



DANISH COMPETITION AUTHORITY



DANISH CONSUMER AGENCY



# Competition Culture

June 2010

# **Competition Culture**

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# Foreword

This report is a first attempt to identify and describe aspects of the competition culture in Denmark. The term ‘competition culture’ refers to the behaviour of firms, consumers and the public sector in specific market situations and how their behaviour is affected by factors such as legislation and its enforcement, as well as norms and values. The competition culture is a determining factor for the actual intensity of competition in the Danish economy.

This report is the result of cooperation between the Danish Competition Authority, the Danish Consumer Agency and the Ministry for Economy and Business Affairs.

The focus of the report and of the supporting analyses is on describing and identifying key aspects of competition cultures in Denmark, Germany and the United Kingdom. As the competition culture has not previously been analysed, and inasmuch as it is characterised by a quite complex set of causal linkages, this report does not undertake to explain how the competition culture has developed or why it varies from one country to another.

We hope that this report will generate a fruitful debate and dialogue concerning the factors that characterise a healthy competition culture, why such a competition culture is important and what is needed in order to further strengthen the competition culture and competitive behaviour in Denmark.

Good reading!

Agnete Gersing

Director

Danish Competition Authority

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# Competition Culture

## 1. INTRODUCTION AND SUMMARY

Competition is an important driving force which stimulates firms to develop and produce new, better and cheaper products than their competitors. Effective competition increases productivity and contributes to more effective resource allocation, lower prices and a more varied supply of goods and services. Competition thus creates growth and prosperity.

Competition does not arise out of nowhere. It is important that the firms' environment supports competition and that the firms are keyed into grasping the opportunities which competition offers. The individual firm must face competition from other firms. And the customers on a market must focus on selecting the seller or supplier who offers the most competitive product or service.

The intensity of competition reflects the competition culture in the various markets of the economy. The competition culture is the manner in which firms, consumers and the public sector act in given market situations.

This report is an initial attempt to describe the competition culture in Denmark and to identify factors that affect it. The report is based on a questionnaire survey undertaken among firms and consumers in Denmark. Parts of the survey have also been replicated in Germany and United Kingdom, so that a basis of comparison is established for the Danish competition culture.

The competition culture is affected by legislation and how it is enforced. The legislation includes both competition laws and other areas of regulation. The competition culture is also affected by specific patterns of production and commerce in the individual markets. Finally, the competition culture is affected by norms and values among market participants.

The Danish Competition Act, enacted in 1998 and which, in line with the other OECD countries, is based on a prohibition on agreements or concerted practices which limit competition, has probably not yet fully taken root in the firms and their behaviour.

Nearly 60% of all Danish firms state that the Danish Competition Act does not have importance for their firm. On the basis of the survey, however, it cannot be assessed whether this is due to lack of familiarity with the law or whether it re-



flects the situation whereby compliance with the Competition Act can occur without great limitations on the firms' competition behaviour.

The survey also shows that 15% of the firms state that they either 'agree' or 'strongly agree' that violations of the Competition Act occur among suppliers, customers or competitors. Only about 30% of the firms surveyed, however, stated that they would contact the authorities if they obtained knowledge of a violation of the Competition Act. Even though it is not possible to estimate neither the exact number nor the nature of actual violations of the Competition Act, the firms' own assessments indicate that violations occur to a significant degree.

The firms view several other laws and regulations as limiting competition. In all main industries in Denmark, 20-30% of the firms assess that at least one of several forms of regulation limits competition to a 'high' or 'very high' degree. In certain narrowly defined 'focus industries', up to 80% of the firms state that at least one regulation limits competition to a high degree. This points toward a challenge in ensuring that policies in the domains of consumer protection, health and environmental protection do not unnecessarily limit the firms' ability to act in the market.

As mentioned, production and market patterns, both nationally and internationally, also affect the competition culture and the actual intensity of competition.

The survey shows that firms which encounter competition from foreign firms are more oriented towards 'expansion' than other firms. Focus on expansion in the report is a measure of the firms' focus on growth, development and increasing their market shares. Danish firms that compete with foreign firms have an 'expansion focus' that is 25% higher than those Danish firms which compete only with firms from their own local region. The tendency is the same for local firms in Germany and in the United Kingdom.

It is entirely natural that Danish firms with ambitions for expansion seek out the large international markets. However, the competition, dynamism and growth of the Danish economy could be enhanced if the firms that primarily operate in all or parts of the domestic market could focus more on expansion in the same manner as the internationally-oriented firms.

One possible explanation for the weaker competition culture in markets where competition is limited to local competitors may be a more positive attitude toward cooperation, and more actual cooperation among customers, competitors and suppliers. The extent of cooperation among locally-oriented Danish firms is significantly greater than cooperation among firms encountering competition from foreign firms. Local firms also assess the effects of cooperation in a more positive manner. Even though cooperation can be an appropriate way to solve common

tasks and challenges in certain cases, high levels of cooperation and close relations can also weaken the intensity of competition.

Firms with many competitors experience more intense rivalry than firms with few competitors. Rivalry is a measure of the firms' view of the competition which they face from competitors and of how active they themselves are in this competition. The rivalry between firms with fewer than five competitors is thus significantly less than the rivalry between firms with over ten competitors.

There are extensive similarities among Danish, German and British firms' choices of competition strategies and parameters. The firms in all three countries have a relatively large strategic focus on winning market shares, on increasing profitability and providing ethically and environmentally sustainable solutions (corporate social responsibility, CSR). They also assess high quality to be the most important competition parameter.

At the same time, the analyses indicate that Danish firms should be able to increase their focus on expansion and earnings and thereby strengthen the competition culture. Danish firms thus place less importance on several specific competition strategies, e.g., larger market share and increased profitability, and competition parameters - lower costs, efficiency and productive development - than firms in Germany and the United Kingdom.

The competition culture is also reflected in the practices of customers, including private consumers. The customer's buying decisions send signals to the firms as to which products, services and terms of sale are competitive. Attentive customers who select the most competitive suppliers can thereby help to strengthen the intensity of competition.

The collection of information prior to purchase, negotiation about price and other terms of sale in connection with purchase and the shift to a more competitive supplier are practices which can help consumers choose the most competitive seller.

More than three-fourths of the Danish consumers surveyed state that they typically seek out information before undertaking a purchase. Among this group, over 90% indicate that seeking out information gave them a saving on the specific purchase.

Actual negotiation about price and other terms of sale is far less widespread, in that only a fourth of the consumers typically choose to negotiate a price, terms of delivery, etc. in connection with a purchase. On the other hand, 85-90% of those who reported that they negotiated in connection with a specific purchase felt that they obtained a better price or better terms of purchase.

Only two-thirds of the surveyed consumers are willing to switch supplier if they are dissatisfied with price, quality or other terms of delivery. Seventy-five percent of those who switch supplier in connection with a specific purchase obtain either a better price or better terms as a result.

In practice, the consumer's purchasing behaviour varies from market to market. For example, only 3% of the consumers negotiate while purchasing grocery items, while nearly one-third negotiate when purchasing insurance. At the same time, the survey shows that competitively-oriented buying behaviour pays off, and that the consumer's buying behaviour can become more competitive. This will strengthen competition.

The consumer survey points to several barriers to more competitive behaviour among the consumers. Confidence in existing suppliers, lack of time and/or lack of motivation to gather information and unwillingness to negotiate are frequently mentioned barriers to more competitive consumer behaviour.

Even though a great proportion of the consumers state that they are willing to switch supplier, the survey shows that customer mobility is lower in Denmark than in Germany and the United Kingdom. Over 60% of the Danish firms assess customers' mobility as low compared with about 50% of German firms and just under 40% of those in the United Kingdom. A similar pattern applies to the firms' assessment of how frequently they themselves switch supplier. This also indicates that the intensity of competition in Denmark can be strengthened through more competitive purchasing behaviour among both consumers and firms.

In sum, the survey points to the possibility of strengthening the competition culture in Denmark. The survey also shows that changes in the competition culture will require behavioural changes among firms, consumers and public authorities, because competition is basically dependent on the behaviour of firms and consumers on markets, and on the laws and regulations which create the frameworks in which choices are made.

Danish firms can have an even stronger focus on growth, development, earnings and efficiency. This will sharpen their mutual rivalry and thereby competition. As buyers of goods and services, both consumers, public and private firms have an untapped potential to choose the supplier who offers the most competitive solutions. Public authorities can do more to inform and offer guidance about competition legislation and about the importance of good competition. They can do more to ensure that regulation does not lead to unnecessary limitations on the firm's possibilities of growth, access to markets or sets other limits on competition. Finally, authorities can draw attention to those areas where more active consumer buying behaviour can strengthen competition.

A stronger competition culture and more intense competition will contribute to lower prices, a broader selection of goods and services, more efficient and innovative firms and economic growth.

The main findings from this report and the supporting analyses are summarized in box 1 below.

### **Box 1: Main findings**

The competition culture and thereby the actual intensity of competition are affected by several factors, and these are reflected in the firms' and consumers' market behaviour. The main findings of the report are:

- There is a need for increased information and guidance for preventing violations of the Competition Act. More than half the firms in Denmark assess that the Competition Act has no importance for their firm. Fifteen percent of the firms surveyed 'agree' or 'strongly agree' that violations of the Competition Act take place among customers, suppliers or competitors. Less than a third of the firms surveyed would contact the authorities if they became aware of a violation of the Competition Act.
- Public regulation within several areas affects competition. In all the main industries in Denmark, 20-30% of the firms assess that at least one of several specific forms of regulation limits competition to a great degree. In several narrowly defined 'focus industries', the proportion is much higher.
- Firms in direct competition with foreign firms are more oriented toward expansion than are other firms.
- The extent of cooperation among local firms in Denmark is larger than in firms facing significant competition from foreign firms, and the effects of cooperation are assessed more positively by the firms. Cooperation can be an appropriate way to solve certain tasks and challenges facing a sector, but cooperation and close relations will often weaken the intensity of competition.
- Firms with many competitors are more competition-oriented than firms with fewer competitors. For example, the rivalry between firms with over ten competitors is more than ten percent higher than the rivalry between firms with fewer than five competitors.
- Danish firms can increase their focus on expansion and efficiency and thereby strengthen the competition culture. This is reflected in the fact that Danish firms accord 5-15% less importance to several specific competition strategies (e.g., growing market share and profitability) than do firms in Germany and the UK.
- On the other hand, Danish firms attribute Corporate Social Responsibility (CSR) the same importance as do firms in Germany and the UK.

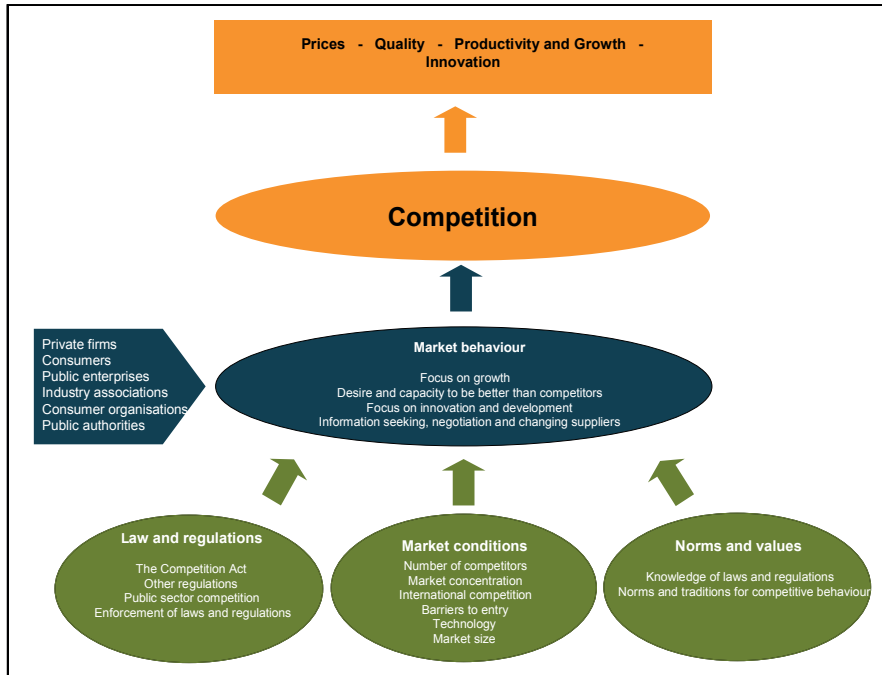


- Competition-conscious customers who choose the most competitive suppliers can help strengthen competition. More than three-fourths of the Danish consumers typically seek out information before they undertake a purchase. Among this group, nine out of ten state that the collection of information results in a savings.
- Negotiation about price and other terms of sale is much less common than information-seeking among the consumers. Only a fourth of the consumers typically choose to negotiate about price and terms of delivery, etc. There are great differences from one market to another, but most of those who choose to negotiate achieve a better price or generally better terms of sale.
- Nearly two-thirds of the consumers surveyed are willing to change supplier if they are dissatisfied with price, quality or other terms of delivery. Three-fourths of those who switch supplier in connection with a specific purchase report that they have obtained either a better price or improved conditions as a result of the switch.
- Even though a large proportion of the consumers state that they are willing to switch supplier, the survey shows that customer mobility among Danish consumers is lower than among consumers in Germany or the UK.

This report begins by describing the concept of ‘competition culture’. The main findings from the questionnaire survey on competition behaviour carried out among firms in Denmark, Germany and the United Kingdom are then presented. Finally, the report presents the main findings from a questionnaire survey carried out among Danish consumers on their buyer behaviour.

## **2. COMPETITION CULTURE**

The competition culture reflects the way in which firms, consumers and the public sector act in given market situations and are affected by several factors, including the legislation and its enforcement, market conditions and norms and values. The competition culture is a major determinant of the actual intensity of competition in the economy; see figure 1.

**Figure 1: Competition and Competition Culture**

It is therefore also difficult to affect the intensity of competition in the economy. The competition culture, having evolved over decades, is dependent upon factors which cannot be easily or rapidly changed.

*Laws and regulations* affect the competition culture and thereby the competition itself. The Danish Competition Act aims to create effective competition and efficient markets and thereby promote welfare and innovation.

Competition can also be strengthened by increased exposure of the public sector to competition and by consumer policy regulation which increases the consumers' possibilities to choose the best and cheapest solutions.

Conversely, laws and regulations can also limit competition. This is the case with regulations which limit the possibilities and incentives to compete. The regulations of the pharmacies and taxi markets that restrict the number of suppliers in these markets are examples.

Competition can also be affected by *market conditions* in the specific markets where the competition is played out. In markets with a limited number of competitors, competition will often be weaker than in markets with many competitors. In

some markets, large investments are needed before the new firms can enter and participate in the competition. Transport, search and other costs can vary between markets and thereby generate differences in customers' behaviour.

The competition behaviour of both firms and consumers is also partly determined by *traditions, norms and values*. Consumers and other customers may lack the desire to negotiate or switch supplier in order to make the most advantageous purchase. Firms' behaviour can be bound by traditions in the individual firm or in the industry, or by values and norms which might pose barriers to a more competition-oriented behaviour.

The *participants* in the competition culture include customers, public and private producers, authorities, trade associations and consumer organisations. Customers include private consumers and the firms who purchase goods or services from other firms and utilise these as input in their own production. The public competition and consumer authorities establish regulations which the firms must follow. Other national authorities and the EU can also affect the competition culture through various forms of regulation. The business and consumer organizations also affect the competition culture. For example, trade associations help create a framework for both dialogue and for the behaviour of firms operating in the same industry<sup>1</sup> and for dialogue between firms and authorities.

*Competition behaviour* in the markets of the economy encompasses many aspects. Firms follow different strategies. Some firms may follow a strategy of always setting lower prices than the competitors, while other firms choose not to participate in price competition. In some market situations, a relationship of loyalty can be built up between buyer and seller which results in buyer and seller not negotiating the terms, while buyer-seller relations in other markets can be more short-lived because the customers are more mobile. In some firms, declining revenues will lead to attempts to reduce costs or develop new projects, while other firms will raise prices.

The competition culture reflects all these factors and their mutual interaction.

Box 2 provides an example of how different aspects of the competition culture interact in specific situations when a firm evolves and adapts to changes in market conditions. By focusing on increased efficiency, reductions in the number of employees and product differentiation, the firm has succeeded in increasing its sales on a market with growing price competition and thereby converted several years

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<sup>1</sup> *Within the past seven years, the Competition Authority has issued decisions in 27 cases in which a trade association has undertaken illegal exchange of information. However, the trade associations can also have a more positive effect on the competition culture, e.g., through disseminating information to member firms about relevant issues such as competition legislation.*

of deficit into a surplus. The firm is now in a position where it can focus more on growth through, for example, acquisitions. Even though the example illustrates only some of the elements of the competition culture, it clearly shows that competition and competitive behaviour are dynamic, and that they evolve as the result of an interaction between many factors.

## **Box 2: Example of Competition Culture**

### **First surplus in five years in the cookie factory**

*By Fleming Kjærdsdam*

*Tuesday 2 June 2009, 15:48*

”The executives at Bisca are smacking their lips. The Danish cookie factory on Møn supplies not only crackers and cookies to those with a sweet tooth. It also delivered its first profit in five years. According to CEO Leif Bergvall Hansen, the management has implemented a “successful turnaround”. Bisca has succeeded in making its production more efficient, at the same time that it has succeeded in increasing sales of the ‘Karen Volf’ brand crackers and cookies.

The consumers are gravitating toward discount supermarkets such as Netto, Fakta, Aldi and Lidl, and these types of stores have a more narrow selection and offers only limited possibility to make attractive presentations of the products. This puts pressure on the prices. On the other hand, we also feel that the consumers in the established supermarkets would like to pay a bit extra when they want to spoil themselves. It is this consumer group whom we are focusing on. Therefore, we have to generate our earnings by being more efficient within our own ranks, says CEO Leif Bergvall Hansen of Bisca.

### **Fewer employees, more turnover**

The firm has increased its turnover by five percent in its latest accounting statement, from DKK 714.9 million in 2007 to DKK 741,0 million in 2008. At the same time, the number of full-time employees has been reduced from 541 in 2007 to 433 in 2008, a twenty percent reduction. The Bisca Corporation is the largest supplier of crackers and cookies in the Nordic countries and has a significant export to Russia, Germany and the UK.

Beyond having made the firm more efficient over the past three years, Bisca is also undergoing consolidation. Two months ago, the firm purchased several assets from the bankrupt Danish Quality Bakery. →



Even though the focus over the past three years has been on reducing costs, and the consumers' purchasing patterns are moving in the direction of discount stores, we believe that we have the power to increase both growth and profitability. In the years to come, we will try to implement a major growth strategy", says Leif Bergvall. "The purchase of Danish Quality Bakery, which produces sweets and almond pastry is a part of the company's growth strategy", says Leif Bergvall."

*Source: <http://www.erhvervsbladet.dk/virksomheder/foerste-plus-i-fem-aar-hos-smaakagefabrik>.*

Previous descriptions of competition in Denmark have focused largely on measuring competition on the basis of economic-statistical data and by detailed assessments of market conditions, e.g., in the annual Competition Report. This report seeks to carry out a more direct description of the behaviour which creates competition and of firms' interaction with laws and regulations, differing market conditions and norms and habits. The analysis is based on questionnaire surveys conducted among firms and consumers.

The competition culture among firms is analysed by questionnaire surveys conducted among firms in Denmark, Germany and the United Kingdom, while the competition culture among consumers is based on data from a questionnaire survey of Danish consumers in several specific markets. The survey, conducted by the *Capacent* consulting firm, was analysed with the help of statistical methods appropriate for describing patterns and structures in the responses; see box 3.

### **Box 3: Questionnaire surveys**

The firm survey covers a total of about 1300 firms in Denmark and 500 firms each in the UK and Germany, all of which were given the same 42 questions. Firms in Denmark were given an additional set of 30 questions. The questions focus especially on the firm's competition strategies, competition parameters, relations with customers, suppliers and competitors, various laws and regulations and several relevant market conditions. The Danish data collection took place during the period 20 November to 19 December 2008, while the surveys of German and British firms were carried out during the period from 28 January to 3 March 2009.

In the consumer survey, for each of the seven specific markets, 300 Danish consumers were selected and asked to answer 90 questions about their buying behaviour and practices. The questions covered topics such as their collecting information prior to purchase, their experiences in negotiating terms of delivery and their tendency to change supplier. The survey, using web interviews conducted in the period from 21 November 2008 to 20 January 2009, was carried out by Capacent's Epinions Danmarkspanel. →

Analysis and interpretation of the questionnaire survey, with its battery of questions describing norms, values and assessments, contains uncertainties which differ from the uncertainties found in other types of data analysis, such as register-based data for topics such as production and turnover. The uncertainty can arise when comparing answers from different respondents or groups of respondents, insofar as the respondents may use the rating scales differently. A study of surveys undertaken in Germany and the UK concludes that respondents in these countries apply the ratings scales in the same way (see H. van Herk, Y. Poortinga and T. Verhallen (2004), 'Response styles in rating scales: evidence of method bias in data from six EU countries', *Journal of Cross-Cultural Psychology*, 35:346).

Uncertainties in the analysis of cross-national attitudes and assessments are also discussed by Heine et al. (2002) (see 'What's wrong with cross-cultural comparisons of subjective Likert scales?', *Journal of Personality and Social Psychology*, 82:6). This study notes that respondents will often be affected by known 'reference groups', who can vary between countries and therefore add a reference group bias. However, the significance of this effect is not clear, nor is the direction of possible bias clear.

In the survey of firms, there is no immediate sign of a systematic country bias. Even though the Danish firms accord less importance to various competition strategies and parameters than do firms in Germany and the UK, this does not apply to all strategies and parameters. Similarly, there are no systematic differences between the countries in how the firms assess, for example, the extent and effects of cooperation and earnings.

An exhaustive documentation of the survey of firms is found in the report entitled *Virksomhedernes konkurrencekultur – dokumentationsrapport* ('Firms' competition culture: Documentation report'), hereafter referred to as 'Survey of the firms'. The survey of Danish consumers is similarly documented in *Forbrugernes konkurrencekultur – dokumentationsrapport* ('Consumers' competition culture: Documentation report'), hereafter referred to in this report as the 'Consumer Survey'.<sup>2</sup>

### 3. OBJECTIVES OF THE FIRMS

Most firms, presumably, have the same basic objective, namely to generate earnings. Firms, however, pursue this goal in different ways and with different intensity. Some firms have their primary focus on increasing production and sales, while others attempt to increase their earnings by reducing costs and increasing efficiency. Some firms are dependent upon developing new products, others produce more standardised goods, etc.

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<sup>2</sup> Both reports are available on the home pages of the Danish Competition Authority and the Agency respectively [www.ks.dk](http://www.ks.dk) and [www.forbrugerstyrelsen.dk](http://www.forbrugerstyrelsen.dk). These reports are only available in Danish.

In order to describe the firms' general strategic competition objectives, firms in Denmark, Germany and the UK were asked to answer six questions which represent some key competition strategies; see box 4.

#### **Box 4: Strategic Competition Objectives**

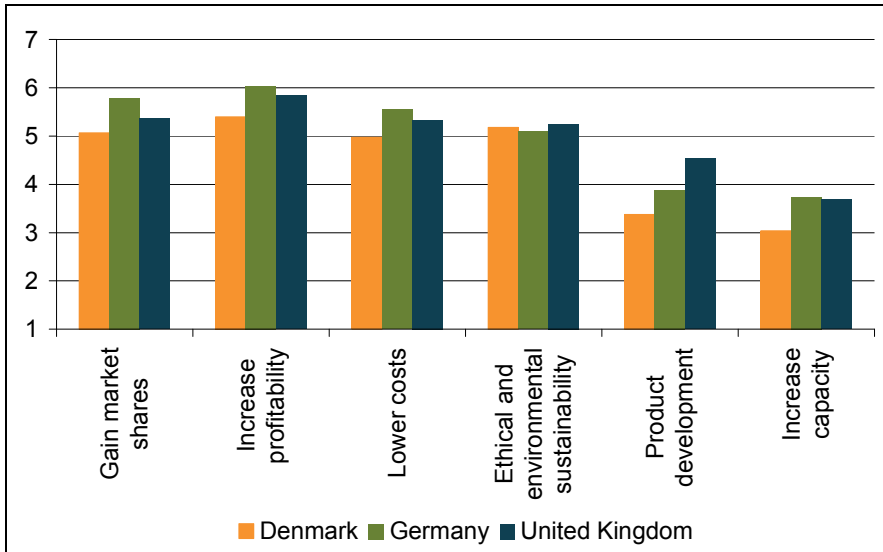
'The following statements describe some possible business strategies. Please state, on a scale from 1-7, which significance each of the statements has for the company in the next 2 years. A rating of 1 is very little significance and 7 very large significance.

- The company has to win market shares
- The company must be more profitable
- The company has to lower its costs
- The company must supply ethical and/or environmentally sustainable solutions
- The company will invest heavily in the development of new products
- The company will carry out large investments in increasing capacity.'

*Source: Survey of the firms.*

The survey shows major similarities in the firms' competition strategies in the three countries. Firms in Denmark, Germany and the UK all rank the importance of the six competition strategies in a very similar order. This is probably an indication of the fact that all three countries have well-developed economies, where the firms have high costs and to a great extent produce specialised products and services. All things being equal, these conditions tend to produce a more uniform type of competition.

Growing market shares, increased profitability, lower costs and providing ethically and environmentally sustainable solutions (corporate social responsibility, CSR) are attributed greater importance in all three countries than product development and increasing capacity; see figure 2.

**Figure 2: The Firms' Competition Objectives**

*Note:* A 't-test' was carried out with the purpose of determining whether the differences in the average response values are statistically significant. The average of the Danish firms' response values, with the exception of 'Ethical and environmental considerations', differ from the average of the German and British firms' values at a 5% level of significance. The scale of the y-axis indicates the average importance that the firms give to the individual competition objectives, with a score of 1 being lowest importance and 7 highest.

*Source:* 'Survey of the firms'.

The competition over *market shares* entails direct competition between firms selling comparable products. Firms seeking to gain market shares place emphasis on selling more than their direct competitors. Competition over market shares therefore entails a direct rivalry between competing firms and must be expected to produce relatively vigorous competition between firms.

*Increased profitability* and *lower costs* are direct reflections of the firms' focus on fulfilling the fundamental objective of generating earnings. Firms that emphasize these objectives may be expected to place high priority on efficiency and competitiveness. Firms that operate on markets with vigorous competition will often see their earnings decline if they do not have an ongoing focus on strengthening earnings. Profitability can be increased by reducing costs, and it is therefore not surprising that German and British firms, which prioritize increased profitability than Danish firms, also give greater importance to bringing down costs. A continuing focus on reducing costs helps not only to increase the individual firm's efficiency but also strengthens the resource allocation in the entire economy.

In recent years, there has been some focus on whether the firms *produce in an ethically and environmentally safe manner*, for example, whether they use energy-

saving technologies and limit the purchase of subcontracted supplies that are produced under working environment conditions which lie far below Western standards. This is also known as ‘corporate social responsibility’ (CSR). The survey shows that firms in all three countries accord high priority to ethically and environmentally sustainable solutions. This probably reflects the fact that CSR has become a significant competition parameter sought out by customers and investors; see also Chapter 10.

If the firms have extra costs connected to observing CSR provisions, relatively high standards in a country can contribute to higher total production costs than in countries with lower standards, thus leading to a higher price level. As CSR is accorded largely the same importance in all three countries, differences in CSR are probably not a significant explanation for the higher Danish price level compared to Germany and the UK.<sup>3</sup>

The *development of new products* and innovation can also be an important part of the firms’ strategy and is generally a key factor behind the increases in productivity and prosperity.<sup>4</sup> In some industries and in some markets, the capacity for product development is absolutely critical. In markets that are constantly changing, firms that do not continually develop their products risk becoming stagnant and will ultimately be forced out of the market. *Investment in increased production capacity* is another dimension which signals a focus on growth and dynamism.<sup>5</sup>

Firms will probably pursue several strategies. However, firms are hardly able to focus on all the aforementioned competition strategies at the same time. Comparisons of one or more competition strategies between firms, and between firms in different countries, must therefore be interpreted with caution. It is not necessarily an expression of weaker competition behaviour if a firm or group of firms prefers to focus more on one set of strategic objectives rather than another. On the other hand, an overall weaker competitive behaviour can be indicated if a firm or group of firms has systematically lower focus on a large number of competition objectives.

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<sup>3</sup> See *Konkurrenceredegørelse 2009 (Competition Report, 2009)*, *Konkurrencestyrelsen (2009)*, available in Danish only.

<sup>4</sup> See *Konkurrence – vækst og velstand (‘Competition: growth and prosperity’)* *Konkurrencestyrelsen (2009)*, available in Danish only.

<sup>5</sup> *The lower focus on product development in Danish firms may also reflect a different industry composition, insofar as the Danish sample of firms contains disproportionately many firms from businesses where product development is not so critical. At the general industry level, however, it is not the assessment that the compositions of the samples from the three countries are very different. Economic trends and expectations about future developments in the three countries also play an obvious role for the firms’ investment plans. Economic trends over recent years, however, seem to have proceeded in largely uniform fashion. These factors are described in more detail in the ‘Survey of the firms’.*

Danish firms accord nearly all the aforementioned objectives somewhat less importance than do firms in Germany and the UK; see figure 2. The German firms, with one exception, all give the competition strategies cited in the survey more than 10% greater importance than do the Danish firms. The British firms attribute the competition strategies more than 5% greater importance than do the Danish firms.

This points toward a potential to strengthen the Danish firms' competition behaviour and with that, the conditions for growth and innovation.

Danish firms, on the other hand, accord to CSR the same importance as do firms in Germany and the United Kingdom. This indicates that CSR is an important competition parameter.

#### 4. THE FIRMS' COMPETITION PARAMETERS

When a firm seeks to fulfil its competition objectives, it can utilise several different specific options or competition parameters. For example, it can choose to focus on obtaining new customers or retaining existing customers. It can prioritize implementing cost reductions and strengthening efficiency, it can choose to focus on marketing, etc.

In terms of describing the firms' choice of specific competition parameters, the firms in Denmark, Germany and the UK were asked to answer a total of seven questions; see box 5.

##### Box 5: Competition Parameters

'Below is a series of statements about competitive parameters. For each statement you are asked to evaluate the company's competitive strategy on a scale from 1-7 where 1 is very little significance and 7 is very large significance.

- The company aims for new customers/orders
- The company aims to lower and/or increase efficiency
- The company aims to supply the best quality
- The company aims to develop new products
- The company aims to use large resources on advertising and marketing
- The company aims to enter new markets
- The company will match a 5% price reduction by a competitor.'

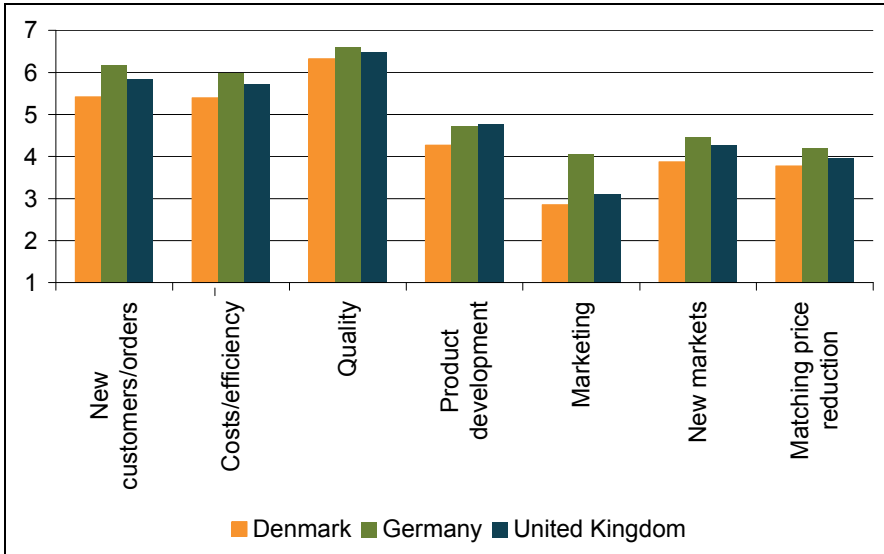
*Source: 'Survey of the firms'.*

As with the firms' assessment of their competition strategies, there are great similarities among firms in the three countries in their assessments of competition pa-

rameters. In all three countries, the firms attribute greatest importance to producing goods or services of high quality, just as they also accord greater importance to winning new customers/orders and reducing costs and/or increasing efficiency.

Conversely, the firms in all three countries attribute less importance to marketing and matching a competitor’s price reduction; see figure 3.

**Figure 3: Importance of Specific Competition Parameters**



*Note: The averages of the Danish firms’ response values differ from the average of the German firms’ response values at a 5% level of significance. The averages of the Danish firms’ response values, with the exception of ‘Matching a competitor’s price reduction’ differ from the average of the British firms’ response values at a 5% level of significance. It can be difficult to precisely distinguish between whether the development of new products and cost reductions are strategic objectives or competition parameters. The question about these factors is therefore included in the group of questions which explain the firms’ choice of competition strategy, and in the group of questions regarding their choice of competition parameters. The scale on the y-axis indicates the importance accorded by the firms, on average, to the individual competition parameters, with the highest importance being a rating of 7 and the lowest 1.*

*Source: ‘Survey of the firms’.*

Firms which accord most importance to obtaining *new customers/orders* are, all things being equal, focusing on growth. In markets where total market growth is low, new customers and orders must be gained mainly from competitors. Hence, this competition parameter will often be connected with rivalry between firms.

A competitive pressure will often be reflected in a pressure on earnings and thereby a need to strengthen profitability through *cost reductions* or *increased ef-*

*iciency*. Similarly, firms with good earnings and high efficiency will be better equipped for more aggressive competition.

A firm's ability to compete typically depends on its ability to set a price that is competitive given the quality of the product or service.<sup>6</sup> *Quality* is the competition parameter accorded the highest importance by firms in Denmark, Germany and the UK. Relatively high cost levels in all three countries, compared to many other countries which also participate in the global market, probably contribute to quality being given such importance.

The firms in all three countries accord less importance to *low prices*, most likely reflecting a reluctance to match a price reduction by a competitor. This may indicate that price reductions alone will lead to reduced earnings unless the price reduction generates a sufficient increase in sales.

The *development of new products* and *entering new markets* can also be an important part of the firms' competition behaviour. Development of new products and sales on new markets can indicate the firms' focus on seeking out new growth opportunities and/or shielding themselves from fierce competition on already developed markets.

*Marketing* is an obvious method to make contact with new customers and can therefore both be evidence of and contribute to competition.

Danish firms place lower priority on nearly all the competition parameters investigated here. The response values of the German firms are more than 10% higher than the values of the Danish firms on all competition parameters except that of 'quality'. Among British firms, the picture is the same, but less marked; the British firms' response values, again with 'quality' as the only exception, are 5-10% higher than the Danish firms.

These responses from the firms also point towards a potential for strengthening the firms' competition behaviour in Denmark.

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<sup>6</sup> *The questionnaire survey among firms showed that it is difficult to ask questions about the importance of quality and price, including the interaction between these. This is due to the fact that providing extra quality is usually connected with extra costs and thereby higher prices. Responses to questions about the importance of either quality or price thereby come to be based upon assumptions about either quality or price. At the same time, low prices are hardly an independent objective for the firms, in that price reductions will generate increased earnings only if the price reduction is accompanied by a sufficient increase in sales. Furthermore, all three countries are characterized by relatively high levels of welfare and costs, which can contribute to increased focus on quality among both consumers and firms. Within the selected questionnaire framework, it has been difficult to take account of these factors.*



## 5. EXPANSION FOCUS

As part of the survey of firms, the patterns and structures of the data were analysed using statistical methods. This analysis makes it possible to identify and describe several features of the firms' competition behaviour, such as the firms' expansion focus, rivalry, earnings focus and cooperation; see box 6.

### Box 6: The Firms' Competition Behaviour

A statistical analysis, called 'factor analysis', was carried out in order to describe the firms' behaviour in more detail. The factor analysis, based on certain statistical criteria, selects a number of distinct factors which, when taken together, provide a description of the firms' competition behaviour. The factors are composed of a number of specific questions in which the responses exhibit a high degree of co-variation, each describing some characteristic of the firms which do not immediately appear.

The factors summarise important aspects of the firms' competition behaviour which can be subsequently analysed on the basis of more general characteristics of the market and firms, e.g., size, market share, export orientation, number of competitors on the market, the competitors' geographic localization, etc.

The results of the factor analysis show that the firms' competition behaviour can be described in terms of the following six factors:

- The firms' 'expansion focus'
- The firms' 'rivalry'
- The firms' 'earnings focus'
- The firms' 'quality and stability focus'
- The firms' 'participation in cooperation'
- The firms' 'assessment of cooperation'.

For more details on the factor analyses, see the 'Survey of the firms'.

The firms' focus on expansion can be measured by comparing the firms' responses to six questions which describe various aspects of expansion and development, and where the firms' responses point toward the same tendency; see box 7.

**Box 7: Expansion Focus**

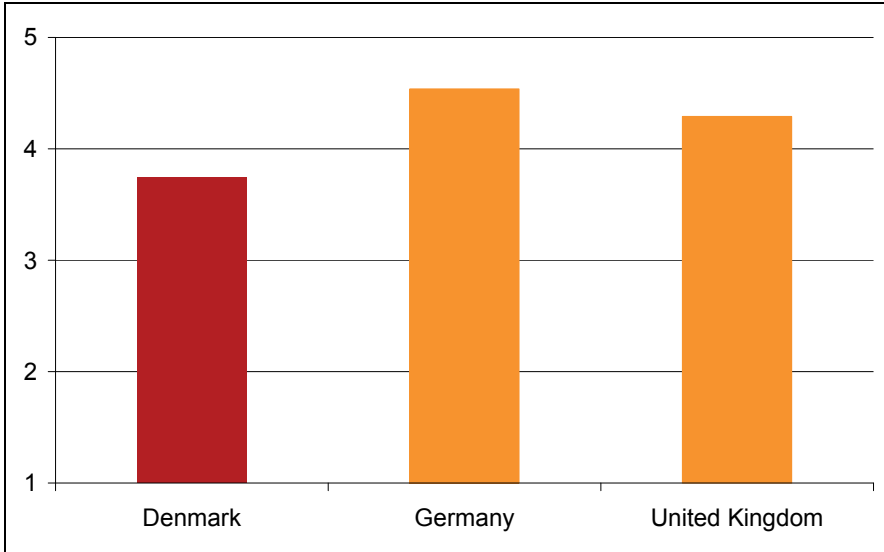
A factor analysis was carried out, which groups together questions where the firms' responses exhibit a high degree of co-variation, see the 'Survey of the firms'. Six groups have been formed, of which the first is constituted by the following questions/statements:

- The company has to win market shares
- The company will invest heavily in the development of new products
- The company will carry out large investments in increasing capacity
- The company aims to develop new products
- The company aims to use large resources on advertising and marketing
- The company aims to enter new markets.

The average response value for these questions is interpreted as a measure of the firms' expansion focus. This is because firms that accord great importance to these six questions are to a great extent assessed as being focused on competition over market shares, development of new products and penetrating new markets. At the same time, the firms indicate that through investments in both product and capacity development, advertising and marketing, they use instruments which can support a growth strategy.

The expansion focus of Danish firms is lower than that of the German and British firms; see figure 4.

**Figure 4: Expansion Focus in Denmark, Germany and the UK**



*Note: The average of the Danish firms' expansion focus differs from the average of, respectively, the German and British firms' expansion focus at a 5% level of significance. The scale of the y-axis indicates a measure of the firms' average expansion focus, where 7 is the highest value and 1 the lowest value.*

*Source: 'Survey of the firms'.*

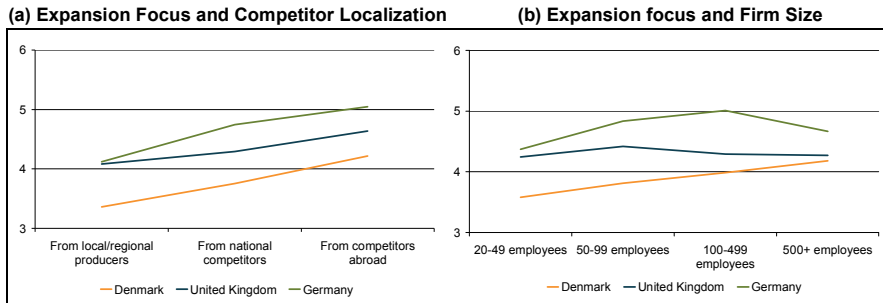
The existence of both national and especially international competitors clearly operates to promote the firms' expansion focus. It is entirely natural for firms with ambitions for growth to aim at the large international markets. However, competition, dynamics and growth can be strengthened if the firms which primarily sell their products on the home market focus more on expansion, development and growing market shares, precisely those features that characterise firms with high expansion focus.

In Denmark, Germany and the UK, the expansion focus is thus lowest for firms which are localized in the same region as their most important competitors and highest among firms facing major competition from foreign firms; see figure 5a.<sup>7</sup> In Denmark, Germany and the UK, the expansion focus for those firms facing strong competition from foreign firms is 14% to 25% higher than firms whose main competitors are local firms.

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<sup>7</sup> *This relationship is probably reflected in the relatively low expansion focus among Danish firms with a high proportion of their turnover in the domestic market in that these firms also are less likely to face intense competition from foreign based firms than other firms; see 'Survey of the Firms'.*

**Figure 5: Expansion Focus – Domestic Market and Competitors**



Source: 'Survey of the firms'.

At the same time, smaller Danish firms have a low expansion focus compared to both larger Danish firms and similar small firms in Germany and the UK. There exists no similarly clear tendency in Germany and the UK; see figure 5b.

In sum, Danish firms have less focus on expansion than do firms in Germany and the UK. In Denmark, expansion focus is especially low in those firms oriented toward the home market, i.e. firms located in the same region as their most important competitors, and among small and medium-sized firms. In Denmark, Germany and the UK, there is a clear tendency for firms facing extensive competition from foreign firms to be more focused on expansion than other firms.

## 6. RIVALRY

Rivalry is a measure of the firms' view of the competition that they meet from their competitors and for how active the firms themselves are in this competition. The degree of firm rivalry is calculated using questions from the 'Survey of the firms' which describe firm's attitudes toward types of interactions between competing firms; see box 8.

**Box 8: Rivalry**

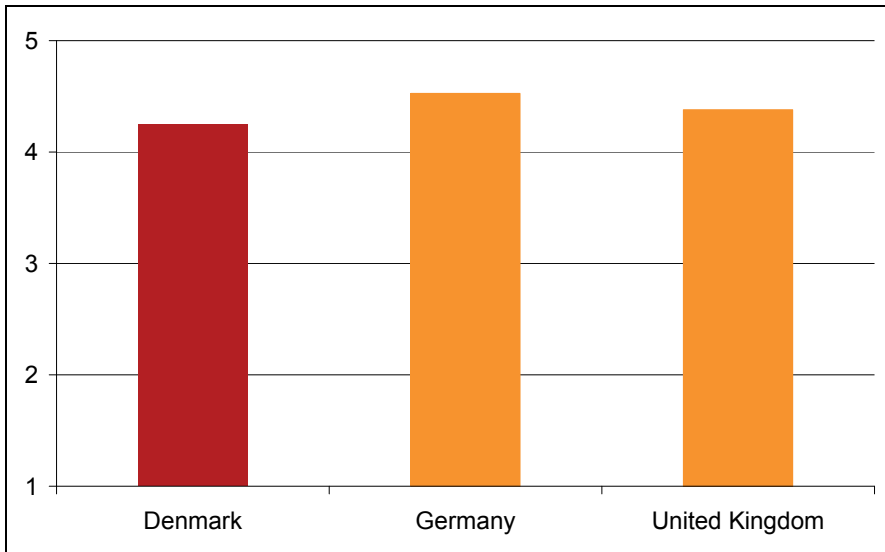
The factor analysis also resulted in a grouping of the following questions/statements:

- Competition pressure from existing competitors is ‘intense’
- Competition pressure from new competitors is ‘intense’
- The company often tries to win customers from competitors
- The company is in a price war
- The prices of competitors are very important when we set our prices.

The average response value for these questions is interpreted as an indicator of the direct *rivalry* between firms, in that all the questions concern the degree of direct competition between two or more firms.

Danish firms assess rivalry 7% lower than firms in Germany and 3% lower than firms in the UK. The differences are statistically significant, but less distinct than the differences in the firms’ expansion focus in the three countries; see figure 6.

**Figure 6: Rivalry in Denmark, Germany and the UK**

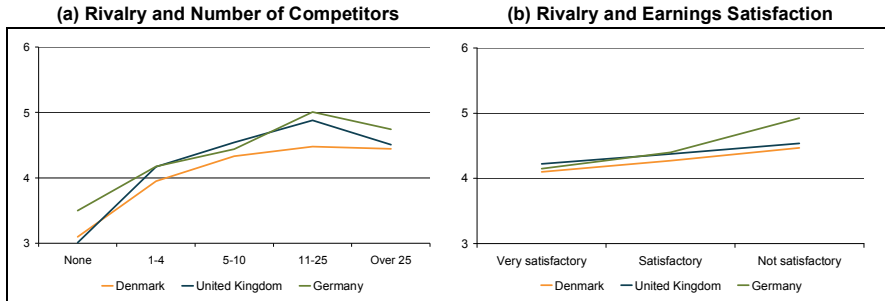


*Note:* The average level of rivalry among Danish firms differs from the average of the German and British firms at a 5% level of significance. The scale of the y-axis indicates a measure of the firms’ average rivalry, where 7 is the highest value and 1 the lowest.

*Source:* ‘Survey of the firms’.

The number of competitors in Denmark, Germany and the UK has great significance for the degree of rivalry experienced by the firms. In all three countries, rivalry among firms with fewer than five major competitors is more than 10% lower than rivalry among firms with over 10 major competitors. Markets with relatively many competitors are thus characterised by a more vigorous rivalry than markets with a limited number of competitors; see figure 7a.<sup>8</sup>

**Figure 7: Rivalry – Number of Competitors and Earnings**



Source: ‘Survey of the firms’.

Firms indicating a ‘very satisfactory’ earnings level over the past three years view rivalry as being lower than firms which state that their earnings are ‘satisfactory’ or ‘not satisfactory’. This probably reflects the fact that more rivalry and competition, all other things being equal, will tend to exert pressure on firms’ earnings and thereby push the firms toward becoming more competitive, see figure 7b.

## 7. EARNINGS FOCUS

Earnings are another dimension which firms in highly competitive markets must focus upon. Focus on earnings, through cost reductions or increased efficiency, for example, is not necessarily identical to a focus on growth. A focus on growth can take place – at least for at time – even while earnings are decreasing; see box 9.

<sup>8</sup> Firms with many competitors state that the intensity of competition is greater than among firms with fewer competitors. For example, firms with many competitors focus more on lower prices and pay more attention to the prices of their suppliers and competitors. See the ‘Survey of the firms’.

**Box 9: Earnings Focus**

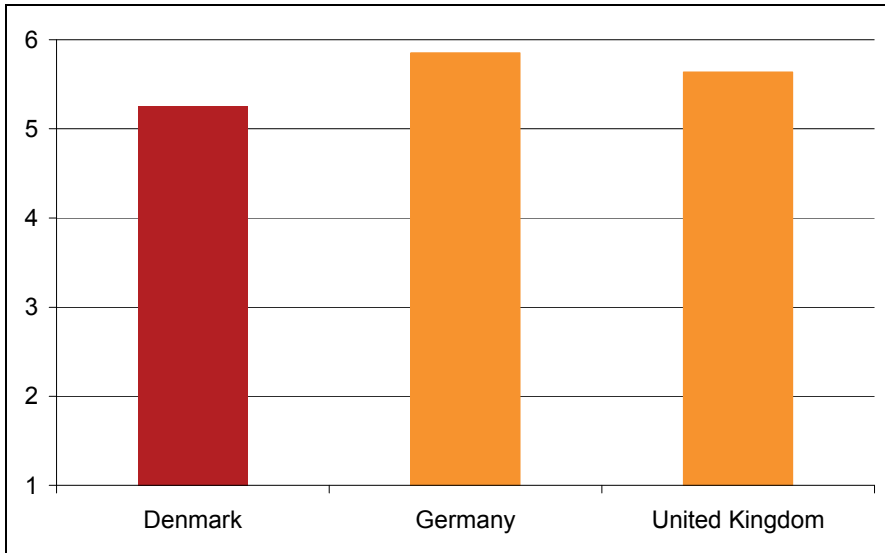
The factor analysis also resulted in a grouping of the following questions:

- The company must be more profitable
- The company has to lower its costs
- The company aims to lower costs and/or increase efficiency.

The average response value for these questions is interpreted as a measure of the firms' *earnings focus*.

Danish firms have an earnings focus which is 11% lower than the earnings focus in German firms and 7% lower than in British firms; see figure 8.

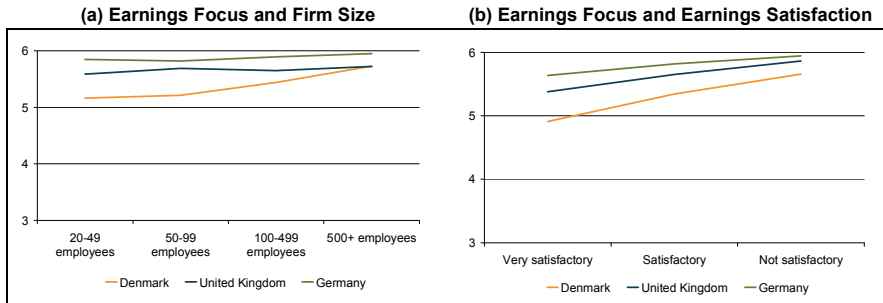
**Figure 8: Earnings Focus in Denmark, Germany and the UK**



*Note: The average score of the Danish firms' earning focus differs from the averages of the German and British firms' earnings focus at a 5% level of significance. The scale on the y-axis indicates a measure of the firms' average earnings focus, where 7 is the highest value and 1 the lowest value.*

*Source: 'Survey of the firms'.*

Earnings focus is highest in larger firms. This applies especially to Danish firms. Large Danish firms, with over 500 employees, have an earnings focus corresponding to large firms in the two other countries, while Danish firms with fewer employees place comparatively less priority on earnings than firms in the two other countries. This indicates a potential for strengthening earnings focus in small and medium-sized firms in Denmark; see figure 9a.

**Figure 9: Earnings Focus – Firm Size and Earnings**

Source: 'Survey of the firms'.

Firms who find their earnings to be 'not satisfactory' are more focused on strengthening earnings than are firms with good earnings; see figure 9b. This probably reflects the fact that the firms are basically adaptable and take initiatives to strengthen earnings when they come under pressure due to increased competition.

In sum, there is a potential for Danish firms to strengthen their focus on competition through expansion, earnings and rivalry. This is reflected in the comparative lower focus on these factors by Danish firms compared to firms in the UK and Germany. It is a result of the Danish firms according nearly all competition strategies and parameters less importance than firms in Germany and the UK; see chapter 3 and 4.

## 8. COOPERATION

Cooperation can be a natural way for firms to carry out common tasks and meet common challenges. For example, cooperation can be necessary for small firms who each find it difficult to procure the necessary resources in order to implement key strategic activities such as research or common purchasing, or for firms that produce different components but must work together to manufacture the finished product.

Conversely, cooperation and relations with competitors, customers and suppliers can also lead to reduced competition. This is clearly the case concerning illegal activities such as price-fixing and market-sharing agreements. In addition, legitimate forms of cooperation, networking and good collegial relations can in certain cases contribute to a weakening of competition. Competition can be weakened, for example, if firms refrain from reporting violations of the competition law due to tradition and norms, or if good collegial relations with competitors impede firms from competing directly against one another's areas of strength, including the



firm's ongoing efforts to make production more efficient and develop new and better products and services.

The firms were asked to assess the extent of several specific forms of cooperation between firms in their industry and how they assess the importance of this cooperation; see box 10.

### **Box 10: Extent and Assessment of Cooperation**

#### **Extent of cooperation with other firms:**

'Below are several statements about firms' relations with other firms in the industry. You are asked to indicate how much you agree, on a scale of 1-7, where 1 is 'fully agree' and 7 is 'fully disagree'.

- We cooperate on large orders, sales, export promotion, purchasing, distribution, customer referrals, etc.
- We cooperate on product development.
- We cooperate on matters other than orders, e.g., development of employees' competencies, business policy initiatives, and the like.

#### **Assessment of cooperation with other firms:**

'How do you assess the importance of formal and informal cooperative relations in your industry? You are asked to indicate how much you agree with the various statements, on a scale of 1-7, where 1 is 'fully agree' and 7 is 'fully disagree'.

- It strengthens the industry's competitiveness and developmental potential
- It strengthens relations and networks among the firms
- Good relations and networks between the firms in the branch are important'.

The factor analysis shows a high degree of co-variation between the responses to the questions within each of the two groups, and they could be grouped as two unique factors whose average response values are interpreted as, respectively, 'Extent of cooperation' and 'Assessment of cooperation'.

The questions aim partly to describe some main features of the firms' participation in and assessment of cooperation with other firms. Further, the questions aim to describe the extent to which certain factors which tend to impede competition are present, i.e., whether there is a great extent of cooperation and/or whether the cooperation is assessed positively.

Danish firms cooperate less than British firms. Conversely, Danish firms assess cooperation more positively than do German firms; see table 1.

**Table 1: Cooperation, Earnings and Competitor Localisation**

	Extent of cooperation	Assessment of co-operation	Dissatisfied with earnings, pct.	Member of trade association, pct.
<b>Denmark</b>	<b>3.2</b>	<b>5.1</b>	<b>15</b>	<b>85</b>
- Local	3.4	5.4	13	89
- National	3.2	5.1	14	85
- International	2.9	4.9	20	80
<b>UK</b>	<b>4.1</b>	<b>5.0</b>	<b>19</b>	<b>66</b>
- Local	4.3	5.3	22	71
- National	4.1	5.1	18	64
- International	4.0	4.7	19	67
<b>Germany</b>	<b>3.3</b>	<b>4.5</b>	<b>23</b>	<b>64</b>
- Local	3.3	4.4	25	75
- National	3.3	4.5	22	54
- International	3.6	5.1	22	58

*Note:* The average extent of cooperation for Danish firms differs from the average of the British and German firms' extent of cooperation at a 5% level of significance, respectively. The average of the locally-oriented Danish firms' extent of cooperation differs from the average of the internationally-oriented Danish firms' extent of cooperation at a 5% level of significance. The average of localised Danish, German and British firms' assessment of cooperation differs from the average of the international firms' assessment of cooperation at a 5% level of significance. The values for the extent of cooperation and assessment of cooperation measure how much the firms cooperate and how positively they assess this cooperation. The maximum value is 7 and the minimum value is 1. In the calculation, the questionnaire's original 7-point scale has thus been inverted.

*Source:* 'Survey of the firms'.

Both in the United Kingdom and Denmark, the extent of cooperation and assessment of cooperation are highest among firms whose most important competitors are in the same local area/region as the firm itself. Local firms in Denmark assess the extent of cooperation to be 17% higher than firms facing significant competition from foreign firms, while the effects of cooperation are assessed as nearly 10% more positive. The tendency is the same in the UK. In Germany, it is the reverse; firms facing significant competition from foreign firms have the highest extent of cooperation and highest assessment of cooperation.

On the other hand, common to firms in all three countries is that those whose most significant competitors are in the same local area/region, have a higher tendency to be members of trade associations than other firms.

Danish firms are significantly more satisfied with their earnings than firms in Germany and the UK. Among Danish firms, it is especially the local firms who are most satisfied with their earnings, while in Germany and the UK, the picture is reversed, in that German and British locally-based firms are slightly more likely to be dissatisfied with their earnings than the national and international firms.

The higher level of earnings satisfaction among Danish firms can be an indication of poorer competition. It may, however, also reflect the business cycle, insofar as this has been a significant factor in earning potential in Denmark compared to Germany or the UK. Comparisons, however, cannot confirm that earnings and earning potentials in Denmark have been uniformly better than in Germany or the UK; see the 'Survey of the firms'.

Even though there exists some uncertainty connected with measuring and comparing the firms' satisfaction with earnings, it is also possible that Danish firms generally assess a given earnings level more positively than do German or British firms. Inasmuch as an unsatisfactory assessment of earnings is one factor encouraging firms to intensify their competitiveness, a very positive assessment of earnings can itself act as an impediment to the firms' efforts to become more competitive.

## **9. PUBLIC REGULATION**

Public regulation is in many cases necessary and has been introduced in order to deal with important social concerns such as consumer protection, environmental protection, safety or health.

In some cases, public regulation promotes competition. This is the case, for example, with the competition legislation, which prohibits several activities that limit competition. Other regulatory measures, such as those providing consumers with more possibilities to find the cheapest supplier, can also enhance competition. The Marketing Practices Act is an example of this.

Nevertheless, public regulation can also impose unnecessary barriers on competition. This applies especially in the cases where the regulation limits access to the market. The regulation of the pharmacies and the taxi markets, regulations that restrict the number of suppliers in these markets, are examples.

It is only a little more than ten years since the Danish competition legislation was fundamentally changed. Prior to 1998, competition law was based on a principle

of control. In 1998, this was changed to a principle of prohibition. The principle of control had entailed that the competition authorities, according to a detailed inspection and assessment, could intervene and force competition-limiting activities to cease. In fact, only a few activities were prohibited. With the principle of prohibition, a wide range of activities were made illegal, e.g., competition-limiting agreements and several types of abuse of dominant market position.

If the Competition Act is to help reduce competition-limiting practices by firms, the firms must first become familiar with the law. The data show that 80% of the Danish firms are aware of the Competition Act, a level equal to that of firms in Germany and the UK; see the ‘Survey of the firms’.

Only about 40% of the Danish firms, however, believe that the Competition Act is important for their firm. The proportion is lowest among the smallest firms, those with 20-49 employees; only one-third of these firms view the Competition Act as important. Among larger firms, those with 100-500 or 500+ employees, 50-60% view the Competition Act as being important for their firm; see table 2.<sup>9</sup>

**Table 2: Is the Competition Law Important for your Firm?**

Percent	– Number of employees in the firm –				
	20-49	50-99	100-499	+500	Total
<b>Yes</b>	33	40	50	58	39
<b>No</b>	64	57	47	38	57
<b>Don't know</b>	3	3	3	4	3
<b>Total</b>	100	100	100	100	100

*Note:* The calculation includes only those firms from the Danish questionnaire survey with over 20 employees who have answered that they are familiar with the Competition Act.

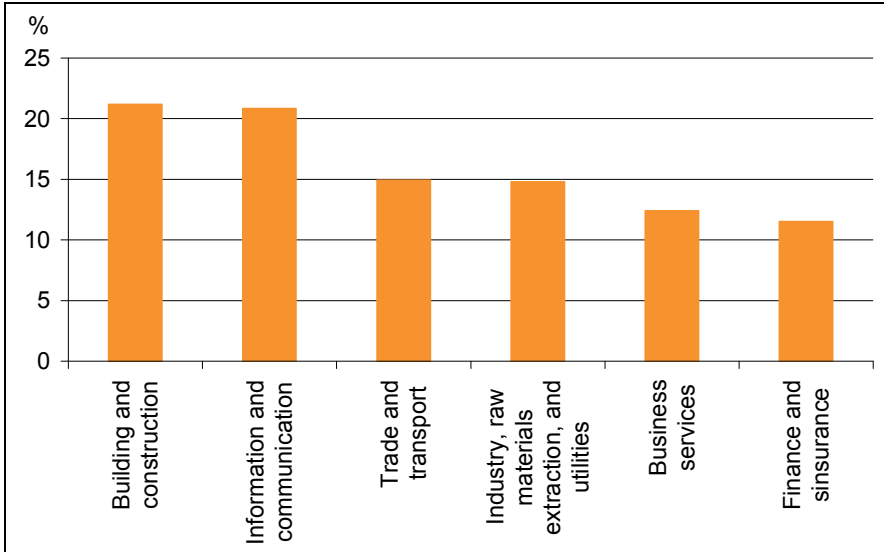
*Source:* ‘Survey of the firms’.

The late introduction of the prohibition principle in the competition legislation, in 1998, may be a contributing factor in explaining why relatively many firms are not yet familiar with the full content of the law and therefore assess the law as not being important for their firm. On the other hand, precisely the prohibition principle means that the competition law *has* significance for nearly all firms in theory, in that a wide range of activities that were formerly legal, are now basically illegal.

<sup>9</sup> On the basis of the survey, however, it cannot be assessed whether this is due to lack of familiarity with the law or to whether compliance with the Competition Act is possible without great limitations on the firms' competition behavior.

About 15% of the firms who indicate that they are familiar with the Competition Act either ‘agree’ or ‘strongly agree’ that violations of the Act occur among customers, suppliers or competitors; see figure 10. Within the *building and construction* and *information and communication* industries, a good 20% of the firms ‘agree’ or ‘strongly agree’ that violations of the Competition Act occur among customers, suppliers or competitors, while within the *finance and insurance* and *business service* industries, the proportion is about 11-12%.

**Figure 10: Violations of the Competition Act occur among Customers, Suppliers or Competitors**

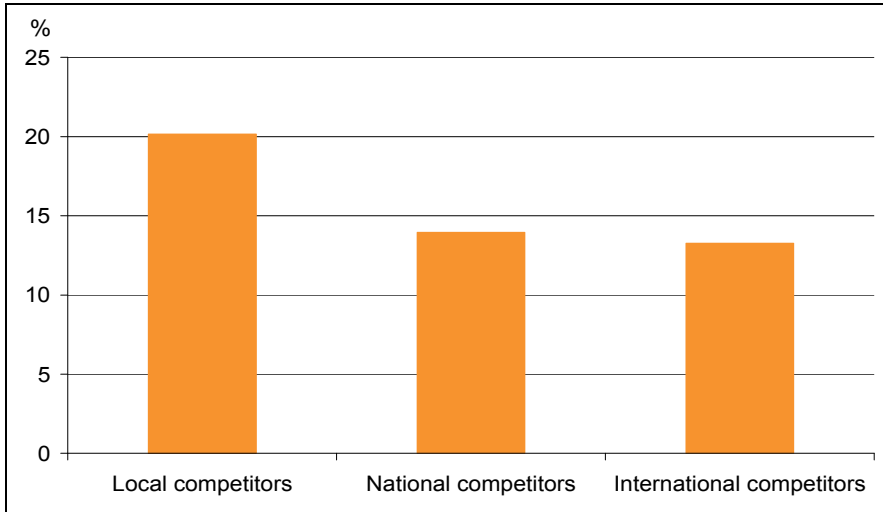


*Note: The calculation includes only those firms from the Danish questionnaire survey with over 20 employees who have answered that they are familiar with the Competition Act. The firms were asked to what degree they agree that violations of the Competition Act occur in their industry (among suppliers, customers or competitors). The response value could be indicated on a scale from 1 through 7, where 1 is ‘strongly disagree’ and 7 ‘strongly agree’. The indicator measures the number of firms who have answered 6 or 7 as a proportion of all firms who have answered.*

*Source: ‘Survey of the firms’.*

Especially firms located in the same regions as their most important competitors assess that the Competition Act is violated by customers, competitors or suppliers. Here about 20% of the firms ‘agree’ or ‘strongly agree’ that violation of the Competition Act occurs. In firms, whose most important competitors are non-local (e.g., from other parts of Denmark or from abroad), about 13% agree that the Competition Act is violated by customers, competitors or suppliers; see figure 11.

**Figure 11: Violations of the Competition Act occur among Customers, Suppliers or Competitors**



*Note: The calculation includes only those firms from the Danish questionnaire survey with over 20 employees who have answered that they are familiar with the Competition Act. The firms were asked to what degree they agree that violations of the Competition Act occur in their industry (among suppliers, customers or competitors). The response could be indicated on a scale from 1 through 7, where 1 is 'strongly disagree' and 7 'strongly agree'. The proportion measures the number of firms who have answered 6 or 7 as a proportion of all firms who have responded.*

*Source: 'Survey of the firms'.*

Even though it is not possible to precisely estimate the number or type of actual violations of the Competition Act on the basis of this survey, the firms' own assessments indicate a significant extent of violations.

The firms were also asked whether they would contact the competition authorities if they had the impression that a competitor, customer or supplier was engaged in violating the Competition Act. The responses divided themselves equally into firms which agreed that they would take contact, those that were neutral or those who greatly disagreed that they would make contact with the authorities; see the 'Survey of the firms'.

That about a third of all firms would not contact the authorities if they became aware of a possible violation of the competition law indicates a need to enhance information and guidance about the competition legislation. Enhancing the information and advisory effort will in itself help prevent violations of the law. A strengthened effort will also contribute to a greater tendency to make the authorities aware of the possible violations and therefore make it possible for the authori-

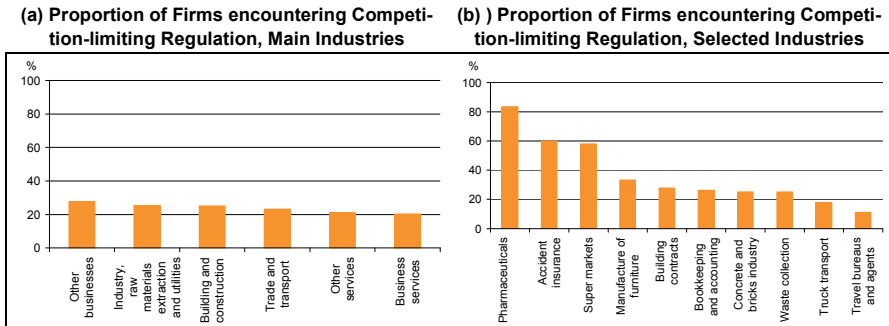
ties to intervene against more violations, thereby strengthening the overall intensity of competition.

Several other laws and regulations also affect the firms' competition behaviour and their possibilities to compete. Competition-restraining regulation, for example, can appear when other considerations, e.g., safety, health, consumer protection or environmental concerns, entail regulations which, when viewed in isolation, limit competition on a market.

In the Danish firm survey, the firms were asked about the extent to which the following regulations limit or strengthen competition within their industry; the Competition Act, the planning law, the law on retail opening hours, authorisation regulations, concessions, technical standards, price regulations, product-specific standards and other regulations.

Twenty to thirty percent of the firms in all the main industries state that at least one of the above-mentioned regulations poses limitations on competition within their business; see figure 12a.

**Figure 12: Competition-restraining Regulation**



*Note: The figures indicate the proportion of firms from the Danish questionnaire survey, within one of the main industries/selected industries, assessing that a specific regulation limits competition within their industry to a 'high' or 'very high' degree. For each main industry or selected industry, the highest proportion for the regulation areas mentioned in the survey of Danish firms is indicated; see 'Survey of the firms'. For example, 58% of those in the 'supermarkets' industry corresponds to the proportion of firms in this industry who specifically assess that the law limiting retail opening hours limits competition.*

Source: 'Survey of the firms'.

Those firms in the more narrowly defined selected industries, are more likely to state that regulation limits competition; hence, over 80% in the pharmaceutical industry and over 60% within the supermarket and insurance industries view regulation as inhibiting competition; see figure 12b.

This indicates that some regulatory frameworks affect the competition conditions within relatively narrow market segments, e.g., retail trade, but that the effect within these segments is noticeable for a larger proportion of the firms.

It should be emphasized, however, that the calculation does not provide an exhaustive description of the effects of regulation on competition. Moreover, it should be recalled that the findings are based on a relatively small number of questions.<sup>10</sup>

Finally, it is clear that the competition-restraining effect of regulation must be weighed against the issues for which regulation is intended to deal with, e.g., consumer, environmental and health policy considerations.

## 10. THE ENCOUNTER BETWEEN PRODUCERS AND CUSTOMERS

The competition culture is also created by the consumers' own actions on the market. The firms' competition behaviour cannot be considered apart from the way in which their customers, including private consumers, act. The customers' specific buying decisions send signals to the firms about which products, services and sales conditions are competitive, hereby making it easier for the firms to meet the customers' needs competitively.

A clear example of this tendency is the increasing significance of ethical considerations and social sustainability in production and demand. One out of two Danish consumers attributes 'great' or 'very great' importance to ethical and environmentally sustainable solutions (CSR) when making purchases, while only about every fifth gives these factors 'small' or 'very small' importance; see table 3.

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<sup>10</sup> *Among other things, the questions concern only a limited number of specific regulations, just as only a limited number of focus industries are represented in the survey. Also, these calculations focus only on those firms which perceive a specific regulation as limiting competition. The firms' responses also show that some firms view certain regulations as promoting competition. Finally, certain regulations will entail limitations on competition, insofar as they must operate according to their intent. This is the case, for example, with patent regulations, which ensure the owner of patents a limited period whereby they can commercially exploit the patent, thus creating incentives for the development of new patents.*



**Table 3: Importance of CSR – Firms and Consumers**

Percentage	Firms	Consumers
Percentage who place great importance on CSR	46	49
Percentage who place neither great nor little importance	47	32
Percentage who place little importance on CSR	7	19

*Source: 'Survey of the firms' and 'Consumer Survey'.*

Similarly, nearly every second Danish firm attributes CSR 'great' or 'very great' importance, while only 7% give CSR 'small' or 'very small' importance. The importance of CSR among firms in Germany and the UK is assessed in line with the assessment of CSR among Danish firms; see Chapter 3.

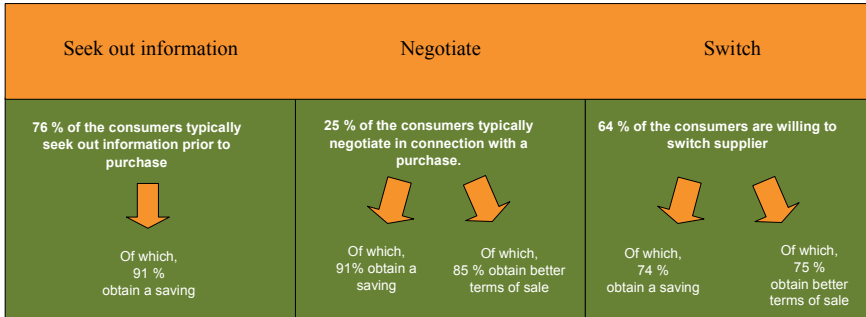
Even though there are no records of trends in the importance of CSR over time, this gives some indication that the consumers' demand for a special feature – CSR in this case – will embed itself in the production process and thereby become a competition parameter if demand is relatively clear and distinct.

Consumers and other customers can signal their demand clearly by systematically selecting the supplier who offers the most competitive solutions.

Gathering of information prior to purchase, negotiation about price and other terms of sale in connection with the purchase and switching of supplier are activities which can help the consumers to select the most competitive solutions.

Gathering of information prior to purchase is widespread among Danish consumers. For the vast majority, it also leads to savings. More than three-fourths of the Danish consumers thus typically seek out information before undertaking a purchase; see figure 13. Among this group, over 90% indicate that information gathering usually leads to savings.

**Figure 13: Consumer Behaviour – Seek out, Negotiate and Switch**



*Note:* The calculation is based on several questions in the consumer survey concerning the consumers’ typical buying behaviour.

*Source:* ‘Consumer survey’.

Negotiation about price and other conditions is far less widespread among the consumers, in that only a fourth of the consumers typically choose to negotiate about price, terms of delivery, etc., in connection with a purchase. This is partly a natural consequence of the competition behaviour in several markets consisting of seeking out information and making decisions about the purchase without any negotiation with the seller. For example, only 3% of the consumers negotiate in connection with purchase of groceries, while nearly a third negotiates in connection with purchase of insurance.

85-90% of those who chose to negotiate typically obtain a better price or improved terms of sale.

About two-thirds of the consumers are typically willing to switch supplier if they are dissatisfied with price, quality or other terms of delivery. Of those who switch supplier, about 75% achieve either a better price or improved terms of sale as a result.

In sum, the data indicate that significant gains are connected with customers exhibiting competition-based behaviour.

The above analysis is based on the consumers’ description of their typical buying behaviour. Both the expansion of the competitive behaviour and the possible gains achieved in this connection vary considerably in practice from market to market; see table 4, which describes buying behaviour for specific purchases on specific markets.

**Table 4: Consumer Behaviour on six Markets**

Percentage	Seeks information		Negotiates price or terms			Switches supplier		
	Yes	Saving	Yes	Saving	Better terms	Yes	Saving	Better terms
<b>Insurance</b>	74	81	31	78	80	40	84	73
<b>Eyeglasses and contact lenses</b>	46	72	18	82	55	31	63	39
<b>Package vacations</b>	85	55	11	74	51	40	36	13
<b>Small household appliances</b>	79	80	26	94	43	48	65	16
<b>Gasoline</b>	54	92	0	-	-	32	71	27
<b>Grocery items</b>	36	89	3	80	70	9	52	24

*Note: The calculation is based on several questions in the 'Consumer survey' which concern the consumers' most recent purchases on these markets. The market for the purchase of electric power is not included, as the screening question for the survey can cause uncertainty as to the composition of the population on this market.*

*Source: 'Consumer survey'.*

The consumers' behaviour on the markets investigated appears to be less competitive than the behaviour reported by consumers as typical. This indicates that the consumers are overestimating their willingness to seek out information, negotiate and switch supplier when asked in general, while they probably give a more realistic assessment when asked about their specific behaviour in connection with their most recent purchase.

On the markets investigated, most consumers seek information prior to the purchase of a package vacation, while most obtain savings from information-gathering in connection with the purchase of gasoline.

Similarly, most consumers negotiate and obtain better terms of sale in buying insurance, while most obtain savings by negotiating when purchasing small household appliances.

Most consumers switch supplier when buying small household appliances, while most obtain savings and better terms of sale by switching supplier when purchasing insurance.

On the markets investigated, the consumers are generally most active on the markets for small household appliances, package vacations and insurance, while they are least active on the markets for groceries, gasoline and eyeglasses/contact lenses.

There are both savings and better terms available to the consumer who is active and acts in a competitive way. However, not all consumers realize this potential because they do not seek out information, negotiate and/or switch supplier when undertaking a purchase. This indicates the existence of several barriers to consumers being active and acting in a more competitive manner.

The most important reason why consumers do not seek out information prior to their purchase is that they feel they have good pre-existing knowledge of the market. However, other factors such as security in using the same supplier and individual factors, including lack of time and motivation for seeking information, limit the consumers' search behaviour; see figure 14.

**Figure 14: Explanations given for not Seeking Information**

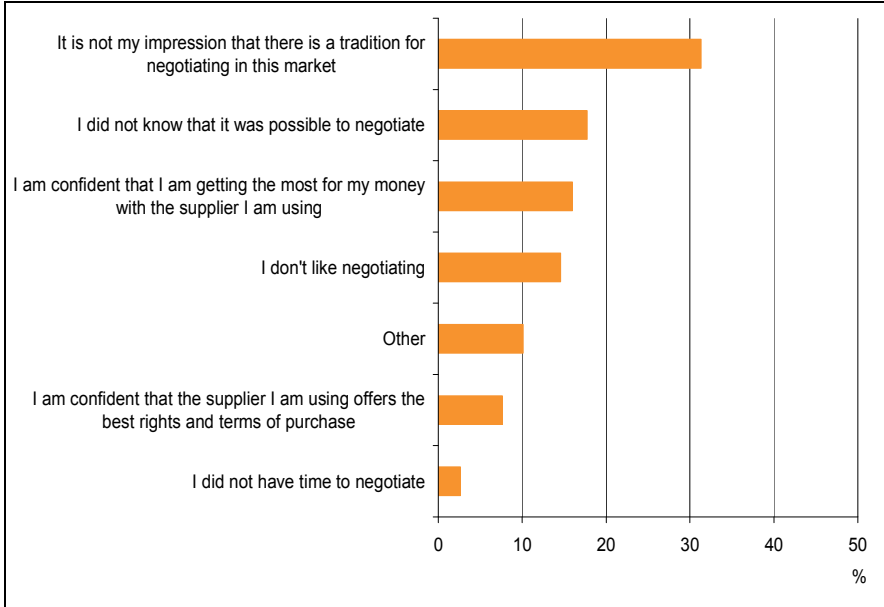


*Note: The calculation is based on detailed questions asking consumers why they did not seek out information in connection with their most recent purchases on the seven specific markets in the 'Consumer Survey'.*

*Source: 'Consumer survey'.*

The most important reasons given by consumers for not negotiating in connection with a purchase are centred around a lack of tradition for negotiating, which is manifested in a lack of familiarity with and/or desire to negotiate; see figure 15.

**Figure 15: Explanations given for not Negotiating**

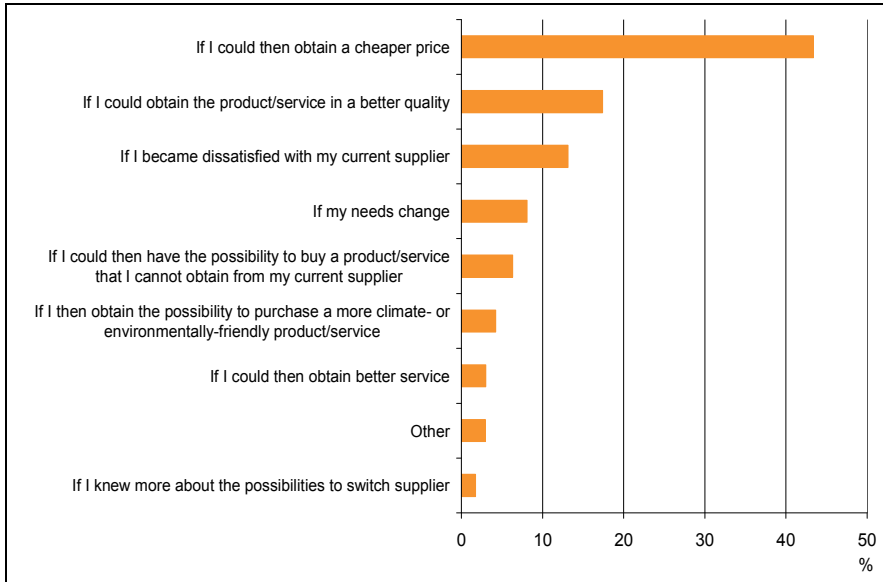


*Note: The calculation is based on detailed questions asking consumers why they did not negotiate in connection with their latest purchase on the seven specific markets in the 'Consumer survey'.*

*Source: 'Consumer survey'.*

Finally, the possibility to obtain a lower price or better quality and dissatisfaction with the previous supplier are among the most important causes for switching supplier; see figure 16.

**Figure 16: Explanations given for Switching Supplier**



*Note: The calculation is based on a question about what factors could encourage consumers to change their supplier.*

*Source: 'Consumer survey'.*

Even though a great proportion of the consumers are willing to switch supplier, the analysis of firms nevertheless shows that both customer and supplier mobility in Denmark is relatively low compared to Germany and the UK. The customers, either in the consumer chain or the manufacturing chain, tend not to put sufficient competitive pressure on their suppliers. Over 60% of Danish firms assess the customers' mobility as low, compared to about 50% in Germany and 40% in the UK; see table 5.

**Table 5: Customer and Supplier Mobility**

	Denmark	Germany	UK
<b>Customer mobility</b>	<b>100</b>	<b>100</b>	<b>100</b>
- Low	63	49	36
- Medium	31	42	44
- High	6	10	21
<b>Supplier mobility</b>	<b>100</b>	<b>100</b>	<b>100</b>
- Low	72	70	43
- Medium	26	25	44

*Note: The firms in the survey answered the following questions: 'How great is the replacement in the firm's clientele?' And 'Is there a great degree of replacement in the firm's network of suppliers?' Answers could be given in response values ranging from 1 to 7, where 1 is 'very small' customer or supplier mobility and 7 is 'very large' customer or supplier mobility. The table contains responses in the categories 1-2, aggregated to 'Low mobility', 3-5 as 'Medium mobility' and 6-7 to 'High mobility'. It is not possible to determine whether the firms' customers are largely private consumers or other firms.*

*Source: 'Survey of the firms'.*

A similar pattern applies to the firms' assessment of how frequently they change their suppliers.

Competitive customer-behaviour among firms when they act as buyers can thus contribute to strengthening the overall intensity of competition, in line with competition behaviour among consumers.







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