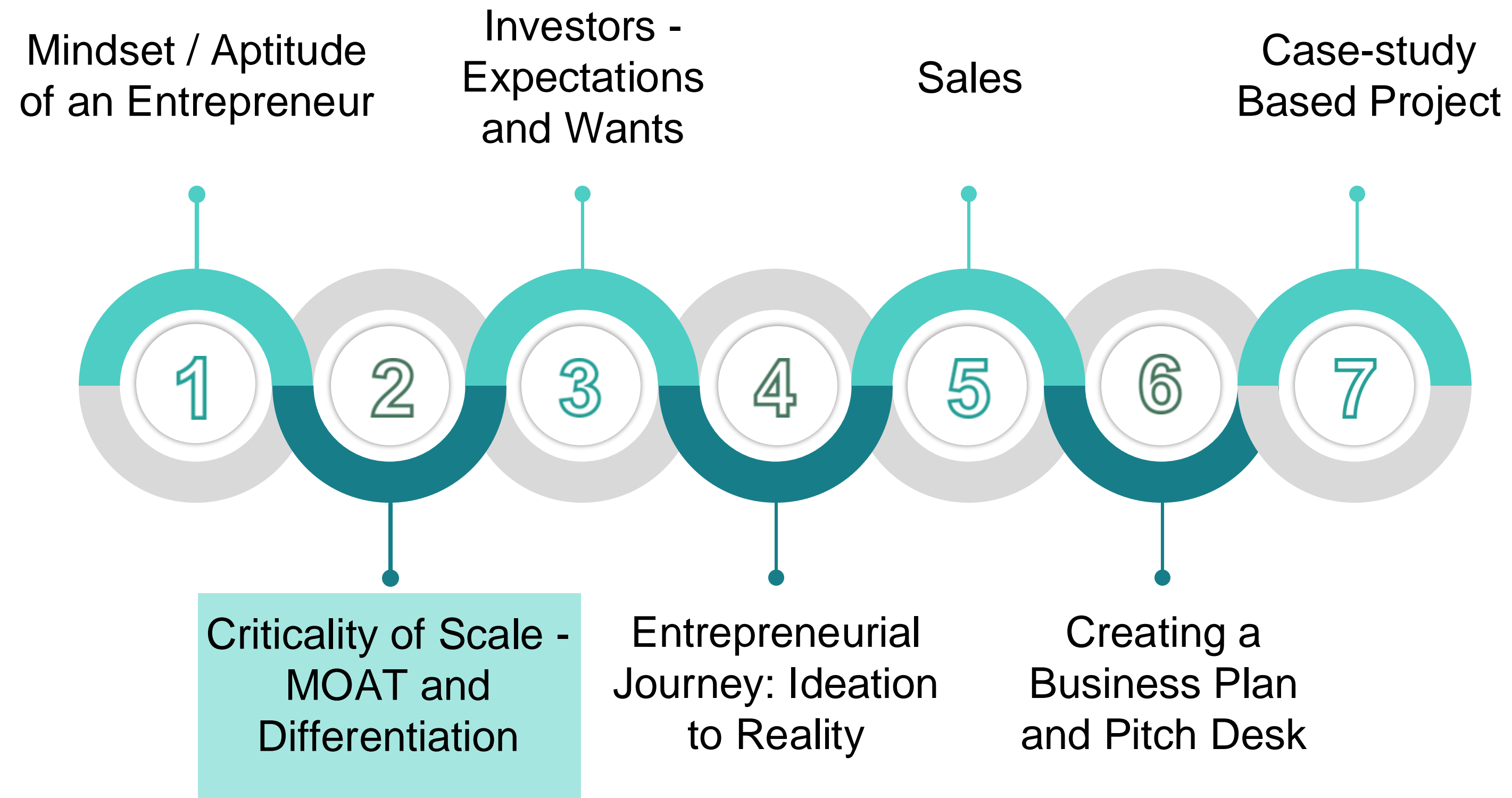


Semester 1




Session 7

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Overview

- Switching Costs
- Regulatory Moat
- Capital Intensive



Switching Costs

What is Switching Costs?

Switching costs gives a company **pricing power** by locking customers into its unique ecosystem.


Beyond the expense of moving, they can also be measured by:

- the effort
- time and
- the psychological toll of switching to a competitor

The cost of learning about the **differences in product quality** is an example of switching costs.



What is Switching Costs?

-  Firms often deliberately build Switching Costs into their products and services.
- Apple products (Air, iPhone, MacBook, Apple TV, etc.), Switching to an Android smartphone involves a lot of costs and a steep learning curve
 - SAP
 - Airline frequent fliers and other loyalty programs
 - Non-portability of cell phone numbers, discouraged customers from switching between telecom providers



Switching Costs: Harvesting Vs Investing

➤ Companies that benefit from high switching costs must choose between:

- **Harvesting:** raising prices on captured customers
- **Investing:** capturing additional customers, means lowering prices to drive growth

➤ Jio Vs Airtel

- When Jio entered the market, it switched the play from Voice to Data and kept the entry costs very low vs. the market leader, Airtel.
- Once Jio Captured a substantial market share, it switched to harvesting customers increasing prices YoY.
- Jio built entertainment as a switching cost for customers.
Example: Jio Cinema, and a combination of entry-level access to Netflix, Hotstar etc.



How to Strengthen Switching Costs?

➤ Land and Expand

- Dollar Retention Ratio (DRR)
- Percentage share of customers spend achieved vs competition
- Percentage share of the potential with the customer

➤ Cross Sell and Upsell Offerings

- Consistently **cross-sell and up-sell** features/products to increase stickiness and make it **difficult to switch**



Regulatory Moat

Regulatory Moat

A "Regulatory Moat" refers to the **protective barrier** created by regulatory compliance.

It often arises in industries with **high compliance requirements**, where existing, typically larger, companies can more easily bear the associated costs, effectively widening the moat between them and newer, smaller market entrants.



The EU AI Act: A Double-Edged Sword?



The act is a forward-thinking, comprehensive regulatory framework aiming to ensure that AI development and deployment are safe, fair, and transparent, reducing potential harms and ensuring accountability.

- This is unquestionably a major step forward for AI governance.



However, on the other side, the implementation of such a comprehensive regulatory framework inherently favors companies that can afford the associated costs.



The Act's stringent requirements for AI system transparency, risk management, and accountability can quickly become a daunting hurdle for AI start-ups and SMEs, creating a significant Regulatory Moat.

EU
Artificial
Intelligence

AI
act

The Case of OpenAI

Sam Altman has advocated for strict AI regulations in the U.S.A. including permitting licenses for stronger AI systems.



HAPPY LEARNING!

