











KT&T Communications, not be confused with AT&T Communications, has registered several new operating units in Texas. Those companies, "I Don't Know", "I Don't Care", "It Doesn't Matter", and "Whoever", charge about double the cost of some other long distance companies for operator-assisted long distance calls, the Associated Press says. The choice comes when the operator asks which long distance company you want to complete your call. "It's not deceptive at all," insists Dennis Dees, president of KT&T. Dees won't say how many calls his new companies has completed, but said "I Don't Care" and "It Doesn't Matter" were the most successful. (AP)

Introduction and Industry Analysis

Professor R. Preston McAfee

Who Am I?

Ph.D. Purdue, 1980, B.A. Florida, 1976 Taught at UWO, UTexas, MIT, U Chicago Co-designer, U.S. PCS auction

Co-Editor, *American Economic Review*

FTC Expert: Exxon-Mobil, BP-Arco, Monster/Hotjobs, Rambus

Author, 60+ articles on

* Auctions, Pricing, Antitrust









Assessment

|  |
| --- |
| Some Strategic Variables |
| Product Features and Quality | Vertical Integration |
| Target Customers | Cost Reduction Focus |
| Product Line | Service Provision |
| Product Standardization | Warranties |
| Technological Leadership | Input Pricing |
| Research and Development | Financial Leverage and Debt |
| Product Marketing and Positioning | Government Relations |
| Market Development and Education | Types of Corporate Divisions |
| Provision of Complementary Goods | Flow of Internal Communications |
| Brand Identification | Accounting System |
| Geographic Markets | Delegation of Decision-making |
| Distribution Channels | Build to Order or Inventory |
| Product Pricing | Inventory levels |

Goals Of This Course

Identify important factors for decisions

* What information is useful?

Identify how factors fit together

* Necessarily partial, 2*n* problem Identify candidate strategies Evaluate candidate strategies

|  |  |
| --- | --- |
| Class Participation | 20% |
| Case Writeups | 25% |
| Presentation | 15% |
| Final Paper | 40% |































Class Participation - 20%

Will cold-call if no one volunteers Use a name tent

Be prepared to answer case questions

Do not be afraid to hazard a guess when you have done the reading

Have some fun with it

Case Write-ups - 25%

Individual

1-2 pages max

* Either bulleted or paragraph style
* Focused!

Hand in four of five Independent research required

Final Paper 40%

8-10 page (3200 word) analysis of a strategic situation

Outline (2 pages)

Choose something you find interesting

Focus on analysis, not industry narrative and background

Bullet or paragraph styles acceptable Maximum of four people per project











Other Points

Responsible for website material

* Check at least weekly for updates

Responsible for material presented in class

Industry Analysis

Industry Analysis

Identify factors determining industry profitability

Foundation for strategic analysis Competitive theory:

* High profits attract entry
* Entry erodes profitability
* Sustained profits require entry barriers



































Barriers to Entry

Government (USPS, Taxis, Patents, Ag) Technology - Intel

Economy of Scale - Boeing Reputation – Morton, IBM

Switching Costs – TV programming codes Network Externality - Microsoft

Scarce factor - Bauxite

When is Reputation an Entry Barrier?

When an entrant pays more for a reputation

* Free reputation for the first entrant

AOL

IBM mainframe computers

When an entrant can’t buy a reputation

* Not worth trying the product

Mountaineering rope Morton salt, Bayer aspirin

What Is a Market?

Product or group of related products

* Buyer substitution
* Production substitution
* Production synergies/complementarities

Palm Pilot

GE Aerospace Wireless web



















Value Chain

Industry produces

total value = buyer value – supplier cost

Firm shares total value with buyers, other firms, suppliers

Model of industry identifies total value and participant shares

Porter’s Five Forces

New Entrants

Buyer bargaining power Supplier bargaining power Substitute products Rivalry

Complements (synergies)

**Substitutes**

Rivalry, differentiation

**Buyer Power** Concentration, elastic demand, substitutes, information

**Rivalry** Concentration, exit barrier, differentiation, diversity, sales growth, scale econ.

**Supplier Power** Concentration, substitutes, differentiation, switching

**Entry**

Scale, lock-in, network, product differentiation, government, reputation

































New Entrants

Scale (efficient scale relative to industry) Lock-in/Switching

Network Technology

Product differentiation Government Reputation

Scarce factor (essential factor)

Buyer Bargaining Power

Concentration Elastic demand Substitutes Information

* Poor information lowers buyer bargaining

power

Supplier Bargaining Power

Concentration Substitutes Differentiation Switching



















Substitutes

Differentiation New technology

Risk of being blind-sided

* IBM and Microsoft/Intel
* Microsoft and the web
* Wooden boats and fiberglass

Rivalry

Concentration Exit barrier Differentiation Firm diversity Sales growth Scale economy

Six Forces Form

Product:

Competitors:

Rivalry: Substitutes: Potential Entrants: Buyers: individuals

Buyer bargaining power: Suppliers:

Supplier bargaining power: Complements:

















SBC Wireline Telephony

Product:

Competitors:

Rivalry: Substitutes: Potential Entrants: Buyers: individuals

Buyer bargaining power: Suppliers:

Supplier bargaining power: Complements:

Examples of Complements

Gasoline, cars, roads VCRs and rental tapes

Operating systems, software, hardware

Sony memory stick -- camcorders, MP3 players, PDAs, computers, digital camera

Airlines, reservation systems DRAM standards

Strategies for Complements

Provide the complements individually

* Too few provided
* Inefficient provision (e.g. Xbox games)

Tie Complements to your product

* MS subsidized third-party software for DOS
* Sony Memory stick















Strategies for Complements

Form a jointly-funded complement provider

* Industry Association e.g. JEDEC
* Lobbying Group

Complements give industry has a basis for cooperation

Porter’s Generic Strategies

Value Strategy

* Locate at high quality end of spectrum
* Offer superior product mix
* Please upper end customers

Cost Strategy

* Locate at mass-market position
* Create cost advantages with scale, design

Avoid being “Stuck in the middle”

* HP and Compaq in PCs

Positioning Strategies

Accommodation

* Leave room for rivals
* Specialize in group of customers

Dissuasion

* Fill product spectrum
* Maximize threat of price war
* Low marginal costs