

JOHNSON  
Cornell University

# Industry Analysis II

AEM 260I – Strategy  
Prof. Marcel Preuss  
Spring 2024



# Analyzing Threat from Entry

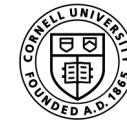


Johnson  
Cornell  
SC Johnson College of Business

- ❑ What about the likelihood of entry into our industry?
- ❑ Entry barriers:
  - Control of essential resources (natural, IP, ...)
  - Economies of scale and scope (in production)
  - (Excess) capacity
  - Switching costs
  - Network effects (In Porter: “demand-side economies of scale”)
  - Other incumbent advantages (e.g., brand image)
- ❑ Threat from entry also depends on possible speed of entry



# Network effects on Platforms



Johnson  
Cornell  
SC Johnson College of Business

❑ A platform is a product or service that *intermediates multiple sides of a market*

- It profits by charging one or more sides of this market for transactions

❑ For example:

- A newspaper intermediates *readers and advertisers*
- Credit Cards intermediate *merchants and customers*
- Facebook intermediates *social media consumers and advertisers*
- Uber intermediates *passengers and drivers*
- Videogame consoles intermediate *gamers and developers*
- Groupon intermediates *business and deal-seeking customers*
- DogVacay intermediates *dog owners and dog walkers*

❑ Platforms and standards exhibit *network effects*



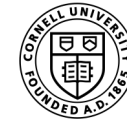
# Types of Network Effects



- ❑ Platforms exhibit *network effects*
- ❑ Network effects can be *same-sided*: users care about how many users are on “their side” of the market
  - WhatsApp users care about the number of WhatsApp users
  - Dropbox users care about the number of Dropbox users
- ❑ Network effects can be *cross-sided*: users care about how many users are on “the other side” of the market
  - Apple iOS users want more apps
  - Uber passengers want more Uber drivers
- ❑ Networks effects can lead to exponential growth and constitute a significant barrier to entry

# Buyer Power – Hotel Industry

---



Johnson  
Cornell  
SC Johnson College of Business

- ☐ Does buyer power pose a threat to profits in the hotel industry?

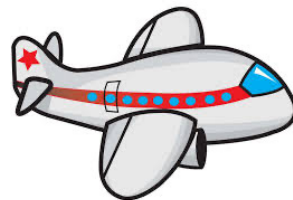


# Buyer Power – Hotel Industry



Johnson  
Cornell  
SC Johnson College of Business

Buyer Power	↑	↓	medium
	<ul style="list-style-type: none"> <li>❑ In many cases, OTAs are the buyers and act as gatekeepers for a large mass of consumers                             <ul style="list-style-type: none"> <li>❑ Small/ independent hotels would get no online traffic without OTAs</li> <li>❑ OTAs are more concentrated than hotels</li> </ul> </li> <li>❑ OTA-provided reviews and recommendations undermine importance of hotel standards</li> </ul>	<ul style="list-style-type: none"> <li>❑ Consumers have no bargaining power</li> <li>❑ Big Hotel chains have significant market share (~10% for Hilton/ Marriott) → even OTAs or big corporate clients cannot work without them</li> <li>❑ Loyalty programs reduce buyer power of OTAs</li> </ul>	



# Buyer Power (reverse of Supplier)



Johnson  
Cornell  
SC Johnson College of Business

- ❑ Buyer power describes the clout of buyers over the industry in question
- ❑ Buyer power is higher (all else equal) if
  - Buyers control significant market share
  - Buyer market is more “concentrated”
    - ✓ i.e. there are fewer buyers than firms in the main industry
    - ✓ Increases in concentration of buyers raises their power (all else equal)
  - A lack of viable substitutes (to sell to)

# Substitutes

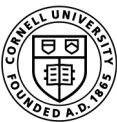


- ❑ The impact of substitutes depends on
  - Viability (how similar is the substitute)
  - Availability
  - Market power in the substitute market
  - Prices (competitive substitute markets are worse)
- ❑ It is always a judgment call whether a product/service is a substitute or a rival
  - Typically determined by the level of interaction but do not get caught up in this
  - Make sure to consider all products/services that are threats





# Substitutes to Luxury Designers



Substitutes	↑ (high threat)	↓ (low threat)	low
	<ul style="list-style-type: none"><li>❑ Functional value can be provided by normal goods that cost a fraction</li><li>❑ Cheap knock-offs for those who buy these things to impress others</li><li>❑ Luxury experience can also be had via<ul style="list-style-type: none"><li>❑ purchase of nice cars/ houses</li><li>❑ 1<sup>st</sup> class travel (not US domestic!)</li></ul></li></ul>	<ul style="list-style-type: none"><li>❑ For most customers, luxury goods trigger emotions/ feelings<ul style="list-style-type: none"><li>❑ Self-expression</li><li>❑ Aspiration</li><li>❑ Sophistication</li><li>❑ Authenticity</li><li>❑ Prestige</li></ul></li><li>❑ Cheaper goods cannot provide that</li></ul>	



# A 6<sup>th</sup> Force: Complementors

---



- ❑ Broad definition: companies crucial to each other's success
  - that do not compete, supply or buy from each other
  - that jointly increase the size of the pie (but also want a piece)
- ❑ Narrow definition: companies selling to the same buyer, who prefers to use/consume goods/services in conjunction
  - Intel, Microsoft & NVIDIA
  - Hotels and theme parks
  - Technology and content (radio, TV, web, etc.)

# EV Charging Stations

---

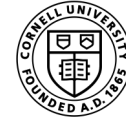


Johnson  
Cornell  
SC Johnson College of Business

- ☐ Who is investing in EV charging stations and why?
- ☐ What about traditional fuel retailers?
- ☐ What other complementary goods/ services that car makers often provide?

# Investments in Charging Stations

---



Johnson  
Cornell  
SC Johnson College of Business

## Estimated Top 5:

1. **Tesla:** With its extensive Supercharger network and aggressive expansion plans, Tesla is projected to have invested the most, potentially exceeding \$5 billion to date.
2. **Electrify America:** Backed by Volkswagen's substantial commitment as part of its "Dieselgate" settlement, Electrify America's fast-charging network likely represents close to \$5 billion in investment.
3. **Automakers Consortium (e.g., GM, Ford, Stellantis):** Through joint ventures and individual efforts, major automakers have collectively poured billions into EV charging infrastructure, potentially reaching \$4 billion or more.
4. **ChargePoint:** This leading public network operator has secured significant funding for network expansion and technology development, likely exceeding \$1 billion in total investment.
5. **Oil and Gas Companies (e.g., ExxonMobil, BP, Shell):** These giants are actively entering the EV space through acquisitions and partnerships, with estimated investments potentially reaching \$1 billion or more.

# Analyzing Complementors

---

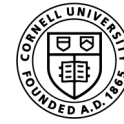


Johnson  
Cornell  
SC Johnson College of Business

- ❑ The positive impact of complementors depends on
  - Quality (how innovative is the complementor market)
  - Availability
  - Market power/ concentration in the complementor market
  - Prices
    - ✓ competitive complementor markets are better
    - ✓ it is the opposite when considering markets for substitutes, where a competition in the market for substitute lowers prices of substitutes and increases the threat to the industry in question
- ❑ A better EV charging network benefits the car industry!

# Industry Analysis – Takeaways

---



Johnson  
Cornell  
SC Johnson College of Business

- ☐ Five Forces: you compete for profits with rivals and
- ☐ Potential Entrants
  - The likelihood of entry depends on barriers to entry
- ☐ Suppliers/Buyers
  - Power of suppliers/buyers depends on market share, concentration, viable substitutes, vertical integration, regulation, etc.
- ☐ Providers of Substitutes
  - The threat from substitutes depends on their viability, availability, price
- ☐ 5+1 forces analysis helps understand
  - Which forces pose the greatest threats
  - Which forces can be influenced
  - Where opportunities lie