

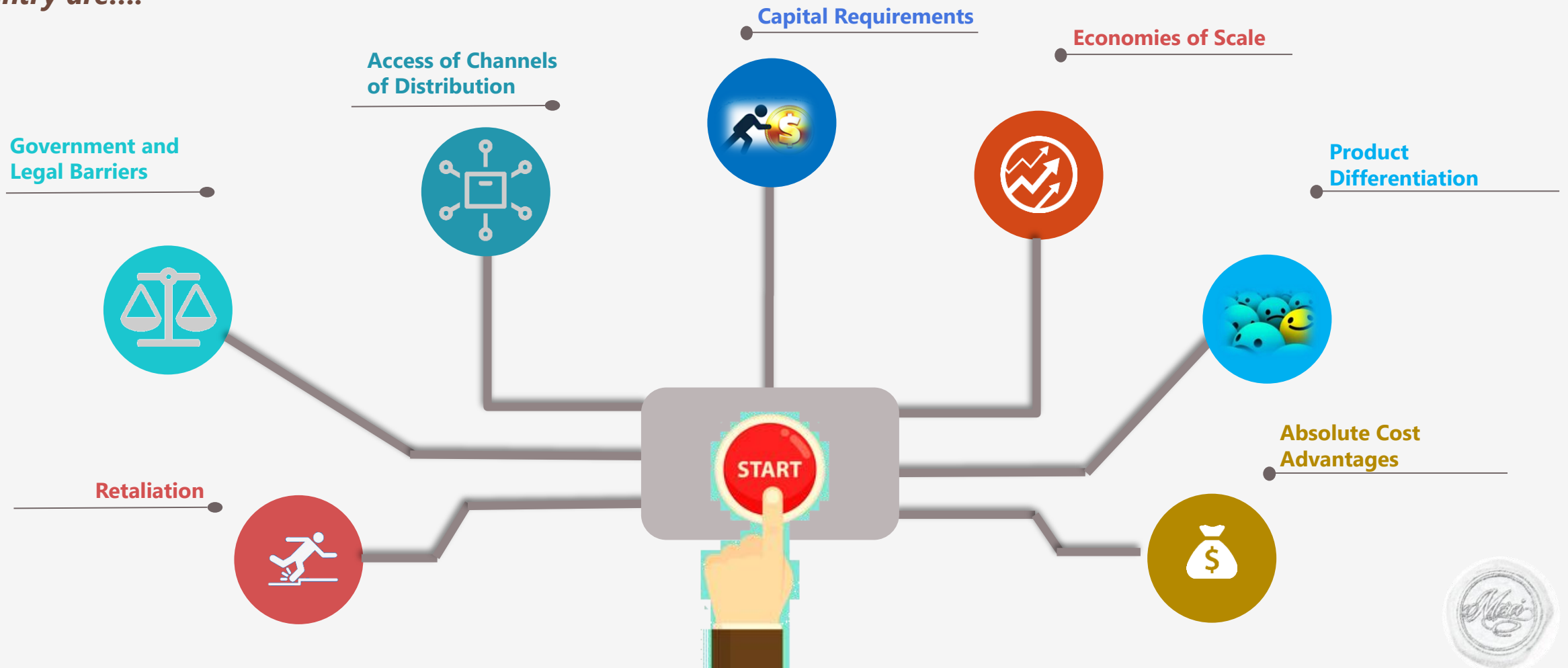
Threat of Entry

Key Structural Variables Part II.



→ Threat of Entry. Key Structural Variables

"New entrants cannot enter on equal terms with those of established firms. The principal sources of barriers to entry are...."



→ Threat of Entry. Key Structural Variables

Capital Requirements



1. Capital Requirements

- ***Start your business without external equity sponsors meanwhile you are at concept stage and testing your business model prototype.***
- ***Do not invite external equity sponsors until your business model has been proved to be successful in at least two different environments of competition, and for at least for several years of proven revenues growth YOY (Year over Year), and it is generating net profits.***
- ***For those who do not need external capital requirements, or if you have the initial investments (CAPEX and OPEX) for a capital intensive business, try to start it outside the view of direct competitors.***





Threat of Entry. Key Structural Variables

Economies of Scale



2. Economies of Scale

- **Economies of Scale are going to happen if we do grow our business over time. In the meantime do not compete in the same market segment of bigger competitors with economies of scale. Find specialized market niches.**
- **Plan ahead: Prepare your finances until you can reach that point.**
- **Each country has an entrepreneurship system in place: Private-Academic-Public system to build successful businesses. Example: Spain.**
- **If your business success is linked to the success of your Research & Development phase, search for academic sponsorships or university entrepreneurship labs which can grant you some help and possible resources:**



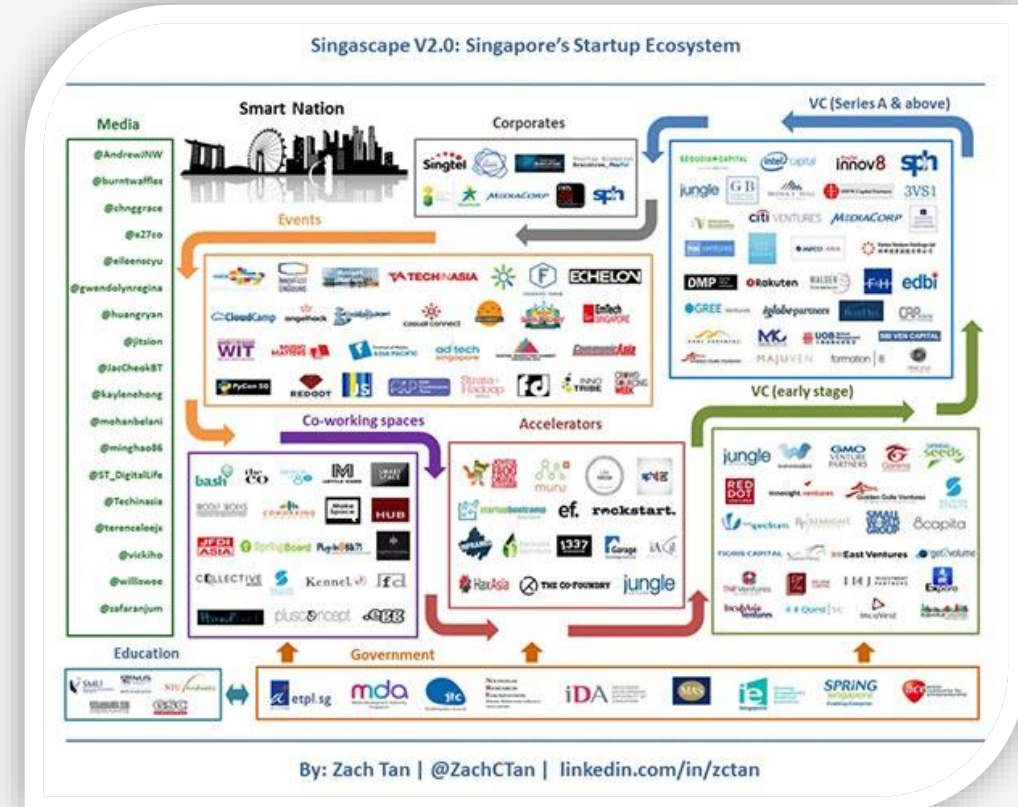
<https://www.entrepreneur.com/slideshow/284615#0>



➔ Each country should answer to the entrepreneurs needs of its population...



Spain Entrepreneurship Ecosystem, by Felix Lopez.



Singapore Entrepreneurship Ecosystem V 2.0, by Zach Tan.





Threat of Entry. Key Structural Variables

Absolute Cost Advantages



3. Absolute Cost Advantages



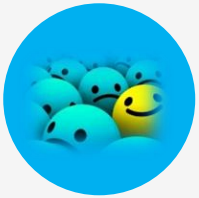
- ***Established firms do have advantages in relation to input costs (raw materials, labor, logistics, finance, etc.) regardless the economies of scale. In addition established firms enjoy the benefits of experience and learning.***
- *As a new incumbent try to find production inputs creatively. Maybe you can find raw materials in countries or cities completely far of the radar of established firms at lower costs. Use the internet to find these sources.*
- ***Be prudent and cautious with your spending. Do not spend all your capital buying inputs at larger scale (trying to diminish your costs) if we don't have any firm client order yet.***
- *Do not expand geographically unless your business model is granting you profits where you started.*





Threat of Entry. Key Structural Variables

Product Differentiation



"Established firms possess the advantages of brand recognition and customer loyalty".

4. Product Differentiation

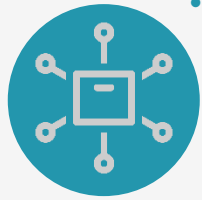
Helpful
Tips

- ***When building your business model and value proposition, it is determinant and extremely important to define your "core business" with a product differentiation from the rest of your competitors in your same industry.***
- ***Ask yourself: What type of differentiating factors will make my product unique to my core customers?***
- ***What is the key differentiating proposition of my product or service in terms of:***
 - ***Customer Loyalty Creation***
 - ***Distribution Channel Dominance***
 - ***The product development itself: capabilities of the product. Try to create a superior product than your competition***
 - ***Capturing Capital Sources, thinking ahead of the rest in how to be interesting to venture capitalists, or private equity "shark tanks" investors or if your dreams are to capture it through an IPO.***
- ***Value Creation: Ask ourselves what type of value added are we providing to clients? How can we add value to our clients every time they return to buy our products and services?***



→ Threat of Entry. Key Structural Variables

Access to Channels of Distribution

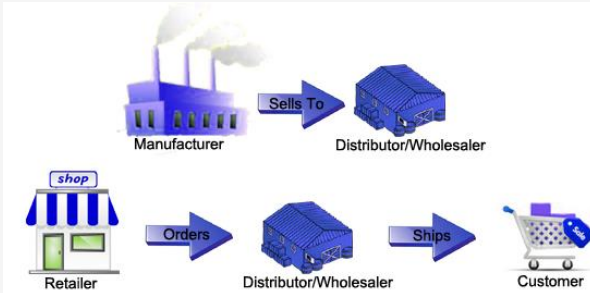


- **Internet**
- Indirect
- Direct
- Franchising



5. Access to Distribution Channels

Helpful
Tips



- **When doing your business model, one section has to be dedicated to distribution channels. Do you remember the business model canvas?**
- **There are several methods of distribution: internet, indirect, direct, franchising. Each of these methods is subdivided in several more.**
- **It is important to understand the method of distribution, like the price, must be consistent with the brand's image.**
- **To be successful, members of one distribution channel need to cooperate closely with one another, and this collaboration is called Vertical Marketing System or VMS. Amazon started as a VMS many years ago.**
- **Franchising is another type of VMS. The Franchising system is another distribution channel in which dealers or franchisees pay a fee to operate under the guidelines and direction of the parent company or manufacturer (the franchisor). Consider this strategy particularly with industries such as restaurants, fast food chains, hotel chains, cinemas, senior care, vending, home services, cleaning and maintenance, retail, etc.**
- **Internet and Digital channels will be analyzed in deep detail during my strategy ride 2017-2018.**

→ Threat of Entry. Key Structural Variables

Government and Legal Barriers

6. Government and Legal Barriers

Helpful
Tips



- **As a new player in the market: DO NOT ACT WITH CORRUPTION. Under NO circumstance we can do or accept any type of corruption in order to expel new competitors.**
- **As a public service leader: DO NOT PERMIT CORRUPTION OF ANY KIND to create barriers against new incumbents.**
- **Corruption can occur on different scales. Corruption ranges from small favors between a small number of people (petty corruption), to corruption that affects the government on a large scale (grand corruption).**
- **Corruption is a form of *dishonest or unethical* conduct by a person entrusted with a position of authority, often to acquire personal benefit. There are several types of corruption. Don't do it:**



Economic Bribery

- Paying money to get gains such as permits, etc.
- Bribes can happen in the public sector and private sector as well.



Embezzlement, Fraud or Theft

- Access to funds, licenses to operate or assets and illegally taking control of them



Extortion and Blackmail

- Use of violence and fear of kidnapping or exposure of criminal activity



Nepotism

- Hiring or promoting a family member or staff member to a role they are not qualified for



Influence Peddling

- Getting unfair advantages based on influence
- Abuse of networking



Exchange of Favors

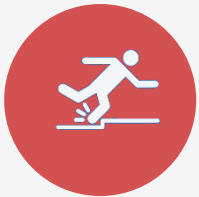
- Types of favors given are diverse and may include gifts, sexual favors, personal fondness, company shares, entertainment, employment and political benefits



Threat of Entry. Key Structural Variables



Retaliation



7. Retaliation: Revenge, doing harm on purpose. My advise: **DON'T DO IT!**

- *For established firms: do not hurt on purpose to new incumbents, it is not ethical and your retaliation measures will boomerang your lack of ethics in the future.*
- *For established firms: **DO NOT USE DIRTY TRICKS** to sink other businesses. It is not right. "Don't do to others with that which pains yourself".*
- *For new incumbents: try to differentiate as much as possible from your established competitors. Look for market niches which are not in the target of established firms.*
- *For new incumbents: Shield yourself by planning in advance how to protect yourself to each retaliation scenario from established firms. Be prepared in advance.*
- *For new incumbents: Act as a Public Relations damage and crisis management specialist. Include it in your strategy with actions and immediate response.*
- *Let it go. Try to compete against your own. Do your own things. Sometimes just moving forward is your best bet. "Doing the right thing may not always be easy, but it is always right".*

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have enough
self-worth not
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Threat of Entry. Key Structural Variables

