

Business Competition

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Competitive Advantage is a condition of which a company dominates other companies that sell the same product or services by making a greater profit.

Two ways to get a competitive advantage:

- a. To lower the costs of producing their product or service.
- b. To increase the amount of product or service sold.

Larger Profits through Lower Production Costs

Three ways a company can lower its production costs:

- a. By paying its workers less.
- b. By using better tools and faster equipment.
- c. By finding a cheaper source of natural resources.

Mass production

Mass production gave some companies a competitive advantage by providing efficiency to their work.

James Hill

Lower production costs by using better equipment and methods gave Hill's Great Northern Railroad a competitive advantage.

Other railroad companies began using Hill's methods because the Great Northern Railroad was able to charge the lower rates from these methods.

Vertical integration

Vertical integration is a condition that a company is able to control everything needed to make a product such as natural resources, transportation, and tools and equipment.

Vertical integration can lower production costs and give a company a competitive advantage by not paying anyone a profit for the materials needed for creating a product.

Andrew Carnegie

Andrew Carnegie's steel industry is a good example of how vertical integration can give a company a competitive advantage. He controlled everything he needed to make and sell steel products (buying land that contains iron ore, coal, & limestone; making favorable agreements with other companies to buy his steel for making wire, nails, and for constructions).

Larger Profits Through Increased Sales

Three ways to increase sales:

- a. To force other companies out of business.
- b. To lower the price of a product that is similar to other products.
- c. To offer a better product than other companies.

Eliminating competition

Price cutting can be used by a large company to increase sales by forcing smaller companies to be out of business by lowered prices.

Lower sales price

Lowering prices can increase sales by attracting more buyers.

Two examples of companies that lowered prices and increased sales:

- a. Hill's Great Northern Railroad
- b. Carnegie's steel company

Better products

Making better products can increase sales because buyers will buy a better product if it costs about the same.

Because finding a way to make a better product costs more money, companies don't like to do it.

The Benefits of Competition

Two ways consumers can benefit from competition:

- a. Getting lower prices
- b. Getting better products

Railroad companies lower rates to cities served by other railroads and increase rates to cities served by only one railroad because of competition.

Businesses and the Four Stages of Cooperation

Bankrupt means not having enough money to pay debts.

A **depression** is a time when many companies decrease production and many people lose their jobs.

A **boom** is a time when companies make large profits and expand.

Too much expansion

Businesses expanded because there was a large demand for many products to make more profits.

When factories produce more products than they can sell, they cannot make enough money to pay their production cost and repay their loans.

Bad loans are the loans a company cannot pay back to the banks.

Too many bad loans can cause a bank to go out of business.

Two things banks did if they were worried about bad loans

- a. To stop making as many loans.
- b. To demand their loans be paid back immediately.

As a result of these bank's actions, more companies went out of business and banks then had even more bad loans.

The depression of 1873

When railroad companies borrowed huge amounts of money to build thousands of miles of new track, they started the depression of 1873.

The effect of this led the largest private banks in the U.S., railroad and manufacturing companies, other companies that sold supplies to the railroad companies went bankrupt. Many people lost their jobs due to the decrease in production.

Businesses Cooperate to Decrease Competition

The first stage of cooperation

Business owners began to discuss ways to decrease competition so that they could all continue making a profit.

The second stage of cooperation

Pools limited competition because large businesses that produced the same product agreed how much each company would produce and charge for its products.

Because the pool agreements were voluntary, companies broke them after the depression ended and companies started selling more products.

The railroads servicing St. Louis and Atlanta used a pool agreement to limit competition by giving each railroad a certain amount of goods to transport.

Cornelius Vanderbilt

Vanderbilt's New York Central Railroad connected the Great Lakes, Chicago, and Omaha (Nebraska).

Using pool agreements allowed Vanderbilt's New York Central to charge lower rates because shorter railroads between different big cities agreed to work together to form one long railroad.

The third stage of cooperation

The problem with pools was that companies could break them any time they wanted.

A **trust** is a group of businesses run by a single board of directors called trustees. It was a new type of agreement to limit competition on a regular basis, not just during a depression.

A petroleum industry trust

The primary use of petroleum during the last half of the 1800s was to burn in lamps to give light.

An oil refinery did a process of changing petroleum into kerosene or other more usable fuels.

Two ways that Rockefeller gained a competitive advantage:

- a. Price cutting
- b. Rebate

Forming a trust helped Rockefeller by eliminating competition and gaining more control over the petroleum industry.

Railroad companies also created trusts

Formation of a trust affects consumers to suffer from high prices due to lack of competition.

Other trusts

Several industries that formed trusts: producers of cottonseed oil; salt companies; sugar companies; the lead companies; the match companies; the rubber companies; and the whiskey manufacturers.

The fourth stage of cooperation

A **holding company** is a company that does not legally own enough of business to control what the business does but owns part of many businesses that operate each business.

The Northern Securities Company

Northern Securities Company is an example of a holding company, and it controlled the railroads in the West.

The competition between James Hill in the Great Northern Railroad and Edward H. Harriman in the Southern Pacific, Kansas Pacific, Union Pacific, and Texas Pacific Railroads created a problem of lowering the profits of both companies because competition forced both to lower rates further and further.

The Northern Securities Company solved Hill and Harriman's problem by legally joining their companies to form a single holding company, the Northern Securities Company.

This holding company affected the consumers of the Northern Securities Company because no competition made the price jump tremendously.

Business Cooperation Leads to Monopolies

A **monopoly** is a condition that one company controls nearly all of one type of product or service.

A monopoly affects the consumer by resulting in higher prices.

Monopolies

The well-known monopolies of the late 1800s:

- a. The Northern Securities Company (railroad transportation)
- b. Standard Oil (oil-refining)
- c. Bell Telephone Company

The Depression of 1893 Results in More Monopolies

The depression in 1893 started from the same reasons as the depression in 1973 (too much expansion and the production of more goods than could be sold).

J. P. Morgan took advantage of the depression by buying ownership of the many bankrupt railroads.

J. P Morgan also formed the basis for the U.S. steel monopoly.

Utility companies provide water, electricity, and sewage services.

Big Business Tried to Dominate Government

The authors of the Constitution did not give the federal government many powers because they wanted to prevent any leaders from making laws that would dictate how people had to live.

In the late 1800s, the federal government controlled four basic activities:

- a. Making treaties with foreign countries
- b. Creating a military to protect the U.S.
- c. Setting tariffs on imports to the U.S.
- d. Regulating trade between the states

Tariffs can help American businesses by protecting from competition outside the U.S.

Tariffs can hurt consumers because they had to pay higher prices.

Three groups of persons who had problems with big business owners:

- a. Owners of small businesses
- b. Workers
- c. Consumers

Two things big business owners wanted government to do:

- a. To keep high tariffs
- b. Not to interfere with how they did business

Three Different Levels of Government

The three levels of government:

- a. Local
- b. State
- c. Federal

Federal government had control over business in controlling **interstate commerce**.

Getting Government to Support Business

A **bribe** is a secret payment to people to get them do something dishonest.

Three ways that wealthy business owners got government to support them:

- a. By helping elect the politician who would support the interest of big business
- b. By becoming politicians themselves
- c. By bribing politicians to vote a certain way

Big Business Influence at the Local Level

City councils made decisions such as how much to spend on street construction and how many policemen and firefighters to hire.

City councilmen offered bribes to get contracts for their companies to do work for the city or sell supplies to the city.

The problem of using patronage to select someone to do a job is that there is no effort to hire the person that can do the best job.

Businessmen were willing to use bribes to get contracts for utility service because no competition allowed the company to charge high rates and make large profit.

Big Business Influence at the State Level

State governments supported business interests by not passing laws that interfered with business or forcing them to help solve problems they created because wealthy business owners could get their supporters elected to the state legislature.

The government in some states tried to control the rates of railroad companies because their economies were based on farming that depended on the railroads to ship them supplies and to transport their products to market. This attempt was not successful because state governments and the commissions could not control the railroad company operated in more than one state.

Big Business Influence at the Federal Level

Two ways that the federal government supported big business interests:

- a. By always voting to keep tariffs high on imported goods
- b. By passing weak laws that really didn't hurt businesses

The Supreme Court weakened the laws to control big business by often making rulings that decreased the effects of a law with a favor of the interests of big businesses.

Legislators wrote laws that couldn't be enforced because they didn't specify penalties or how the law would be enforced.

Interstate Commerce Act

The Interstate Commerce Act wasn't effective because it did not provide for any punishment for railroad companies that violated the law.

The Sherman Antitrust Act

The Sherman Antitrust Act wasn't effective because the U.S. Congress made the law unclear on purpose.

The Pendleton Act

The Pendleton Act was passed to limit the patronage system. But it was not successful because it only limited 12% of the federal employees to pass a written ability test.

A **Civil Service Exam** was a written test for government jobs.

The Positive Effects of Big Business

The country as a whole was much wealthier in the late 1800s.