

## Topic 6 - Examples of barriers to entry

**Identification:** barriers are features of the industry that make entry difficult or impossible. They may result from the active strategy of an incumbent firm; they may also be structural and inherited from the past (perhaps from a past strategy).

- Access to resources: an incumbent may have a privileged access to resources (e.g. oil companies).
- Capital: an incumbent already possesses equipment or buildings (e.g. transportation industry).
- Loyalty: consumers are sometimes loyal to products and brands.
- Cost advantages, economy of scale: an incumbent already possesses the technology necessary to manufacture a good, and it may also have a relatively better access to inputs.
- Existing regulations: regulations may favor a public monopolist, licensing may be restricted, and requirements to be granted a patent may involve large investments. Patents per se protect innovators against potential competitors.
- Predatory pricing: an incumbent may decide to sell at a price below marginal cost and make a loss to deter entry.
- Innovation: investing in expensive R&D is efficient to deter entry.
- Advertising: incumbent firms spend large amounts of money in advertising to build brand loyalty or inform consumers about product quality. Entrants may not be able to afford similar amounts of money necessary to attract consumers.
- Exclusive agreements: existing agreements between incumbent firms and upstream producers of inputs, or downstream retailers make entry difficult. Vertical integration can be seen as an extreme form of such agreement.
- Network externalities: sometimes the value of a good to a customer depends on the number of customers who use that good. Entrants may find it difficult to 'start a network' when large incumbents are present (e.g. Apple, Microsoft).
- Switching costs: it is sometimes costly for customers to switch to different products (e.g. computers, telephones).