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INTRODUCTION

In this information age, the digital revolution has transformed the industry to an information based economy. Since the late 1970s, the day to day evolution of technology has shaped the modern society by introducing globalized communication. The UK mobile phone network industry is developing day by day by introducing the new-tech systems in the market. O2, Vodafone, EE, T-Mobile, and Orange are the biggest mobile phone network providers in the UK (Rushton, 2012). This report has presented a thorough economic analysis of mobile phone network industry in the UK, considering the biggest network providers in the country.

ANALYSIS OF MOBILE PHONE OPERATORS IN UK

Mobile Phone Network Companies And Their Market Shares:

The major mobile phone network companies in the UK are O2, Vodafone, EE, Orange, T-Mobile, Virgin Mobile, Three Mobile, Tesco Mobile and many other which provide a wide range of hi-tech services across the UK. As of 2013, T-Mobile and Orange has merged into one company and command 37% of market share, whereas, O2 held the second highest market share of 27% and Vodafone stands at third place with a 25% market share. Whereas, other mobile networks like EE, Virgin Mobile and Three-Mobile accumulated 24% of total market share collectively (Statista, 2013).

According to research conducted by International Business Times (2014), Major mobile phone networks in UK provide a wide range of services with EE providing the best services and Vodafone is the most unsatisfactory provider. The survey report included the overall performance of the network

companies as well as different services based scores like call, text messages, internet service, speed, network reliability. Being the biggest network company in the UK, EE scores the highest in all of the services. It scored 84.6% on overall performance followed by Three Mobile with 73.5% and O2 with 66.5%. However, the Vodafone performance has dropped surprisingly to 52.4%, emerging out as the worst mobile phone network company. Similarly, as it compressed its 4G “paid big dividends”, EE remained at the top position when companies’ performance was broken down into various categories, and Vodafone ranked out as worst service provider.

(Gilbert, 2014)

Market Structure Of Mobile Phone Industry:

Compared to other countries, UK has fewer number of mobile phone networks companies, which supply most of the homogenous outputs in the market. The three companies are the dominant suppliers of mobile phone networks in UK that are:

- Orange and T-Mobile (merged in Nov 2009) - 37% market share
- O2 - 27% market share, 10.76 million subscribers
- Vodafone - 25% market share, (McKinsey Global Institute, 2011)

Higher concentration ratio refers to the oligopoly structure of the market.

Based on the above statistics, this trend suggests that the UK mobile operators market has the higher concentration ratio that is 89%, which verifies that UK telecommunication market is an imperfect market structure with the oligopoly market form. In oligopoly market structure, only a limited number of firms is dominating the market (Mazzeo, 2002). These firms offer

a similar products or services. Also, the companies have a strong control over the prices, and they change their prices more frequently to enhance their market share (Baye, & Beil, 2000). In UK, O2, Vodafone, and Orange and T-Mobile accounted for 89% of the combined market share, which reflects that these three companies have the dominating power in prices in the market and thus, have a high concentration in the UK mobile phone network industry. As the prices are set by the dominant companies, they gain a complete cost advantage over their competitors and thus new entrants have high barriers to enter in the market. Oligopoly structure gives a chance to leading companies to make combine decisions to rule the entire market, which can result in abnormal high profits (Robert, & Roberts, 1992).

Barriers To Entry And Contestability:

With the oligopoly market form, barriers to entry are high. The most significant entry barriers are:

Economies of scale: New entrants are highly discouraged to enter the market if the economies of scale have been exploited by the existing companies.

Patents, Licenses and exclusive contracts: Licenses and contracts make it difficult for new entrants to enter the market as the contract or patent/license is already owned by the leading companies. For instance, a new contract between supplier and the retailer would limit new entrants to enter in the market.

Access to costly and complex technology: The existing firms have desired level of competencies and technological expertise to sustain their dominance. For new entrants, the huge level of spending in research and

development sector is the barrier to enter that market. Vodafone has installed new tech based pool towers, radio equipment, masts and local transmission kit to expand its network cover area and network speed.

Price controlling and cost saving strategies: The existing firms set lower prices with the production of high outputs, giving a sense to entrants that profits are impossible to obtain in the market. In order to improve user coverage, Vodafone and Telefónica's have formed a 50/50 joint venture. Both the firms have been able to save cost by approximately 25% with the help of joint venture (FT, 2013).

Other sources to create hindrances often emerge as the consequences of government policies and laws, supporting existing firms and creating obstacles for new companies to enter the market.

Price And Output Determination:

In an oligopoly market form under imperfect competition, price and output are determined by changes in rival prices (Brickley, and Zimmerman, 2009). To generate greater market share and revenue, companies use non-price competition (Arnold, 2008). However, this sticky-upward demand curve creates the fierce price competition.

The relationship of price with demand is shown by Kinked demand curve in which level of elasticity varies with different prices:

(Wessels, 2000)

In oligopoly, price stickiness is a central strategy adopted by existing firms in the market. As the diagram represents that increase in the marginal cost lead to increase in prices at smaller magnitude, is due to the factor of

elasticity of demand. When the demand for the product decreases or increases significantly, it shows the change in elasticity of demand. However, if the elasticity of demand shows a minor change in response to a small change in price, it is referred to as inelasticity.

The point at which Marginal Revenue is equal to Marginal cost is the profit maximization point. In oligopoly market structure, a change in MC would result in a change in MR. However, the price will remain at P. Furthermore, if the MC is moving off from the vertical position of MR, Price will change with a smaller scale almost ignored by the customers.

Therefore, this market structure is known as an inefficient market structure as it does not properly allocate the resources, and it is not a productive structure. Oligopoly firm proves inefficiency in profits and productions as of the following reasons:

- The price is set at a point above MC and
- Q has been set as the level of output for optimal efficiency despite Q1.

(Wessels, 2000)

Here is an example of one of the mobile phone networks in concurrence with the Kinked demand curve. O2 and Apple agreed on a contract where O2 would be the only supplier of the iPhone. Being the sole provider of the Apple iPhone, contract prices of that handset were risen, but after Orange and other networks started to supply the Apple iPhone, the prices of the contract eventually fell at O2. This is in consensus with “ Kinked Demand Curve” theorem.

Mobile Phone Companies And Non-Price Competition:

It is a marketing strategy, where the company gives extra benefits to its users or customers by improving the product features or introducing the new attributes to the product instead of lowering the prices. In such market situation, companies do not lower their prices to initiate the price wars.

Oligopolies have a tendency to compete on terms, excluding prices by giving extra incentives to its customers. Some non-price competition strategy includes loyalty schemes, advertisement, and product differentiation.

In early 2007, Apple and O2 signed a contract in which O2 would supply first generation of iPhone exclusively for 18 months. This contract helped the company to increase its market share significantly; however, the company was charging one of the highest monthly contracts. This strategy is a kind of non-price competition.

Non-price competition is also being used by Orange. They give their customers the superior advantage to celebrate a day in a week named, “Orange Wednesdays”. Orange’s customers can buy two for one movie tickets at cinemas across the country.

Also, Orange provides the extra incentives to their customers by allowing them to choose their favorite numbers for uncharged calls. When customers call on these favorite numbers, they do not have to pay. This strategy has been successful in attracting many new customers to the Orange network.

Orange also uses a mode of advertisement to convince the viewers. It runs its commercials at the cinemas by taking famous celebrities in adverts that influence the preferences of the public.

Similarly, Vodafone is also competing with its rivals by using beneficial non-

pricing strategies. Vodafone allows its customers to buy the festival passes a day before the passes are made accessible to the general public.

Competition Policy In The UK:

Competition is the vital element in order to keep the mechanism of markets efficient. It gives the benefits to consumers to buy the goods and services from the best available options at the best prices (Williamson, 2008). Also, it encourages the innovation, efficiency, growth and development of the economy, and enterprise (O'Sullivan, & Sheffrin, 2003). UK competition law is a flexible instrument. In UK, competition policy is crucial as it proposes to improve and foster the competitive process and ensure that the prevailing competition may not harm the consumers and their benefits. These objectives are accomplished in practice through competition policy.

Founded on greater concentration ratio and a greater level of cooperation between the major companies, there is a fear of forming cartelization in oligopoly. Such situations require active regulation from the regulatory authority. For instance, in 2012 the regulatory authority of industry, Ofcom, took under investigation the mobile termination rates (MTRs) and set the standard to lower the rates gradually by 4p a minute in 2010 to less than 0.7p a minute by 2015 (Wray, 2009). This appeal was lodged by the Oxfam's all three competent stakeholders and operators, in Competition Appeals Tribunal (CAT) that overlooked the ruling with some deviations.

Consequently, the business profitability was affected by such ruling. Hence, the regulatory authority curtailed the profitability to avoid the cartelization from mobile phone operators.

In the oligopoly market form, the prices are usually set by the leading market players, for example, in this situation, O2, Vodafone, T-Mobile and Orange are the major companies who secretly set the prices in such a pattern that the other competitors cannot attain those prices and new entrants will not be able to enter the market. In this way, leading companies of the market rule the over the prices and make it difficult for others to expand in the market. This act is legally not allowed by the UK Competition Commission or European Commission. In order to maintain the healthy competition in the market and protect the new entrants, competition policy is an essential element.

Recently, Orange was raided as a part of an investigation into ambiguity of price fixing by European Commission. This company was taken into the investigation over the tariffs the company charge to their customers for roaming calls across the mobile network. On this issue, the inquiry collected the complete information on cost and price of different mobile networks. Another British mobile network company Vodafone was also investigated by European Commission for various issues like Vodafone's Eurocall flat roaming scheme, tariffs regarding inter operator, and agreement of GSM Association's standard international roaming system.

ANALYSIS OF 2008-10 RECESSION IN THE UK:

Causes Of 2008-10 Recession In The UK:

The recession initially began from America where the mortgage companies gave out numerous subprime mortgages and stood with immense considerable debts. In order to finance this risky lending, mortgage

companies borrowed the finance from other countries like UK and placed this enormous debt on to those countries (Elliot, 2013). The UK government allowed the banks to increase their lending activities so as to enhance liquidity. However, unfortunately, this struggle was resulted in more debts and pressure between banks. The negative publicity created the panic among consumers that the banks would not be capable of disburse the customers' payments. This caused to lose the confidence of consumers and finally affected the consumption level along with the downfall of the overvalued housing market. Nevertheless, some large banks which were not collapsed, remained involve in persistent lending for subprime mortgages, which absolutely aggravated the situation.

Another reason was the increase in interest rates to balance higher inflation from the domestic economy or from abroad this could cause a change in consumer behaviour towards less spending. Moreover, it has resulted in lower productivity and fewer jobs.

Also, increase in direct and indirect taxation in response to a budget deficit, might lead to constrict real disposable incomes and demand or possibly damaging the business investment.

Effects Of Recession:

(ONS, 2013a)

During the 2008-10 recession period, the UK economy was significantly damaged which could not be recovered as yet. The great recession of 2008-10 slumped the overall national output and productivity. The GDP of UK

dropped to -2.3% in 2008, which then slightly recovered to -1.6% in 2009. This fall in output caused a permanent 5% drop in GDP (ONS, 2013a).

Government debt and deficit

Since 1997, public spending was raised by 1.2% of GDP which resulted in increase taxes by 2.3% of GDP, and hence reducing the structural deficit. The 2008-10 recession led to maintain the high deficit at around 7-9% of GDP (ONS, 2013a).

(ONS, 2013b)

Unemployment:

As the UK labor market is reasonably flexible, the unemployment rate has risen over 8% during the recession period, which is less than the European average and previous recessions. However, the rise in number of long-term unemployment was of considerable concern. This high unemployment rate might have led to different social issues.

(BBC, 2011)

Inflation and Monetary Policy:

The UK government has targeted to maintain the inflation rate at 2%, but, as the fiscal policy of the government was limited to ease the deficit, there held a sizeable pressure on monetary policy. The inflation was recorded as high as 5.3% in 2008, which then later lowered to targeted rate.

(ONS, 2013b)

Government Steps To Encourage Growth In The UK Economy:

The UK economy has not recovered from double dip recession yet. To foster growth in the UK economy, the government must take the following steps:

- Investment in infrastructure.
- Increase capital investment on science and technology based projects.
- Setup funding for lending schemes as this would give greater access to finance for businesses and households.
- Increase the UK's exports by providing the financial support to exporters and boost the inward investment.
- Encourage small and medium sized businesses to invest in machinery and plants.
- Decrease the corporation tax.
- Simplify the business regulations and lower the regulation cost.
- Create a more educated workforce
- Develop more efficient and effective planning system
- Dealing with long-term problems in the housing market
- Support the local growth
- Work collectively with the international institutions (UK Government, 2013)

Mobile Phone Operators In The Recession:

Despite of the great recession, mobile phone operators had maintained their productivity. As there is less elasticity in the mobile operators market in the UK, the change in price of product brought a small change or almost no change in demand of that product. People were willing to buy the products.

Therefore, this strategy was helpful in maintaining the profits during the

recession. As the demand for technology services remained robust during the recession period, the mobile network companies had flexible cost structure which helped them to sustain the growth. However, for the cost focused consumers, the network companies had to bear greater pressure to lower the cost by internal efficiency methods for instance sharing the infrastructure and reducing the headcounts.

Mobile operators were able to increase their revenues even during the global recession periods. However, the rate of growth was reduced. The graph, presented below, shows that the revenues were increased by 210% in both developing and developed markets in 2008, which later dropped in 2010. (Gillet, 2011)

CONCLUSION

As the report stated, T-Mobile and Orange, O2 and Vodafone are the prominent mobile phone operators in the UK that are growing rapidly and expected to expand more in the future. The mobile operators in UK are intending to invest more in innovation to advance technologies and make available to a larger population of UK with better speed and coverage.

As these networks represent the significant national infrastructure, it is necessary for the government to help companies in controlling the financial crisis that occurred in developing the broadband networks. Even during the period of crisis, investing in technologies and innovation could facilitate the global economy to make its way out of this crisis.

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