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Market Structure of Supermarket Industry in UK

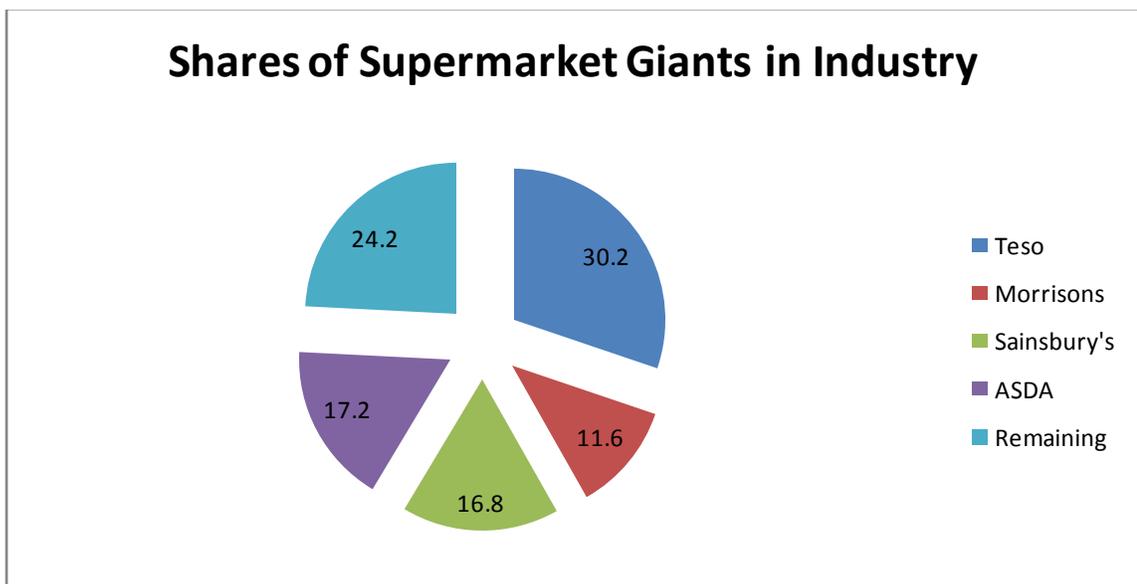
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## Market Structure of Supermarket Industry in UK

### Share Of Giants In The Market

Following chart shows the market share of the supermarket market in UK as of May13, 2013 (Briggs, 2013). The four giants enjoying 75.9% of the market share shows that the critiques objecting on the level of competition in the supermarket market has substantial weight to their objections. The nature of market structure has direct impact on the level of price and output of products; therefore in long run it is fairly possible that the giants in any industry gain the ability to exploit resources, suppliers and customers. Although there have been numerous voluntary self regulation attempts have been made by these giants but the role of government regularities is very important in this situation. It is found that that supermarket industry is relentlessly consumer oriented industry and so are their voluntary regulations and these initiatives are concerned with consumer interest. The government must create incentives for supermarkets to drive positive change in other aspects such as trading relations with farmers and labour rights (Fox & Vorley, 2004).



## Economical and Political Environment of Market Economy

The market structure of UK supermarket industry market is a classic example of market economy where consumers and producers have a significant degree of freedom and minimum level of regulations and intervention from government. The producers are customer oriented, they produce what they believe is demanded by their customers and they feel pride and satisfaction in their products. Producers allocate resources as per their convenience and consumers are free to choose and buy products for their needs. This free interaction between producers and customers tends to ignore other aspects of the society for example the supplier of raw material and farmers of agricultural and dairy products. They are usually neglected by both producers and consumers. Similar trends are being noted in the last decade by economists and critics in UK. They find that the supermarket giants are producing extremely customer oriented goods and services and consumers are responding well to them. But other aspects of the society are being neglected and the role of government as a regularity authority is not helping the neglected ones or restricting the producers or buyers (Seely, 2012)<sup>1</sup>.

There are also some benefits of the market economy it encourages competition and lower prices. Producers tend to improve methods of production and the system of supply chain management. Producers invest in the infrastructure that facilitates the transportation of the raw material in order to lower the cost of production and gain competitive advantages. All these advantages are clearly visible in the supermarket of UK. The giants are continuously innovating

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<sup>1</sup> Seely , Page 1

and improving the method and costs of production and trying to offer best possible goods<sup>2</sup> to grow their share in the available market.

One of the most salient features of the market economy is the degree of freedom that sellers and buyers enjoy in their operations. Sellers can produce whatever seems to maximize their profit and allocate resources accordingly and buyers can buy whatever they want if they have the ability (money) to buy it from a seller of their choice. Prices are settled according the forces of the market. Governments do not interfere in this process until the producers and consumers are not involved in an illegal commodity for example drugs. Same phenomenon was observed in the supermarket market of UK. The supermarket owners were offering best prices and quality for their products as well as good service on the other hand consumers were buying those products within their purchasing power choosing freely. By the rise of four giant supermarkets the market structure started to change and is moving towards oligopolistic competition. This requires governments to step in and play an important role of regulatory authority. OFT in 2006 indicated this trend in its report. The findings of these reports mentioned that *“Overall, the evidence suggests that consumers have benefited in recent years from falling prices, an increase in product range within stores, and an apparent improvement in service. However, this may have been at the expense of choice of store at a local level, and there remain concerns about the strength of local market competition in some areas. Considered against this context, there are a number of features of the market that can reasonably be suspected of distorting competition and, in the case of at least some of those features; the evidence suggests that consumers may be being harmed”* (OFT, 2006).

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<sup>2</sup> Ibid page 1

The report further explained that the cost and scope of new entry in the market was rising because of new large format stores. There were anticompetitive activities such as using restrictive covenants with respect to land holdings by large superstores. The report continues to conclude that the buyer power had increased from 2000 and the increment was potentially harmful for the consumer with respect to the consumers' choice because the alternative business models such as wholesale and convenience stores were decreasing due to the growth in supermarkets. The report also objected to the pricing behaviour of large supermarkets i.e. below-cost selling and price flexing that they are distorting the competition. The report suggested that Competition Commission should run an investigation on these policies and find out the extent and of unravelled distortion and harm in order to prevent it (OFT, 2006)<sup>3</sup>

The report found that the pricing behaviour of the giants had a great effect on the overall price in the market and it was eliminating competition in various areas and a lot of small convenience store owners and retailers were winding up their businesses. Plus large supermarkets were acquiring small stores and retailers. The elimination of competition can never be healthy and the market structure was changing from free market economy to oligopolistic economy. Supermarkets were exploiting the opportunity of being a huge buyer of goods and services from the suppliers. The supplier in order to compete with other suppliers offered special rates to superstores which they could not offer to whole sellers and retailers (OFT, 2006)<sup>4</sup>. These were special concerns presented in that report and Competition Commission was requested to commit an investigation for the subject matter.

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<sup>3</sup> OFT, 2006. Page 2

<sup>4</sup> Ibid, page 45-48

## Claims and concerns against Supermarket Giants and their Policies

### Effects on Consumers

The advertisements (especially for the children), the special offers (buy one get one free or coupons) and mishandling of food items by the superstores are promoting unhealthy food and eating habits. Due to the change in consumers' taste and preferences diet-related diseases are increasing such as cardiovascular disease (CVD), diet related cancers, osteoporosis, diabetes, dental problems, obesity and vitamin deficiency (Willey, 2001) Secondly, these offers do not give consumers cheap prices but yield high profits for the supermarkets.<sup>85</sup> these taxes were costing the tax payers £12.5 Billion/year (Lang & Rayner, 2001) finally, superstores claimed that they were providing huge ranges of products that broadens choice convenience and value for the consumers but the other side of the coin suggest that superstores are reducing choices by putting small independent retailers out of business, customers has to use cars and travel to the superstores then where is the convenience and considering the cost of our health and small businessmen the concept of 'cheap food' is just an illusion.

### Effects on Competition

In 2000 Competition Commission presented a report about supermarkets which explained the exploitative practices by supermarkets over suppliers. Supermarkets were not making payments as per schedule, they were changing order and supply details at the last minute and consequently charging small farmers for errors and they were not entering into binding contracts with the suppliers (CC, 2000). The supermarkets were acting as monopolies as the largest buyers of food products and the producers especially producers of perishable goods were

vulnerable to be exploited by supermarkets. The price war between supermarkets was fought at the cost of lower prices from the suppliers.

### Role of Government

Ideally, in market economy the government should not interfere in the market and market forces of consumer, producers, supply and demand should determine the price and equilibrium of the market but if the competition is distorted and market structure tends to change in to oligopolistic competition; the government should intervene and introduce regulations to restore the market economy competition. Government should watch the planning and policies of corporate giants for public welfare. The government should also monitor the relations between corporate figures and political parties and make sure that they have minimal influence in the policy making body of the government for example Sir Terry Leahy the chief executive of TESCO participated in several task forces, lord Sainsbury was minister for science and innovation and major donor to Labour Party and last but not least TESCO and ASDA organized parties and meetings at the Labour Party Conference 2003.

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