Comparing pure competition and oligopolistic competition

Competition is generally a healthy phenomenon. Its presence ensures that prices set for products and services are fair and reasonable. Although factors such as supply-and-demand, market position, brand value, etc influence the price set for a product/service, it is competition that fine tunes the price to existing demand. In its absence, monopolies or cartels could form, handing the end consumer a bad bargain. Experts have identified four types of competition – pure competition, oligopolistic competition, monopolistic competition and pure monopoly. The rest of the essay will focus on the first two types with a cursory glance at the latter two.

The type of competition for a product is determined by the type of market it exists in. For example, in markets for stock equities, wheat, rice, metals, etc, there are usually numerous sellers and buyers. Due to numerous players on both sides of the transaction, the price gets set by itself (the going price). All buyers and sellers can do is transact at the going price with little room for price adjustment. Under pure competition of this sort, " marketing research, product development, pricing, advertising, and sales promotion play little or no role." (Chapter 10, p. 296) Thus marketing strategy plays little to no role in the ultimate success of the sales effort.

Oligopolistic competition is witnessed when sellers is confined to a select group. This is so because resistance is met by other aspiring entrants into the market either due to lack of financial resources or lack of domain expertise. In oligopolistic competition, the select group of sellers are very sensitive to the prices set by others, for the buyers can easily choose the cheapest offer. Moreover, " each seller is alert to competitors' strategies and moves. If a steel company slashes its price by 10 percent, buyers will quickly switch to this supplier. The other steelmakers must respond by lowering their prices or increasing their services." (Chapter 10, p. 297)

In an ideal world, all markets will exhibit price patterns reflecting pure competition. But in the real world, such markets are not common, with oligopolistic competition being the dominant mode. Another form of competition that is only rarely seen is monopolistic competition, whereby the market arrangement is similar to that of pure competition, but sellers offer a range of products differentiated by quality, price and branding. In the absence of pure competition, both monopolistic competition and oligopolistic competition are partially likely to reflect consumer interest as opposed to business interest.

Finally, we have the pure monopoly market, where price is largely decoupled from external factors and is largely a reflection of management policies. Usually, the word monopoly is much dreaded by the end consumer but is most desired by a business enterprise. But its effects are far more complex than this simple view. Take say, the U. S. Postal Service. Although assuming a monopoly position in its market, being a not-for-profit enterprise, it serves the interests of the general population. But if a pure monopoly were to be established in the business domain, consumers will have little control over the quality or price of the commodity and are likely to be exploited.

Works Cited:

Chapter 10, Pricing Products: Understanding and Capturing Customer Value, Designing a Customer-Driven Marketing Strategy and Integrated Marketing Mix, p. 294-298.

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