MODERN BANKING AND FINANCIAL COMPANIES ENVIRONMENT IN COMPETITION

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ABSTRACT

A clear picture is given about nature of competition, the sectors of competition, the benefits and ill effects of competition, the pressure of competition in the market etc., On one hand the healthy competition increased the profitability, while on the other hand it indeed a rat race.

Keywords: - Competition, profitability, Bank, Finance, Economy

1. INTRODUCTION

Changing environment of business backed up with intense competition. A war between man and man, company and company, a nation with the other will be seen. This is nothing but a struggle to compete with the other in each and every respective field. Struggle to be at the top of and make defeat the revival. India is projected to stay the youngest with its working age population, estimated to rise to 70 percent of the total demographic by 2020 to 2030 – the largest in the world.

2. MEANING

Merriam-Webster defines competition in business as “the effort of two or more parties acting independently to secure the business of a third party by offering the most favourable terms”. The same is described by Adam Smith in The Wealth of Nation 1776 and later economists as allocating productive resources to their most highly-valued uses and encouraging efficiency. Later micro economic theory distinguished between perfect competition and imperfect competition, concluding that no system of resource allocation is more efficient than perfect competition.

3. IMPORTANCE OF HEALTHY COMPETITION

Competition is very useful to business because they act as a source of feedback. The absence of competition will help us to measure our strength of weaknesses objectively, but the emergence of competition will help us to put the business in a better perspective. Competition may also lead way for duplication. Some of the sectors such as in automobiles field the increase of duplicate spare parts are sold for lower price. This decreased the stability of the original product weak as the economy prefers products with lesser price. On the other hand, cities have also argued that competition can be destabilizing, particularly completion between the financial institution which compete with each other in regard to the rate of interest. With increase of decrease in the rate of interest the economy will be affected.

If the competition increases in the airlines or in the textiles industries, the return on investment will be less. But few of the industries may earn good profitability, like in case of hotels and food industries. The industry structure drives competition and profitability, no matter whether it is a production of a service industry, emerging of mature, high tech or low tech, regulated or unregulated. In the business cycle it is believed that the competition in a business gives of increased the profitability in the medium or in the loan run. If one is unable to compete successfully in the industry, this will adversely affect the economy as a whole.
4. TYPES OF ECONOMIC COMPETITION

Below are the three levels of economic competition which will continue in the business environment with intensity.

4.1 The products which compete with each other are known as Direct Competition. This is also called as category competition or brand competition. For example, a rate of interest competes with several banks and finances with same usage or sometimes between two companies are rivals one may add new one to their line, which affects the flow of a competitor.

4.2 The other form of competition is the Indirect Competition, where products which are close substitutes for one another compete with each other. For example, secured and unsecured loans.

4.3 The third important competition is the Budget competition in which the consumer may want to spend their available money for anything they require. For example, a family may choose to spend their income for purchasing loans. No matter what every may be the cost of the product.

There will be competition among different companies for financing on the capital market like equity or debt in order to generate the necessary fund for their operation. This will automatically give the investor N number of investment opportunities and that too with different options. The intense competition may be in a nation in a regional or in a local chain or in a franchise operation level.

In a such a scenario, the facilities may be in close proximity to other facilities which will experience an intense competition directly with each other. For example, the theatres operated by national and regional level and small exhibitors will compete with each other’s.

Basically, the competition mainly occurs with the licensing of films, and with attractive advertisement. Likewise, in the banking and finance industry in which the ability to remain stable depends on the success with stand able capacity of the firm. Where the compete is unsuccessful in either of the division, there will be adverse effect on the economy.

5. MAJOR FACTORS OF HEALTHY COMPETITION

The major factors which will be outcome of competition are as follows:

5.1 PROFITABILITY: The intense competition will also increase the profitability of certain sector of industries. While on the other hand industries such as airlines and textiles will suffer loss with intense competition.

5.2 PRICE FLUCTUATION: With increase in competition there will be a great price fluctuation. Each Companies will compete with each other in order to make a sale. The lesser the price the more will be the demand.

5.3 LIQUIDATION OF FIRMS: As it is already said the market will sustain only for the fittest one. The entrance of new competitions will either make one to break down or a total wind up of the firm.

A Major change will be seen in the securities trading industries, driven by high end technological innovation and the globalization of finance. One effect will be a significant decline in the trading cost, which will reduce the cost of raising equity capital. This will indirectly put immense pressure on exchanges in emerging markets.

For this there will be needing to concentrate the trading activity in order to achieve the necessary depth and liquidity will only add to the intensity of competition. The intense competition in the existing market can be either being a blessing or a curse depending on the ability and adaptability to withstand it. The intense competition will lead to a situation where there will be no detailed definition of the requirements and the only thing is to have good business knowledge. The strategic goal should be to achieve and sustain the changes.

6. MANTRAS TO FACE HEALTHY COMPETITION

6.1. Prepare for the game of changes with competing with it.

6.2. Anticipate beyond the current wisdom of the business.

6.3. Focus the work and never panic with the intensity of competition.

6.4. Update technologies of the organisation.

7. CONCLUSION:

Beyond the horizon with the changes in business environment along with healthy competition, there may be storm, but remember that the raging storm, no matter how turbulent it may be, a period will come with perfect peace. Of course, the joy of the
competition will be on but one should never panic with the competent. One should calm down to study the dynamics of intense competition and response with outstanding remedies as it is the stage of “Survival of the fittest”

References:

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