

Why oligopoly is a common market structure?

There are many reasons to explain why an oligopoly market is a more realistic one. The market for many products in major countries is characterised by a few big sellers. For sports shoes, it has been Nike and Reebok. For soft drinks — Coke & Pepsi. For computers — IBM and Apple. For cars and electrical good only a few names are recurrent.

One reason to explain is the large capital outlay a company needs to start off production. Modern technology is expensive. Gone are the days when a man could open up a family business making shoes, furniture or even cars. The market today is characterized by mass produced goods which give lower unit cost and, therefore, price. Therefore, the number of new firms entering a market has fallen drastically.

Secondly, is the intensity of competition. To remain such, companies need to lower costs by exploiting economies of scale. Firms have resorted to mergers and acquisitions so as to increase their capital. In turn, they are able to enjoy the economies of bulk buying, better CEOs, modern technology, labour specialisation, advertising and vertical and horizontal integration.

A third reason is a change in consumer buying habits. Today consumers are no longer willing to buy from small and unknown companies. They rather buy from a big and well-known company, even if price is higher, because of the guarantees and better after-sales services. Modern electronics have made consumers helpless whenever products fail. There is nothing for him to repair himself. Therefore its best to buy from a reputable company.

Lastly, another reason why markets have become oligopolies is better entrepreneurship. Today's businessmen is better educated. He knows that his firm gains when producers cooperate in price and output. This may not necessarily be at the expense of consumers.

In the long run, consumers gain with better and cheaper products. The entrepreneur gains with more profits.