**Market structures handout**

**Perfect competition**

**Characteristics**

There are a large number of businesses competing and no one business is large enough to influence the activities of others.

There are no market leaders and no price leaders, so each business must accept the going price on the marketplace – they are price takers.

The goods sold are homogenous – there is no difference between the goods sold by one business or any other business. This means that there is no branding, no product differentiation, no way of telling goods apart.

Businesses have equal access to technology, meaning that they have equal levels of productivity and each business will benefit in the same way from any economies of scale that are available.

Consumers in a perfectly competitive market have full market information, they know what is being sold and the price the goods are sold at. They can access a wide number of suppliers to the market.

Businesses are free to leave or enter the market at any time: there are no barriers to entry or exit.

These unrealistic conditions mean that perfect competition is merely a model. In reality there is always some sort of branding or differentiation – whether it is the quality of products, price of products or the location of where products are sold. It has some use as the starting point to analyse the behaviour of other market structures in the real world.

**Monopoly**

**Characteristics:**

A single producer within a market – one business has 100% of the marketplace. This is known as a pure monopoly.

They are likely to erect barriers to prevent others from entering their market.

Monopolists are called price makers as they have a significant influence on price. Nonetheless, they cannot simply charge what they want as the law of supply and demand still operates.

Pure monopolies were not uncommon in the UK 30 years ago. The average household only had the option of one gas supplier, one home telephone supplier, and one electricity supplier etc. With the introduction of competition into these markets through deregulation and privatisation, these monopolies have in the main disappeared. Until recently the Royal Mail had a monopoly over the delivery of letters in the UK, but even this is now opening up to competition.

Pure monopolies with 100% of the market are now very rare.

The UK and EU competition authorities regard any business with over 25% of the market as having potential monopoly power, and will investigate situations where it believes this power is being abused.

Monopolies can, however, offer advantages to consumers. Being big or very big they can benefit from massive economies of scale, reducing prices and making goods affordable. Also the profits earned can be used for investment into improving products, improving production techniques and developing new products.

**Oligopoly – oligopolistic competition**

**Characteristics:**

There are many businesses but only a few dominate the market.

Each business tends to have differentiated products with a strong brand identity.

Brand loyalty is encouraged by the use of heavy advertising and promotion.

Prices can be stable for long periods, although short price wars do occur.

Some barriers to entry do exist: for example, high start-up costs in relation to manufacturing.

Many of our largest industries, whether manufacturing, retailing or service industries, are oligopolistic in nature. In retailing, the grocery market is dominated by Tesco, Sainsbury’s, Morrison’s and Asda. In clothing retailing, each age group have just three or four major chain stores that dominate their marketplace.

When businesses in an oligopolistic market act together (collude), a cartel is formed. Cartels try to keep prices high, whilst the businesses involved share the market between themselves. This type of collusion has occurred in a wide range of industries: for example, the airline industry and the sports clothing industry. This formal collusion is illegal.

However, oligopolies are not without advantages to consumers. Large size leads to economies of scale, high profits means money for innovation and investment, and oligopolies targeting a wide range of market segments provide variety and choice. A very good example of the advantages of the oligopolistic market structure can be found in communications. By communications we mean mobile phones, landlines, the internet and television. A small number of very large businesses have put huge amounts of investment into these industries over the last 30 years, meaning that service and customer choice has improved dramatically.

**Monopolistic competition**

**Characteristics:**

A large number of relatively small businesses in competition with each other.

There are few barriers to entry.

Products are similar, but differentiated from each other.

Brand identity is relatively weak.

Businesses are not price takers; however, they only have a limited degree of control over the prices they charge.

You are likely to be aware of local business in specific markets that are quite similar to each other – for example, hairdressers or take-away restaurants. Within every monopolistic market sector each business tries to offer something different and possess an element of uniqueness, but all are essentially competing for the same customers. Differentiation may take a number of forms in this market structure. For example, businesses could use physical product differentiation. This is where businesses use size, design, colour, shape, performance and features to make their products different from competitor businesses. For example, pizza outlets produce their products with stuffed crusts, thin and thick bases and in all shapes and sizes. They may also attempt differentiation through methods of purchase and distribution such as online purchases and free delivery. Often attached to delivery is a promotional promise such as ‘if we are late you get it for free’.

**Niche and mass marketing**

**Mass marketing**

This is when a business targets its advertising and promotional spending at the whole market, not at a particular segment. It involves the marketing of a good or service to all possible consumers in the same way.

Economies of scale can be taken advantage of because of higher production output and capacity. Mass- produced vehicles such as those produced by Toyota target a global mass market.

Low-cost operations, heavy promotion, widespread distribution and the development of market-leading brands are key features.

The costs of setting up in order to compete in a mass market can be very high and competition can be very ﬁerce, as Coca Cola and Pepsi Cola clearly show.

**Niche marketing**

Niche marketing is where a business targets a smaller segment of a larger market, where customers have specific needs and wants.

One or more specific segments of the market are targeted with niche marketing.

A higher price can often be charged – customers are prepared to pay for expertise and tend to be loyal.

There must be a full understanding of the desires and needs of the niche. This understanding can be gained through market research, but is often initially based on more of a ‘gut feeling’ and an understanding that comes through personal experience.

Niche marketing businesses are able to concentrate on their strengths, developing products from what the business is good at. As niche businesses can gain expert knowledge of the targeted part of the market, their products or services directly meet the needs of customers, giving the niche marketing business a real advantage over potential competitors.

Lower start-up costs help niche market businesses in their early stages. The business may have the market to themselves (at least for a while), because competition may ignore the niche, either because of lack of awareness or because it is too small for large businesses to focus on.

However, market niches can disappear as a result of changes in economic conditions, fashion or taste.

Alternatively, mass market businesses can target the niche if it grows in value or size and existing small businesses may find this competition impossible to deal with.