

Tesco and the uk oligopolistic market economics essay



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In the UK, supermarkets are the main places for customers to buy food and daily articles for use. The scales of these supermarkets are very big and they also provide customers with diverse and wide selection goods such as vegetables, fruit, meat, stationery, televisions and computers (Somucheasier, 2010). Chain supermarkets can be easily found all over the country and big scales of supermarkets also spread in every city (Baidu, 2010). Tesco, Sainsbury and Asda are three main companies in the UK supermarket industry (Somucheasier, 2010). For example, Tesco is the largest retailer in UK by both global sales and domestic market share (Baidu, 2010). At the end of 2006, the turnover of Tesco had reached to £3.83 billion (Baidu, 2010). Tesco is the third largest global retailer in the world which just behind Wal-Mart and Carrefour (Baidu, 2010). Oligopoly is one kind of market structure (Anderton. et al, 2008: 298). There may be a large number of firms, but most are small and relatively unimportant, while a small number of large firms produce most of the outputs of the industry (Anderton. et al, 2008: 298). The supermarket industry in the UK could be described as an oligopoly market because it accords with three key characteristics of an oligopolistic market. Firstly, in an oligopolistic market, there are only a few major competitors in the market, so they control the supply in the industry (Anderton. et al, 2008: 322). Secondly, firms should be interdependent, because firms collaborate to charge the same price as each other (Anderton. et al, 2008: 322). Thirdly, there are barriers to entry to the industry, so they can prevent other firms from taking advantage of the abnormal profits characteristic of oligopolies (Anderton. et al, 2008: 322).

Customers can benefit from this kind of market structure because of the advantages of oligopolistic market; however, they may also lose their benefits because of the disadvantages of oligopolistic market. This essay will explain the advantages and disadvantages of an oligopoly structure and the appropriateness of that structure to the British supermarket industry.

Body

It is widely believed that there are many advantages of oligopolistic market, thus customers can benefit from this kind of market structure, for the following reasons.

Firstly, in an oligopolistic market, price is often not the most essential factor in the competition, which means non-price competition (Anderton. et al, 2008: 322). For marketing their products effectively, firms should think of their market mix which is known as 4ps (Anderton. et al, 2008: 323). First, firms should pay close attention to the features of products to make sure their products are meeting the needs of their customers. Second, the price of products must not only fit in with the nature of products themselves, but also fit the way in which they are being promoted and distributed to customers. Third, promotion should take account of products and help firms gain new customers or retain existing ones. Fourth, products need to be available to customers in the right place (Anderton. et al, 2008: 323).

Secondly, according to Anderton et al (2008), many markets are dominated by brands. A branded good which has a unique formulation and unique design can appear thousands of customers, because a successful branded

good can give buyers the imagined characteristics of the product in their minds (Anderton. et al, 2008: 323). For

example, the Tesco originally specializing in food and drink, but now, it has diversified into areas such as clothing, financial services, telecoms, car insurance and so on, because it can follow consumers' different demands to enlarge its scale (Tesco plc, 2010).

Thirdly, in the oligopoly market, price seems to be rigid. As Anderton et al (2008) points out, in the kinked demand curve (Figure 1), there will be an asymmetrical reaction to a change in price by one firm. For instance, if one firm increase its price in order to make much more profit, however, other firms disregard it, thus, the firm which has increase its price will lose its market share. On the contrary, if one firm decreases its price, other firms will also reduce its price in order to prevent the erosion of market share (Anderton. et al, 2008: 328). Because of the price rigidity, firms would like to improve their profit; therefore they need to make a development and innovation in their services. The key to this process is gaining information about their customers and constantly communicating new products to them.

Figure 1

Therefore, based on these three reasons, customers can benefit from oligopolistic market.

However, not all the things come well; there are also some disadvantages of oligopoly. Firstly, Anderton et al (2008) argues that collusion is very common in oligopoly market. There is a very strong incentive for collusion firms-

restrict competition and maximize their own benefit(Anderton. et al, 2008: <https://assignbuster.com/tesco-and-the-uk-oligopolistic-market-economics-essay/>

323). The prices charge by oligopolistic firms is always higher . There will be potential buyers who would like to use the oligopolistic firms' products but cannot afford the profit maximizing price set by oligopolistic firms. Secondly, there are only a few competitors in the market (Anderton. et al, 2008: 322). Thus, the degrees of competition ability aren't big, which

means oligopolistic firms can hardly target diverse customers and provide them with differentiated products. Therefore, customers may lose their benefits from this kind of market structure.

Conclusion

In summary, oligopolistic market has both advantages and disadvantages, therefore firms should make good use of the advantages of oligopolistic market to guarantee consumers' interest and avoid its disadvantages.

Despite the disadvantages of oligopolistic market, firms can use the market mix to product goods effectively and take advantage of their brands to attract thousands of devoted customers; moreover, they can also make a development and innovation in service. However, if the firms in oligopolistic market can avoid their disadvantages, they can do better. They should not always charge higher price for customers and target diverse customers to provide them with differentiated goods. By doing these, consumers can benefit from this kind of market structure.