

# [Analysis of tinned tuna market in the uk](https://assignbuster.com/analysis-of-tinned-tuna-market-in-the-uk/)

This is a report about the tinned tuna market in the UK. In this report I will focus on how the tuna market has developed in the past, as well as how it might evolve in the future. The objective with this report is to conclude whether or not entering this market would be profitable for a company. First there will be a short summary of the product itself. Then a description of the current market situation as well as the market actors (future competitors) will follow. Furthermore this report will examine the price setting criteria and effects on quantity demanded and supply available by examining substitutes and possible complements and discussing the demand driving factors. At last this report will look at possible improvements and innovative solutions for a potential future supplier.

## Tinned Tuna – The Product

Tuna is one of the most commercially valuable fish on earth[1], and in the UK tinned tuna is the most important fish purchased at retail level by volume, exceeding any other fish whether tinned, fresh or frozen[2]. Since the 1970’s the amount of the most common type of tuna, the Atlantic Bluefin tuna, has declined by almost 90 per cent. While being almost extinct, the overfishing of tuna still continues. While being very popular in Japan because of the demand for sushi and sashimi, it has increased in popularity in the west during the last decades, partly because of being a relatively low-cost commodity. In western countries the most common type of tuna sold is tinned tuna. In the UK alone, the 2006 consumption of tinned tuna was 700 million tins which makes the UK the second largest tinned tuna consuming country in the world[3]. Tinned tuna can currently be bought in the three most usual forms – in sunflower oil, brine, or spring water. The product is a tin with a net weight of approximately 150-200g and has a price of 60 pence and above depending on supplier. In UK supermarkets the price is about one pound per tin (as at 25/11/09). One might say that tuna is a homogenous primary commodity since it practically is the same no matter what brand you buy (given you buy e. g. tuna in spring water from different suppliers). However I find that, while being rather similar no matter which supplier chosen, tuna is a differentiated product since it does not necessarily have to be of the same quality and type. In this report I will narrow my market down to tinned tuna sold in the UK, and will include tuna in sunflower oil, brine and spring water.

## Market situation & supplie

The UK market for tinned tuna is currently dominated by a few large suppliers – Princes (27. 1 per cent of total market value) and John West (31. 3 per cent of total market value)[4]. Furthermore, the major supermarkets in the UK (Tesco, Sainsbury’s, ASDA, Morrisons and Marks & Spencer) all have their own brand of tinned tuna. Since there is more than one supplier, and the product is relatively similar no matter which supplier chosen, it can be ruled out that there is a monopoly or monopolistic competition on the market. What can be concluded from these facts is that there is currently an oligopoly in the tinned tuna market in the UK, with a few major players. That all the supermarkets have their own brands is merely evidence of that a strong position on the food retail market is required for introducing a new brand to an already existing market. In other words, the barriers to entry the tinned tuna market are high and the endogenous barriers such as the advertising barrier are a major issue for new market entrants. The “ economies of scale” barrier is yet another issue for new entrants. Worth over 2. 7 billion USD[5](£1. 65 billion) worldwide, the tinned tuna market would be very difficult to attempt to enter for a company without a substantial economic strength. Even with a financial potency, entering the market would require considerable amounts of initial capital outlay, only for covering the barriers to entry. These sunk costs might be a deterrent factor even for a company with financial strength.

## Product Price Setting & Effect in Quantity Demanded

If ignoring the supermarket’s brands and focusing on the two major suppliers Princes and John West, we can conclude that the market suppliers’ price setting is significantly influenced by the competitors on the market. If then taking into consideration the many various supermarkets’ own brands that often aim to beat the major suppliers’ prices, we can draw the conclusion that it is a strongly competitive market where suppliers have to maintain low prices to be able to attract customers. If also taking into consideration that the tinned tuna market is depending on the supply of fresh tuna, which is determined by the suppliers of a prior link in the supply chain, we can draw the conclusion that even though the supply is limited, it is currently a competitive market for fresh tuna. This facilitates the operations for suppliers of tinned tuna by maintaining low supply costs.

In my research I found that tuna, as a low price commodity, usually is consumed as a low budget choice instead of other protein rich grocery products. While having many substitutes and not so many complementary products, we can assume that the demand for tinned tuna would be severely affected by rising prices (as shown in figure 1). Under this assumption, a small relative change in price would generate a greater relative change in quantity demanded. This implies that the price elasticity of demand is elastic for tinned tuna.

The many close substitutes also implies that the income effect for tinned tuna would be substantial and generate a negative income elasticity of demand (YED) since there are more luxury forms of tuna or other substitutes to the product that could be consumed when having a higher grocery budget (see figure 2). Hence, the conclusion is that tuna is an inferior good that will be consumed less (after a certain point in time) when the personal income increases. (NB the generalisation in this case ignores some aspects such as personal taste and habits).

The factors that might drive demand up in the future are the price for substitutes such as meat or other fish, as well as the supply conditions for these. In addition, the supply conditions for tuna might drive demand up itself – when the supplies get more scarce, consumers might be more keen on buying tuna (although the increase in prices for tinned tuna would probably eliminate that outturn).

Since the market involves an oligopoly, it is highly useful to understand how the current suppliers interact. In order to do so, the “ prisoners’ dilemma” is applied. If the suppliers on the tinned tuna market would have cooperated and set prices on an agreed level, they would probably increase revenue. However, with the many UK supermarkets supplying their own tinned tuna to the market, often with the objective of being cheaper than other suppliers, it would be highly unlikely that all suppliers on the market fully would cooperate and it is consequently more profitable for the suppliers compete. The game theory indicates that the tension between cooperation and competition in this case is too immense for the suppliers to cooperate.

## Market constraints and predicaments

While not being very dependent of the improvement of new technologies or developing existing products, the tinned tuna market suppliers have to take into consideration other factors when planning future operations in the market.

The overfishing of tuna has led to declining amounts of tuna in the oceans, and while still on-going the supply of tuna is highly likely to run out in the future. This does not only pose a direct risk to the tinned tuna suppliers by setting a time limit on their operations in this market, but it also generates a more near future difficulty – Governments and international organisations have increasingly started to introduce fishing regulations[6]as an attempt to save tuna from becoming entirely extinct. Since this includes limitations of fresh tuna supply – it will most likely force supply costs to go up the more scarce supplies get. When suppliers then raise prices to achieve financial goals, the demand will fall since the price elasticity of demand is already elastic. While this is an ongoing development, the demand will most likely change over time as seen and described in figure 3.

## Possible innovative solutions and developments for a new market entrant

In the research for this report it was found that any kind of innovative solutions or new developed methods for producing tinned tuna would be highly unlikely to arise. It would perhaps involve improving the producing of the tins and shipping methods, but it is the fish itself that generates the highest cost for the suppliers, and the only way of decreasing that cost in the long run would be by an increase in the tuna in our oceans which is not very likely to happen. A new entrant could on the other hand put in an effort of getting the image of being “ environmentally friendly” or differentiate itself in a way like that, which most suppliers on the market already do. All in all, the suppliers on the tinned tuna market are involved in a business which does deal with the ethical dilemma of the overfishing of an endangered species, and it is not easy to produce creative solutions to that problem.

## Conclusion

The tinned tuna market in the UK is a highly competitive market with high barriers to entry. Currently there are a few major suppliers on the market, and the only ones that have entered the market in recent years are supermarkets which through their branded products and economies of scale have been able to do so. The price elasticity of demand is elastic and a change in price would most likely have severe consequences in quantity demanded. While the limited supply of tuna in our oceans continues to decline, the prices for fresh tuna will increase in the future and generate an increase in selling price for tinned tuna. This will affect many consumers to choose substitutes instead of tinned tuna. In the long run demand will fall heavily, and in the end the market will probably end to exist when tuna is extinct. Entering the tinned tuna market would consequently involve a very high risk and not only jeopardise a company’s financial operations, but could also give a bad company reputation for affiliating in a market that is dealing with the ethical dilemma of nearly extinct species. The high barriers to entry would also imply that it would require the economy of a large company to enter, and for such a company it would still be taking a great risk if entering the market. It is why I have come to the reasoned conclusion of that entering the tinned tuna market in the UK would not be advisable.