Chapter – 4

Market Structure, Market Integration and Market Segmentation

Market Structure

Market Structure, in economics, refers to how different industries are classified and differentiated based on their degree and nature of competition for goods and services. It is based on the characteristics that influence the behavior and outcomes of companies working in a specific market. Market structures show the relations between sellers and other sellers, sellers to buyers, or more.

Market structures can be understood well by closely examining an array of factors or features exhibited by different players. It is common to differentiate these markets across the following seven distinct features.

1. The industry's buyer structure
2. The turnover of customers
3. The extent of product differentiation
4. The nature of costs of inputs
5. The number of players in the market
6. Vertical integration extent in the same industry
7. The largest player's market share

Components of Market Structure –

1. *Concentration of market power* – the concentration of market power is an important element determining the nature of competition and consequently of market conduct and performance this is measured by the number and size of forms existing in the market.
2. *Degree of product differentiation* – whether or not the product are homogeneous affect the market structure if products are homogeneous, the price variation in the market will not be wide when product are heterogeneous forms have the attendance to change different prices for their product everyone tries to prove that his product is superior to the products of others.
3. *Conditions for entry of firms in the market* – another dimension of the market structure is the restriction if any on the entry of firms in the market. Sometimes a few big firms do not allowed new firms to enter the market or make their entry difficult by their dominance in the market. There may also be some government restrictions on the entry of firms.
4. *Flow of market information* – a well organised market intelligence information system helps all the buyers and sellers to freely interact with one another in arriving at prices and striking deals.
5. Degree of Integration - the behaviour of an integrate market will be different from that of a market where there is no or less integration either among the firm or their activities. Firms plan their strategies and respect of the methods to be employed in determining prices, increasing sales, coordinating with competing firms and adopting predatory practices against

rivals or potential entrants. The structural characteristics of the market govern the behaviour of the firms in the planning strategies for their selling and buying operations.

Types of Market Structure –

The four different types of market structure are discussed below:

1. *Perfect Competition Market Structure*: In a perfectly competitive market, the forces of supply and demand determine the number of goods and services produced as well as market prices set by the companies in the market
2. *Monopolistic Competition Market Structure*: Unlike perfect competition, monopolistic competition does not assume the lowest possible cost of production. That little difference in the definition leaves room for huge differences in how the companies operate in the market. The companies under a monopolistic competition structure sell very similar products with slight differences they use as the basis of their marketing and advertising.
3. *Monopoly Competition Market Structure*: Monopolies and completely competitive markets sit at either end of market structure extremes. However, both minimize cost and maximize profit. Where there are many competitors in perfect competition, in monopolistic markets, there’s just one supplier. High barriers to entry into the monopoly market leave a “mono-” or lone company standing so there is no price competition. The supplier is the price-maker, setting a price that increases profit.

4. *Oligopoly Competition Market structure*: Not all companies aim to sit as a single building in a city. Oligopolies have companies that collaborate, or work together, to limit competition and dominate a different market or industry. The companies under oligopoly market structures can be small or large. However, the most powerful firms often have patents, finance, physical resources which control over raw materials that create barriers to entry for new firms.

Market Integration

Kohls and Uhl have defined Market Integration as a process which refers to the expansion of firms by consolidating additional marketing functions and activities under a single management.

Eg.- Establishment of wholesaling facilities by food retailers and setting up of another plant by a milk processor.

Types of Market Integration

1. *Horizontal Integration* - This occurs When a firm or agency Gains control of other firms or agencies performing similar marketing functions at the same level in the marketing sequence. In this type of integration, some marketing agencies Combined to form a union with a view to reducing their effective number and the extent of actual competition in the market.

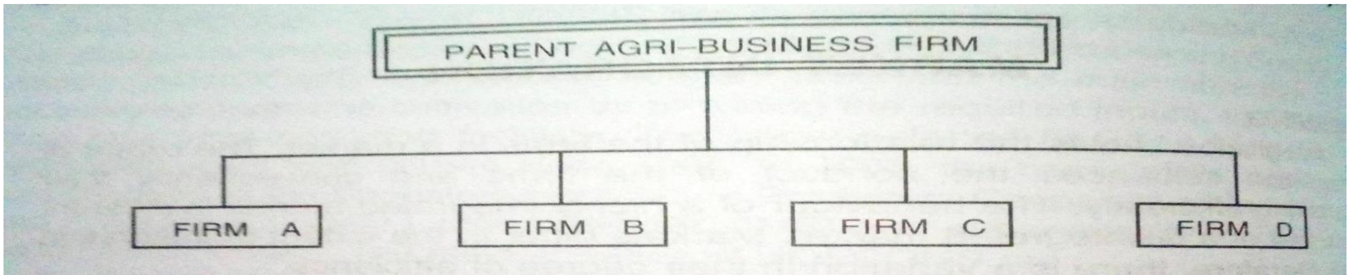


Fig. 9.1 Schematic Arrangement of Horizontally Integrated Firms.

2. *Vertical Integration* - Vertical integration occurs when a firm performs more than one activity in the sequence of the marketing process. It is a linking together of two or more function in the marketing process within a single firm or under a single ownership. for example, if a firm assumes the function of a wholesaling as well as retailing, it is a vertical integration.

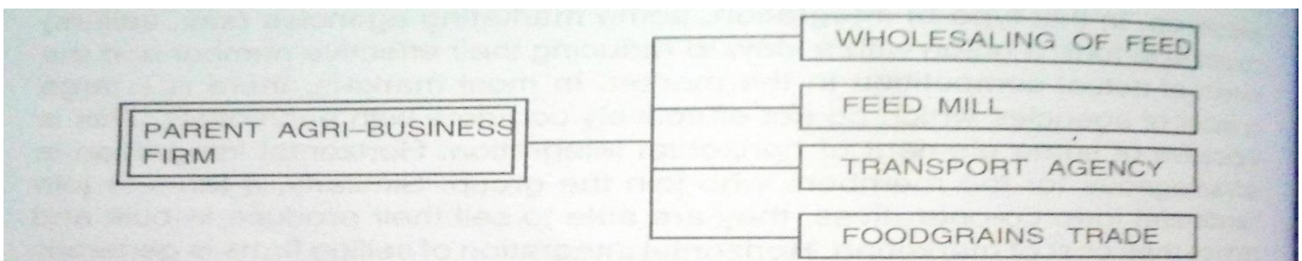


Fig. 9.2 Schematic Arrangement of a Vertically Integrated Firm.

3. *Conglomerations* – A combination of agencies or activities Not directly related to each other May when it operates under unified management be termed as a conglomeration. Example of conglomeration are Hindustan liver ltd. (Processed vegetables and soaps) Delhi cloth and General meals (cloth and Vanaspati group) Birla group, Tatas , J.K. Group, ITC and NAFED.

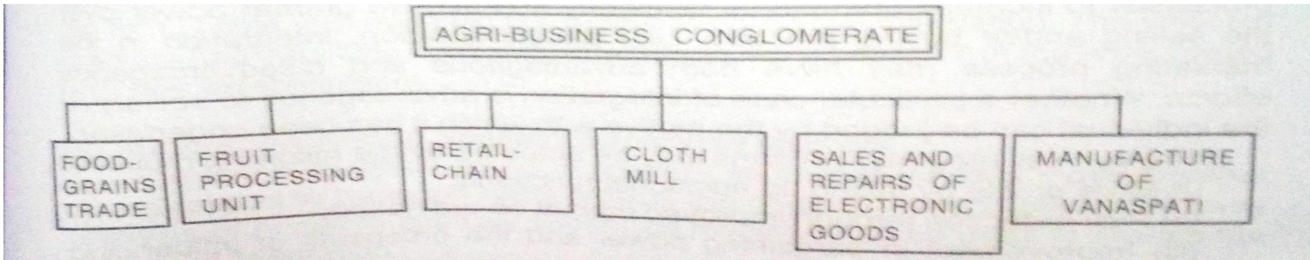


Fig. 9.3 Schematic Arrangement of a Business Conglomerate.

Degree of Integration

There are two types of integration based on degree of integration-

1. *Ownership Integration* – This occurs when all the decisions and assets of a firm are completely assumed by another firm. The example of this type of integration is a processing firm which buy a wholesaling firm or a retail chain.
2. *Contract Integration* – This involves an agreement between two firms on certain decisions while each firm retains its separate identity. Dal mills of an area jointly agree on a pricing of the Dals And process the product, It is a case of contract integration.

Effects of Integration

The vertical integration of firms may be actuated by the following motives :

- More profits by taking up additional functions,
- Risk reduction through improved Market co-ordination,
- Improvement in bargaining power and the prospect of Influencing prices, and
- Lowering the cost through achieving operational efficiency.

The Horizontal integration may be actuated by the following motives :

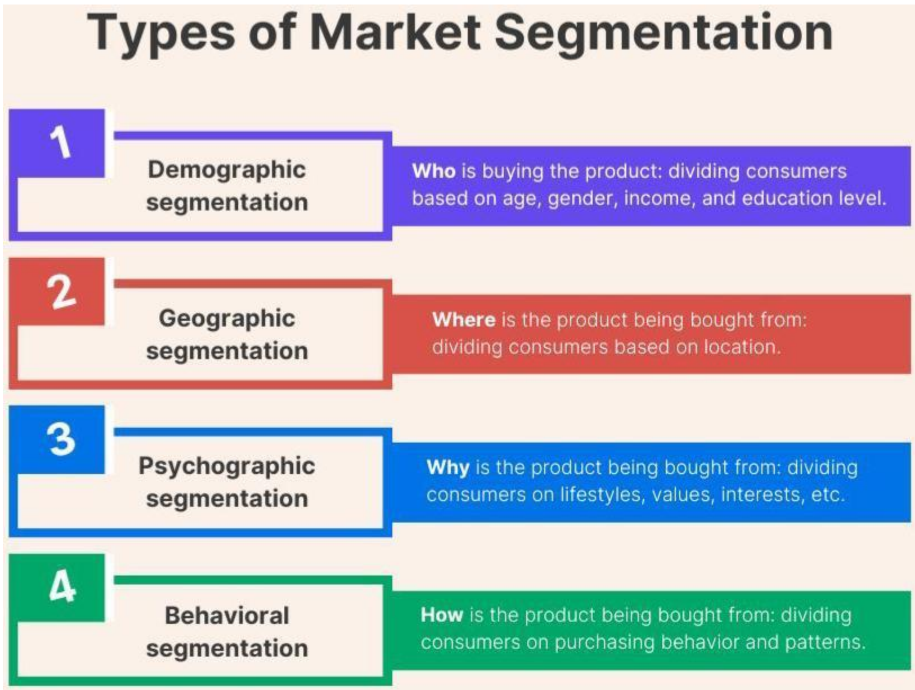
- Buying out a competitor in a time – bound way to reduce competition.
- Gaining a larger share of the market and higher profits.
- Attaining economies of scale, and
- Specialization in the trade

Market Segmentation

Marketing term that refers to aggregating prospective buyers to groups or segments with common needs and who respond similarly to a marketing action.

Types of Marketing Segmentation –

There are four types of marketing segmentation that is geographic segmentation, Demographic segmentation, Psychographic segmentation and Behavioral segmentation.



1. *Horizontal Segmentation* – Horizontal segmentation in marketing refers to selling a product or service to a broad range of industries and customer types rather than focusing on a specific niche. This approach involve identifying a common need across different demographic or sectors and creating product that have horizontal value like office supplies or software development tools, to serve that diverse audience. The goal is to reach a larger customer base and diversify offerings to foster growth and expansion.
2. *Vertical Segmentation -V*ertical segmentation in marketing is a strategy that focuses marketing efforts on a specific industry or niche market to tailor products, services, and messaging to their unique needs . Instead of broad appeal like a horizontal market, vertical segmentation targets businesses or consumers with specialized requirements, allowing for more cost-effective and impactful marketing campaigns. Examples include a software company specializing in healthcare IT or a clothing brand creating products for specific sports like football.