Is nakumatt operating as a monopoly economics essay

Introduction

Here in Kenya, all big cities and many of the smaller towns have at least one supermarket. The quality (of goods and services) is usually quite high. When we enter a supermarket, we find Kenyan and other regional brands as well as many Western and International. A supermarket is a store that sells a wide variety of goods including food and alcohol, medicine, clothes, and other household products that are consumed regularly[1]. The stores are usually part of corporate chains that own or control other supermarkets located nearby or even transnationally thus increasing opportunities for economies of scale[2](this is the decrease in cost of production that occur as a firm increases all its output by increasing all its inputs. Economies of scales explain the downward sloping porting of the long run average total cost curve: as output increases, and the firm increases its size by all inputs, as the average cost or cost per unit, falls). The supermarket typically comprises meat, fresh produce, dairy, and baked goods departments, along with shelf space reserved for canned and packaged goods as well as for various non-food items such as household cleaners, pharmacy products and pet supplies. Most supermarkets also sell a variety of other household products that are consumed regularly, such as alcohol (where permitted), medicine, and clothes, and some stores sell a much wider range of non-food products[3]. In Kenya, the supermarket industry has grown from a tiny inch at the start of the 1990s to 20% of the urban food retail sector in 2003. Furthermore, Kenyan supermarket chains are increasingly sourcing from global markets and have started to expand their store network in the wider East Africa region (Kigali, Rwanda)[4].

With 18 big stores, Nakumatt is the biggest supermarket chain in Kenya. Its main competitor Uchumi used to be big too, but it had to close due to financial difficulties. Meanwhile it has reopened 14 shops again in major cities. In the Kenyan supermarket industry we also find Chandarana ltd and Tuskys. Nakumatt and Uchumi are two Kenyan supermarkets which not only have branches in Kenya but also in other parts of east Africa. Hence my interest and therefore my research question is: Is Nakumatt Ltd operating as a Monopoly in my residential area?

I live at 500m from the YAYA Center; at my location, I am surrounded with 6 big branches of the main supermarkets in Kenya. The 6 supermarkets that you will find in this area are: on Ngong Road: Nakumatt Prestige, Uchumi hyper Ngong road, Tuskys Adams, Uchumi Adams, and Nakumatt Junction, in the YAYA Center: Chandarana Ltd. I have always been wondering how these supermarkets do to survive together and especially Nakumatt and Uchumi, why do they have to different branches in the same area. The purpose of this extended essay is to find out by using data collection and after an interview with the branch managers of all these supermarkets answering to the question: whether or not Nakumatt is operating as a monopoly in the supermarket industry in my residential area? Researching for this essay will enable me to understand or have an idea of how these supermarkets can cohabit-ate together in the same area.

Methodology of data collection

To answer this essay question, which is to know if Nakumatt ltd is operating as a monopoly on the consumers who live is the same residential area as me. To be able to pursue this survey, I used the most common research method which is to hand out a number of questionnaires to people that I know and others living in a range of 1km from me. I will use primary sources. First I will be giving out 50 questionnaires to people living in my compound and in the surrounding areas. With all the answers, I will be able to find out which one of the supermarkets located near where I stay is more popular, is averagely earning more and their pick hours. It will also help me to know how often people usually frequent these supermarkets, how much do they spend and how long do they stay in there depending on the time. The fact that I am giving out the questionnaires, I not to show that I did some research but to see (hear) what the public(customers) have to say about the supermarkets because their opinion counts as equal as or even greater than the one from the owners of these supermarkets because we are all humans and it is expected for the managers to be bias about their supermarkets. The second method I will use is the face to face interview with the branch managers of these supermarkets which is also very important but more significant because it will help me to have real data statistics on the population that frequents them daily, weekly monthly and annually. And also it will help me to know their strategy and plans on the market to be able to understand the structure in which they are operating on whether it is a monopoly or an oligopoly market. This method will be the hardest because having the chance to have a meeting with these managers when you are not a businessman who can contribute in the well-being of the company can be a hustle(very complex task); these people are very busy men and have very many things to do on their agenda.

I will also use a secondary source: The Internet. With the internet, I will be able to have supplementary information and have a greater number of sources.

Related information

Market Structures

A market structure describes characteristics of a market organization that determine the behavior of firms within an industry. There are four types of market structures identified by economists:

Perfect competition (also known as pure competition)

Monopoly

Monopolistic competition (also known as imperfect competition)

Oligopoly

A market structure can be defined on the basis of four main characteristics:

The number of firms in the industry.

The ability of the firm to control the price at which the good is sold in the market.

The types of product, in particular how similar or different are the goods or services produced by firms in the industry.

how easy is it for new firms to enter the industry and begin producing, which depends on the degree to which there are barriers to entry in the industry;

barriers to entry include anything that can prevent a firm from entering and beginning production[5]

Perfect competition

This is a purely theoretical type of market. It has a very high level of competition and has the following characteristics: there are an infinite number of buyers and sellers, all the firms produce the same identical product (homogeneous) without any differentiation (branding). There is perfect information and no trade secret which allows the consumers and the other producers to know what is happening in the market at any time, there is no intervention of any government in the way the market interacts.

Monopoly

A monopoly is a market structure in which we only have one firm in the industry and the firm is the industry. A monopoly operates with the following characteristics: the barriers to preventing new firm form entering the industry are very high; the firm is the price maker which means that output will depend on the price set by the firm; the monopolist is a short run profit maximizer.

In facts, we have two types of monopolies: natural monopoly and pure monopoly.

A natural monopoly exists when there is great scope for economies of scale to be exploited over a very large range of output. Indeed the scale of production that achieves productive efficiency may be a high percentage of the total market demand for the product in the industry[6].

A pure Monopoly exists when a single firm is the sole producer of a product for which there are no close substitutes[7].

An Actual Monopoly is when the firm has more than 25% of the market shares[8].

Monopolistic

Monopolistic competition is a form of imperfect competition where many competing producers sell products that are differentiated from one another (that is, the products are substitutes, but, with differences such as branding, are not exactly alike). In monopolistic competition firms can behave like monopolies in the short-run, including using market power to generate profit. In the long-run, other firms enter the market and the benefits of differentiation decrease with competition; the market becomes more like perfect competition where firms cannot gain economic profit. Monopolistic competitive markets have the following characteristics: We have a large but not infinite number of producers and a greater number of consumers. And due to their relatively small size, there is not a single firm that has total control over the market price. But the producers have only a degree of control over price. Consumers perceive that there are no differences in price between the competitors' branded products. The barriers to entry and exit are very few (not to say that they practically do not exist). The costs for the firm are very low, which makes it easy for new arrivals to enter the industry or others to leave.

Oligopoly

An Oligopoly is a market structure where we have a few firms who dominate the market, these firms might be producing similar products, but the products can be differentiated (branded). Supply in the industry must be concentrated in the hands of relatively few firms and dominating firms are independent. Barriers to entry are present especially due to collusion and economies of scale; and prices are likely to be rigid as firms use non-price competition. Firms can make abnormal profit in the long run though they may not be very high[9]. When firms decide to collude, they start charging at the same price, and also having a monopoly power and acting as one monopoly. Any monopoly profit made is divided up among the firms taking part of the collusion.

Background information

To carry out this investigation, and base our theory on our findings, we must know about the past of these supermarkets: because it is very important to know how their started, who owns them (government, cooperation or family), their real market shares, how many branches have they managed to open so far.

Nakumatt

Nakumatt was established in 1987 as the brainchild of the late retail guru Mr Maganlal Shah who founded Nakuru Mattresses before passing the mantle to Mr Atul Shah, the current managing Director. The supermarket chain was founded as a ten square foot “ emporium” which has grown to cover a selling space of more than one million square feet, with the head office and distribution center occupying some 140, 000 square feet of storage and office space. The payoff line “ You need it, we’ve got it!” indicates Nakumatt’s commitment to providing the largest variety and highest quality of local and international brands at reasonable and uniform prices. The Nakumatt Smart Card is a loyalty program started in 2003 that enables customers to accumulate “ smart points” with their purchases. On accumulation a certain amount of points, clients can claim “ smart” rewards and prizes. Smart Card shoppers also enjoy discounts with service providers, random surprises on birthdays, off-peak time double points and redemption points for purchases.

The retail chain has grand plans for the future.

These include:

- Increasing the range of goods available to Kenyan consumers at affordable rates.

- Improving the local economy by employing more Kenyans.

- Delivering expected financial results by providing quality, variety, exceptional, service and enhanced lifestyles.

- Increasing investments in training and development of staff to ensure performance and job satisfaction.

- Developing an integrated nationwide Network.

- Increasing turnover to KSh 20 billion (285. 7 million US dollars).

- Expanding to the sub-continent.

- Listing on the Nairobi Stock Exchange.

Source: http://www. superbrandseastafrica. com/assets/Featured-Brands/PDFs/129-nakumatt. pdf

Tuskys

Tuskys, is said to be the second largest retailer in the country with more than eighteen stores all over the country, operates supermarkets and has been able to seal any gaps left by Nakumatt. The retailer recently rebranded from Tusker Mattresses to Tuskys, a sign of the company's transformation from a family business to a corporate entity. Due to popular demand and the lack of land available in the capital for large sized stores, Tuskys has been forced to relocate some of its stores in Nairobi and the retailer is currently expanding its network into suburban districts such as Thika, Athiriver and Rongai. Tuskys' latest store has also opened further afield in the lakeside city of Kisumu in the west of Kenya, close to the Ugandan border.[10]

Tuskys is the first supermarket in the whole of Kenya to introduce the use of the fidelity smart card. This is a loyalty card which gives a 1Ksh voucher to the card holder for every 100Ksh purchase this voucher can be used to buy any items at any times just buy presenting your identification.

Uchumi

Uchumi is a Kenyan supermarket chain which was founded in 1975 and which was listed on the Nairobi Stock Exchange in 1992. The name Uchumi means " economy" in " Swahili", the Kenyan National language. Uchumi operates 4 hyper-stores, 8 supermarkets and 2 convenience stores, and employs more than 1, 000 people. Uchumi has stores in the major towns of Nairobi, Karatina, Eldoret and Meru[11]. Whilst Nakumatt and Tuskys are playing a leading role in Kenya's burgeoning retail market, Uchumi Supermarkets, currently positioned in fourth place in Kenya, has had a history of financial problems. The company's problems have derived from general mismanagement and corruption issues, and Uchumi was expected to either die a natural death or be sold to another retailer when its former managing director, John Smith, announced its closure in June 2006[12]. Uchumi closed down, albeit temporarily, in June 2006 after 30 years of business. At the time, its closure was described as " one of the greatest corporate disasters in independent Kenya history"[13]. However, the government is one of the founders of Uchumi Ltd so letting Uchumi close down was not in their interest. So they had to sell 50% of the company's shares to the public in order to rescue the brand. Then Uchumi started reopening all over Nairobi from July 15, 2006. Uchumi receives more than 3000 customers daily. The government controls the quality and the pricing of the goods. All the goods in Uchumi are certified and approved by the Kenya Bureau of Standard (KBS). Uchumi used to have an annual magazine showing all the items they have in stock; but this stopped when it closed down. They use multiple ways of advertising like the radio, the television and the newspapers. They also have a smart-card. Only during Christmas, the stores are opened 24/7, this is because, they think that it is not effective in Kenya. They offer a home delivery service orderable from their website and the charge depends on the distance of your location. Uchumi believes that what makes them attracts their customers is their " customer service" and also believe that their competitors haven’t reached that level. Uchumi own all their buildings. They have the option of paying electricity bills with a Kenya power counter; this attracts also the customers to enter the supermarket as they can avoid any congestion instead of going to the Kenya Power office.

Chandarana

Chandarana Supermarket Ltd is a retail chain in Kenya dealing with consumer products. It is currently headquartered at Mobil Plaza, Muthaiga in Nairobi. It has four Branches within Nairobi – Yaya center, ABC Place, Muthaiga and Highridge. In this research, only the one located in the Yaya Center will be studied. I chose to include Chandarana in my study because when we first came to Kenya (my family and me), we bought from there everything belonging to the house there and even food supplies.

Presentation of data collected

To carry out the survey I gave out 38 questionnaires to first peoples living in the same compound as me then some people that I know in the surrounding houses and apartments. I know that I didn’t meet my objective which was to give out 50 questionnaires as I mentioned in the METHODOLOGY OF DATA COLLECTION, but this was due to multiple reasons. I could only do the survey with people who knew me because other maybe didn’t trust me (even though I showed them my school identification card and my recommendation letter) or felt like I was asking them questions about them private life. I gave to all of them a period of 3 weeks to review their habits and be able to answer without having to make hard choices. The reason why I gave them 3 weeks is because people tend not to say the truth when they are given 5 minutes to answer. With all this period of time, they can analyze every question and answer it with a calm and clear state of mind. As I said it earlier, I live near the YAYA Center in Kilimani. The YAYA CENTRE is a modern multifunctional shopping mall, it was founded in the late eighties in Nairobi and is today one of the leading shopping malls housing over 100 shops and offices[14]. The diagrams below shows the results of my investigation.

Nakumatt

Uchumi

Tuskys

Chandarana

27

2

6

3

71%

5%

16%

8%

This table shows the repartition in numbers and in percentages of the consumers depending on the supermarkets they frequent the most.

This pie chart has the same function as the table above it. This chart is easier to understand and shows the differences between the supermarkets in terms of popularity. But I believe it is a good representation of the whole population in my residential area.

By the end of this research, I found out that 71% of the surveyed population was Nakumatt truthful customers, 5% of them were Uchumi customers, 16% of them were Tuskys customers, and 8% of them were Chandarana customers as shown on the table and the pie chart above.

As we all know, in a monopoly market, we only have one firm, and that firm is the industry. If we refer to the pie chart and stick to the traditional definition of a monopoly, we cannot assume at 100% that Nakumatt is operating as a monopoly in my residential area, because we also have other " different" supermarkets operating in the same area.

If we were to base our facts on the data from the investigation, we could say that the representation of the supermarkets in my residential area demonstrates that Nakumatt Ltd is the most dominant supermarket in Kilimani. And view to its relative size and number of customers, we could also say that it does have monopoly power in my residential area; because if we may say, it controls 71% of the population.

Age

Nakumatt

Uchumi

Tuskys

Chandarana

Total

under 18

3

1

4

19-25

4

2

6

26-30

5

5

31-35

6

1

1

1

9

36-45

8

1

2

11

over 45

1

1

2

total

27

2

6

3

38

From this table, we can see that the age differentiation doesn't matter because these supermarkets are stocked in order to satisfy the whole of the population that can afford their items. This means that the age of the individuals will not be an obstacle for them meeting their wants as the supermarkets are prepared to satisfy anyone. I do not think that we should place a theory on a supermarket for being destined more for a specific age class.

Conclusion

Generally supermarkets in Kenya and all over the world belong to the Oligopoly market. This is because the supermarket industry I being run by a little amount of important brands. It might be confusing for saying that Nakumatt is a monopoly and later saying that it is not. This is because by studying how Nakumatt operates in the industry and how they interact with their customers and also their total market shares, we could post them in a position of a Monopoly. Although, even though they might have the characteristics of a monopoly, the presence of other firms (Uchumi, Tuskys and Chandarana) discredits the possibility of them being one. After doing all the necessary research, I came up with a conclusion which states that " Nakumatt doesn't operate as a monopoly in my residential area, but in that oligopoly market, it has a monopoly power on customers", which makes them practically all choose Nakumatt.