

Is tesco's contestable essay sample



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A contestable market is when there are no costs for businesses who are wishing to enter and exit their market. So in the oligopoly market that's Tesco's and their rivals businesses are in, they wouldn't be considered "contestable" because it would cost many businesses wanting to enter the market a lot of money. The reason is because many businesses nowadays, their main aim is for them to be the market leader, as Tesco's are at present.

Several years back when Tesco's first broke into the market, there weren't many competitors competing with them, so they were gaining all the attention in terms of revenue and profit. So this would mean that Tesco's was a monopoly so businesses wishing to enter the market then, would be that they had a costless barriers to entry because of Tesco's only being in the market at that time. That, I think would be considered contestable.

These are the different aspects where I would say what a contestable market is and how Tesco's fits into that criteria.

Homogenous goods- this is where goods that many of the retail companies produce have to be of the same sort.

Good knowledge- many of the retail competing at the same level, has to have a good knowledge of the business industry and the market that many of these competing against. Also these companies have to have a decent knowledge of each other. What they're doing to attract customers buying from their store. Tesco's has taken this into account by having a good knowledge of their competitors and also the business industry that's why they are now market leader in their market which would be very hard for their competitors to compete against.

Competing with their rivals- As for Tesco's their competitive strategy isn't based on their prices; it's really based on their promotion and products. As for now Tesco's don't really have to compete on their prices because they have made enough revenue and profit that they could ever think of so competitive pricing isn't really important to them. I think advertising and having quality products is a way where Tesco's would want to compete with their rival s where they could attract customers in buying from their store.

Change as market leader- Not so long ago it was acknowledged that Sainsbury's was the market leader at that time but because of Tesco's competitive and long term strategies that's why they have overtaken Sainsbury's to a great extent that it would be difficult for any of their rivals in overtaking them as being market leader.

Freedom to entry- There is a freedom to entry in the market that Tesco are in but it would be very difficult for any new business in being in the same league as the rest of Tesco competitors simply because the other businesses are already recognised and as a result be difficult for them to expand their business.

Expenses in advertising their business- As for many businesses the advertising aspect of it is very important because depending on how you advertise your business that's how customers would be attracted to the business. Tesco uses their " Every Little Helps" brand which many customers are now use to. So for many new emerging businesses wishing to enter the market would have to advertise their business to a certain extent that which attract customers.

Expanding overseas/new markets- Tesco now have become a major success now than ever before that they have now varied their product line. They have now gone from selling food products into selling "white goods" such as fridges, cookers, microwaves, DVD's, TV's and other white goods. They have gone into offering financial services also.

Tesco have expanded their business globally in order to gain a world-wide recognition from their customers and also in order for them to make profit which is what they would want.

As for Tesco's if they are making supernormal profits as they are now, this would be the signal for others to enter the market at no cost.

There are also different aspects in place to prevent the use of unfair pricing by established businesses such as Tesco's to stop potential businesses from entering the market.

These are other examples of contestable markets in the UK:

- . Local bus and rail services
- . Public services such as: electricity, gas and water supplies
- . Telecommunications, particularly through the choice of network suppliers.

To conclude, I would say that the market that Tesco's and their rivals are in which is an Oligopoly, isn't contestable because at present, many businesses who want to enter the market would have to pay a substantial cost in order for their business to open.

Due to the small amount of businesses in the oligopoly market new entrants will have to work even harder in order for them to make their business known for customers. As for new businesses the cost would be much higher now than before due to new technology and also due to the success of their current rivals for e. g. Tesco.

In a contestable market there are no initial cost incurred upon entering the market in contrast to an oligopoly where there are high costs that have to be paid. In summary an oligopoly is not contestable due to the different factors mentioned.