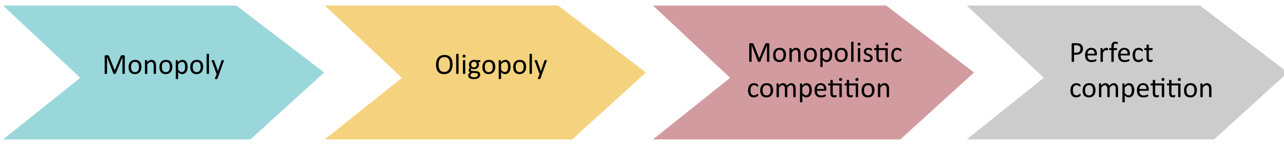
Chapter 2
Market structure, types and segmentation

There are a variety of differing market structures which are separated by the levels of competition that exist within each market and the market conditions in which the businesses operate.

Competition increases as the number of businesses in the market increases:



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, Morrisons 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'.

Market structure, types and segmentation
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Businesses and markets

Different businesses can operate in very different markets – some are local, others global. Some businesses are focussed on consumer markets (B2C), others sell to other businesses (B2B). For many businesses there will be large seasonal variations in their sales; others may find much more constant sales throughout the year. Although mass market businesses may seem to dominate the retail world there is still plenty of space for niche market businesses. Each business will still use the marketing mix, but how they adapt their strategy depends largely upon the target market. In most markets there is one dominant (mass) segment and several smaller (niche) segments.

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.

Market segmentation

A market segment is any sub-group of a larger market. Mass market businesses divide their target markets into segments (sub-groups) that have common features, or are made up of individuals that make purchasing decisions based on common factors. When this is done businesses produce and market products aimed at each of these segments.

Types of segmentation

Demographic	Age, social class, gender, income.	Example: Banks offer different accounts to different age groups.
Psychographic	Allows targeting of groups on personality and emotionally based behaviour – attitudes, opinions and lifestyles.	Example: Differentiating cars by emphasising different features – safety and capacity for the family car.
Geographic	Regions of the country – rural, urban, suburban. Global marketing often requires different products for different countries.	Example: Global brands such as McDonalds and Coca Cola require different ingredients in different countries.

What rules must apply to market segmentation?

- Firstly, segments must be **recognisable**. They must be different enough from other segments to make producing for that segment worthwhile. For example, housing is built for different groups of people: flats for single people, two bedroom houses and starter homes for young couples, three or four bedroom houses for families, bungalows for retired people.
- Also segments must have **critical mass**. This means that they must be big enough or produce enough sales value to make the production of products or services targeted at the segment worthwhile. The market for two-seater sports cars has grown rapidly in recent years making the segment attractive: not only to niche market businesses such as Lotus, but also to mass market businesses like Toyota, Honda and Nissan.
- Segments have to be **targetable**. Having their own identity means that they can be promoted to, and have marketing directed towards them. On daytime TV, there are many adverts for retirement plans, or funeral expenses plans, often sold in a reassuring but concerned manner. They are targeted at a segment which is aware of the potential problems of costly funeral expenses, or leaving a loved one without financial support.

Once segments have been identified, then businesses can use a **segment-orientated marketing approach**. This approach offers a number of advantages for both businesses and customers. Targeted marketing allows the business to stress those product features that are most relevant for each particular segment (e.g. price vs. quality vs. brand identity). This targeting will occur even if the product being sold to different segments is almost identical.

Finally, customers change their preferences and patterns of behaviour over time (the customer life cycle). **Sustainable customer relationships** in all phases of the customer life cycle can come from segmenting markets. Businesses that serve different segments along a customer's life cycle can lead their customers from stage to stage by always offering them a special solution for their particular needs. For example, most car manufacturers offer a product range that caters for the needs of all phases of a customer life cycle: a first car for students/young workers, a fun car for young professionals, a family car for young families, SUV for growing families etc. Skincare cosmetics brands often offer a branded series of products for babies, teens, young adults, mums, and more mature skin.

Market segmentation
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Global markets

Global marketing is all about selling goods or services to overseas markets. With global marketing different marketing strategies are implemented, based on the region or country the company is marketing to. This may mean different packaging, pricing and promotional strategies.

When businesses are considering moving into overseas markets there are several possible advantages.

- **Higher earnings** – firstly there are likely to be higher earnings, especially if margins in overseas markets may exceed those found at home.
- **Spread risks** – by moving into new markets risks are now spread. Decline in one market may be smoothed out by increased demand in an overseas market.
- **Saturation of the home market** – often businesses are encouraged to make their first moves into a global market because of saturation of the home market – the business may have the finance to expand, but be unable to do so because of competition.
- **Economies of scale** – this move into global markets is likely to lead to increased economies of scale.
- **Survival** – some businesses need to be global to survive, for example automobile businesses. The biggest of these companies (Ford, GM, Toyota, and VW) will not have the sales volumes in domestic markets to fully support their operations. The trick for these businesses is to design products that will, with perhaps a few adjustments, meet the needs of a number of consumers in a number of individual markets.

Trade markets (B2B)

Trade marketing is the marketing role that focuses on selling and supplying to distributors, retailers, wholesalers, and other supply chain businesses instead of the consumer. So for the producer the objective of trade marketing is to increase demand for products/services supplied within the supply chain. Through effective trade marketing there is an increased likelihood that the product will end up in front of the final consumer. Trade marketing is not an alternative to brand and consumer marketing, but rather acts as a support to traditional consumer-focussed marketing strategies and helps ensure effective establishment of place in the marketing mix. Trade marketing will include price discounts, promotional support, special offers (two for one), point of sale display provision and even competitions.

Seasonal markets

Many markets have large seasonable variations. Classic examples are ice cream (during the pre-summer period), fireworks and diet plans (in January). Seasonal marketing will have a huge influence on the activities of businesses involved in these industries as each will have a critical sales period, which can make or break a business. Few businesses are totally immune to seasonality of sales. Lines of stock are adapted and changed – the big supermarkets have titled seasonal aisles. All of these seasonal changes have to be thought about and planned several months in advance to ensure that all aspects of the marketing mix are in place when required.

Market types
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Discussion themes
List three features of each market structure described above.
Explain why price stickiness may occur in an oligopoly.
What is a cartel, and what advantages do cartels bring to members?
Give three reasons why perfect competition is unlikely to exist in any consumer market.
Explain how market structure can influence marketing strategies used by businesses.
Explain why both mass and niche market businesses attempt to identify market segments.
Why is success in trade markets important to achieving success in consumer markets?
Read the article and explain four reasons for adapting the niche marketing approach. Entrepreneur.com
Explain how niche marketing businesses can survive and thrive in the long run. LinkedIn Article https://www.linkedin.com/