

Animation 2.6

A typical supply chain may consist of four stages – producers of raw materials and components, manufacturers, distributors and retailers. At each of these stages there will be firms of different sizes, which is likely to influence the degree of market power each firm has within the supply chain.

In this example, there are eight producers of raw materials of more or less equal size. No one producer dominates, so it is likely that competition between them is fierce.

There are then four manufacturers – who are customers of the producers of raw materials, but suppliers to the distributors. This is a higher level of concentration, so each of these firms is likely to have more market power than the producers of raw materials. However, competition will be high between these manufacturers because they are all of roughly equal size.

There are then just two distributors. It is here where the most market power lies. Because of their relative size, these two firms are likely to be able to dictate terms to the manufacturers, who rely on their services to distribute product.

Finally there are six retailers. Two of these are large, one is medium size, and the remaining three are small. In this retail sector, the larger firms may achieve economies of scale and be able to compete on price. Whereas the smaller retailers will have less market power and hence probably have to compete on some other criteria.

Notice also that the distributors have a different strategy. The top distributor focuses on serving the large retailers, whilst the other focuses on distributing to the smaller retail operators.

Figure 2.6 illustrates how one stage in the chain can have more market power than other stages. But it is a very simple example. In most cases, the supply chain will be very much more complex, both in terms of its length and how many firms may be involved. This makes it very much more difficult to identify who has market power and how they are exploiting this.

But some examples might be in the aerospace industry, where the two manufacturers Boeing and Airbus dominate the market; and the dominant market power of the big supermarket retailers such as Tesco and Sainsburys.