Characteristics of oligopoly market and the supermarket industry in the uk

The supermarket industry in the UK -Oligopoly Market

The leading supermarkets in the UK commonly are known as the ‘ big 4’, Tesco, Sainsbury, Asda and Morrisons. (oppapers, n. d) It is not doubt that the UK supermarket industry is an oligopoly market because the industry fits the characteristics of the oligopoly. According to Anderton (2008: 322), ‘ An oligopolistic market is one where a small number of interdependent firms compete with each other’. The UK supermarket industry is a dominant example of it. Anderton also points out oligopolistic market share a number of characteristics that the industry fits of them. First, there are only four large supermarkets in the market. Second, barriers to entry tend to be high. Third, competition in the UK supermarket industry tends to take the form of non-price competition. Fourth, firms are interdependent. For example, the actions of Tesco will have a direct impact on other forms. Some researches show that supermarkets in the UK have advantages for consumers, which include more products that are functional and special service such as home shopping service. However, this market structure creates a situation that is more disadvantages for consumers as collusion and high market share.

The noted benefits of the market structure for consumers are the innovations of the industry and economies of scale. First, as AmosWEB (n. d) indicates that the innovations such as advance the level of technology, expand production function, increase economic growth are likely been developed by oligopoly and the motive of innovations comes from interdependent competition. According to the Anderton (2008: 328), Supermarkets keep a close eye on the activities of other firms in the industry. Anderton (2008: 328) also points out, the kinked demand curve model below assumes that if one firm increases its price, the other firms will react asymmetrically to a change in the price. As a result, the supermarket would not increase their price to earn more profits. Therefore, prices in oligopolistic markets seem not to change as much as perfectly competitive markets, which call price rigidity. (Anderton, 2008: 323) The supermarket have to innovate so that they can improve their technology such as self-scanning machines, create some new productions for consumers and lead them to higher living standards.

Secondly, non-price competition is a main characteristic of the UK supermarket industry and has some advantages for consumers. In oligopoly, the marketing mix is epitomized in the ‘ 4Ps’- price, place, product and promotion. If one firm in this marketing structure wants to earn more profits, it has to take away sales from other firms. Thus, supermarkets will tend to produce products, which needed for their consumers, and offer some special services. According to tutor2u (n. d), there are some examples can show that consumers have benefit from it. For instance, store loyalty cards, home delivery systems, discounted petrol at hyper-markets, extension of opening hours (24 hour shopping in many stores) and internet shopping for consumers. As Supermarket (2008) found that Asda continued to improve its home shopping service. Asda is the UK’s second biggest food home shopping business online and now covers more than 90% of the UK population. In order to meet demand in Christmas, Asda has increased plenty of delivery slots by 40% compared to 2007. Non-food products are also been offering to on-line shoppers by the supermarket in the UK. Therefore, the UK supermarkets indeed have benefit for consumers.

However, the UK supermarket industry has several problems. The main disadvantage for the consumers is collusion. If one firm wants to increase the price in this market structure, it will not gain more profit because other firm will not react. As a result, firms may collude to set price. Collusion is two or more firms secretly agreed to control the prices, production or other aspects of the market. When the firms do so, collusion means the firm's behavior tend to be a monopoly. Thus, they can set a monopoly price monopoly quantity produced, and allocate resources are inefficiently as monopoly. (Anderton, 2008: 323) Major supermarkets in the UK have large amounts of power and may even collude to set prices, which is illegal. If the firms collude to set price, consumers need to worry about not only the high prices but also the possibility of a low quality product.

As Harry (2007) reported that according to the Office of Fair Trading, ' Britain's biggest supermarkets have been fixing the prices of milk, butter and cheese at a cost to the consumer of £270 million.' Because of colluding with five leading dairy producers to raise the prices of milk, butter and cheese between 2002 and 2003, Asda, Morrisons, Safeway, Sainsbury's and Tesco were accused by the OFT. Andrew Groves, the leader of OFT investigation, said that Collusion between retailers is a serious illegal behavior and any exchange of information between retailers is certainly change prices so that the consumers become sufferers. (Harry, 2007)

As Barriers to entry in the supermarket industry are extremely high, four main UK supermarkets have sharing the massive market. Small retailers are hard to compete with large supermarkets and survive although the government will incentives them such as grants and tax relief. (Socyberty,

2007) Alexander (2008) points out that the ‘ High Street 2015’ reported ‘ the erosion of the small shop is likely to have a catastrophic impact on future consumer choice.’ Consumers will be the biggest losers because limited choice of store brands, limited choice of available products, and limited choice of shopping locations, higher prices and reduced consumer service are the possibilities in 2015. Therefore, consumers’ choice is reducing and may lose their benefits.

To sum up, the supermarket industry in the UK is less to the benefit of consumers. The firms in the supermarket industry are able to collude and set price. It is bad for the market to adjust the price. The demise of the small shop would mean that consumers would be disadvantaged. However, in oligopoly market, not all the structure is bad for the consumers. The market competition between the supermarkets can improve the technology in logistics and creations new productions to decrease the cost. If the government interventions are able to use more efficient to prevent collusion, then the price of the production will be more stable and available. If the government can have more policy to protect the small shop for the convenience of consumer, the supermarket industry will be more benefit to the consumer.

References

Alexander, A; Bailey, A; Hamlett, J and Shaw, G (2008) [Online]

Regulating UK supermarkets: an oral-history perspective

http://www. historyandpolicy. org/papers/policy-paper-70. html

(Accessed: 25th February 2010)

AmosWEB Encyclonomic WEB*pedia (n. d) [Online] oligopoly http://www. amosweb. com/cgi-bin/awb_nav. pl? s= wpd&c= dsp&k= oligopoly (Accessed: 4th February 2010)

Anderton, A. (2008). Economics (5th Edition) Harlow: Pearson Education

Harry W (2007) [Online] UK supermarkets ‘ fixed milk and cheese prices’ 2007

http://www. telegraph. co. uk/news/uknews/1563663/UK-supermarkets-fixed-milk-and-cheese-prices. html (Accessed: 7th February 2010)

Socyberty (2007) [Online] Government Intervention In The UK Supermarket Industry

http://socyberty. com/economics/government-intervention-in-the-uk-supermarket-industry/ (Accessed: 25th February 2010)

Supermarket (2008) [Online] Middle class bargain hunters boost sales at Asda

http://www. supermarket. co. za/news_detail. asp? ID= 1082

(Accessed: 6th February 2010)

Tutor2u (2004) [Online] A2 Economics

http://www. tutor2u. net/economics/revision_focus_2004/A2_Oligopoly. pdf)

(Accessed: 7th February 2010)

Tutor2u (n. d) [Online] oligopoly

http://tutor2u. net/economics/content/topics/monopoly/oligopoly_notes. htm

(Accessed: 6th February 2010)

Uk Grocery Market (n. d) [Online] Uk Grocery Market

http://www. oppapers. com/essays/Uk-Grocery-Market/157719

(Accessed: 30th January 2010)