Southern Business Review

Volume 30 | Issue 1 Article 5

January 2004

Monogopoly Competition: The Development of a Theory

Randall L. Florey
Tarleton State University, Department of Management, Marketing, and Administrative Systems

Monogopoly Competition: The Development of a Theory

Randall L. Florey

In economic theory, demand curves aggregate the price-quantity relation of individual buyers in a market. Aggregation of demand is an accurate representation when many are firms in competition; however, marketers, in practice, segment the aggregate market into smaller homogeneous market segments in order to develop a better marketing mix to satisfy the needs of customers within the segment. In addition, marketers develop product differentiation and positioning strategies focused on specific segments, target markets, in order to compete on a non-price basis. Firms produce products for each segment to satisfy the unique needs of segments within the market. Also, oligopolies are created by competitive concentration within a market by a few firms using non-price competition to compete within a relative price range in multiple market segments. Smaller firms follow the dominant firms within a relative price range, which allows for informal collusion in the oligopolies formed across multiple segments. In order to introduce, define, and understand a monogopoly, it is necessary to examine the intra- and inter-segment competitive behavior within and between market segments.

Randall L. Florey, PhD, is an assistant professor of marketing, Department of Management, Marketing, and Administrative Systems, Tarleton State University–Central Texas, Killeen , TX 76493.

Product Differentiation and Monopolistic Competition

Current economic models do not accurately depict market economies consisting of large firms that dominate the market in size, financial resources, and production capabilities and, then, distribute and promote multiple differentiated products within a market. This difference results from marketers focusing their company's efforts on non-price competition to differentiate their product, using either tangible or intangible differences (Kotler, 2000, Kalakota & Whinston, 2001). Chamberlin, who originated the theory of monopolistic competition, understood the importance of non-price competition when he said,

> . . . when products are differentiated, buyers are given a basis for preference, and will, therefore, be paired with sellers, not in a random fashion (as under pure competition), but according to these preferences . . . so that the whole is not a single large market of many sellers, but a network of related markets, one for each seller . . . Under monopolistic competition, however, his market being separate to a degree from those of his rivals, his sales are limited and defined by three new factors: (1) his price, (2) the nature of his product,

> and (3) his advertising outlays (1958: 71).

Breit and Ransom elaborate with

> [t]he basis for differentiation is broad indeed, for it is not important that differences in products be real, they may simply be imagined by the consumer. All that matters is that consumers behave as if the products are not alike. If they judge the two as being different, they will presumably pay some additional sum to buy the one they like most, regardless of the actual characteristics of the goods (1971: 60).

This broad concept of differentiation was recognized by Chamberlin when he stated,

> [t]he volume of his sales depends in part upon the manner in which his product differs from that of his competitors.... Its "variation" may refer to an alteration in the quality of the product itself—technical changes, a new design, or better materials; it may mean a new package or container; it may mean more prompt or courteous service, a different way of doing business, or perhaps a different location (1958: 71).

The distinction placed on the product is intended to give the product a unique appeal that will satisfy the needs of the target market better than other competing products, which are attempting to satisfy the needs of the same target market (Best, 2000, Kalakota & Whinston, 2001). Marketers position their products, which is

> the way the product is defined by consumers on important attributes, the place where the product occupies a consumer's mind relative to competing products (*Marketing Segmentation*, 2001: 1).

Positioning is unique, for it is based on what consumers perceive the attributes to be and not necessarily the actual attributes (*Marketing Segmentation*, 2001; *Strategic Marketing*, 2001; Taha, 2000).

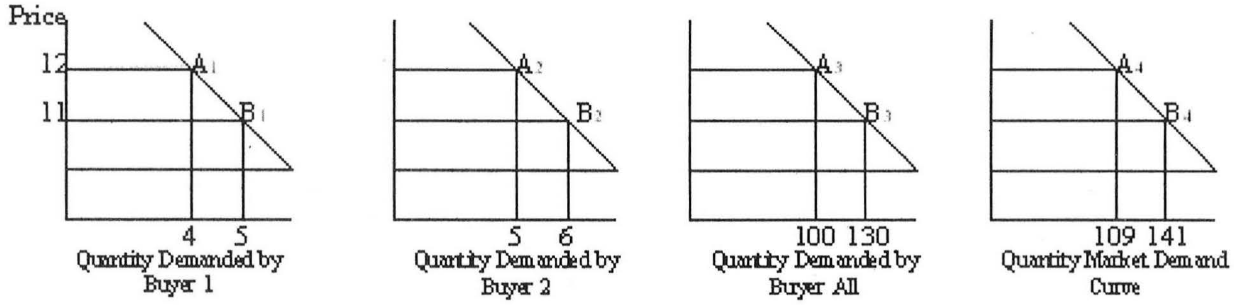
Chamberlin (1958) believed this type of behavior resulted from marketing activities and characterized a monopolistic competitive economic system. Characteristics that were unique and distinct only to that product actually operated in a monopoly market of its own. In order to make the theory more workable, rather than creating a monopoly for each differentiated product, closely related products were grouped together as an aggregate to develop the demand and revenue curves of monopolistic competition (Miller, 1982). These differentiated products with similar functional characteristics were grouped together by economists, but marketers saw products as actually being in competition with one another and attempted to develop a competitive advantage within the same market.

Demand Curve Development

The traditional demand curve is a graphic representation of the inverse relation between supply and demand for differentiated products treated as one homogeneous product within a market. Economic models determine the market demand curve by adding the demand curve of individual buyers as seen in Figure 1.

Unlike determining market demand by aggregating the demand curve of each buyer, marketers determine market demand by aggregating the demand curves of market segments to determine the market's demand curve. Each market segment is treated as a market and the demand of each buyer within the market segment is aggregated to determine the demand curve for the respective market segment; therefore, each market segment is a separate market, which is overlooked

Figure 1
Deriving Market Demand Curve by Buyer



Adapted from Arnold (1996)

by the traditional method of aggregating each buyer's demand curve to determine the market demand curve. Each market segment consists of a homogeneous group of buyers with similar needs to be satisfied. Competitors develop a marketing mix for each market segment in an attempt to best satisfy the needs of buyers within each respective market. Each market segment, which is a market within itself, will have a different demand curve. See Figure 2.

The importance of disaggregating the demand curve and examining the competitive behavior within and between the segments within a market is necessary with the increased size of firms and followship among the few competitors competing within the oligopolies formed within each segment.

Firms within an oligopolistic industry attempt to avoid price competition. The avoidance of price competition may lead to an informal type of collusion on price. Emphasis on non-price competition, rather than price, determines the firm's share of the total market. Oligopolistic producers of consumer goods believe that consumers are more product and advertisement conscious than price conscious. Typically, manufacturing oligopolists have substantial financial resources to support advertising and product development (McConnell, 1969; Miller, 1982).

Intra- and Inter-Segment Competition

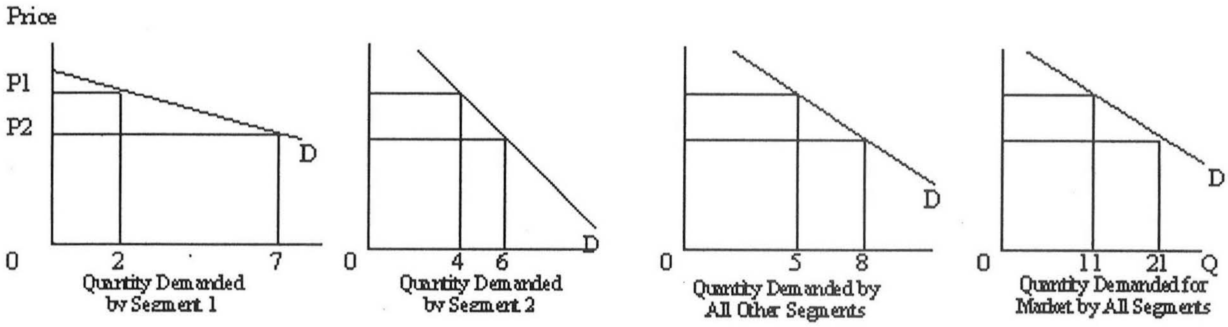
Firms compete in intra- or inter-segment competition within a market. The concept of intra- and inter-segment competition was described by Chamberlin:

> [a]lmost any general class of product divides itself into subclasses. A price cut by one automobile manufacturer, for instance, affects especially the sales of those other manufacturers whose product is in approximately the same price class, and probably causes much less disturbance outside these bounds. Similarly, most kinds of retail goods fall into certain quality or price classes, and these into subclasses, appealing to different groups of income or taste (1958: 102-3).

Intra-segment competition is the most common form of competition between products that are positioned in the same segment. As shown in Figure 3, the products within the segment are

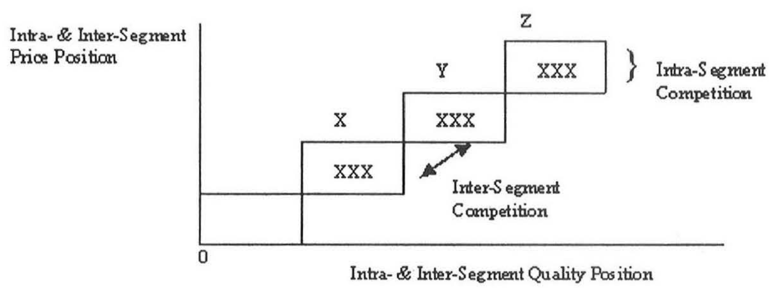
> broadly similar to each other and compete for the same customers. On the other hand, inter-segment competition involves highly differentiated products positioned in different segments that are competing for different customers (Larrèchè, 1988: 145).

Figure 2
Deriving Market Demand Curve by Segment



Adapted from Perreault & McCarthy (2002)

Figure 3
Intra- and Inter-Segment Competition



Adapted from Larrèchè (1988) and Best (2000)

The dominant firm divides the market into multiple segments. Competition may be from smaller firms competing for market share and profitability within a specific product segment. The dominant firm may have the ability to keep competitors from introducing products that will compete with theirs (Kotler, 2000). This process requires that the unique needs of consumers within the product segments be identified. Customers within each profitable segment in a market are identified as a target market. A unique product and marketing strategy is developed to differentiate and position the product in such a manner to satisfy the needs of each target market within the segments. The dominant company has the ability to create a product line positioning strategy for the target markets within each segment it selects to compete.

Relative Price Range

Because the dominant firm controls each specific segment within the market, the smaller firms follow the lead of the dominant firm. An oligopoly industry is characterized by a few firms that are interdependent and must consider the reactions of rival firms in developing their pricing policy (McConnell, 1969, Miller, 1982). The relation between few firms and interdependency was described by Chamberlin as

> . . . when there are only two or few sellers, their *fortunes* are not independent. There can be no actual, or tacit agreement—that is all. Each is forced by the situation itself to take into account the policy of his rival in determining his own, and this cannot be considered a 'tacit agreement' between the two (1958: 31).

In this intra-segment competition, rather than challenge the dominant firms, smaller firms may pursue "conscious parallelism" by copying the dominant company's products and presenting similar offerings to buyers (Kotler, 2000). If the dominant company increases or decreases the price of its products, then the smaller firms will generally increase or decrease the prices of their products within a relative range of the dominant firm. Product A, the dominant firm's product, is perceived to have greater value than Products B and C within a relative range. Figure 4 shows Point A as the price of the dominant firm's product within a segment, with Points B and C representing the prices of smaller firms within a relative range.

The dominant firm greatly influences the pricing of each product segment targeted by smaller firms. Different small firms may be competing for market share within each product segment being satisfied by the dominant firm. The products of the smaller firms can be substituted for the dominant firm's product if the dominant firm prices its product too high relative to the buyer's willingness to pay; therefore, the mutual interdependence, pricing, and substitutability of products require the dominant firm to price within a relative range acceptable to buyers. The pressure, however, is on the dominant firm to price at the highest acceptable prices to buyers, for price reductions by the dominant firms combined with followship reduces the differential oligopoly's total profit within the segment (McConnell, 1969). Chamberlin explains this concept of interdependence as follows:

> More characteristically, any individual seller is in *close* competition with no more than a few out of the group, and he may seek to avoid price competition for the very reason given as applying to small numbers—that his cut will force those in *closest* competition with him to follow suit (1958: 103).

When firms are in both intra- and inter-segment competition, a series of oligopolies are formed within the market. The intra-segment competition within segments dominated by the larger firm results in oligopolistic behavior; therefore, a series of oligopolies form as a result of inter-segment competition when more than one segment within a market is dominated by one large firm. Figure 5 depicts Intra-segment Oligopolistic Competition for Products, A, B, and C and Inter-segment Oligopolistic Competition for Segments X, Y, and Z.

This mutual interdependence by companies with positioned products competing within each segment (intra-segment competition) characterizes differentiated oligopolistic market behaviors. The dominant company has control of the profitable segments within the market. The smaller firms are present, but generally do not present a serious threat; therefore, the dominant company develops a marketing strategy for each segment to maximize the total profitability within the market. The dominant company must clearly position its products so that the customers within each different segment are not confused by the satisfying benefits offered by each positioned product (Best,

Figure 4
Intra-Segment Competition

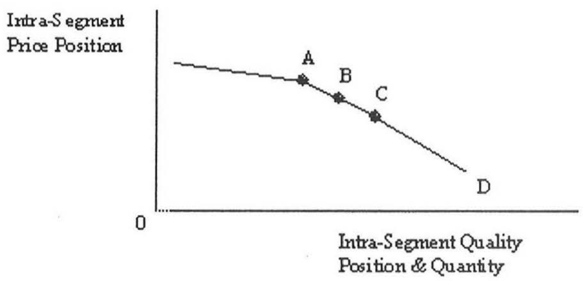
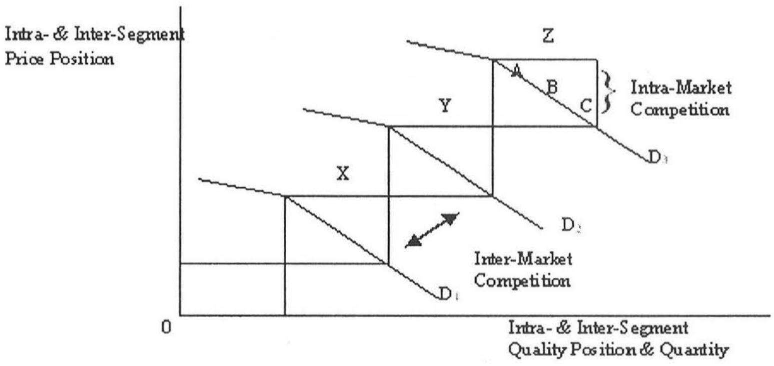


Figure 5
Intra-Segment vs. Inter-Segment Oligopolistic Competition



2000). The dominant firm strategically differentiates and positions each product to minimize internal competitions, conflicts, and overlaps among the company's products satisfying the specific needs of the profitable target market within each segment (Russell & Lane, 1999). The dominant company may also use individual brands rather than family brand names. Because individual brand names are being used within each segment, consumers may not realize that most, if not all, leading products are being produced, differentiated, and positioned by the dominant firm (Kotler, 2000). Consumers may actually perceive that different companies are in competition with each other produce the products.

Monogopoly Competition

The result of a dominant company controlling most, if not all, of a market's segments with the smaller, mutually interdependent firms following is that the demand for all segments is equal to the market demand. The market demand would be equal to the point of the kink in each of the intra-segment oligopolistic curves as shown in Figure 6.

The elastic portion of the oligopolistic curve disappears because of the firm's use of non-price competition to differentiate their product and to emphasize the unique benefit that is of value to the customer, however. The customer also has the choice to buy the product in inter-segment competition in the next higher adjacent segment. Segment Z is more inelastic because of product

Figure 6
Market Demand

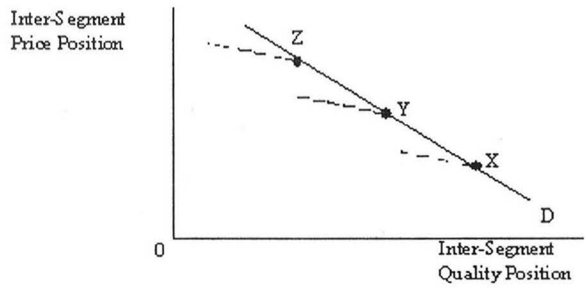
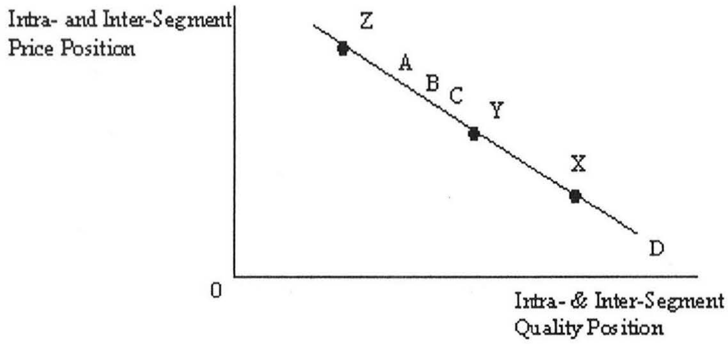


Figure 7
Monogopolistic Competition



differentiation and the ability of the dominant firm and other competing firms to position their products in such a manner that customers are willing to pay more for the perceived want, satisfying benefits (Scherer & Ross, 1990) (see Figure 7).

A monogopoly results when, in each segment, non-price competition differentiates and positions products.

> Informal collusion among oligopolist[s] may yield price and output results similar to pure monopoly, yet maintain the outward appearance of several independent and competing firms (McConnell, 1969: 536).

Chamberlin also understood that in an oligopoly,

> If sellers have regard to their *total* influence upon price, the price will be the monopoly one. Independence of the producers and the pursuit of their self-interest are not sufficient to lower it (1958: 54).

The oligopoly will act as if it were a monopoly "without any written or verbal agreements [...]" (Miller, 1982: 520).

Conclusion

Analysis of price-quantity relationships and demand curves within a monogopoly is important in examining competitive behavior. Marketers divide the market into segments in an effort to develop a marketing mix that will better satisfy the needs of the buyers within each segment. The demand for each segment is determined and added together to determine market demand. Competitors compete within segments by offering products with similar functional characteristics in an attempt to better satisfy the needs of the buyer within each segment. Both intra- and inter-segment competition is within a market consisting of multiple segments. When firms in the intra-segment market are few and one firm is dominant, an oligopoly is formed. As a result of followship by smaller firms, within a relative price range in each segment, oligopolistic behavior occurs. As the prices of products in intra-segment competition increase, the consumer can continue to buy products that have been differentiated and positioned within the segment or buy from segments that are in inter-segment competition, which eliminates the elastic portion of the oligopolistic curve. The dominant firm uses product differentiation and positioning to develop a strategy for multiple segments to maximize its profits in the market. Small firms follow the dominant firm's pricing strategy within a relative range in multiple segments, resulting in monopolistic behaviors.

This theory needs additional research to be validated. Analytical techniques beyond the scope of this article may offer further insight in determining the degree of intra- and inter-market competition results in monopolistic behavior.

References

Arnold, R. A. (1996). *Economics* (3rd ed.). New York: West Publishing Company.

Best, R. J. (2000). *Market-bases management: Strategies for growing customer value and profitability.* (2nd ed.). New Jersey: Prentice Hall.

Breit, W. & Ransom, R. L. (1971). *The academic scribblers: American economists in collision.* New York, New York: Holt, Rinehart and Winston, Inc.

Chamberlin, E. H. (1958). *The theory of monopolistic competition: A re-orientation of the theory value.* Massachusetts: Harvard University Press.

Kalakota, R. & Whinston, A. B. (2001). *Do or die: Market segmentation and product positioning on the internet.* 29 Sept. 2001. [On-line]. Available: http://cism.bus.utexas.edu/res/articles/segmentation.html.

Kotler, P. (2000). *Marketing management: The millennium edition.* New Jersey: Prentice Hall.

Larrèchè, J. (1988). *Markops: The simulation for marketing training.* New York: McGraw-Hill.

Marketing segmentation, targeting and positioning for competitive advantage. 29 Sept. 2001. [On-line]. Available: http://www.PegasusRutgers.edu/~vishakha/Segment.html.

McConnell, C. R. (1969). *Economics: Principles, problems, and policies.* (4th ed.). New York: McGraw-Hill.

Miller, R. L. (1982). *Economics today.* (4th ed.). New York: Harper & Row.

Perreault, Jr., W. D. & McCarthy, E. J. (2002). *Basic marketing: A global managerial approach.* (14th ed.). New York: McGraw-Hill.

Russell, J. T. & Lane, W. R. (1999). *Kleppner's advertising procedure.* (14th ed.). New Jersey: Prentice Hall.

Scherer, F. M. & Ross, D. (1990). *Industrial market structure and economic.* (3rd ed.). Boston: Houghton Mifflin.

Strategic marketing and research techniques—Brand positioning. 28 Sept. 2001. [On-line]. Available: http://www.s-m-a-r-t.com/Exp_brandpos.htm.

Taha, O. (2000). *How to Design your PositioningStrategy.* [On-line]. Available: http://www.smithfam.com/news/oct00x.html.