

Topic 6 - Barriers to entry

There are two types of barriers to entry: (i) structural, that is given by a firm's inherent situation and (ii) strategic, that is created by firms' choices.

- Structural barriers: firms' costs (economies of scale, technological advantage, switching costs for consumers...), market conditions (legal protection, brand loyalty...)...
- Strategic barriers: investment in capacity, predatory pricing... They can take the forms of threats that are credible to deter entry (e.g. threatening to cut prices if an entrant enters), or real actions (e.g. investment in advertising).

Strategic barriers are the most interesting to study and they can be modelled using the standard game theory toolkit. Typically, incumbents and entrants play a game. The possibility of entry affects the payoffs of incumbents. Strategies by incumbents are meant to reduce entrants' payoffs (if entry occurs).

Similar game theoretic analyses can be used to study exit by firms. Strategies that induce firms to exit are similar to barriers (e.g. innovation, advertising...).