Analysis of sporstwear

Business, Marketing

Case I. COMPETITION HITS SPORTSWEAR GROUP’S PROFIT 1. Explain why the sportswear industry in JJB operates may be considered an example of monopolistic competition. Textile Intelligence Reports in 2007 indicate that the UK sportswear market was estimated to have a value of ? 3. 65 bn (US$6. 72 bn) in 2006. The reason behind is that, purchase levels are high. Sportswear items are purchased by almost 90% of people under 35 years of age, and by 76% of the population as a whole according to the research.

UK sportswear industry can be considered a monopolistic competition in the sense that there are only about four leading sportswear retailers in the United Kingdom: JJB Sports, Blacks Leisure. John David Group and Sports World. The dominant player in the market is JJB sportswear given the number of outlets and stores it operates 450 stores, the closest is JDB by around 300 stores. Given the wide gap, JJB at some point has control of the control of the entire market sales and distribution and posed a barrier of entry. [pic] Illustration from: http://www. ized. co. uk/current/leisure/2004_5/111004_map. htm Given the above, characteristic of a monopolistic competition exist in this industry. The characteristic of monopolistic market is further expanded on Question 2. In this case of UK sportswear market structure is a pure monopoly. There are quite a number of sellers in the industry and therefore many close product substitutes in existence but nevertheless firms like JJB retain some market power. 2. How does the monopolistic market structure exemplified in the article differ from perfect competition?

Below are two comparable sets that differentiate monopolistic market from perfect competition: | Perfect competition | Monopolistic competition | | Many

sellers – | Single seller - | | Each firm is relatively small compared to the overall size of the | Monopoly exists when a specific firm has sufficient market/industry | | market.

This provides assurance that no single firm can gain control | control over a particular product or service and able to determine | | over price or quantity of the entire market or industry. If one firm | significantly the terms of quality and price by which all buyers will | | decides to increase its output or shut production, the market is | have access to [similar to JJB case] | | unaffected. The market price does not change and there is no distinct | | | change in the quantity purchased or exchanged in the industry. | | Identical / " homogeneous" products sold by all firms – | Unique product – | | Each firm in a perfectly competitive market sells an identical | For a monopoly to exits, there should be a unique product. Monopoly | | product, they are not perfectly the same but the buyers will not | lacks in providing a practicable substitute goods. | | distinguish any difference.

Each competitive firm produces a good that| | | is a perfect substitute for the product of every other firm in the | | | same industry. | | | Price Taker - | | | As a result not one can control market price.

If one tries to charge a| | | higher price, then buyers would immediately switch to other cheaper | Price Maker- | | competitor goods that are perfect substitutes. | Since there is no competition, prices are set to maximize profits. | | | However in order to increase sales, prices are reduced by the firm. | Low-Entry/Exit Barriers – | High Barriers of Entry/Exit – | | There are no restrictions, government regulations. Each can do a | There is an assurance

of sufficient control and dominant presence due | | start-up cost according to their own resources as long as their output| to a number of assorted reasons for barriers to entry: (a) required | | can perfectly compete and match competitor’s quality and price. government license or franchise as monopoly is often times regulated | | |(b) existing patents and copyrights and (c) high start-up cost needed | | Perfect Information – | Specialized Information – | | As mentioned in point 2, one firm cannot sell its good at a higher | Commonly characterized by control of information. Monopolistic firm | | price than other firms.

This follows that buyers are completely aware| held exclusively information like a secret recipe, formula or unique | | of sellers' prices. Each firm also has complete information about the | method ortechnologyor production which is often protected by | | prices charged by other sellers. This means that it would be unlikely | patents, copyrights, or trademarks. This also creates legal barriers | | for them to charge less than the current market price. Perfect | to entry. | | knowledge also extends to technology.

All perfectly competitive firms | | | have access to the same production techniques. There is a remote | | | possibility that a competitive firm can produce its output faster, | | | better, or cheaper because of special knowledge of information. | | | Nicholson, Walter (2005) | | [pic] Also, For a competitive firm, price equals marginal cost. P = MR = MC • For a monopoly firm, price exceeds marginal cost. P ; MR = MC 3. In the long run, are firms better off operating in monopolistic competition or in perfectly competitive markets? Long-run effects of increasing competition in the monopolistically

competitive industry: In the long run, a monopolistically competitive firm will make zero economic profit. However, due to influence in the market it can most of the time raises prices without losing customers but to deflect new entrants, it can lower its prices and leverage on customerloyalty.

This means that a firm making profits in the short run will break even in the long run because demand will decrease and average total cost will increase. Also means that a monopolistic firm's demand curve is downward sloping, in contrast to perfect competition, which has a perfectly elastic demand schedule. See illustration in item #2. Long-run position of a firm in a perfectly competitive industry: In the long run positive profit can not be sustained as there is always arrival of new firms or expansion of existing competitive firms.

This causes the demand curve of individual firm to shift downward and prices to go downward as well. This means that at the same time the average revenue and marginal revenue curve also points downward. Bottom line, in the long run similar to monopolistically competitive industry, the firms in perfect competition in the long run will also make a normal profit. The horizontal demand curve will touch its average total cost curve at its lowest point Conclusion: When the long-run average cost exceeds long-run marginal cost, JJB’s output is not at the minimum point on long-run average cost curve.

JJB can sell sportswear at a lower price in the long run and by taking advantage of economies of scale, such as price discounts. Therefore is not much difference between monopolistically competitive firms vs. Long-run

position of a firm in a perfectly competitive industry. The difference lies mainly on the product (homogenous vs. unique) and influence in the market. 4. JJB states that their " profit margins were hit by a vigorous promotional campaign launched in October and a Christmas/New Year sale".

Illustrate how the promotional campaign is likely to affect their profit margins. Before the promotional campaign: [pic] • Similar to a competitive firm, a monopoly maximizes profit by producing the quantity at which marginal cost and marginal revenue are equal • Above graph is the scenario of JJB prior to price promotional campaign to ward off growing competition. After the promotional price campaign: [pic] • During the promotional campaign, the price maybe less than average cost causing the decline in JBB's profit. • This gives no incentive for JJB to reduce cost.

References: McTaggart, Findlay and Parkin (2007), Economics (5th ed.) PearsonEducationAustralia Publisher Nicholson, Walter (2005) Microeconomic Theory: Basic Principles and Extensions 9th edition, Ceneage Learning India Pvt Ltd Publisher PERFECT COMPETITION, CHARACTERISTICS, AmosWEB Encyclonomic WEB*pedia, [Online], Available: http://www. AmosWEB. com, AmosWEB LLC, 2000-2009. [Accessed: September 12, 2009] MONOPOLY, CHARACTERISTICS, AmosWEB Encyclonomic WEB*pedia, [Online], Available: http://www. AmosWEB. com, AmosWEB LLC, 2000-2009. Accessed: September 12, 2009] Antony Davies & Thomas Cline (2005). " A Consumer Behavior Approach to Modeling Monopolistic Competition". Journal of EconomicPsychology26: 797–826 [pic] ---------------------- Average Total cost e d [pic] c Marginal Revenue Marginal cost Demand Revenue Costs and 0

QMAX Quantity Total cost Average Price Demand Price 0 Quantity of Output Price 0 Monopolist's Demand Curve' Competitive Firm's Demand Curve Demand Quantity of Output Average total cost Marginal cost Demand Price Loss 0 Quantity Price Promotion Total cost Average Profit