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Competition and Profitability Adjustments in International Food and Consumer Products Industries

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Shareholders and management are increasingly concerned with how the global economy can affect market competition in terms of the speed of profitability adjustment. Because of globalization, firms in industrialized countries face similar threats and opportunities and consequently should tend to earn similar rates of profit.

This study focuses on global firms in the beverage and tobacco industry and the food and consumer products industry. For these two industries, the forces of global integration are strengthening, driven among other forces by the growing proliferation of regional and global brands.

We use an approach for analyzing profitability adjustments which was initially developed for the banking industry. Our model has been further developed to account for spatial and size effects. The

research examines whether the speed of profitability adjustment varies across internationally separate markets and across firm size within an industry in light of an increasingly global economy.

An important consideration is the impact of globalization and, thus, international market competition. The speeds of profitability adjustment across countries are expected to be similar because of international market competition. Another important consideration is the effect of monopoly rents. The number and size of firms in an industry largely determine the structure of the industry as reflected in price and profit levels. Firms with persistently high profits and, thus, slower speeds of profitability adjustment are expected to have large market shares.