

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

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, 2nd problem
- Identify candidate strategies
- Evaluate candidate strategies

Assessment

- 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?

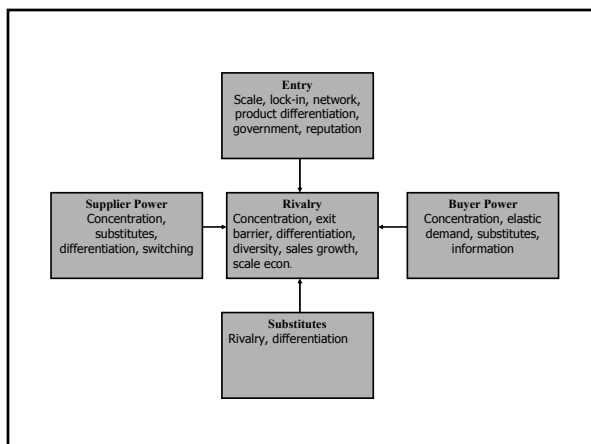
- Product or group of related products
 - Buyer substitution
 - Production substitution
 - Production synergies/complementarities
- Palm Pilot
- GE Aerospace
- Wireless web

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)



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
