Barrier to entry

Impact on market strategy: product/market scope and product differentiation. Interaction between incumbent strategies and barrier to entry.

Background:

Barriers to entry have been a popular field of research since the seminal work of Bain (1956). Barriers are obstacles preventing entrant firms from being established in a particular market (Porter, 1980).

the performance impact of barriers to entry has been widely investigated (Marsh, 1998)

A barrier to entry can be categorized as either exogenous or endogenous (Shepherd, 1979). Exogenous barriers are those that are embedded in the underlying market conditions and, in principle, firms are not able to control exogenous barriers. On the contrary, endogenous barriers are created by the established firms through their market strategies and their competitive behavior and are thus based on incumbents' reactions to new entrants' efforts to become established. However, Gable ci a!. (1995) observed that frequently the barrier types are mutually reinforcing, and they may be difficult to interpret.

Direct effects:

Pehrsson (2007) and Robinson and McI)ougall (2001) found that the effects of barriers were less severe if the product/market scope of a market entrant was broad. Based on the findings, the researchers argue that product/market breadth of market entrants generally moderates the relationship between entry barriers and performance.

P1. A firm that enters a market late and has to face extensive barriers will chxse a broader product/market scope than an early entrant

P2. A firm that enters a market late and has to face extensive barriers will differentiate its products to a larger extent than an early entrant.

Indirect effects:

P3. Incumbents' market strategies indirectly affect the market strategy of an entrant firm as incumbents' market strategies interact with barriers to entry. The effects are different for early and late entrants.

TNIC JPE:

Endogenous product differentiation

Sutton (1991) predicts advertising and R&D can create endogenous barriers to entry.

Idea: R&D and advertising can create unique products that appeal to quality-sensitive consumers, making it more expensive for rivals to enter.

Assumption: advertising and R&D are effective in reducing ex-post similarity. Test: changes in ex-post similarity and profitability ~ ex-ante advertising and R&D levels. (not causality). Complements Ellickson(2007) supermarket industry, hard to provide evidence on endogenous fixed costs.

Observe changes in industry memberships and industry locations, primarily about trying to solidify industry boundaries and prevent entry across industry boundaries.

Table 9: (A: TNIC industry level. B: firm level)

**Dependent variable:**

Change in ex-post total similarity

Change in number of text-based network rivals

Change in average profitability of firms in the focal firm’s network industry

**Independent variable:**

Dummies for industries having zero advertising and R&D expenditures

Ln(R&D/sales), Ln(advertising/sales) for non-zero spending industries

Control: size, stock returns, B/M

Online education industry (peer firms surrounding Apollo Group)

Lower similarity, lower number of rivals after spending on advertising