

Analysis of ferrero company: monopolistic competition



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Introduction

Ferrero is a historical Italian company that has been operating for nearly a century in 36 countries worldwide. The story of Ferrero started in 1946. Ferrero began factory production in a little town of Alba, Italy and was approved as an official company by the Italian Department of Commerce. Between 1950 to 1970, Ferrero first created a variation of confectioneries such as Tic Tac mints, Nutella hazelnut spread and Kinder chocolates in European countries then to different countries around the world. Ferrero continue to make famous chocolates such as Ferrero Rocher, Rondnoir and Raffaello Coconut Candy. With their hardwork and persistence, today Ferrero is considered as the largest confectionery company around the world. This is their achievement.

Market structure

Market structure is a number and distribution size of buyers and sellers in the market for particular goods and services. It consists of four types of market structures such as perfect competition, monopoly, monopolistic competition and oligopoly.

Firstly, perfect competition is known as pure competition that has a large number of buyers and sellers that are willing to buy and sell the goods at a particular price. But the market price of goods in a perfect competition cannot be influenced by anyone as the firms are price takers. The type of goods are all homogeneous and it is very easy to enter into and exit the perfect competition market. Non-price competition is not important in perfect competition.

Furthermore, in a monopoly, there will be only one seller but great number of buyers. A monopolist is a price maker who has the power to control over the price. The type of goods are unique as there is no close substitutes for the goods. The barriers to the entry and exit of firms are extremely difficult.

Besides, a monopolistic competition has a large number of firms that supply close substitutes goods but it is not as large as in perfect competition. The control over prices in the market is low and the type of goods are differentiated. The condition for entry into and exit out is relatively easy. Each firm will compete among each other in a monopolistic competition.

Lastly, in a oligopoly, there is a small number of firms but large in size. It can sell either identical or differentiated goods. The characteristics of a oligopoly is mutual interdependence as it needs to consider the response of their enemy before making any decision on business policies. The condition for entry and exit is significant obstacles.

The chocolate market is one of the well known and important monopolistic competition. One of the prominent company in a monopolistic competition is Ferrero company. There is a great number of companies selling close substitutes goods in a chocolate market like Alfredo, Cadbury, Toblerone and Godiva. These companies and also Ferrero sell slightly different chocolates which are differentiated by their design, brand name, packaging, flavour and promotion to attract more buyers or consumers. Being an independent company, Ferrero can take control over the prices of the chocolates. Besides, it is free to enter into and exit out of the monopolistic competition. Any chocolate firms can enter into the market with close substitutes so as to

compete with Ferrero. Ferrero publish attractive advertisements to attract more buyers and consumers.

Therefore, it is clearly stated that Ferrero is a monopolistic competition.

Competitors of Ferrero

In a monopolistic competition, there is stiff competition as to the quality of the goods instead of the price of the goods. Even though Ferrero is one of the largest confectionery companies around the world, it has a few competitors that sell slightly different products. Toblerone is its main competitor. Both brands fight for the quality of the chocolates. The prices of Ferrero's chocolates are much higher than that of Toblerone because Ferrero's chocolates are made with better quality ingredients than Toblerone. Furthermore, Ferrero also compete with other brands like Mars and Nestle by having advertisement and organizing seasonal promotions. During festive seasons especially Christmas, Ferrero creates a Christmas Tree Ferrero Rocher boxes, Maxi Kinder Surprise Eggs, and bell boxes for Easter. As for the other competitors, they just have advertisements and promotion like ' Buy 1 Free 1' in the supermarkets.

Barriers to entry and exit

Being a monopolistic competition, there is freedom for the company to enter or exit the chocolate market. It is easy for the Ferrero company to enter and exit as it does not have a very high production cost. There is a great number of companies selling close substitutes products in a chocolate market like Alfredo, Cadbury, Toblerone and Godiva which can replace Ferrero's

products such as Ferrero Rocher Chocolate, Rondnoir and Raffaello Coconut Candy.

Pricing decision

When a chocolate firm works within a monopolistic competition, it can make any decision on the prices of the chocolates independently. The price of Ferrero's products can be changed easily by the company as it does not need to care about what will impact the price of other competitors. Even if Ferrero increases the price of its products, it will not downside the number of buyers because of its better quality and uniqueness of the products. Most people said that the higher the price of the products, the better quality of its products.

Non-price competition

Ferrero company has invested a lot by having advertisements in newspapers and promotions on television, the internet and other social media to attract more customers as well as to maintain the number of loyal old customers. Ferrero can gain more profits by increasing the number of buyers. For example, Ferrero has created a Facebook page and video messages that shows how Ferrero's products are made of. Besides, Ferrero has used another method to attract more customers by having fanciful packaging which are displayed on the shelves in the supermarkets during festive seasons especially Christmas. The products of Ferrero are Christmas tree Ferrero Rocher boxes, Maxi Kinder Surprise Eggs and Easter bell boxes. Moreover, Ferrero has requested people to share on its Facebook page with their decorations using Ferrero Rocher chocolates during New Year or Christmas Eve. The nicest decoration will get to win a weekend trip to Paris.

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Conclusion

In conclusion, Ferrero has made very delicious and superb chocolate for people to indulge and it belongs to the monopolistic competition. Ferrero company differentiates their products by the design, packaging and flavour. There is freedom to enter into or exit out of the monopolistic competition. Furthermore, Ferrero can make any decision on the prices of its products. It uses many methods of non-price factors to attract more buyers. Today, Ferrero has become a great and ultimate brand of chocolate among others. Ferrero chocolates flavour is unique and has the quality of a branded chocolate. Eventhough Ferrero sell its products at very high price, consumers still enjoy and love the chocolate. Thus Ferrero has gained its popularity around the world.