The internet and its impact on market structure - managerial economics

Profession, Manager

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Internet and new technologies simultaneously affect all aspects of businesses today especially the demand and cost structures. This inevitably and continuously has led to a radical transformation of existing market structures. For many industries the Internet offers new and diverse opportunities for value creation, which is considered to be the essence of profitability. Appropriation of any value created has, therefore, become more challenging. Furthermore, as the Internet impacts industries in several ways simultaneously which, makes it difficult to achieve the optimum conversion of these values into increased revenue.

The Internet affects conventional competitive strategies in at least three different ways:

(1) The greater efficiency generated by lower transaction costs and new organizational forms reduce the firm’s cost structure.

(2) The reduction of consumer’s search costs and new opportunities for product differentiation and redefinition affect the consumer’s willingness to pay.

(3) Electronic markets affect pricing and allow new pricing mechanisms.

(Cassiman & Sieber 2002).

Monopoly:

Monopoly is a market that no one desires to be in. In developed countries there are laws against monopoly. It’s bad enough for consumers. Whenever there are even close resemblances of monopolies emerge, like Microsoft in the global operating systems market, people have cried foul. Even big corporations shy away from becoming a monopoly because it attracts too much regulation from the authorities and negative publicity from the public. So it’s unlikely that the typical monopoly can ever exist on a global scale. For local monopolies Internet has definitely made life difficult. With internet in place, entry barriers are so low that as soon as a company becomes successful with a new product or concept idea there would be new start-ups offering substitute products. So it would be safe to conclude that the Internet is anti-monopoly.

Oligopoly:

The world markets tend to favor oligopolies. Internet has been one for the key components that changed quite a few market structures in several industries. Internet, for instance, is a substitute for all media. The media industry has been revolutionized with the advent of Internet. It has reduced the barriers of entry to such a low level that some industries will never be the same. Perfect oligopolies exist all over the world in several industries. In liberalized and privatized economies even public utilities are oligopolies. High level of globalization and the Internet have helped oligopolies to form and exist. “ But all the past revolutions have not ended up in a totally free market, but rather have started a new cycle of oligopolies.” (The Internet and the copyright oligopolies 2003).

The pattern that one could see is that when a new company becomes successful with a new product or concept it is merged or acquired by big companies and this usually pulls the market away from monopolies and from prefect competition.

Monopolistic competition:

This is a market structure that has a large number of sellers each of which is, relatively small and possess a very small market share. Internet seems to be favoring this kind of a market structure. With the few flow of information that internet had brought about companies are always trying to differentiate their offerings in so many ways and trying to create their own new product segments such as the search engine markets. However, the trend of mergers and acquisitions seems to be pulling the monopolistic markets to oligopolies.

Perfect Competition:

This is considered to be the best possible market structure for consumers. When one analyses the basic characteristics of Internet, they point to the fact that it encourages new companies to enter a market thereby pushing the market towards perfect competition on a continuous basis. But as we all know, perfect competition can never exist as long as there are entry barriers and mergers. Internet, however, is a pro-entrepreneurship force that keeps that market open and away from monopolies.

Conclusion:

It’s indisputable that Internet has transformed the world markets just by revolutionizing the way the information is shared. It has affected most industries except the public sector in closely regulated industries such as power and petroleum. Certain industries such as book and music publishing were badly hit and were completely re-structured due to the new paradigms of the Internet age. E-commerce has broken the barriers of distance on most segments forcing local firms to adopt technology in production, marketing and distribution in order to survive. Internet’s overall impact on the traditional market structure has been profound and will continue to affect its evolution.

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