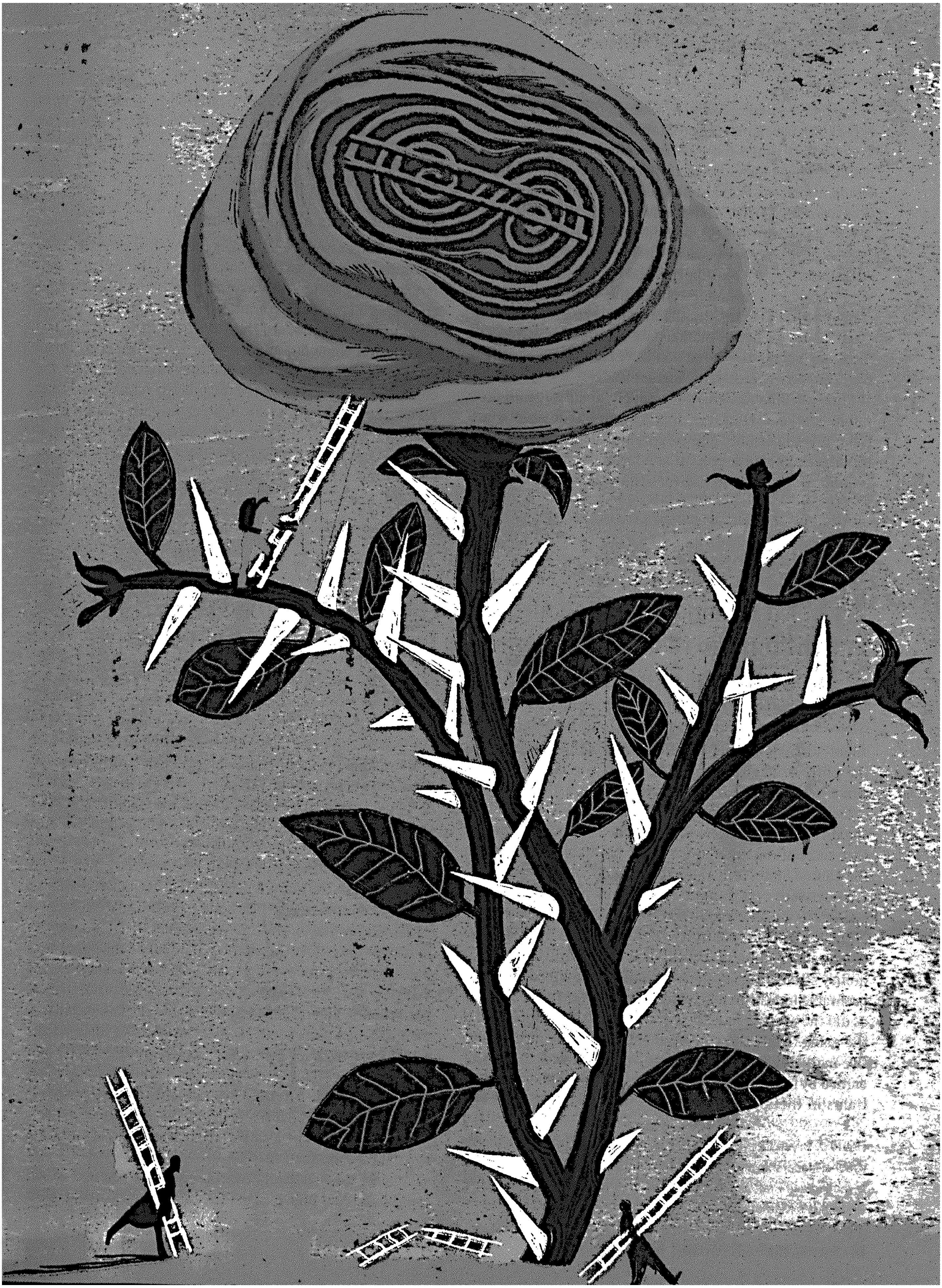
The most attractive markets are almost always the hardest to profitably break into. The trick is to be indirect, so incumbents don't notice you until it's too late.

BY DAVID J. BRYCE AND JEFFREY H. DYER

STRATEGIES TO CRACK WELL-GUARDED MARKETS

WHAT'S THE SMARTER STRATEGY: To break into an industry where, judging by the incumbents' performance, you can make only average profits but are likely to do so? Or to jump into a market where you might make above-average profits but are unlikely to do so? The right choice isn't obvious, but most companies prefer to enter industries where the existing players' profits are consistently higher than those of enterprises in other industries. Entrants know they'll have to take on powerful incumbents, but because of the large profit margins, they're drawn to those markets like bees to a honey pot.



Companies forget, however, that it's tough for new ventures to make money in profitable markets. If it weren't, many others would have already entered those industries, competition would be perfectly fierce, and everyone's profits would tumble. As Harvard Business School's Michael Porter pointed out in "How Competitive Forces Shape Strategy" (HBR March–April 1979), incumbents earn relatively high profits only because of special circumstances, such as their bargaining power over suppliers and buyers, the lack of substitute products, favorable competitive conditions, or, crucially, barriers to entry. Unattractive markets are, well, unattractive, but attractive markets are a conundrum: You can look longingly at them, but you can't enter them easily, because of barriers erected by market leaders.

Sure, CEOs believe that they can buy their way into profitable markets. However, mergers and acquisitions are fraught with peril because corporate raiders end up paying for target companies' present and future profit streams. The premiums that buyers pay for acquisitions' stock average about 30%, and buyers' shareholders typically lose value in the process. That raises the question, Are there ways by which companies can profitably enter attractive markets?

Despite the wealth of research on corporate strategy, we couldn't find any answers. So we decided to study enterprises that successfully entered the most profitable industries in the United States – measured by incumbents' returns on assets – between 1990 and 2000 (for details, please see the sidebar "About Our Research"). We also analyzed unsuccessful entrants in order to contrast their strategies with those of the winners. Our four-year study left us with no doubt that money attracts money. In the decade we examined, the most profitable industries had almost five times as many entrants as did the average industry. Most of those companies found the going tough, though. Fresh entrants in the most attractive markets earned returns that were 30% lower than those earned by newcomers in other industries. That said, when entrants in the top industries were profitable, they won big. Their returns were nearly seven times those of all entrants in the top industries – and almost four times the returns of the profitable entrants in less attractive markets. Just how did those companies manage that?

The Importance of Indirect Assault

When we dissected the strategies that companies have used to overcome entry barriers, one common theme stood out: indirect assault. Smart newcomers refuse to challenge incumbents on the latter's terms and turf. They don't duplicate existing business models; they don't compete for crowded distribution channels; and they don't go after mainstream customers – at least not at first. Almost without exception, the challengers take a page out of the military handbook: Never attack the enemy in its strongholds initially. Attack at its weakest points, gain competitive advantage, and later, if doing so meets your objectives, attack its strongholds. Successful entrants don't engage in frontal attacks, because market leaders can head them off by cornering key resources or will stop them in their tracks with price wars, ad blitzes, lawsuits, and other retaliatory tactics. However, when companies carve out toeholds by using strategies that incumbents either find difficult to respond to or choose to ignore, their chances of success rise exponentially.

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Two recent battles in the soft drinks and video games industries underline the importance of mounting indirect assaults. Everyone knows that the carbonated soft drinks industry is extremely profitable. The three companies that dominate the industry – Coca-Cola, PepsiCo, and Cadbury Schweppes – enjoyed gross margins of more than 60% and an average return on assets of 17% between 1990 and 2000. These profits persist even though an entrant can build a soft drinks concentrate plant big enough to serve all of North America for less than $50 million. Moreover, with apologies to Coke lovers and Pepsi lovers, tests show that similar soft drinks, such as colas, aren't very different in taste. Even so, it has been virtually impossible for newcomers to break into the soft drinks industry because of three barriers: brands, bottling and distribution capabilities, and shelf space.

Against this backdrop, two European companies, Virgin Drinks and Red Bull, entered the U.S. soft drinks market in

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The Three Basic Strategies

Smart companies use three fundamental approaches, usually combining at least two of them, to break into profitable markets.

1 LEVERAGE EXISTING ASSETS
Companies use what they already have, often supplementing their assets and resources with a partner's, to overcome entry barriers.

2 RECONFIGURE VALUE CHAINS
Entrants change the activities or the sequence of activities they perform to deliver value to customers.

3 ESTABLISH NICHES
Enterprises develop offerings with features that don't initially appeal to mainstream customers but attract customers in a fringe segment.

the late 1990s with vastly different strategies. In 1998, Virgin Drinks took Coca-Cola, PepsiCo, and Cadbury Schweppes head-on, launching its own cola, advertising heavily, and trying to get into all the retail outlets that stocked the leading brands. At Virgin Cola's U.S. launch, Virgin Group CEO Richard Branson drove a tank through a wall of cans in New York's Times Square to symbolize the war he wished to wage on rivals. However, the leaders' viselike grip on shelf space proved impossible for Virgin Drinks to break. In July 2000, the company's marketing vice president admitted to a trade publication that "there are people who are saying, 'We've been looking for years, and we can't find it [Virgin Cola].'" Although Virgin Drinks is still in the fray, it has never garnered more than a 1% share of the U.S. cola market.

Red Bull, by contrast, entered the U.S. soft drinks market in 1997 with a niche product: a carbonated energy drink retailing at $2 for an 8.3-ounce can–twice what you would pay for a Coke or a Pepsi. The company designed its cans as narrow, tall cylinders, so retailers could stack them in small spaces. It started by selling Red Bull through unconventional outlets such as bars, where bartenders mixed it with alcohol, and nightclubs, where 20-somethings gulped down the caffeine-rich drink so they could dance all night. After gaining a loyal following, Red Bull used the pull of high margins to elbow its way into the corner store, where it now sits in refrigerated bins within arm's length of Coke and Pepsi. In the United States, where Red Bull enjoyed a 65% share of the $650 million energy drink market in 2005, its sales are growing at about 35% a year. Red Bull is privately held, but all the signs suggest that it's profitable.

In like vein, compare the strategies that Microsoft and Jakks Pacific used to break into the enormously profitable video game industry. Microsoft's Xbox, launched in 2001, is a direct assault on industry leaders Sony and Nintendo. Five years and approximately $4.5 billion in losses later, the Xbox had a 15% share of the console market, compared with Sony's 69% share. Between 2002 and 2006, Nintendo and Sony earned operating profit margins of 20% and 8%, respectively, while Microsoft incurred a margin of –30%, according to our calculations. Despite losses that would have devastated most companies, Microsoft has stayed in the industry, thanks to the profits from its other businesses. Sure, the Xbox business may become profitable one day, but based on 2006 figures, even if Microsoft had achieved Sony's profitability level in 2006, it would need more than 12 years to cover its past losses.

By contrast, California-based toy and action figure manufacturer Jakks Pacific, whose Toymax division entered the video game industry at the same time as Microsoft, has avoided confronting Sony and Nintendo. The company embeds video games into a $20 game controller that plugs into TV sets. It offers games based on characters, movies, and video games developed by well-known companies such as Atari, Disney, Electronic Arts, Hasbro, and World Wrestling Entertainment. Jakks Pacific's target segments are preteen kids and price-conscious adults. Although the quality of its games doesn't compare with that of the leaders', they're colorful, portable, and inexpensive. According to our estimates, between 2003 and 2005, the company's sales of plug-and-play games increased by about 25% a year, and its revenues more than doubled, from $316 million to $661 million. Its games division boasts operating profit margins of roughly 15%, and its operating profits rose from $11 million in 2003 to $97 million in 2005 – profitability that Microsoft's Home and Entertainment Division would probably envy.

The Power of Combination

Indirect assault is the leitmotif of successful entries into attractive industries, especially when companies haven't developed technological innovations. However, working out how to mount such attacks is tough. Successful companies use three basic approaches. First, they leverage their existing assets and resources. They use their excess capacity, often combining it with partners' assets or resources, to lower the cost of entering new markets. For instance, a company may place a new product in shelf space it already owns or manufacture goods with machines that would otherwise be idle. Second, companies reconfigure their value chains by changing the activities or the sequence of activities they perform. They borrow elements from other industries or use technological advances to create value chains that differ from those of incumbents. When a company bypasses bricks-and-mortar retail outlets and sells its products through a Web site, for example, it is reconfiguring the industry's value chain. Third, enterprises create niches by developing offerings that appeal only to some customers. That can mean offering premium features at a price that only certain consumers are willing to pay or dropping features that some people don't care to pay for.

The three basic approaches may appear to be simple, even commonplace. The magic, however, lies in their combination. Successful companies mix and match the three approaches, deploying at least two of them simultaneously or sequentially. By creating powerful combination strategies, enterprises can defy half a century of economic logic and make money by entering highly profitable industries.

Reconfigure the value chain and create a niche. This is, arguably, the most powerful combination strategy. By reconfiguring value chains, entrants create low-cost business models; at the same time, by establishing niches, they stay off incumbents' radar screens. The disruption approach that Harvard Business School's Clayton Christensen described in *The Innovator's Dilemma* is one of the better-known examples of this genre. Innovators enter the market with inferior products that appeal mostly to price-sensitive buyers; incumbents ignore the threat, since mainstream customers don't want those products; and over time the products improve and take large chunks of the market from incumbents. Market leaders can't respond, because they find it difficult to replicate entrants' low-cost business models.

This combination strategy often allows newcomers to get over their teething troubles easily, because incumbents find it pointless to strike against them. For one thing, challengers' offerings appear different enough that incumbents may not realize that they have competition. For another, the entrants don't initially target existing players' best customers. Only in the long run do challengers enhance their capabilities and take away more profitable customers. Consider, for instance, the telecom services industry, which was highly profitable until deregulation led to overcapacity and a shakeout in the 1990s. It's still a tough market to get into because of government regulations and the amount of capital that the business demands. While telecom giants such as AT&T–Cingular, Sprint, and Verizon use fiber-optic cable networks and telephone instruments to provide consumers with plain old phone services, Skype lets people make inexpensive calls over the Internet. By using the Internet, microphones, and computers, the challenger has reconfigured the value chain dramatically. It targets cost-sensitive buyers who care little about the inconvenience or poor quality associated with using a computer as a telephone. At one stage, the telecom giants ignored the interloper, possibly viewing it as just another dot-com offering a software package with free downloads that would soon go bust. This gave Skype the time it needed to build scale and credibility. Founded in August 2003, the upstart was picked up by eBay two years later for $2.6 billion. Skype reported revenues of $25 million in 2005, and by December 2006, the company claimed to have more than 100 million customers, which suggests that it may be turning into a dangerous rival faster than incumbents realize.

Companies needn't always use low-cost disruption to succeed with this combination strategy. Sometimes, reconfigured value chains can generate both higher costs and higher returns. For example, in 1992, Salt Lake City–based Usana Health Sciences entered the nutritional supplements niche of the pharmaceuticals industry. To take on incumbents such as GNC, Usana has reconfigured the value chain in two ways. First, it uses processes similar to those that pharmaceutical companies deploy in order to develop new products. Second, instead of selling through retail outlets, Usana has created a global network marketing organization of 140,000 distributors. That has made it difficult for incumbents to respond. Usana's sales have grown at about 15% per year to almost $400 million in 2006. With an average return on capital of nearly 50% between 2002 and 2004, the company ranked third on *BusinessWeek*'s list of "hot growth companies" in 2005.

Leverage existing assets and reconfigure the value chain. Fifteen years ago, Wal-Mart popularized this combination strategy. The company used its private label, Sam's Choice, and its shelf space to vault over the barriers that prevent companies from entering the soft drinks business. Realizing that it didn't have resources in product development and bottling, the retailer teamed up with Canada's Cott Corporation. A manufacturer of premium private-label products, Cott worked with Wal-Mart to develop a line of soft drinks that is an alternative to Coca-Cola and PepsiCo products. An important part of the duo's strategy was combining Cott's manufacturing operation with elements of Wal-Mart's distribution system to create a hub-and-spoke system, so they could get products into stores far cheaper than the incum-

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bents could. Unlike the other manufacturers, Cott bottles Sam's Choice products centrally, which lowers costs. Instead of delivering to thousands of stores, Wal-Mart picks up the beverages and distributes them through its 35 distribution centers, which supply between 60 and 125 Wal-Mart stores each. The retailer doesn't sell Sam's Choice through grocery store chains, vending machines, or soda fountains – the leaders' most popular channels. By avoiding the stiff competition for those outlets, Sam's Choice earns hefty margins within Wal-Mart's walls. These tactics also helped Wal-Mart prevent the counterstrategies that the incumbents would have deployed against a more direct attack. In 2004, Cott and Wal-Mart were named Beverage Forum Company of the Year and Beverage Forum Retailer of the Year, respectively. By December 2006, Sam's Choice had wrested about 5% of the U.S. soft drinks market from the incumbents.

While Wal-Mart launched a low-cost private label, Costco used the same combination strategy to create an upmarket offering. A warehouse club that sells premium brands such as Polo, Cartier, and Waterford Crystal, Costco entered the home furnishings market by leveraging its brand and retail concept. By locating Costco Home stores in its existing markets, often near Costco Warehouse stores, and letting Costco's 20-million-plus members become members of the home stores, the company also used its customer base effectively. Its value chain avoids the fat – extravagant showrooms, plentiful inventory, and huge commissions – that is usually associated with furniture retailing. For example, at a Costco Home store, the area covered per employee is three times that at an Ethan Allen store, demonstrating lower reliance on salespeople; the retailer doesn't spend much on advertising; and since its low prices help move products off the floor quickly, its inventory turnover rate is twice the industry average. These advantages give Costco a 15% to 25% cost advantage over incumbents such as Bassett Furniture, the Bombay Company, Ethan Allen, and Thomasville Furniture. The incumbents haven't copied Costco Home's moves, because they aren't familiar with the process of creating membership-only warehouses that offer premium products at a discount. This has given the newcomer time to consolidate its operations. While Costco was looking for $40 million in revenues from its pilot Costco Home store in 2006, industry magazine *Furniture Today* estimates the revenues from the first two stores at $108 million. Costco Home ranked 65th in U.S. furniture sales last year and earned profit margins that are comparable to those that Costco Warehouse earns.

Leverage existing assets and create a niche. Companies can use the elements of this combination strategy, like the other pairs, either simultaneously or sequentially. When Toys "R" Us entered the apparel industry in 1996 by opening its Babies "R" Us stores, for instance, it deployed both parts of the strategy at the same time. The retailer leveraged name

About Our Research

To study the most profitable U.S. industries, we started by identifying the primary industry for each of the 24,178 companies in the Compustat North America database. Compustat assigns every enterprise to the industry that accounts for the highest percentage of its revenues, using the four-digit classification codes published by the U.S. Census Bureau. We gathered data on each company's pretax profits and assets for every year from 1990 to 2000.

We then calculated the weighted average return on assets for industry incumbents by dividing the total pretax profits generated by the companies assigned to each industry during those ten years by the total assets deployed. This had the effect of normalizing cross-industry differences on returns relative to costs of assets deployed. After eliminating industries such as tobacco, where there was one incumbent, and investment advisory services, where incumbents' assets included clients' financial assets, we ranked industries based on ROA. The higher the ROA, the more attractive the industry. In the top ten industries, the average ten-year pretax return on incumbents' assets was 17.9% – 4.6 times higher than the average 3.9% return achieved in all other industries during the same period. The table shows the ten most attractive, or profitable, industries in the United States between 1990 and 2000.

We also used the Compustat database to identify companies that entered the ten most profitable industries in that decade. We examined each enterprise to determine whether it was new to the industry or had been misclassified. After we eliminated coding errors, our sample consisted of companies for which the attractive industry was the entrant's primary industry.

The data, however, didn't capture entrants such as Wal-Mart in soft drinks, because that isn't the retailer's primary industry. So we did a literature search on each industry and spoke with industry experts to identify additional entrants. We also identified notable entrants, such as private companies, that didn't appear in the public data set. This allowed us to develop a reasonably comprehensive list of entrants. Between 2003 and 2006, we wrote case studies on a large number of those companies. Doing so enabled us to identify the successful approaches that companies use to enter attractive markets.

Performance and Entry in the Ten Most Profitable Industries (1990–2000)

Industry	Incumbents' ROA	Number of Entrants	Rate of Entry	Entrants' ROA	Profitable Entrants' ROA
Software	21%	675	90%	–4%	14%
Research Services	20%	16	67%	12%	14%
Semiconductors	18%	141	74%	6%	11%
Athletic Footwear	18%	3	43%	–5%	5%
Apparel	17%	9	47%	16%	26%
Beverages	17%	6	67%	–1%	9%
Testing Laboratories	17%	6	60%	7%	11%
Credit Rating Agencies	16%	10	71%	19%	23%
Grain Mill Products	15%	15	68%	5%	5%
Sugar & Confectionary Products	15%	8	42%	–3%	10%
Average of Top Ten Industries	17.9%	89	85%	1.6%	11.1%
Average of All Other Industries	3.9%	19	70%	2.3%	3%

Incumbents are defined as companies that were in an industry for the entire decade. ROA averages (including those in the bottom two rows) are weighted by incumbent companies' assets from 1990 to 2000. Rates of entry – the number of entrants divided by the number of companies in the industry from 1990 to 2000 – are weighted by the number of entrants.

recognition, store locations (most Babies "R" Us stores are situated next to Toys "R" Us stores), relationships with real estate developers, and its inventory management and distribution capabilities to go after the children's product niche in the apparel industry. In contrast to Costco Home, Toys "R" Us didn't alter the value chain; its supply chain and stores are similar to those of other retailers. However, by pursuing a niche that allowed it to leverage its existing resources, the company overcame opposition from well-entrenched rivals to become the largest baby products retailer in the world by 2006. Between 1996 and 2006, sales per Babies "R" Us store rose every year even as sales steadily declined at Toys "R" Us stores.

When newcomers establish niches before leveraging their assets, they can move into mainstream markets from secure beachheads. That's what Skechers (also slang for "people who can't sit still") did in order to break into the shoe market. It started by offering a sport utility logger boot in 1993 and eased into the sneakers niche by serving a hip crowd with laceless pull-on, sling-back, and roller-skate sneakers. Once it had grown its organizational capabilities, Skechers leveraged them to expand into jogging and running shoes. Even when it moved into those markets, Skechers avoided taking on Nike, Reebok, and Adidas. It stayed out of retail chains like Foot Locker, which carry the Big Three, and didn't pitch its shoes as performance sneakers. By 2005, Skechers' sales grew to about $1 billion, and the company reported a net income of $45 million.

Incidentally, newcomers needn't always have mainstream markets as their goal. If they do, they will run headlong into incumbents. Venturing out of a niche could also result in a loss of focus or the dilution of a carefully cultivated position on the fringe. However, when niches have been conquered and top management starts hunting for growth, most entrants will look to the mainstream.

Although companies usually deploy these strategies in pairs, a few have used all three approaches in tandem. Revisit Jakks Pacific's strategy to enter the gaming market, for instance. First, in conjunction with several partners, the company leveraged brand capital from well-known TV programs and games to create new games. Second, it reconfigured the value chain by embedding software in the controller, as opposed to taking a components-based approach, and by directly licensing content from game owners. Third, Jakks Pacific targeted niche audiences such as young children, who find it difficult to cope with games for Sony's Playstation 3 or Nintendo Wii. The three-pronged strategy explains why Jakks Pacific is thriving in the video game market, but we find that in most cases a two-pronged strategy works equally well.

Picking the Right Combination

The more indirectly a combination strategy attacks an incumbent, the more effective it is likely to be. How indirect it is will depend on the context–that is, on the entrant and the industry. To choose the right combination, would-be entrants must figure out what impact each underlying approach would have on incumbents. They can tailor combinations to their assets and markets by asking themselves a few questions about their ability to use each type of strategy.

Can we reconfigure the value chain? Companies must rethink the traditional ways in which incumbents serve customers in order to reconfigure their value chains. They must ask themselves:

- Can we use new technologies, organizations, or countries to perform activities in this industry in ways that weren't possible until recently? For instance, companies can now source products from China and services from India; they can buy designs from shops such as Ideo and Design Continuum; they can market products through webcasts, podcasts, Google, chat rooms, and e-mail; and they can rely on long-distance payment methods such as PayPal. That's not what most incumbents have done.
- Can we apply a business model from another industry to this one? Netflix used that approach when it applied an Amazon-like model to DVD rentals.
- Can we modularize the existing value chain, either by recombining steps or by substituting ones from different value chains? Usana took this tack when it brought multilevel distribution to the nutritional supplements industry.

When newcomers reconfigure value chains, their costs usually fall below those of incumbents. That makes it possible for them to offer inexpensive, frills-free products, but occasionally, they leapfrog the performance of established products. That's what Apple did when it created the iPod, which is a technologically superior MP3 player that relies on iTunes software for digital downloads. To be sure, newcomers violate the principle of indirect assault when they launch premium products, because those usually appeal to incumbents' best customers. The challenger must therefore ensure that existing players find it almost impossible to imitate its value chain. Five years after Apple launched the iPod, it still dominates the industry because it has imposed switching costs by forcing consumers to use iTunes.

Can we find a niche? An entrant will be better able to create a niche if it can answer yes to the following questions:

- In this market, do customers care about a large number of features? If so, the entrant will be able to create products that boast new feature sets.
- Do customers vary significantly in their preferences? If they do, the entrant will be able to exploit the fact that there are several clusters of customers with similar tastes, but large differences between the clusters.
- Are there distinctive groups of customers who are not well served by current offerings? The simplest way to figure that out is to examine the established players' biggest customers and then look for potential customers who aren't like them.
- Are there rebel customers who, in an attempt to maintain a nonconformist identity, avoid mainstream products?

Skechers' "aha" moment came when it identified the laceless-sneaker crowd as a niche with nonmainstream needs. Those customers avoided Nike, Reebok, and Adidas products, perceiving them as uncool.

Can we leverage our assets and resources? Companies can tap underutilized resources to enter new markets only when the cost of doing so is relatively low. The resources can be tangible assets such as plant and equipment, distribution channels, retail outlets, and real estate. In fact, assets with high fixed costs are easy to leverage because the incremental cost of redeploying them is often low. Intangible resources such as brands, intellectual property, and know-how in design, manufacturing, or distribution have few capacity constraints. Companies can utilize brands and know-how in particular with almost no incremental cost and without worrying too much that they will be depleted. There are limits, though. For instance, a brand can be used to sell many different products, but most people wouldn't want to munch on Kleenex potato chips or to earn an MBA from Sam's Choice University.

Finding related businesses that aren't obvious to everyone is difficult but not impossible. One admittedly haphazard approach is to cull lists of related industries from the North American Industry Classification System that the U.S. Census Bureau publishes. Other tools include databases that can be used to identify overlaps in companies' patent classifications. More sophisticated approaches are emerging, as well. For example, Wharton School professor Sidney Winter and one of the authors of this article, David Bryce, developed an index that shows the degree of relatedness between any two industries along dimensions such as technology, distribution, and market similarity.

For a company to lower its entry costs, its capacity in its existing market must have relevance to activities in the target market. Entrants must look for subtle similarities between the existing and target markets' customers, channels, inputs, processes, or technologies. For instance, McDonald's cannily anticipated that at least some of its customers may be interested in renting DVDs. In 2004, it placed DVD rental kiosks in 100 of its restaurants in the Denver area. With the swipe of a credit card, customers could rent DVDs for $1 a night. Once it had tested the idea, McDonald's created a subsidiary, Redbox, which set up kiosks in 800 McDonald's stores in six regional markets. The fast food giant has leveraged its excess capacity in stores, its numerous locations, and its reputation for quick service to break into the fiercely competitive DVD rental market. McDonald's faces stiff competition from Hollywood Video and Blockbuster, but it offers a lower-cost item, since customers can rent DVDs for one night, not just for blocks of time such as two or four days. Last year, McDonald's spun out the subsidiary, in which it retains a 40% equity stake. Redbox has attracted fresh investors such as Coinstar and is expanding rapidly through McDonald's restaurants and grocery store chains all over the United States.

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Companies that enter an attractive industry often wonder if they can close the door on the way in. It's important to do so, as Red Bull will vouch. Once energy drinks became popular and the market grew from $12 million in 1997 to $650 million in 2005, more than 150 me-too manufacturers entered the segment. One solution is for newcomers to go mainstream as soon as they have built the capabilities to battle incumbents. By doing so, they create brand recognition and gain market share and volume, making it more difficult for copycats to survive. In the process, entrants cultivate new sources of growth and profits while fast followers attack their initial strategies. For example, by entering the athletic shoe business as soon as it had established itself in the sneaker market, Skechers quickly moved ahead of would-be followers.

WHEN entering an attractive industry, companies should try to close the door on the way in.

Entrants can also create barriers by securing scarce inputs or locations for themselves, investing preemptively in capacity, generating network effects, or developing cost advantages by racing down the experience curve. For example, JetBlue was the first airline to offer satellite TV to passengers. To prevent imitation, the airline bought LiveTV, the company that developed the technology. Until recently, any airline that wanted to offer satellite TV to passengers had to purchase it from JetBlue. Similarly, when JetBlue saw an opportunity to serve midsize cities with a new 100-seat Embraer jet, it purchased the Brazilian aircraft maker's manufacturing capacity for two years. Later, the airline signed a contract with Embraer that prevented it from selling the jet at a price lower than JetBlue had paid. Erecting fresh barriers won't guarantee that no other company can get in, but it does make it that much harder for the next generation of would-be competitors to storm attractive markets.

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