An Investigation of the Relationships Among Market Power, Industry Concentration and Industry Share

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Abstract

In a previous study the authors investigated the relationship of market power to advertising investments, R&D investments and industry concentration. The findings revealed that although there was a positive correlation between market power and both advertising and R&D investments, there was a negative correlation to industry concentration.

The current study investigates the relationships between market power, industry concentration and industry share. Market power indicates the ability of a firm to have higher gross margins in a firm macro measure. Traditional market power measures at the micro level indicate the ability to increase the difference between price and marginal cost. This is represented at the firm level by gross profit margin.

The study used regressions between gross margin and industry concentration and industry share. The results indicate that firms in more fragmented markets have greater market power than those in concentrated markets and those with higher shares have less market power.

Anecdotal evidence from sellers in B2B markets indicates that in fragmented markets may have little knowledge of the street price.

The implications of the study may imply that customers in more fragmented markets do not have a good basis of price comparison among competitors. Therefore sellers in fragmented markets may have greater market power.

Keywords

Market Power; Pricing; Industry Share; Industry Concentration