis of sectoral markets within the two schools, Harvard and Chicago, were formed. Representatives of the Harvard School formed the methodological approach that was called "systems approach". Mason (1956), Bain (1951), and Scherer (1990) and their followers were of the view of the existence of a direct relationship between the structure of the market behavior of firms in the market and performance of the market functioning.

According to their paradigm, performance of individual industries depends on the behavior of buyers and sellers in the following areas: the agreement between the companies, food and advertising strategy, spending on research and development, investment in equipment, market power is influenced by non-price methods.

On the basis of paradigm of the Harvard School of Porter (1986) offered a theory of the system of five competitive forces, consisting of the following elements: barriers of entry of new firms; the threat of substitutes; the ability to trade suppliers of components; the ability of buyers to bargain; intensity of competition of existing firms. Porter (1986) points to the existence of barriers to progress in areas such as economies of scale, product differentiation, the need for large investments, access to distribution channels and so on.

The paradigm of Harvard School was criticized by representatives of the Chicago school - Stigler (1996), Demzets (1996) and others. The main differences in the approaches of these schools was related to the problems of feasibility and limits of state influence on the functioning of the market, causes of monopoly power and the need for its regulation.

The representative of the Austrian school Schumpeter (1934) studied the competition in terms of fighting the old with the new. He believed that innovations define the ability to change not only production technology, but also economic environment, influencing on the interaction of producers, demand structure, terms of pricing and costs. In "The Theory of Economic Development" Schumpeter (1934) identified five principles of opening new opportunities of production and non-production origin: production of new goods, using a

new method of production, access to new markets; a new source of raw materials; reorganization of production.

Theory of International economics, described by P. Krugman, suggests that globalization will benefit from almost all of its members - due to lower average production costs and the emergence of large assortment of products on the market. However, in this theory, firms at the market are absolutely symmetrical, contrary to real market conditions: the are large companies that are global and the entrepreneurs that sell at the bus station. In addition, under globalization, small firms are becoming smaller, and large - go to the export markets. Thus, the model with symmetric firms of Krugman (1980) does not describe the actual market conditions, because there is a new theory that describes a market where there are large and small firms - new theory of international economics, proposed by Melitz (2003). "Without rapid adaptation to market survival of modern companies in a global economy is inefficient and impossible - claim leading scientists of the world Schwaab (2016) and Makafee (2016), in fact "during the next industrial revolution we expect drastic changes in the production and

interaction of human and technology" [Schwaab, 2016].

In modern studies of competition, the formation of a new economic model and marketing under the name "sharing economy" (economy exchange or co-ownership) is evident. In marketing, this is a sale-lease product for a while. There is a new business model P2P (Peer-to-peer, peer to peer), in which buyers have more choice, more tools, more information, more power to manage their choice, and the more profit enterprises-tenants [Tracy, 2010]. Its appearance can mean a change of methods of non-price competition.

The research of non-price competition revealed multidimensional approaches and the existence of differences between them. The evolution of views of various schools and directions representatives on non-price methods are the result of market relations, because at every historical stage of development of the market economy with the development of the productive forces and the increasing complexity of the relationship between market players, expanded the content of non-price competition, there were new forms and methods of competitive struggle.

Table 1

Study of non-price competition within the schools//theories of economic thought

	Representatives	Characteristic	Aspects of non-price competition
<i>Schools</i>			
Harvard school	Mason (1956), Bain (1951), Scherer (1990), Chamberlin (1933) Robinson (1933)	Analysis of paradigm "structure – conduct – performance"; Identifying causes of market power, possible consequences and need for state regulation	The performance of individual industries depends on the behavior of buyers and sellers in the following areas: the agreement between the companies, food and advertising strategy, spending on research and development, investment in equipment. Market power is influenced by non-price methods.
Chicago school	Stigler (1996), Demsetz (1996),	Denying the existence of monopoly power in the market as a long-term phenomenon; Application in the analysis model of perfect competition as such, approaching the establishment of market practices for determining the appropriateness of regulation.	Formation of the market power of firms that require government regulation is possible only through collusion, all other methods of achieving this position in the market to be successful.
Austrian school	Schumpeter (1934), Mises (1912), Machlup (1931), Hayek (1931), Kirzner (1997)	The study of competition in terms of fighting the old with the new. Recognition that market leaders have monopoly power. Innovations generate a situation of monopolistic competition.	Distinguishing five principles of opening new opportunities for production and non-production origin: production of new goods, using a new method of production, access to new markets; a new source of raw materials; reorganization of production.
Institutional economics	Coase (1937), Williamson (1966), Gabszewicz (1979), Thisse (1979)	Organization of industries depends on the ratio between the cost of market transactions that already exist, and the cost of organizing the same operations within the company that can perform the same task more efficiently.	Determining the size of the firm, contractual relations, mergers and acquisitions, exchange units of companies, transition to new forms of activity and the emergence of new firms as the main directions in the study of the theory of industrial markets.

*Source: Sobolieva (2016)

Table 2

	Representatives	Characteristic	Aspects of non-price competition
<i>Theories</i>			
Strategic behavior, oligopoly	Cournot (1838), Bernand (1883), Neumann (1947), Morgenstern (1947)	Taking into account the strategic decisions that firm take relatively to pricing, market entry, etc., as they an impact on all other parameters of functioning of the market for the purpose of understanding the organization of the firm and the industry market need.	Identification of competition not only by price but also by investing in research and development (innovations) in order to improve product quality or reduce production costs.
The nature of the firm	Coase (1937), Knight (1935), Williamson (1966), Hey (1999), Morris (1999)	Investigation of firm on the basis of contract theory; The concept of transaction costs related to the contract, the cost of collecting and processing information, negotiate, counter and so on; Determining the effects of mergers and acquisitions; Analyzing the behavior of oligopolistic firms.	Determining the importance of differentiating firms by size and diversification of large companies segmentation.
Five competitive forces	M. Porter (1986)	Investigation of competition factors to determine by its position in the sector of the market where it can the best way protect itself from the effects of competitive conditions or try to influence these forces in their own interests.	For successful competitive struggle the company must generate competitive strategy, which aims to provide competitive advantage through identifying their competitive advantages, such as patents, differentiation through unique products, the company's reputation and close relations.
Contestable markets	Baumol & Panzar & Willig (1982), Bailey (1984),	An approach based on market availability, providing totally free access to the market and absolutely free output.	Market power does not guarantee a monopoly position. Determination of price entry barriers as part of the market structure.
The new international economy	Krugmann (1980), Melitz (2003)	Investigating the association of countries that increase product differentiation and leads to an increase in their utility consumers alignment prices.	The research is based on the idea of heterogeneity of firms, labor qualifications, development of technological industries around the world.
Sharing economy	Schwaab (2016), Rifkin (2015), Botsman (2015), Hall (2015)	“Joint” business is based on the conversion costs in value. Using of all opportunities to innovative information and communication technologies.	Using peer networks, based on the equality of all participants. Using the Internet and social networks are an integral part.

*Source: Sobolieva (2016)

In these approaches, theoretical studies, synthesis and classification of non-price methods of competition are not carried out. Classification methods are not given much importance, although in theory within industrial markets influence some methods to monopolize the market, the formation of market power concentration change were presented.

Discussion. With the changing characteristics of modern market (high level of saturation of demand, intensification of price and non-price competition, increasing the scope and depth of coordination of economic activities, global competition), the research and structuring approaches of different researchers to the definition and classification of non-price methods of competition as practical bases of research operation imperfect market competition under globalization is needed.

Some scientists consider the main sources of the appearance and development of non-price methods of competition consumer requests complications due to the increased income consumers, expansion of markets, accelerating scientific and technological progress. Non-price competition is also called effective competition because it provides a relative financial stability of the company, enables competitors to do the appropriate steps in a measured pace. It really requires tremendous effort and considerable financial costs that are recovered in case of success.

Behavior in case of non-price competition may include:

- the creation of new services, products, technologies, methods, services, marketing and advertising;

- copying with minimal cost in the shortest time what is created by competitors;
- strengthening the position reached in the long run by improving quality, expanding the range of assortment, etc.

Non-price competition minimizes price competition as a factor of consumer demand, allocating goods and services through the promotion, packaging, delivery, service, availability and other factors. The more unique is the offer of products, the greater is the freedom of entrepreneurs in setting the price of their products higher than competing products.

Constantly increasing competition and continuous development of industry led to an active

search for new forms and methods of competition. After analysing the existing approaches to the classification of non-price methods of competition, we concluded that there is no single classification of structured and competitive actions associated with changes in the range and characteristics of products and increase their customer value, often described as uniform and comprehensive in the field of non-price methods of competition. Meanwhile, the actual practice of modern competition demonstrates a large arsenal of other methods of non-price competitive actions related to various aspects of competitive advantages. Based on the literature review, we distinguish such directions of non-price methods influence (Figure 1).

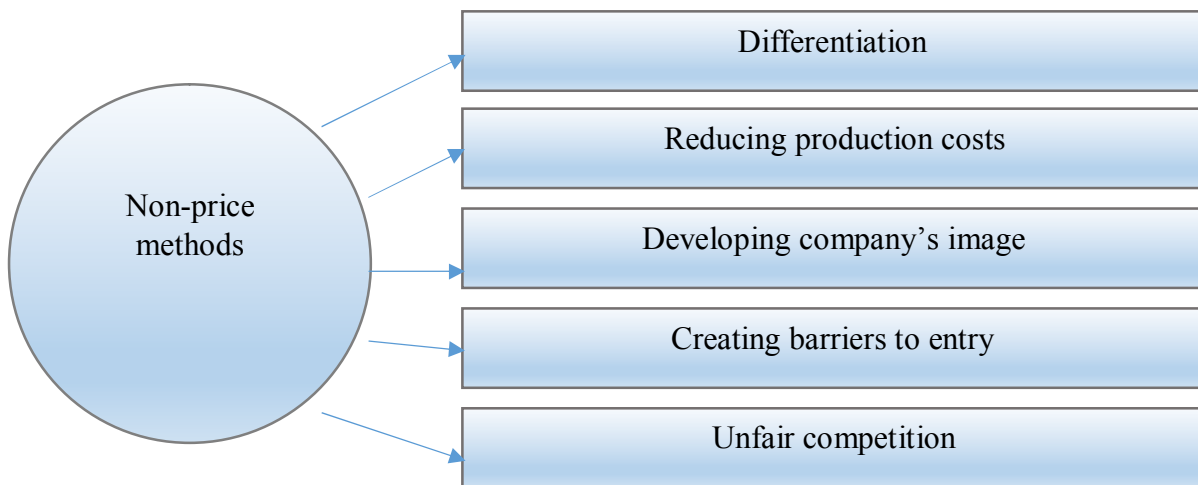


Figure 1. Directions of non-price methods influence

*Source: compiled by authors

Actions of firms that are aimed at **differentiation** include implementation of new products as well as products that have new consumer properties, improved quality and better design, better packaging. Using this method of non-price competition, firms create new “cart” or improve an existing one. They can differentiate between groups of clients and even create new market sectors.

The second direction action of non-price methods influence is the **impact on production costs** carried out by business entities interaction of not only with customers but also with suppliers and business partners. The purpose of these methods is the use of competitive action in their interests foreign competitive advantages and form their own through networking with market participants, reducing costs, network effects, economies of scale and so on.

Methods of competition **influencing the image of the company** include: covert and overt propaganda; collecting and use of information about competitors in their activities; resistance to similar actions by competitors, government; methods of managing information about yourself, your business using tactical skills; Non-profit events with wide

public resonance; using various PR-communications to create a favourable image.

Non-price methods that **form barriers to entry** of new companies into the market and contribute to maintaining their competitive position include a wide range of non-price competitive action designed to interfere.

Also, we include **unfair competitive actions** to non-price methods. It is important to understand: if market participants act in good faith, they are still competitors that have different positions threats of their rivals. Along with unfair competition, fair competition can ruin weaker opponents. Experience shows that the vast majority of cases of unfair competition being investigated by Antimonopoly Committees of countries on the basis of applications of business entities. In the case of Ukraine, unlike, for example, the United States or Canada, the Antimonopoly Committee considered the case about the monopoly of some entities only on facts or analysis of how non-price methods of competition may affect that position.

In order to justification of the impact of non-price of methods of competition in the functioning of modern industrial markets, from our point of

view, it is useful to explore the mechanism of this effect on the most common to use method - **advertising**.

In a globalized modern world, the impact of advertising on economic relations increases. Advertising of products allows consumers to obtain important information on product diversity and market prices for specific goods and services, and it also allows manufacturers and retailers to expand product distribution channels; influences on consumer preferences and hence on market demand; more effectively implement competitive strategies. Advertising as an effective method of influence on consumer preferences, aims to increase demand for products corresponding brand, improving the company's reputation, growth of image, respectively, and attract new customers for their products, create barriers to entry into the industry and the formation of market power.

For a long period, the impact of advertising on the economy was discussed by many scientists, there are many conflicting opinions, statements and models. Most studies of advertising were carried out in the areas of marketing, psychology, sociology and management, and theoretical aspects of this activity paid insufficient attention.

All theoretical studies of advertising can be roughly grouped into two groups: 1) advertising as a factor affecting the monopolization; 2) advertising as a factor that promotes competition.

Anticompetitive view argues that advertising increases product differentiation in the minds of consumers and allows each company to gain greater degree of monopoly power in the market, and to do so at the expense of consumers. So, we can say that advertising makes demand curve less elastic, allowing the firm to appoint higher prices and earn increased profits.

Thus, advertising reduces competition among existing firms and industry, speaking to them as a barrier, protecting established firms from potential new competitors. The other, a competition point of view considering advertising as information that makes the demand curve of any vendor, especially those operating in a monopolistic competition, more elastic, and prices and profits tend to decrease. Rising consumer awareness about the quality of products successfully increased the number of substitutes and making the industry more competitive. Most of the economic literature on advertising, has been associated with the choice between these diametrically opposed views.

According to the first direction, advertising is considered to be a factor that contributes to the monopoly power of individual companies and thus limit the development of competition and the industry. According to a second direction,

advertising is informative role, giving consumers the opportunity to freely choose among the many advertised products, the formation of new companies, the development of science and technology and the formation of a perfect competitive environment.

After a review of existing literature dealing with the process of analysis of impact of advertising on the consumer, we see that there is a reverse influence of consumer behavior on the company's strategy of advertising. It means that the study of changes in demand for products based on price changes, determine the elasticity of demand for advertising made significant changes in the behavior of economic agents.

Conclusions and implications. Non-price competition - a type of competitive struggle economic process of interconnection and interaction between market players, whose goal is to provide the best opportunities for promotion of products (services), competitive advantages through enterprise development and meet the diverse needs of customers. Non-price methods represent a system of interrelated instruments to influence the competitive advantages of the company. The practice of using them shows that their direction is always focused on achieving competitive advantages in the markets of monopolistic competition and there is no clear framework between these groups of techniques - tools of one group can be used as methods of another group. The combination of different groups of non-price methods can have both positive and negative result. Usage of methods for all the groups of outlined directions is not required for achieving goals - the most effective of them depending on the specific functioning of the market are selected.

Questions about the pros and cons of non-price competition today remains open. In this study, it is important to solve these major problems that deal with studying the impact of competition by non-price of methods for the competitive advantages and profit of the company and also with identification of new features of already known of methods and synthesis of new methods that are influenced by contemporary globalization of markets. The impact of non-price methods determines the relative advantages of small and large companies that the benefits justification of the total size firms. Study of firm market power depends on the use of non-price methods and, in particular, advertising in markets with differentiated products.

It is important to examine the specific forms and methods of price and non-price competition and on this basis a mechanism of regulation the consequences of the use of such techniques, which, on the one hand, would meet the peculiarities of a

particular market, on the other - the current market situation and trends of its development.

In order to justification of the impact of non-price of methods of competition in the functioning

of modern industrial markets, from our point of view, it is useful to explore the mechanism of this effect on the most common to use method - advertising.

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Анотація

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ТЕОРЕТИЧНІ ПІДХОДИ ДО ОЦІНКИ ВПЛИВУ НЕЦІНОВИХ МЕТОДІВ НА КОНКУРЕНЦІЮ

Дослідження нецінової конкуренції показує багатовимірні підходи та існування розбіжностей між ними. Еволюція поглядів представників різних шкіл та напрямів на нецінові методи є результатом ринкових відносин, оскільки на кожному історичному етапі розвитку ринкової економіки з розвитком продуктивних сил та зростаючою складністю взаємин між учасниками ринку, розширився зміст нецінової конкуренції, з'явилися нові форми та методи боротьби з конкуренцією. З метою обґрунтування впливу нецінових методів конкуренції на функціонування сучасних галузевих ринків ми досліджуємо механізм його впливу через найбільш поширений метод - рекламу.

Питання про плюси і мінуси нецінової конкуренції сьогодні залишаються відкритими. У цьому дослідженні важливо вирішити ці основні проблеми, які стосуються вивчення впливу конкуренції на нецінові методи на конкурентні переваги та прибуток компанії, а також виявити нові особливості вже відомих методів.

Теоретичні підходи до визначення впливу реклами як нецінового методу конкуренції на функціонування конкурентного середовища галузі пов'язуються із виділенням переконуючої, інформативної та сигнальної реклами, кожна з яких здійснює як позитивний, так і негативний вплив на функціонування ринків. Головні напрями впливу реклами (на споживчу поведінку, бар'єри входу, структуру галузі та ринкову владу, ринкову поведінку, структуру ринку) можуть бути спрямовані як на монополізацію галузі, так і на підсилення ринкової конкуренції.

Ключові слова: конкуренція, нецінові методи, структура ринку, монополізація, вхідні бар'єри, реклама.

Аннотация

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ТЕОРЕТИЧЕСКИЕ ПОДХОДЫ К ОЦЕНКЕ ВОЗДЕЙСТВИЯ НЕЦЕНОВЫХ МЕТОДОВ НА КОНКУРЕНЦИЮ

Исследование неценовой конкуренции показывает многомерные подходы и существование разногласий между ними. Эволюция взглядов представителей различных школ и направлений на неценовые методы являются результатом рыночных отношений, поскольку на каждом историческом этапе развития рыночной экономики с развитием производительных сил и возрастающей сложностью взаимоотношений между участниками рынка, расширился содержание неценовой конкуренции, появились новые формы и методы борьбы с конкуренцией. С целью обоснования влияния неценовых методов конкуренции на функционирование современных отраслевых рынков мы исследуем механизм его воздействия через наиболее распространенный метод - рекламу.

Ключевые слова: конкуренция, неценовые методы, структура рынка, монополлизация, входные барьеры, реклама.

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