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ASSESSING MONOPOLISTIC COMPETITION IN NIGERIA

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Abstract: **The purpose of this document is to assess monopolistic competition in Nigeria. Monopolistic competition in Nigeria has created diversity and choice for the consumer within markets. With low barriers to entry and exit, many companies compete in this market structure.**

Monopolistic Competition in the Retail Industry is not just a current issue, but it is an economical issue that is faced all year long by the retailers in the market. The retail industry is comprised of thousands of different brands and companies. However each is defined by its quality of make and materials used. Dangote, Honeywell and Golden penny are all well-known and respected brand names. However if prices were to exceed what people are willing to pay, then the consumers would alter their preferences and buy from another brand.

1. INTRODUCTION

The term market stands for the place where buyers and sellers gather to exchange their goods, such as village square. The concept of market gave rise to the concept of marketing, thus marketing is a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others (Ringold and Weitz, 2007). Olukosi et al. (2007) defined agricultural marketing from the micro point of view as concerned with the individual participant in marketing be it the farmer or the business firm. From this perspective, agricultural marketing could be defined as the performance of all business activities which direct the forward flow of goods and services to consumers in order to accomplish the producer’s objectives. The macro point of view of marketing according to Olukosi et al. (2007) on the other hand examine the total system of economic activities concerned with the flow of agricultural products front producers to final consumers, the kinds of institutions and the price making mechanisms that guide those flows, the interactions among consumers, agribusiness firms, farmers and even government that determines the levels of expenditure and the sharing of those expenditures as income to market participants.

Market structure can be defined as those characteristics of the organization of the market which seem to influence strategically the nature of competition and pricing within the market (Olukosi et al., 2007).

Among the factors considered important in determining market structure are; the number and relative size of buyers and sellers, the degree of product differentiation, the ease of entry and exit of buyers and sellers into and out of the market and the status of knowledge about costs, prices and market conditions among the participants in the market (Bukar et al., 2015). Market conduct relates to the behaviour of the firms or decisions that firms make relating to their pricing and output policy and other competitive tactics. In other words, market conduct refers to actions which firms follow in adopting or adjusting to the market in which they buy and sell. It includes the method employed by group of firms in determining price and output, sales promotion policies, policies that are directed at altering the nature of the product sold and various selling tactics that are employed to achieve specific market results (Bukar et al., 2015). Olukosi and Isitor (1990) defined market performance as the strategic end result of market adjustments engaged in by buyers and sellers. In order words, market performance is the appraisal of the extent to which the interactions of the buyers and sellers in a market stimulate results that are consistent with social purposes.

Adegeye and Dittoh (1982) identify different types of market structure as perfectly competitive, monopolistic, oligopolistic and pure monopoly. There are four factors that can be considered in determining market structure as degree of seller concentration, the degree of buyer concentration, the degree of product differentiation and the condition of entry. These elements measure the extent of deviations from the perfectly competitive norm, the larger the deviation, the more imperfectly competitive is the market, which an extreme case will be monopoly.

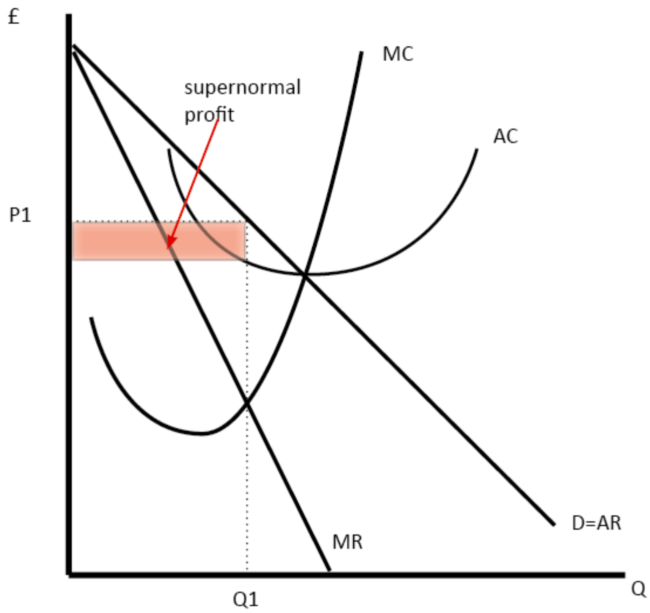
Structure of a market consists of characteristics of the organisation of the market which seems to influence the nature of competition and pricing within the market, particularly the degree of seller and buyer concentration, entry condition, the extent of agents and product differentiation, the distribution of market information and its agency in sharpening price and quality comparisons (Bila and Bulama, 2004). These structural characteristics are therefore, used as a basis for classifying markets. The ideal market structure for optimal efficiency is pure competition.

According to Pettinger, (2017), Monopolistic competition is a market structure which combines elements of monopoly and competitive markets. Essentially a monopolistic competitive market is one with freedom of entry and exit, but firms can differentiate their products. Therefore, they have an inelastic demand curve and so they can set prices. However, because there is freedom of entry, supernormal profits will encourage more firms to enter the market leading to normal profits in the long term.

A monopolistic competitive industry has the following features:

- Many firms.
- Freedom of entry and exit.
- Firms produce differentiated products.
- Firms have price inelastic demand; they are price makers because the good is highly differentiated
- Firms make normal profits in the long run but could make supernormal profits in the short term
- Firms are allocatively and productively inefficient (Pettinger, 2017).

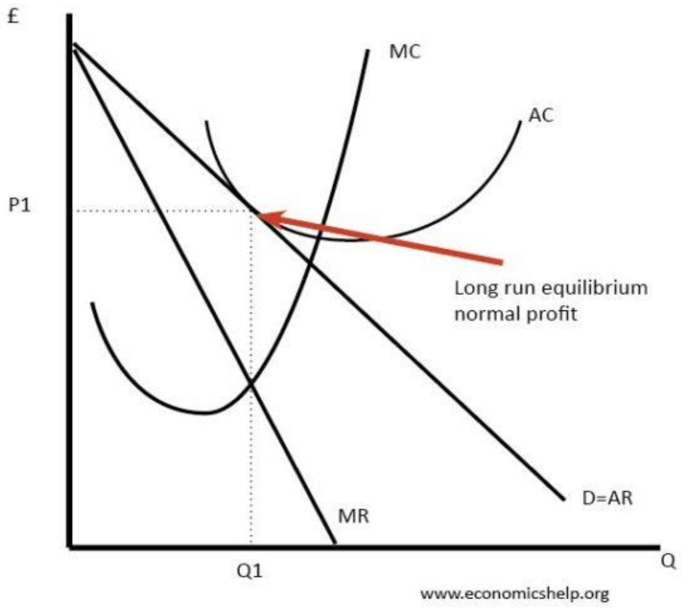
Diagram monopolistic competition short run



In the short run, the diagram for monopolistic competition is the same as for a monopoly.

The firm maximises profit where MR=MC. This is at output Q1 and price P1, leading to supernormal profit

Monopolistic competition long run



In the long-run, supernormal profit encourages new firms to enter. This reduces demand for existing firms and leads to normal profit.

Efficiency of firms in monopolistic competition

- Allocative inefficient. The above diagrams show a price set above marginal cost
- Productive inefficiency. The above diagram shows a firm not producing on the lowest point of AC curve
- Dynamic efficiency. This is possible as firms have profit to invest in research and development.
- X-efficiency. This is possible as the firm does face competitive pressures to cut cost and provide better products (Pettinger, 2017).

Businesses that exhibit monopolistic competition in Nigeria include: Agribusiness firms, Grocery stores, Flour mills, Landscaping and lawn care services, Eateries and Restaurants, Food production firms, Water Purification plants, Hotels.Nigerian banks also exhibit elements of monopolistic competitive behaviour (Saibu, 2013).

Food products are increasingly heterogeneous as firms are able to create and market branded products (Boland et al., 2012). As these firms turn to new branded product development to defend market share, many of these industries arguably resemble monopolistically competitive industries (Boland et al., 2012).

Nigeria is consistent with firms operating under monopolistic competition. There are several firms operating in the marketplace, there are no barriers to entry, prunes are sold as a successful brand, and demand curves are downward sloping.

According to Adam Smith (1776), the ‘invisible hand’ of the marketplace leads self-interested buyers and sellers in a market to maximise the total benefit that society can derive from a market (Gans et al., 2017). But market failures can still happen. When a transaction between a buyer and a seller directly affects a third party, the effect is called an externality (Jablanovic, 2013). An externality refers to the uncompensated impact of one person’s actions on the well-being of a bystander. It is a direct effect of the actions of one person or firm on the welfare of another person or firm, in a way that is not transmitted by market prices. Externalities cause markets to be inefficient, and thus fail to maximise total surplus (Jablanovic, 2013).

In Nigeria, the market structure of agricultural commodities has some features of competition and some features of monopoly. There are thousands of farms and agribusiness firms in Nigeria. Buyers and sellers of agricultural commodities remain in immediate contact and each party is able to determine what the other needs and values and, therefore, will be willing to exchange. As Nigeria’s economy grows, the number and types of markets expand, there is a attendant need for greater specialised marketing services such as physical distribution, storage, grading, and market information gathering. The number of participants also increases with many of the specialised services being provided by intermediaries between the sellers and final consumers. Only a few of the buyers and sellers interact directly with one another because, communication between them is channelled through a complex marketing system.

The reason why the Agribusiness is monopolistically competitive rather than perfectly competitive is because there is very little or no branding within the industry. Agribusiness owners can greatly improve their earning potential by adopting a market orientation. They can be encouraged to add value to commodities by adding to their utility. Value added commodities usually carry a higher margin than raw commodities.

If we examine the flour industry in Nigeria, firms like Dangote and Golden penny have recognisable brand names. Their products are differentiated. According to Minakov and Solopov (2016), different types of competition are developing in the agro-food market, intraindustry competition is only possible under the conditions of reducing production costs and sales and leads to ousting weak, technically backward enterprises from the market. They argued that Inter-industry competition leads to redistribution of capital and other resources between industries adjusted for profit margins. And that the participation of agriculture in this competition is impossible without state support due to the low rate of capital turnover and high capital intensity in the industry.They also stated that Intra-industry competition initiates technical progress, and interindustry one promotes restructuring and that it is often reflected in different prices.

The use of branding which is understood as the process involved in creating and promoting strong brands is a way to obtain differentiation (Shukla, 2005). The creation and promotion of strong brands for Nigerian agribusiness is a key strategy of some Nigerian agribusinesses, this creates a competitive advantage in the domestic and global market. Building strong brands is an important way of avoiding the standard market prices for a particular commodity, because, additional value has been created and income provided for all intermediaries involved in the production channel. With the increasing trend towards loyalty to branded products, and in this era where consumers seek for various qualities and confidence attributes, as well as for more production standards, there are huge potentials for success in creation of brands that meet this kind of demand. Nigeria's geographical location, natural resources, and versatality in the production of agribusiness commodities,gives it an opportunity to add value and create competitiveness to many domestic products.

For example, participants in the flour industry in Nigeria are doing everything possible to control a larger share of the market by deploying various marketing strategies like direct delivery to wholesalers, and sales incentives given to them, these have contributed to increased competition in the market. The growth of the flour industry is said to be driven by population growth estimated to be about 180 million is further enhanced by ban on imported flour, according to industry watchers. Industry watchers have also projected a continued growth for the market over the next years, a segment consumers will continue to patronise despite the economic hardship.

Looking at the flour industry, we can see that there are different types of flour for different purposes. There is the composite which is a high quality cassava flour, the confectionery which is for confectionery purposes, the finer than all-purpose flour, multi-purpose, for bread and cake recipe adaptable to most uses, the durum for spaghetti, noodles, etc.

According to Ekwujuru and Chianumba (2017), Despite the attractiveness of the market, new investors, especially the multinationals, are seriously challenged in acquiring market shares, which control 75 percent of the market with strong brand lotalty. However, Vanguard Companies and Markets, (C&M) findings showed that preference in the market is marked by product thickness when mixed with water, ability of the product to rise well in water and richness when used to bake.

According to Ekwujuru and Chianumba (2017), Distributors spoken to said Golden Penny Flour, produced by Golden Penny Flour Plc sells more, followed by Mama Gold, manufactured by Crown flour Mills Nigeria Limited, a subsidiary of Olam International Limited and Honeywell Flour produced by Honeywell Flours Mills Plc coming a distant third place in the market, going by consumers preferences. They said that, aside Dangote Flour, manufactured by Dangote Flour Mills Limited that plays in the national market, others like Nigeria Eagle Flour Mills, of the Chagoury Group, based in Oyo State, Standard Flour Mills Limited, Lagos, Life Flour Mills Limited, Sapele, Valleumbra Flour Mills Limited, Enugu State and Mercury Mills Limited, Ogun State, play in the regional market. They sampled a number of consumers who declared their preference for Golden Penny flour, followed by Crown flour, Honeywell flour and Dangote flour. They interviewed a wholesaler who, said most buyers and bakers alike prefer Golden Penny flour than other brands. She commended Golden Penny thickness and said it consumes a lot of water which is a proof of a good quality flour. She also stated that Mama Gold is also doing well in the market, but pointed out that Dangote is not selling as expected, explaining that the product is light and mostly used for chin-chin and doughnut. According to them, a baker also gave her preference to Golden Penny flour because of its richness. They said that she commended Honeywell, saying, "it is soft and good for cake and puff-puff and that because of the inconsistency of some of the flour products, some consumers switch loyalty and has also affected some persons and has led to business closure in some cases.

Some flour dealers in Wuse market, Abuja said that difference in quality of the various flour brands is the major determinant of whether they buy a particular flour brand or not, though one of the customers said that she prefers golden penny because of the price.

According to Ekwujuru and Chianumba (2017), In January 2017, Golden Penny flour, Mama Gold and Dangote sold for N10,700, but they now sell for N11,200, while Mama Gold and Dangote sell for N11,000. According to an KPMG report in 2016 Golden Penny leads the market with 32 percent, followed by Olam 24 percent, Dangote 12 and Honeywell a distant fourth, others the 25 percent. They, however said that they could not speak with the brand owners as they were not ready to speak with these reporters.

Hundreds of retail stores in Nigeria are closing yearly. There are many issues that cause this problem in the retail industry. In my opinion, one of the main causes of this problem is the monopolistic competition in the retail industry that these retailers face. The fact is that they are not the only sellers, or in other words, there is competition in the retail industry. There are many retailers that sells the same or similar products in the same market.

In Nigeria, because of the monopolistic competition in the retail industry, the retailers adopt many creative ways to boost their sales. These include discounts, freebies, and many more. For an example, Shoprite, a retailer that makes massive sales yearly, has days where they show appreciation to their customers by handing out freebies and prizes, discounts are also given which attracts more customers. Even though this exclusive day is only being done once in a while, it attracts many consumers who will spend more at their stores, compared to other stores. Plus, the beauty of its environment is also the major attraction for customers.

Due to the competitive nature of the retail market, other retailers have also begun to lower prices and give discounts in order to attract customers. Adverts and publicity is also known to work for the Nigerian retail industry.

Besides lowering prices and giving freebies, the retail industry might even use unethical means either directly or indirectly to gain the interest of consumers.

An example for this is the tag 'wise shoppers won't pay more than the shoprite price'. A statement such as so, leads many consumers to believe that other retail stores might be exploiting them and make other retailers to be desperate to meet up to the demands of customers in terms of price.

Also, to make it seem like their product is of a better quality than the competitor's, the retail company might subtly downgrade the product competitors in their commercial or advertisements.

2. CONCLUSION

Monopolistic competition in Nigeria, creates a need for market participants to provide compelling offers in order to ensure their survival in the industry. They come up with different clever ideas and strategies to win customers and make sales as well as go extra miles to stand out in this industry.

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