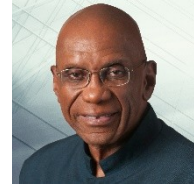




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Competing by Offering Best Value for Money

Successful businessmen and savvy consumers know that the products and services that attract a loyal and enthusiastic clientele are those that offer best value for the price at which they are sold. More often than not, customers willingly pay a premium price for a motor car which is known for bullet-proof reliability or a restaurant that offers quality meals made from fresh ingredients. Undercutting the ruling market price, in contrast, is never a competitive long-term strategy. Established firms may cut prices temporarily to try to drive challengers from the market, but a low price offer in other circumstances is more likely to register in the consumer's mind as a sign of an inferior product. The least costly product is seldom the most competitive in any market, and producers who lower their prices are more likely to go out of business than to attract customers away from the competition.

What is true for the individual product or service is also true of markets and countries in the aggregate. The thoughtless assumption that a currency devaluation increases a country's international competitiveness, or that high-cost tourist destinations are not competitive, is therefore unwarranted. In truth, the most competitive firms and the most competitive countries are those which consistently offer such good value for money that they maintain their share of the market even though they charge premium prices. Companies and countries may strengthen their competitive position by adding value to attract additional customers at the ruling price, by moving up-market, introducing a luxury product at a higher price, or by a combination of these strategies.

An improvement in a seller's share of the total market is a reliable indicator of competitive success. The strategy may be considered most successful if the share of the market increases even though the product

now attracts an even higher price premium than it did before; but an increased market share at an unchanged relative price, and maintaining market share with an increased price premium are also successful strategies. In contrast, offering lower prices to lure customers away from competitors will erode the seller's profit margins, and is often a desperate attempt by a failing enterprise to hold on to market share.

Comparing changes in one's price relative to one's competitors with changes in one's share of the market provides a measure of one's competitiveness. Sustainable competitive strategies will show up as increases in market share at an unchanged relative price, an increase in the price premium for one's products while maintaining one's share of the market, or, most successful of all, increases both in one's market share and relative selling price. A fall in relative price, along with an increase in market share, may be a short-term expedient, but it is not a sustainable competitive strategy. Two other outcomes are possible, both involving a loss of market share, and therefore both problematic.

An evaluation of tourism competitiveness in the Caribbean, based on this methodology, appears in the *Handbook of Caribbean Economies*, published last year. That study concludes that the region as a whole has held its own in global competition. The largest gains in recent years were registered by the Dominican Republic, Cuba, Cancún in Mexico, and Belize; St Lucia, Antigua and Barbuda and Aruba also improved their market shares and increased the average prices of their services. Overall the paper concludes "The flexible responses of the Caribbean tourist industry to the markets it serves, the quality and appeal of the services they sell, and the history of adapting to changing opportunities, all augur well for the future of Caribbean tourism" (*Handbook of Caribbean Economies*, Page 75).

The *Handbook of Caribbean Economies* is available at [Handbook of Caribbean Economies - 1st Edition - Robert E. Looney - Rou \(routledge.com\)](#). An earlier draft of the tourism paper may be found on [my website](#) at [The Caribbean Holds Its Own in Global Tourism Competition | Delisle Worrell](#). All previous issues of the Economic Letter may also be found on the website.