

Benefits of the oligopoly structure to consumers



(Tutor2U, 2007) An oligopoly market is a market construction which portions a big per centum of the market by a few houses. It consequences in a high grade of market concentration. An of import feature of an oligopoly is interdependence between houses. Bing mutuality agencies that each house must be careful of the likely reaction of other houses in the market when doing pricing and investing determination (Tutor2U, 2007) . In add-on, oligopoly market is barriers to entry and non monetary value competition. It means by increasing market portion without altering monetary value, which can take the signifier of persuasive advertisement, quality of service, trueness strategies, free gift and packaging (The pupil room, 2005) . Harmonizing to the feature of oligopoly above, this is shown in the UK supermarket industry, as the diagram shown (Tutor2U, 2007) ; there are three chief supermarkets which are Tesco, Sainsbury 's and Asda. The chief supermarkets are now holding more than three quarters which is 72 % of the food market market. For the intent of this essay, it will be a treatment about the market construction of the UK supermarket whether it provides some important benefits for consumers.

There are merely few supermarkets with similar merchandises in oligopoly market. Because most nutrient industry will provide to the full supermarket, such as Kellogg 's and Heinz (Just nutrient 2010) . The supermarket produces its ain generic or own-label goods for some merchandises. They have produced their own-label merchandise ranges from nutrient to some basic attentions. For illustration, Tesco planed to widen its `` Finest '' to include a scope of homecare. `` Own-label gross revenues generate 38 % of Sainsbury 's entire gross, with its Taste The Difference premium scope

estimated to lend between i?? 200m and i?? 300m ". However, many of these generic merchandises are made at the same mill, and are merely labelled otherwise for the different shops, so this is a false distinction of merchandises. This means that all of the merchandises available for sale in the different supermarkets are the same, which is one of the characteristics of an oligopoly (Tutor2U, 2007) . Therefore, consumers do non hold any picks because there are merely few large supermarkets in the market, which are selling the same merchandise with different bundle. It is a negative side for consumers.

In add-on, the houses charge the same monetary value in an oligopoly (PEOI, 2000) . However, the UK supermarket providers have the same merchandises are supplied to the houses. Therefore, the cost of all the supermarkets will be the same as each other. For illustration, the Cravendale Fresh Filtered Semi Skimmed Milk was priced as i?? 1. 05 in Sainsbury 's. However, Asda sold it as 86p (Mysupermarket Insights, 2000) . All in all, this theory of oligopoly of supermarket construction can supply some benefits to consumers as they can hold a more valuable monetary value by comparing different monetary value of the chief supermarkets. However, the merchandises which sole in the supermarkets are all really similar monetary value.

Firms compete on monetary value in an oligopoly market. Therefore, they can go a monetary value shaper and doing higher net income. This characteristic can ensue in the 'price wars ' where one supermarket has monetary value cuts in its goods and other house will follow this state of affairs (Wisegeek, 2003) . For case, Morrisons has fallen to 57p/kg and

59p/kg of bananas. After Morrisons publicity, Tesco has besides made some monetary value cuts, deserving i?? 1. 2bn. Last, Asde sells two million kgs of bananas a hebdomad by bear downing 46p/kg, which is the lowest monetary value in 14 old ages (Mailonline, 2000) .

The monetary value competition can be shown in the Kinked Demand Curve (Economics aid, 2003) . If the monetary value rise from

(Economicss aid, 2003) P1 to P, so houses will lose a big portion of the market because they become uncompetitive. If houses cut the monetary value down, houses can derive a larger market portion. However, other houses will cut monetary value excessively. Therefore demand is inelastic for a monetary value cut.

In a monetary value war, Tesco had a monetary value cut which was between 3 % and 25 % price reduction publicity. This could ensue in increasing 12 % market portion in eight hebdomads. Therefore, consumers can be less by holding this monetary value competition as there are many different publicity and monetary value war which should supply benefit to consumers.

Furthermore, supermarkets need to vie other ways besides monetary value. It means supermarkets should increase market portion without altering monetary values. This can be shown in `` persuasive advertisement, quality of service, trueness strategies, free gifts, packaging and impermanent monetary value decreases " , which are required to pull consumers (The pupil room, 2005) . Therefore, these factors are aimed to adhere consumers to peculiar supermarkets for grounds other than monetary value. First,

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harmonizing to research informations from Nielsen media Research, `` Sainsbury 's spent some i?? 9. 97m compared to Tesco which spent i?? 7, 3m `` . However, with Asda passing some i?? 4. 23m, the two giants of the UK supermarkets still extremely cost in advertisement (CBI Interactive Inc, 2000) . The more advertisement is shown to consumers, the more possibility to pull and give information to the consumers. Second, research by Baruch College 's concern school in the US has found that, `` western consumers are more prefer to endow that reword trueness and backing than pure fortune or cover wages `` . So, consumers may experience happy to pass money by acquiring price reduction. Besides, the bigger the price reduction of the trueness card, the better attractive of consumers. Consequently, as there are besides some other factors that can act upon consumers in an oligopoly market. It means consumers can derive different benefits from this non-price competition between houses.

Consequently, although consumers do non hold many picks as there are merely few large supermarkets, and monetary values are indistinguishable in some ways, consumers still can hold benefit which is provided by oligopoly market. As consumers can hold lower monetary value merchandise by the monetary value competition. In add-on, the mutualist houses compete in other ways, for illustration, discounting, advertisement, and quality of service, which are give consumers a more valuable consideration. In this instance, the oligopoly market construction creates a state of affairs that is good to the consumers.