# Oligopoly structure of markets beneficial to the consumer

(Tutor2U, 2007)An oligopoly market is a market structure which shares a large percentage of the market by a few firms. It results in a high degree of market concentration. An important characteristic of an oligopoly is interdependence between firms. Being interdependence means that each firm must be careful of the likely reaction of other firms in the market when making pricing and investment decision (Tutor2U, 2007). In addition, oligopoly market is barriers to entry and non price competition. It means by increasing market share without changing price, which can take the form of persuasive advertising, quality of service, loyalty schemes, free gift and packaging (The student room, 2005). According to the characteristic of oligopoly above, this is shown in the UK supermarket industry, as the diagram shown (Tutor2U, 2007); there are three main supermarkets which are Tesco, Sainsbury’s and Asda. The main supermarkets are now having more than three quarters which is 72% of the grocery market. For the purpose of this essay, it will be a discussion about the market structure of the UK supermarket whether it provides some significant benefits for consumers.

There are only few supermarkets with similar products in oligopoly market. Because most food manufacture will supply to the entire supermarket, such as Kellogg’s and Heinz (Just food 2010). The supermarket produces its own generic or own-label goods for some products. They have produced their own-label product ranges from food to some basic cares. For example, Tesco planed to extend its “ Finest” to include a range of homecare. “ Own-label sales generate 38% of Sainsbury’s total revenue, with its Taste The Difference premium range estimated to contribute between ï¿¡200m and ï¿¡300m”. However, many of these generic products are made at the same factory, and are simply labelled differently for the different stores, so this is a false differentiation of products. This means that all of the products available for sale in the different supermarkets are the same, which is one of the features of an oligopoly (Tutor2U, 2007). Therefore, consumers do not have any choices because there are only few big supermarkets in the market, which are selling the same product with different package. It is a negative side for consumers.

In addition, the firms charge the same price in an oligopoly (PEOI, 2000). However, the UK supermarket suppliers have the same products are supplied to the firms. Therefore, the cost of all the supermarkets will be the same as each other. For example, the Cravendale Fresh Filtered Semi Skimmed Milk was priced as ï¿¡1. 05 in Sainsbury’s. However, Asda sold it as 86p (Mysupermarket Insights, 2000). All in all, this theory of oligopoly of supermarket structure can provide some benefits to consumers as they can have a more valuable price by comparing different price of the main supermarkets. However, the products which sole in the supermarkets are all very similar price.

Firms compete on price in an oligopoly market. Therefore, they can become a price maker and making higher profit. This feature can result in the ‘ price wars’ where one supermarket has price cuts in its goods and other firm will follow this situation (Wisegeek, 2003). For instance, Morrisons has fallen to 57p/kg and 59p/kg of bananas. After Morrisons promotion, Tesco has also made some price cuts, worth ï¿¡1. 2bn. Lastly, Asde sells two million kilograms of bananas a week by charging 46p/kg, which is the lowest price in 14 years (Mailonline, 2000).

The price competition can be shown in the Kinked Demand Curve (Economics help, 2003). If the price raise from

(Economics help, 2003)P1 to P, then firms will lose a large share of the market because they become uncompetitive. If firms cut the price down, firms can gain a larger market share. However, other firms will cut price too. Therefore demand is inelastic for a price cut.

In a price war, Tesco had a price cut which was between 3% and 25% discount promotion. This could result in increasing 12% market share in eight weeks. Therefore, consumers can cost less by having this price competition as there are many different promotion and price war which should provide benefit to consumers.

Moreover, supermarkets need to compete other ways besides price. It means supermarkets should increase market share without changing prices. This can be shown in " persuasive advertising, quality of service, loyalty schemes, free gifts, packaging and temporary price reductions", which are required to attract consumers (The student room, 2005). Therefore, these factors are aimed to bind consumers to particular supermarkets for reasons other than price. Firstly, according to research data from Nielsen media Research, " Sainsbury's spent some ï¿¡9. 97m compared to Tesco which spent ï¿¡7, 3m". However, with Asda spending some ï¿¡4. 23m, the two giants of the UK supermarkets still highly cost in advertising (CBI Interactive Inc, 2000). The more advertising is shown to consumers, the more possibility to attract and give information to the consumers. Secondly, research by Baruch College's business school in the US has found that, " western consumers are more prefer to gifts that reword loyalty and patronage than pure luck or blanket rewards". So, consumers may feel happy to spend money by getting discount. Also, the bigger the discount of the loyalty card, the better attractive of consumers. Consequently, as there are also some other factors that can influence consumers in an oligopoly market. It means consumers can gain different benefits from this non-price competition between firms.

Consequently, although consumers do not have many choices as there are only few big supermarkets, and prices are identical in some ways, consumers still can have benefit which is provided by oligopoly market. As consumers can have lower price product by the price competition. In addition, the interdependent firms compete in other ways, for example, discounting, advertising, and quality of service, which are give consumers a more valuable consideration. In this case, the oligopoly market structure creates a situation that is beneficial to the consumers.