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What's best for S'pore consumers – competition or market dominance?

A small market may be dominated by a few big players, but smart regulation can keep their power in check and actually help consumers.

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The presence of multiple food delivery companies like Deliveroo, foodpanda and GrabFood has helped to balance supply and demand and price points, says the writer. However, a small economy cannot always afford multiple players as this will deprive them of economies of scale that can keep prices low for consumers. But dominant players cannot be allowed to abuse their position. ST FILE PHOTO

Market competition is often perceived as the perfect model for ensuring low prices and high-quality goods and services for consumers. Conventional wisdom says that when there are multiple firms competing in the market, it will help drive up innovation, improve efficiency and offer higher value to consumers at competitive prices. But this is not always the case, let alone ideal, in all industry sectors, and particularly not in a small market like Singapore.

Here, an oligopolistic market structure – involving a handful of dominant industry players – may have its merits. It can help the country stay nimble and drive change quickly, as it only requires getting these few players to shift the entire market and influence consumer behaviour.

A FEW BIG PLAYERS

An oligopoly involves a small number of companies having full control of the market and manipulating pricing, product offerings and service quality. Each player usually has a dominant market share, hence limiting consumer choices. To the public, this is undesirable.

But, there are sectors such as public utilities where an oligopolistic market structure proves to be more viable than a competitive market. These sectors usually have very few providers as they involve a substantial amount of infrastructure investment. The demands of high investment and maintenance costs make widespread competition unviable. These sectors are better managed within an oligopolistic framework for service delivery.

An oligopolistic market may not necessarily translate into higher costs for consumers if we have government regulations in place to safeguard against exorbitant charges and promote consumer welfare. In Singapore, for example, we have the Energy Market Authority to regulate and review electricity tariffs on a quarterly basis. Penalties are also imposed on suppliers who fail to meet their service commitments.

Effective regulation is important in ensuring these dominant firms operate in the best interest of the public; provide fair and transparent pricing, maintain service quality and comply with environmental and safety standards.

But even this structure has its limitations under certain market conditions.

THE MINUSES AND THE PLUSES

Oligopoly is not the ideal market structure for services like cable television and ride-sharing in Singapore.

The absence of competition can have adverse effects on consumers. When a dominant player faces little or no competition, it tends to exploit the market by raising prices or reducing service quality, which ultimately impacts consumer welfare.

Consider cable TV, where a duopoly has to routinely bid for content from outside and then retail it to consumers. Football fans, for example, have had to pay top dollar to watch English Premier League (EPL) and World Cup matches ever since Singtel TV (then mioTV) decided to widen market share by bidding aggressively for EPL rights (which StarHub used to monopolise) and then passed on the costs to the consumer.

Another case in point is Grab, where it became the dominant ride-hailing/sharing service provider in Singapore after Uber's exit from the market. It led to a sudden, unexpected shift from an oligopolistic to a monopolistic market. Even with the entry of new players like Gojek, it was a case of too little, too late. Today, Grab's pricing power is enormous, potentially putting consumers at a disadvantage.

Hence, a free market that fosters competition is a better approach to protecting consumer interest and maintaining a healthy environment that promotes innovation, affordability and service quality. Having said this, oligopoly could still work in the ride-sharing industry, provided there is government intervention to regulate and manage the cost to consumers.

One illustration of the value of competition is in the field of food delivery. We see how the presence of multiple companies like Deliveroo, foodpanda and GrabFood has helped to balance supply and demand and price points. This has resulted in consumers having more choices, allowing them to select their preferred service provider based on the best price and service quality. To remain competitive, companies pushed themselves to continuously evolve, leveraging technologies such as algorithm advancements, expanding their network of partner establishments, and implementing competitive pricing strategies.

While competition seems more highly valued in the service industry, it is important to note that not all services require a competitive market structure.

Some years back, we saw a huge consolidation in the banking industry and instead of multiple small banks, we ended up with three very strong local banks. This has stood us in good stead as all three were strong enough to weather the global financial crisis and also the recent banking crisis, and they tend to react quickly to market developments so that mortgage rates, for example, remain competitive. On the other hand, financial charges for credit cards remain stubbornly high. There is no incentive for any of the dominant players to rock the boat, since all of them benefit from these high charges. Perhaps the answer lies in regulation.

REGULATION IS KEY

The evolving nature of new economic markets has stimulated the continuous development of regulatory frameworks. These frameworks extend to various aspects including employment and labour laws, and data protection and privacy.

With the implementation of new regulations, it is possible that more operational costs will be passed on to consumers, and hence, drive up prices. But these regulations can foster a fairer and healthier competitive market in the long run. They level the playing field by ensuring that companies no longer enjoy unfair advantages, while allowing other industry players to enter the market and provide consumers with alternative choices.

In both competitive and regulated oligopolistic markets, consumer welfare should always remain a top priority. A well-regulated oligopoly can ensure fair prices, quality service and consumer welfare. On the other hand, a competitive market offers consumers the benefits of choice and lower prices.

A small economy cannot always afford multiple players as this will deprive them of economies of scale that can keep prices low for consumers. But dominant players cannot be allowed to abuse their position. That is why the authorities have to be nimble with their regulations, knowing when to let the players fly and when to rein them in – depending on the infrastructure requirements of a sector and whether consumers are being treated fairly.

It's a delicate balance, but the only option for Singapore.

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