A comparison of market structures in Australia

EssayCorp 5 years

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Introduction:

Market study is one of the crucial parts of developing marketing strategy. Understanding of different types of markets along with respective characteristics, advantages and limitations are important for developing appropriate strategies related to products, place, pricing and promotion. In fact, development of future strategies based on forecasting of demand and supply depends highly on the key traits of a particular market. The current study focuses on critically evaluating two major market structures namely perfect competition and Monopolistic markets. The study starts with a critical discussion on perfectly competitive market and monopolistic markets. This is followed by a comparison of these two markets based on respective characteristics. The study further explores one monopoly and one monopolistic market of Australia and differentiates these two. In addition, the study presents a critical evaluation of different price discrimination strategies available to firms with special emphasis on the price discrimination strategies used by the selected markets of Australia.

1.1 Perfectly competitive market structure:

A perfectly competitive market is characterised by the highest degree of market competition among the existing rivals in the market. It is the view of the neo-classical economists that perfect competitive markets are beneficial for the consumers as intense market competition makes the companies focused on customer satisfaction as none of the companies can afford to lose its customers.

In the view of Baye (2000), firms operating in a perfect competition market are usually price takers as the bargaining power of consumers are usually high in such market. Thus, in a perfectly competitive market, sellers are forced to adopt existing price in the market. This can be explained by the fact that if sellers set higher prices than the market price then the consumers would not buy the products and shift to other sellers. On the other hand, setting a selling price below the existing market is of no use as it results in the loss of potential sales revenues and profitability for the firms.

A condition of perfect competition can occur if the following conditions are satisfied:

- Low degree of entry and exit barriers

- Homogeneity of products
- Perfect knowledge on price, cost and quality of concerned products
- No single seller or buyer can influence the market

In a perfect competition, the total revenue of the firm is obtained by multiplying the selling price of a product with the quantity of products sold during a concerned period. On the other hand, marginal revenue indicates the additional increase in revenue due to additional increase in the production level. However, marginal costs can vary depending upon the production level.

Key features of perfect competition:

Number of suppliers:

The number of suppliers prevailing in a perfect competition is considerably higher than other market forms like oligopoly. Such high number of suppliers in the market results in tough market competition where price bases war is common.

Freedom of market entry and exit:

The barrier to market entry and exist in a perfectly competitive market is almost zero or negligible. Hence, firms are free to enter and exit from a market as and when the firms wish.

Pricing decisions:

Firms operating in a perfect competition market are not the price makers rather the firms are price takers. In other words, these firms are forced to set price in accordance to the existing market price.

Other characteristics:

Perfect knowledge:

Perfect knowledge about the products, costs, selling price and quality is one of the key features of a perfectly competitive market. As mentioned by Dransfield (2014), a perfectly competitive market does not involve any time lag in the flow of information. All the market participants have adequate knowledge and thus the role of an entrepreneur is quite low and the risk level is low as well.

Rationality of decisions:

Rational decision is yet another major feature of a perfect competition. In other words, free availability of information allows both firms and consumers to take rational decision in respect of production and consumption respectively. The principle focus of producers and consumers are on profit maximisation and utility maximisation e\respectively.

Nature of product:

Firm produce homogeneous products in a perfectly competitive market. In other words, products are usually not branded.

Labour:

It is important to note here that the unit of labour is homogeneous in a perfectly competitive market (Chen et al. 2014).

Barriers to market entry:

In the view of Dransfield (2014), the barrier to market entry is quite low or absent in a perfectly competitive market. This also increases the threat from new entrants for the existing firms in the market.

Profit factor:

Hill (2013) stated that firms operating in a perfectly competitive market cannot make any abnormal gains. Put it differently, firms in a perfectly competitive market can make only normal profits in the long-run. However, abnormal profits can be made in the short-run.

1.2 Monopolistic market:

A monopolistic market is a market situation in which there are a large number of firms which produce close substitute products but are different from one another. In other words, in a monopolistic market each single firm enjoys monopoly over each specific brand. The brands are close substitutes to one another but the monopoly position is influenced by tough market competition. In this context, Isaacson (2011) stated that a monopolistic industry supports companies to the detriment of consumers.

Features of monopoly market:

The key features of a monopoly market are discussed below:

Large number of suppliers:

A monopolistic market is characterised by a large number of sellers engaged in supplying similar but not homogeneous products as the products are slightly different from each other. Each firm acts independently and enjoys a limited share of the market.

Product differentiation:

Firms in a monopolistic market seek to differentiate products based on size, shape, colour and branding (Pandey et al. 2013). The products offered by a firm are close rather than being perfect substitutes.

Selling costs:

It is usually observed that firms incurred huge costs on research and development activities to differentiate products from that of the rival firms. The purpose of incurring such costs is to attract customers towards the products.

Pricing decisions:

The firms operating in a monopolistic market cannot be considered as a price taker or price maker firm as the firms have a partial control over the price of products.

Demand curve:

The demand curve in a monopolistic market is a downward or negative sloping curve as the firms produce close but differentiated products for the customers. As mentioned by Koop (2001), the negative slope of demand curve in a monopolistic market indicates that a firm can increase its sales by reducing the price of the products.

Freedom of entry and exit:

A key feature of a monopolistic market is that firms are free to enter into or exist from a market at any particular point of time (Chapuis, 2013). This indicates that firms cannot enjoy abnormal profits or suffer abnormal losses in the long-run period.

1.3 Difference between Perfectly competitive market and Monopolistic market:

The key differences between a perfectly competitive market and a monopolistic market are discussed below:

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Product nature:

Each firms operating in a perfect competition market produces homogeneous products. On the contrary, product differentiation is a key attribute of the firms operating in a monopolistic market structure.

Pricing decisions:

In a perfectly competitive market, all firms are basically price takers. The price of a product is determined by the demand and supply forces in a perfect competition market. On the other hand, the firms operating in a monopolistic market has own pricing policies and structures.

Demand curve:

The demand curve of a firm under perfect competition is elastic in nature and the marginal revenue curve of the firm coincides with the demand curve. On the contrary, the demand curve is a negative one or downward sloping in a monopolistic market.

Selling costs:

The selling costs incurred by firms in a monopolistic market are usually higher than that of the firms operating in a perfectly competitive market. This can be explained by the fact that the firms operating under perfect competition are able to sell products at existing market prices whereas firms in a monopolistic market are required to advertise the products because of product differentiation.

2.1 Monopoly & Monopolistic markets of Australia:

2.2 Overview of Australia Post and Gloria Jean's Coffees:

In the current study, Australia Post represents monopoly market whereas Gloria Jean's Coffees represents monopolistic market.

Australia Post:

Australia post is considered as the largest retail network in Australia. Currently, the Australia Post delivers around 12.6 million letters to 11.3 million recipients on a daily basis. Australia Post is owned by the Australian government and thus is a government enterprise. The sole shareholder of the company is the commonwealth government of Australia. The organisation is focused on offering\ng reliable, speedy, efficient and Affordable postal services to the people in Australia. Australia Post is a completely self-funding business organisation and hence does not receive any taxpayer funding. The annual report of the organisation for the financial year ending reveals that Australia Post has made a profit after tax of $116.2million whereas the total number of employees in the organisation is 36,944. In fact, the Australia Post accounts for around 5% of the total industry value of Australia.

Gloria Jean's Coffees:

Gloria Jean's Coffees is one of the leading companies in the coffee industry of Australia. The company was established in 1979 in Chicago by Gloria Jean Kvetko. The company operates in 39 countries at present which includes over 1000 coffee shops. However, Gloria Jean's Coffee was purchased in 2014 by the Retail Food Group. Starbucks, Coffee club and Hudson Coffee are the key competitors of Gloria Jean's Coffees at present. The company is known for offering coffee at the lowest price in Australia.

2.3 Difference in market characteristics of Australia Post and Gloria Jean's Coffee:

This section of the study seeks to identify the difference in the market attributes of Telstra and Gloria Jean's Coffee based on the features of respective market structures:

Degree of market competition:

The intensity of market competition in the coffee industry of Australia is comparatively higher than that of the postal industry. This can be attributed to the major presence of Australia Post in the postal industry whereas the coffee industry is characterised by a large number of firms. The key competitors of Gloria Jean's Coffees are Hudson Coffee, Starbucks and Coffee Club to name a few. On the contrary, there are hardly any direct competitors for the Australia Post.

Barriers to market entry:

The barrier to entry of new companies in the market is quite high in the postal industry than that of the coffee sector. Thus, the threat to new entrants is lower for Australia Post whereas the same is quite high for Gloria Jean's Coffees. This is mainly because of the strong brand recognition, sound financial conditions and distribution network held by Australia Post.

Advertisement costs:

Australia Post engages in a very limited advertising and sales-promotional campaigns whereas Gloria Jean's Coffees indulges in aggressive sales-promotion to attract and retain customers. The company spends heavily on television, newspaper and other advertising tools and has also a strong presence in social networking sites like Facebook, Twitter and others.

Inter-dependency:

Australia Post seems to be a price maker due to the characteristics of the concerned monopoly market. On the other hand, the coffee industry of Australia is characterised by fierce competition and thus companies like Gloria Jean's Coffees and others make pricing decisions independently.

Non-price competition:

The market competition is quire less for Australia Post apart from few private courier services companies. Australia Post seems to be competing based on good quality of postal services. On the other hand, Gloria Jean's Coffees is engaged in price based competition as the company seems to pursue a cost leadership strategy. The price offered by Gloria Jean's Coffees is considered to be the cheapest in the market.

Nature of product:

Gloria Jean's Coffees is a product based organisation whereas Telstra is a service based organisation. Gloria Jean's Coffees offers coffee to the consumers whereas Telstra is engaged in offering telecommunication services to the consumers. Thus, the products offered by Gloria Jean's Coffees have a large number of close substitutes which is not the case for Australia Post. There are other beverages companies in Australia but these are not perfect substitutes to a cup of coffee.

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3.1 Price discrimination:

Price discrimination is the process of charging different price for the same product or services. Price discrimination in fact is one of the most popular competitive strategies used by well established and large scale organisations. In this context, Okuguchi (2013) stated that firms seek to make profits from the gap in demand and supply from consumers through price discrimination. In other words, a company can gain by charging the consumers the maximum possible price that each consumer is ready to pay thereby reducing or eliminating consumer surplus (Dementyeva et al. 2015). In general, there are three major types of price discrimination used by companies and these are mentioned below:

- First degree price discrimination
- Second degree price discrimination
- Third degree price discrimination

However, price discrimination is not an easy task and requires fulfilment of certain conditions to apply price discrimination strategy. These conditions are stated below:

- The concerned firm needs to operate in an imperfect competition and that the firm needs to be a price maker. Thus, the demand curve would be a downward slopping one.
- The firm under consideration needs to be capable enough to segregate market and prevent reselling of products and services.
- There needs to exist demand elasticity among various consumer groups.

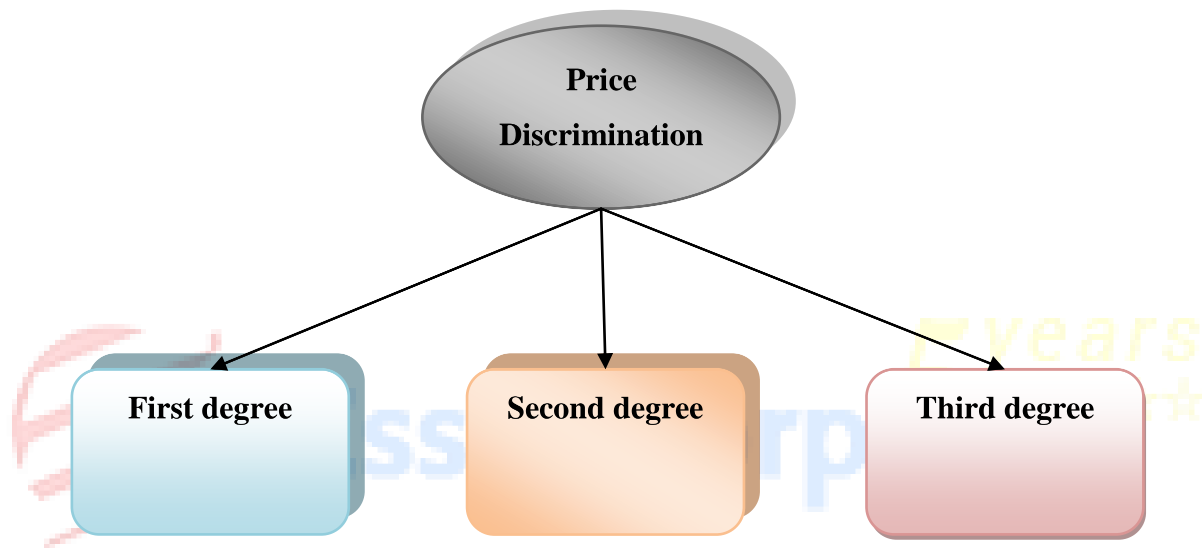

Figure 2: Type of price discriminations

(Source: Self-created)

3.2 Types of price discrimination strategies:

First degree price discrimination:

This strategy involves charging the maximum possible price from the consumers that the consumers are ready to pay. Consumer surplus will be zero under this strategy. In other words, first degree price discrimination requires the firms to identify the price that consumers

are willing to pay for a product or service and then setting the selling price accordingly to sell the product or service at the concerned price.

Second degree price discrimination:

This strategy is concerned with charging different prices to the consumers based on the quantity of products or services consumed by the consumers. Therefore, under this strategy firms offer various discounts and offers to the customers on the fulfilment of certain criteria or conditions by the consumers. Consumers in general appreciate these types of offers, schemes and deals as long as discounts are available (Jonas, 2013).

Third degree price discrimination:

Firms following this strategy charges different price to different groups or segments of customers. Aguirregabiria and Ho (2012) stated that the Third degree price discrimination can be viewed as a significant part of the market segmentation and target marketing strategy as it allows firms to expand businesses by targeting a particular group of consumers. For example, firms can offer certain discounts to college students. Similarly, a large number of commercial banks offer higher interest rates on deposits by senior citizen customers.

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3.3 Price discrimination strategies of chosen Australian markets:

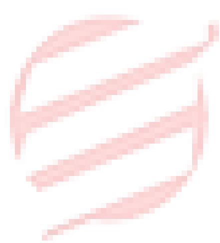
There exist considerable differences in the pricing strategy of Australia Post and Gloria Jean's Coffees in Australia. This seems to be an impact of the difference in market structure in which these two companies operate.

Australia Post seems to be following **second degree of price discrimination strategy**. The organisation has a specific price chart for all its customers. The price chart comprises of different slabs of price depending on the quantum of usage by consumers. In other words, higher usage of postal services can enable customers to get greater amount of discounts.

On the contrary, Gloria Jean's Coffees is clearly focused on **third degree price discrimination** strategy as the company offers special discounts and schemes for specific customer segments like students, senior citizens and others. This strategy also helps the company in improving its brand image in the market. Currently, Gloria Jean's Coffees does not offer any usage based discounts rather the company seems to be targeting specific customer segments particularly the segments of college students and professionals.

Conclusion:

The study revealed that the bargaining power of sellers is higher in an oligopoly market compared to a monopolistic one. It was observed during the study that the number of firms and barrier to market entry is also higher in an oligopoly market than the monopolistic one. In addition, the study indicates that Gloria Jean's Coffees pursues second degree price discrimination strategy whereas Telstra uses first degree price discrimination strategy.



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