

# Advantages of oligopoly in uk supermarket industry



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**Oligopoly in UK supermarket industry**

Supermarket, which provides a retail sales service, is an indispensable place for people who buy the daily things. The definition of oligopoly is that an economic condition in which there are few independent suppliers of a particular product that competitive pricing does not take place (Answer, 2010). It is manifest that the UK supermarket is under the structure of oligopoly. There are four main characteristics of supermarket in the UK. The first point with respect to this is that all the super markets in the UK sell similar products and produce branded products. Secondly, look at the bar chart on the right, the big companies has larger market share, because the big supermarkets will set high barriers to avoid new supermarket into market. More importantly, the companies must be interdependent. If one large supermarket takes an action, it will directly affect another supermarket. The chairman in the supermarkets has to take into account likely reactions of rivals to any change in price and output and the interdependence of sellers can keep the price stability. Finally, non-price competition is a significant strategy for selling, such as the VIP cards, online shopping. The term marketing mix refers to different elements within a strategy designed to create demand for a product (Anderton, 2008; 324). Considering of the marketing mix right for the products means all the important bases are covered in the marketing campaign and it will help the companies gain more profits. This market structure creates both advantages and disadvantages. The lower price and the creative services are the advantages, but in the oligopoly market, the collusion between the companies will have detrimental influence upon the consumers.

In oligopoly market consumers can enjoy a lower price for the products. Most of supermarkets in the UK sell the products from the same grocery brands, such as Kellogg's, Heinz and Walkers Crisps (Which, 2007). The products which be sold in different supermarkets are the same and we called it homogeneous. Mysupermarket (2010) illustrates that the same products in different supermarkets have a similar price. Thus, it means that all the supermarkets need to pay almost the same cost of the products. The larger companies might pay slightly lower than the smaller one, because the quantity of the goods which the larger companies need to buy is more than the small companies so that larger companies will have a bigger discount. The lower cost help the larger supermarkets have superiority in the low price to attract the consumers. Because of the oligopolistic market, all the companies compete on price so that different companies take different measures appeal to the consumers. Figure 2 is a kinked demand curve and it assumes that a firm will reduce its price if a competitor starts a price war, but will leave price unchanged if a competitor raises its price. Thanks for the oligopoly structure, price is rigidity. Tesco promotes the discount coupon to the consumers and they can use these coupons to save their money while they buy goods in Tesco (Couponmountain, 2010). Discount coupon appeals consumers to shopping in this supermarket, thereby making the contribution to marketing. BBC(2006) reports " Supermarket Sainsbury's is to sell more than 500 of its own-brand products in compostable packs instead of plastic as it seeks to cut packaging waste". Sainsbury's uses new packing way to pack the organic fruit and vegetables. This can reduce the cost of products and it is also a good way for the environment. Providing the low price is in the best interests of consumer.

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The competing between different supermarkets are increasingly stiff, which makes many companies concern about the non-price competition. Therefore, many supermarkets offer attractive service and facilities to their consumers. For instant, the online shopping is the popular one, because consumers can buy the goods which they want without leaving home. Some of the consumers go to the supermarkets seldom so that they will buy a lot of goods when they go shopping and they can utilize the delivery service. It seems that the successful supermarket hinge on the creative services and facilities,

The advantages of oligopoly are attended by collusive companies which impel consumers to pay a higher price for products. The collusion takes place between the big companies and price is under control by big companies so that the collusive companies can gain more profit. The new companies wouldn't enter the industry to take advantage of abnormal profits (Anderton, 2008; 322) so that the consumers cannot have more choice and they afflicted with the high price from collusive companies. The competition between the supermarkets will less and the company can raise the price of products. Meanwhile, Sainsbury's and Asda supermarket have admitted that they were part of a dairy price-fixing group that earned extra money from shoppers (BBC, 2007). Milk is necessary good for people's daily life, though the price is increase, the consumers will still prefer to buy it. The collusive companies can make more profit by this way.

In conclusion, supermarket industry in the UK is an oligopoly market structure. Consumers can enjoy reasonable price and the supermarkets will invest money in various services and facilities for their consumers. However, <https://assignbuster.com/advantages-of-oligopoly-in-uk-supermarket-industry/>

the collusion caused by the big companies will lead to the higher price. As far as I am concern, in an oligopoly market structure, it is dominated by a few large suppliers. On the other hand, supermarkets adopt all-or-nothing pricing to extract consumer's surplus. Though there are some disadvantages for consumers, the advantages are more because the pricing competition can give the consumers lower price to buy goods. It is necessary to enhance the competition between the supermarkets and the consumers can get more benefits from it. Consumers can benefit from the supermarkets which in oligopoly. It is widely accepted that consumers receive a low price from the price war. Because the supermarkets want to attract more consumers to shopping in their company, they afford creative measures to their consumers and let the consumers feel more convenient during they do shopping.

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