The Myth of Competition in the New Economy
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The emergence of the Internet, with the appearance of multiple new companies which put businesses in contact with the net (B2B) or which provide access to consumers (B2C) have helped to create a myth: that online businesses are much more competitive than real-world ones.

The data available and the economic analyses show that this is probably untrue and they help us understand why this erroneous belief has become widespread. Empirical studies carried out until today do not indicate that business on the net is carried out at lower than usual price levels. And, moreover, nor do they show that the online markets offer competitive prices. In fact, the data indicate that the variations in prices observed on the net for similar products are, if possible, bigger than those shown in the "brick and mortar" establishments.

From the perspective of public policy, a high variation of prices is clearly incompatible with a highly competitive market. From a business point of view, these data indicate that business on the net offers many alternative strategies, and that it is possible to generate high returns on investment. The myth of tough competition on the Internet is based on two ideas: the ease with which a digital business can be set up on the net; and the transparency of information brought about through improvements in the speed of transmission of information, and in its processing and storage.

In the language of competition: low entry barriers and high transparency with regards to prices and commercial conditions. However, a more detailed consideration of the consequences of the expansion of the net on the business world shows that the decrease of the entry barriers is merely an illusion which the experience gained is now beginning to banish.

On the other hand, the transparency with regards to prices and commercial conditions implies the homogenisation of some aspects of business competition, but for many businesses the range of competitive strategies is much wider, and companies have other tools available to successfully compete, maintain their differentiation and avoid competition in prices.

Although the online world allows anybody to set up a business on the net at little cost, this does not necessarily mean that the entry barriers are low. It is precisely the ease with which companies can set up on the net which makes it very difficult to become known, and for this reason advertising, and, in some cases, the advantages of being a business leader, shall be extremely important. Given the wide range of offers available on the net, consumers need orientation in order to make searching less costly, and this is achieved with costly advertising campaigns. These expenses constitute a significant entry barrier since they are unrecoverable fixed
initial costs. If the business fails, these costly launch investments cannot be put to an alternative use.
On the other hand, with the exception of purely digital businesses (those in which the goods are digital and are delivered over the net), the Internet constitutes an additional distribution channel, and this gives the upper hand to those companies which can also deliver goods and services through conventional channels. Entry to these markets is never easy and the entry barriers are often high.

Businesses, whether they be purely digital or integrated within a conventional business, have opportunities to differentiate their offer. As has always been case, one of the fundamental factors is to earn the customer's trust. When dealing with digital transactions, the importance of this factor is, if possible, even greater. And this is valid not only for complex products and services in which the consumer has difficulties weighing up the quality and characteristics of the offer. It is also important for the sale of standard goods and services, since the lack of physical contact demands trust by the buyer.

The trust factor thus gives a big advantage to those firms who already have a brand and prestige, and this is true both in digital and in integrated businesses. Again there are significant entry barriers. Moreover this factor, along with other competitive aspects such as quality, after sales service, etc, allow businesses to design differentiated competitive offers and to generate significant commercial margins, and this is equally true on the net.

In short, online businesses constitute a revolution, since it is now possible to sell and transform information highly efficiently, and it is possible to communicate and to relate to customers and suppliers at lower costs, opening up a channel with huge potential for intermediation and transactions. But this does not mean that the net generates more competitive markets.

The entry barriers in many of them continue to be high, indeed the net itself generates tendencies towards the domination of just a few companies who exploit the network externalities. Moreover, many of the elements which allow supply in real world markets to be differentiated are also present on the Internet, where they are indeed more important.

The New Economy generate improvements in productivity and reductions of costs and prices. But these tendencies should not be confused with a change of market structure. In other words, the New Economy contributes to the slowing down of inflation, but it does not necessarily imply the disappearance of the differences in margins between businesses or the modification of prices regarding the different goods and services.