

Is the watch industry dominated by an oligopoly which is beneficial to both firms...



This representation makes the watch industry an oligopoly, as opposed to being perfect competition*, imperfect competition, or a monopoly*. There are a number of reasons why the watch industry is an oligopoly. Firstly are there barriers to entry* as opposed to free entry*. One barrier to entry for other prospective watch manufacturers is economies of scale*.

The larger, more established firms have a number of cost advantages, such as being able to buy raw materials in bulk or borrow large sums of money. Their production costs are therefore cheaper and therefore they will probably be able to sell their watches at a lower price than smaller, newer firms.

Another barrier to entry is branding. All of the firms in the oligopoly have very established names in the watch industry. When people choose a watch to buy, a large factor is often the brand. This is because when they see established names on a watch (e.

g. Seiko) they will often think of reliability, accuracy and quality. New firms don't have established names and so people may not buy the product. With this situation, the new firms will have a problem in trying to find places where they can sell their watches. Forty-four percent of all watches are sold in specialist jewellers (P22 Mintel), and much of the remainder is sold in retail stores or catalogues.

A new firm will find it difficult to penetrate the stores and catalogues as they can easily sell other, more established, saleable watch brands. This may also be a result of control of retail*. Another barrier to entry is innovation. There are already so many different styles and variations of watches (as opposed to only one, as it would be if it were in perfect competition) that it may be

difficult for a new firm to be able to think of a good idea for a new style or function of watches that would sell. Also, a relatively large amount of capital would be needed to start up a watch firm for initial advertising/promotion, manufacturing and production costs. All of the established firms have a competitive advantage in at least one area, most likely innovation or reputation.

The watch industry is more inelastic* (see fig. .) than not, because in oligopolies competition tends to be based on non-competitive pricing*, 'brand proliferation' and promoting the product and differentiating it rather than making it cheaper. This is because price wars* are not wanted in the industry.

However, the watch industry isn't so small that price can be totally disregarded. The prices still must be low enough for consumers to want or to be able to buy them, because there are still other watch brands they could buy that will be cheaper (but may not have the same brand reputation). The largest factor in choosing a watch, according to Mintel (P29), is being 'in my price range', so people will often not buy a watch if it is out of their price range even though the brand may have a good reputation. When importing any goods, the exchange rate would be a factor in cost of goods. However, I do not feel that this has a large effect on prices or the market, so I will not investigate any further into this. Fig.

1. - Analysis Although the barriers to entry are valid points, not all of the factors stated will necessarily be relevant or true. For example, it was referred to earlier that a new firm coming into the industry would have

<https://assignbuster.com/is-the-watch-industry-dominated-by-an-oligopoly-which-is-beneficial-to-both-firms-and-consumers/>

trouble selling its watches because they do not have an established name in the watch industry. If an already established company that was previously in another industry came in using their name (such as Daewoo did when they went into the car industry using their already established name in electrical appliances), then this would not necessarily be the case.

This takes away the competitive advantage 'reputation', because the new firm may already also have a good reputation (Another example of this taking place is Nike's move into the watch market). Also, if a company joining the watch industry is already operating in other areas, the chances are that a large amount of capital will be available, meaning that the advantage of economies of scale that the watch firms have is lost. Although officially the watch industry is an oligopoly, I believe that because different makes of watch are targeted at different socio-economic levels, each level has its own small monopoly in my opinion. For example, Rolex sells watches at the highest end of the socio-economic groups (with watches costing several hundreds and even thousands of pounds) (price skimming* on a long-term basis) and is usually considered more of a luxury or status good. Casio on the other hand sells watches from a few pounds up to around one hundred pounds (an equilibrium of market price and economic price) and is considered more of an everyday 'utility' watch. Being 'in my price range' does not necessarily mean that a cheap watch is being sought out.

The two makes are not really in competition at all because Casio targets the lower to middle class socio-economic group where Rolex targets the upper class group only. Other than price, many brands have their 'niche' style of watch even in the same pricing levels, for example some brands focus on <https://assignbuster.com/is-the-watch-industry-dominated-by-an-oligopoly-which-is-beneficial-to-both-firms-and-consumers/>

(but not exclusively) sports/outdoors utility (Casio ' G-Shock), whereas others focus on style (Seiko). Another barrier to entry that may not always hold is that of innovation. It is true that companies may have trouble creating new styles or functions of watches, but many firms have succeeded in simply copying the same styles as other brands and selling them.

The ' copies' are often of less quality, but are cheaper, which appeals to many people. I do not think that economies of scale would have an immense affect on new firms, because although the larger firms do get a cost advantage, the amount of materials needed to produce a watch is relatively limited. The scale of the advantage is not as large as in other industries where large raw material inputs are needed, such as the car or construction industry. EvaluationThe Mintel report that I used for this investigation was from 1995, so some of the information that I have used may now be obsolete. I was unable to obtain a more recent report of the watch industry, as there have not been any more released as far as I am aware.

The ' big picture' of the watch industry should be roughly the same as it was in 1995 however, as it has only been seven years since the report was written and there have not been any huge changes in the watch industry since then that I am aware of. Also, the Mintel report is an independent study of the watch industry and so it is more likely to be a ' neutral' sided report. Information in the Mintel report is taken from a large range of sources and compares the watch market from several different years, which gives a good picture of the overall watch market and not just one particular year.

Teachers provided the worksheets that I used in normal lessons. It is fair to assume that the information is up to date and accurate.

<https://assignbuster.com/is-the-watch-industry-dominated-by-an-oligopoly-which-is-beneficial-to-both-firms-and-consumers/>

Conclusion To conclude, I consider my hypothesis at the beginning of this investigation as only partly correct. I was accurate in the hypothesis of the watch industry being dominated by an oligopoly. I had not foreseen the industry being divided into ' sub-groups' for each socio-economic level. This often allows the watch firms to have an almost monopolistic approach to pricing (often meaning high prices). I had hypothesized that the watch firms benefit by being in an oligopoly, and this is evidently the case.

However, they are being benefited through effectively being monopolies, which I had not considered. Consumers do not benefit as much as I had earlier presumed, nevertheless, as the watch industry isn't actually a monopoly but an oligopoly, there is still some price competition, which may bring prices down some.