Oligopoly Explained: Become conscious of <u>your</u> Industry Type

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Oligopoly Business/Industry Structure Type

Just a few large suppliers dominate an Oligopoly market. I.e. 3 Companies dominate the Cell phone network market of South Africa. Just a few handset manufacturers. In the town of Britz, just 3 petrol stations concentrate their service offer.

5 Industry Structure Types

	One Seller	Few Sellers	Many Sellers
Undifferentiated Product	**Pure Monopoly**	**Pure Oligopoly**	**Pure Competition**
Differentiated Product		**Differentiated Oligopoly**	**Monopolistic Competitive**

	One Seller	Few Sellers	Many Sellers
Undifferentiated Product	**Only <u>one</u> firm** exists in market. Absence of substitutes. Complete control of **Price (Inelastic)** unless regulated. Cause: Patent, Gov, economies-of-scale	Few large competitors. Oil, steel, petrol stations. Must achieve lower cost = economies-of-scale. **Inelastic demand curve** because all watch each other's **"market-price".**	Many small competitors offering the same commodity. (stock market, potatoes). **Elastic Price.** If you can *position* (cigarettes) then become *Monopolistic Competitive*. Very little profit! Avoid this undifferentiated quadrant!
Differentiated Product		Partially differentiated *above.* Cameras, Cars, Cell Networks. Charge a premium for best FABs.	Large to small competitors. Freedom, but not complete freedom in its own market segments. **Elastic or inelastic** due to substitutes.

Based on: Kotler/McCarthy/Perreault

How to spot an Oligopoly

Products are similar, and sold by a few companies. The products are branded due to extreme competition, and because there are huge long-term entry-barriers, the companies make exorbitant profits! The competing companies have an unusual 'interdependence', to the point that they almost operate in unison. They have incredible difficulty making output/price decisions because of the competitor's obvious response.

Why just 3 suppliers? Because there are normally huge barriers-to-entry (i.e. national coverage, expensive licenses). Oligopolies are dominated by advertising because price is difficult to manipulate – if advertising is done well (best *positioning* of a FAB: Features, Advantages or Benefits – i.e. Camel cigarettes taste) the Oligopoly becomes a Differentiated Oligopoly.

Price Demand Creation

Interdependence between firms is huge when considering a price change – they watch each other like hawks – anticipating the next move of the "game". Without the Oligopolies even realising it, their constant **'interdependence'** may lead to implicit **collusion**, or even explicit collusion. This causes the large players to operate as if they were in a **Monopoly** (I.e. price becomes inelastic, less advertising & investment is necessary). 'Monopoly' profits are typically huge, or at worst will create top *'Monopolistic Competitive'* profits (see above diagram). In a free-economy, Monopolistic Competitive players need to be *brilliant* to create the same profits.

If one company in the Oligopoly is the leader (probably due to economies-of-scale), the others are forced to follow their price moves. Largest Bank drops their lending rate first, followed by the smaller banks.

Non-Price Demand Creation

Price tags are easy to imitate, especially for the leader who has a low cost advantage due to economies-of-scale. Thus the smaller players will aim for non-price demand strategies to gain market share: i.e. Improved marketing mix and better IMC (Integrated Marketing Communication), Loyalty Programmes, Customised Service, In-store shopping, Discount for bulk, 24hr service, etc

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