

Analysis of the competitive environment

1) Seller concentration measures

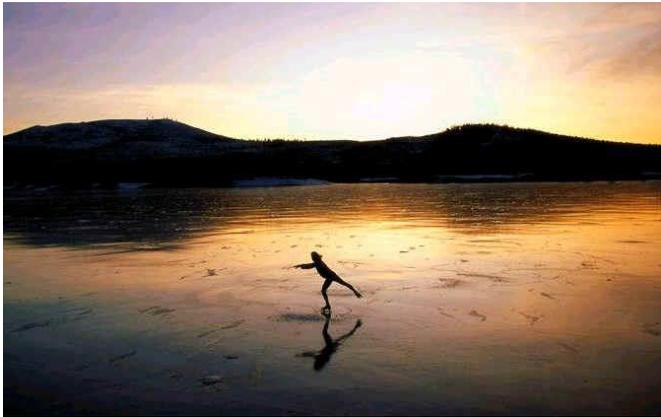
Introduction

Key elements of the industry structure, affecting a firm's competition context, are:

- a) Seller concentration
- b) Barriers to entry
- c) Degree of product differentiation

Seller concentration

- ▶ It refers to the **number** and **size** distribution of firms.
- ▶ It is the most widely used indicators of industry structure.



Market definition

Before measuring the concentration it is necessary to identify the **market**:

- “the entire territory of which parts are so united by the relations of unrestricted commerce that prices there take the same level throughout, with ease and rapidity” (Cournot, 1938)
- an area in which “prices of the same goods tend to equality with due allowance for transportation costs” (Marshall, 1920)

We can have a **product** and a **geographic** definition of the market.



Product market definition

- ▶ A market includes all products that are **close substitutes** for one another, both in consumption (ex. Coke and Pepsi) and in production (ex. corn or soybeans) .



Are these close substitutes?



Are these close substitutes?



Are these close substitutes?



Substitution measurement

- ▶ The degree of substitution **in consumption** is measured using the cross-price elasticity of demand (CED)

$$\text{CED} = \left(\frac{\Delta Q_1}{\Delta p_2} \right) \times \left(\frac{p_2}{Q_1} \right) \quad \frac{\Delta Q_1}{Q_1} / \frac{\Delta p_2}{p_2}$$

- The degree of substitution **in production** is measured using the cross-price elasticity of supply (CES)

$$\text{CES} = \left(\frac{\Delta Q_1^S}{\Delta P_2} \right) \times \left(\frac{P_2}{Q_1^S} \right)$$

Examples

$$\frac{\Delta Q_1}{Q_1} / \frac{\Delta p_2}{p_2}$$

CED (CROSS ELASTICITY OF DEMAND)

$$p_{\text{bread}} = 10$$

$$q_{\text{bread}} = 100$$

$$p_{\text{nutella}} = 20$$

$$q_{\text{nutella}} = 50$$

$$p_{\text{crackers}} = 15$$

$$q_{\text{crackers}} = 70$$

There is an increase in the price of bread, which passes from 10 to 13

$$p_{\text{bread}} = 13$$

$$q_{\text{bread}} = 80$$

$$p_{\text{nutella}} = 20$$

$$q_{\text{nutella}} = 45$$

$$p_{\text{crackers}} = 15$$

$$q_{\text{crackers}} = 91$$

$$CED_{\text{bread,nutella}} = (45-50):50 / (13-10):10 = -0.1/0.3 = -0.33 \text{ (COMPLEMENTS)}$$

$$CED_{\text{bread,crackers}} = (91-70):70 / (13-10):10 = 0.3/0.3 = 1 \text{ (SUBSTITUTES)}$$

If CED is large and positive the two goods are close substitute in consumption, if large and negative, they are close complements.

Examples

$$\frac{\Delta Q_1}{Q_1} / \frac{\Delta p_2}{p_2}$$

CES (CROSS ELASTICITY OF SUPPLY)

$$p_{\text{tractors}} = 1000$$

$$q_{\text{tractors_firm_A}}^D = 100$$

$$q_{\text{cars_firm_B}}^S = 50$$

$$q_{\text{tractors_firm_B}}^S = 1$$

There is an increase in the price of tractors, which passes from 1000 to 1500

$$p_{\text{tractors}} = 1500$$

$$q_{\text{tractors_firm_A}}^D = 130$$

$$q_{\text{cars_firm_B}}^S = 10$$

$$q_{\text{tractors_firm_B}}^S = 30$$

$$\text{CES}_{\text{cars,tractors}} = (10-50):50 / (1500-1000):1000 = -0.8/0.5 = -1.6$$

(SUBSTITUTES)

If CES is large and negative the two goods are **substitute in production**.

Geographic market definition

We are in the same geographic market if an increase in the price of a product in one geographic location significantly affects either the demand or supply (and therefore the price) in another geographic location.

Both definitions depend from the features of the product and from the supply localisation (highway, internet, etc...).

Market boundaries

- ▶ Substitution in consumption or production is always a matter of degree, but it is necessary to identify specific boundaries, both in production and in geographic space
- ▶ The antitrust authorities use the **SSNIP** (*small but significant non-transitory increase in price*) test: would an hypothetical monopolist producing good 1 (or located in area X) find it profitable to increase price by between 5 and 10%? If so, good 1 is a market by itself (area X is a geographic market). If not, the market definition should include the related goods 2 and 3 (or other areas).

Measures of seller concentration

Concentration can be measured at two levels:

- 1. Aggregate:** for all firms that form part of an economy, located within some specific geographical boundary. It reflects the importance of the largest firms in the economy as a whole (that could have opportunities to exert a disproportionate influence over regulators or politicians).
 - share of the n largest firms in the total sales (or assets, employment, etc.)
- 2. Industry or market:** reflects the importance of the largest firms in some particular industry/market. This is particularly important because the measures of industry seller concentration may reflect the implications of the number and size distribution of firms for the nature of competition.

Some measures of INDUSTRY seller concentration

1. **n-firm concentration ratio (CR_n):** share of the n largest firms of the industry in some measure of total industry size (sales, assets, employment).
 - Mostly used with $n=3, 4, 5$ or 8 .
 - It only requires data on the top n firms and the corresponding aggregate industry size.
 - No account taken for the firms outside the top n or for the size distribution within the top n.
2. **Herfindahl-Hirschman (HH) index:** sum of the squared market shares of all firms in the industry
3. **Lorenz curve and Gini coefficient:** the Lorenz curve shows the variation in the cumulative size of the n largest firms in an industry, as n varies from 1 to N. The Gini coefficient is:

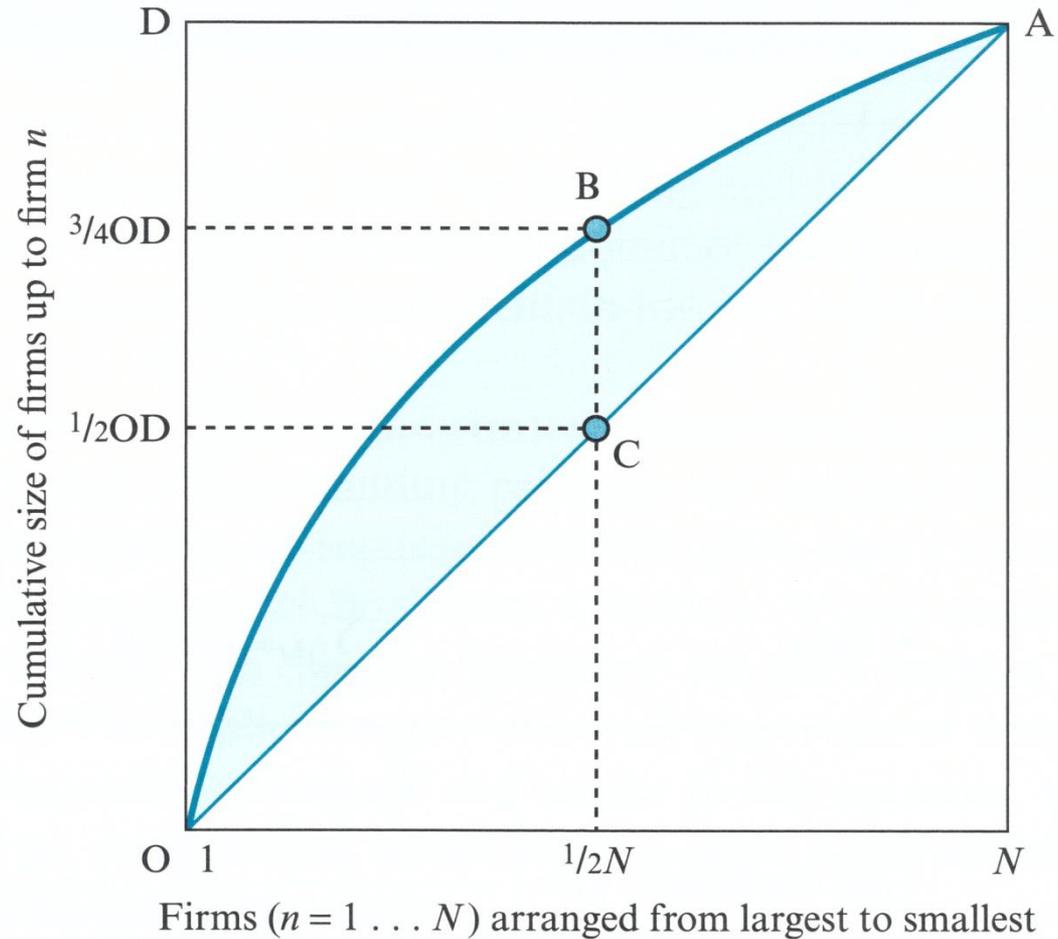
$$G = \frac{\text{area of the crescent between OBA and OCA}}{\text{area of the triangle ODA}}$$

Max $G=1$ there is one dominant firm, Min $G=N-1$ when there are very small firms each with a negligible market share

$$G = \frac{\text{area of the crescent between OBA and OCA}}{\text{area of the triangle ODA}}$$

The Lorenz curve

N.B.
The Gini coefficient
varies from 0 to 1



Examples

Sector 1

<i>Firms</i>	<i>% sales</i>
1	50%
2	25%
3	15%
4	10%

$$\mathbf{CR}_2 = 50\% + 25\% = 75\%$$

$$\mathbf{HH} = 50^2 + 25^2 + 15^2 + 10^2 = 3450$$

Sector 2

<i>Firms</i>	<i>% sales</i>
1	50%
2	25%
3	10%
4	5%
5	5%
6	5%

$$\mathbf{CR}_2 = 50\% + 25\% = 75\%$$

$$\mathbf{HH} = 50^2 + 25^2 + 10^2 + 3 \cdot 5^2 = 3300$$

Sector 3

<i>Firms</i>	<i>% sales</i>
1	50%
2	25%
3	1%
4	1%
5	1%
6	1%
...	
26	1%
27	1%

$$\mathbf{CR}_2 = 50\% + 25\% = 75\%$$

$$\mathbf{HH} = 50^2 + 25^2 + 25 \cdot 1^2 = 3100$$

INDICI DI CONCENTRAZIONE DI UN SETTORE

→ Esempi di calcolo

INDICE DI CONCENTRAZIONE DELLE 4 IMPRESE



INDUSTRIA DELLE LAMPADINE

Ricavi 4 aziende più grandi

- A 600 mln di euro
- B 400 mln di euro
- C 200 mln di euro
- D 100 mln di euro

Ricavi del settore

- S 2.000 mln di euro

$$100 \times (600 + 400 + 200 + 100)$$

2.000

Concorrenza perfetta



65%



settore



imprese presenti

$\frac{3}{28}$

calcolo grado di concentrazione



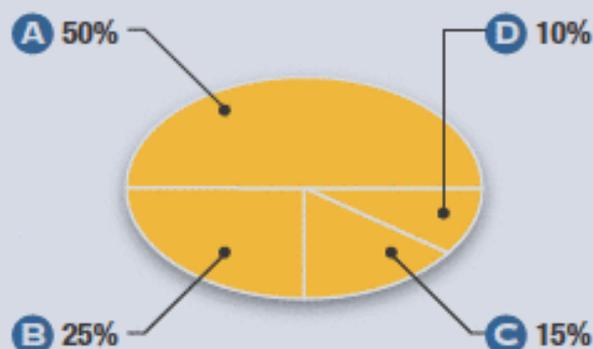
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INDICE DI HERFINDAHL-HIRSCHMAN



INDUSTRIA DEI CEREALI

Quote delle 4 imprese presenti



$$50^2 + 25^2 + 15^2 + 10^2$$

Concorrenza perfetta



3.450

Interpretation of concentration measures

Some caution is needed while interpreting the results of concentration measurements:

- a) **Choice of appropriate industry definition:** all substitute products have to be included. With tight limits, almost any firm could be considered as a monopolist.
- b) **Definition of market boundaries:** of course, local concentration measures are higher than national or international ones.
- c) **Treatment of imports and exports:** by excluding imported goods (or including exported goods) from the calculation of a concentration measure for an industry in the national economy, measured concentration might either overstate or understate the importance of the largest firm.
- d) **Multi-product operations:** many larger firms sell goods or services across a wide range of separate markets, while firms are classified according to their main product.

Same product? The «cellophane fallacy»

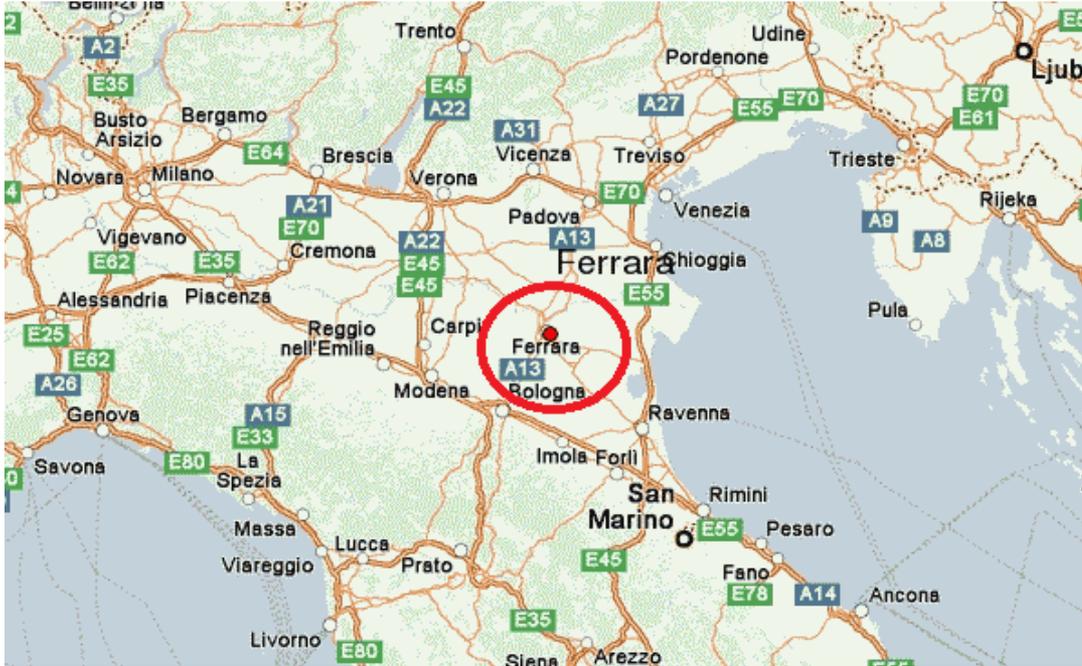


United States Supreme Court sentence, *United States v. E.I. DuPont de Nemours and Co.*, 351 US 377 (1956)

The United States Supreme Court failed to detect the du Pont market power because it gave an overly broad definition to the relevant market, considering paper packaging as substitute of plastic wrapping. In reality du Pont held a virtual monopoly on cellophane.



Same territory = same market?



UK (CR₅) 2004:

- Sugar: 99%
- Tobacco products: 99%
- Gas distribution: 82%
- Oils and fats: 88%
- Confectionery: 81%
- Man-made fibres: 79%
- Coal extraction: 79%
- Soft drinks and mineral waters: 75%
- Pesticides: 75%
- Weapons and ammunitions: 77%

UK industries with the lowest CR₅:

- Metal forging, pressing etc.: 4%
- Plastic products: 4%
- Furniture: 5%
- Construction: 5%
- Structural metal products: 6%
- Wholesale distributions: 6%
- General purpose machinery: 8%
- Wood and wood products: 9%

TABLE 2.—Concentration in Assets for the Manufacturing Sector

<u>Asset Size Group</u>	<u>1958</u>	<u>1963</u>	<u>1967</u>	<u>1972</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Top 50	35.5%	35.9%	36.2%	34.5%	35.6%	35.7%	36.1%	35.7%
Top 100	45.5	46.0	47.0	45.3	46.1	46.0	46.1	45.6
Top 150	50.9	52.0	53.6	52.0	52.9	52.7	52.7	52.2
Top 200	54.8	56.1	58.3	56.5	57.6	57.3	57.3	56.6

Sources: Bureau of Economics, based on data from Compustat, Moody's Industrial Manual, and Internal Revenue Service Service Statistics of Income.

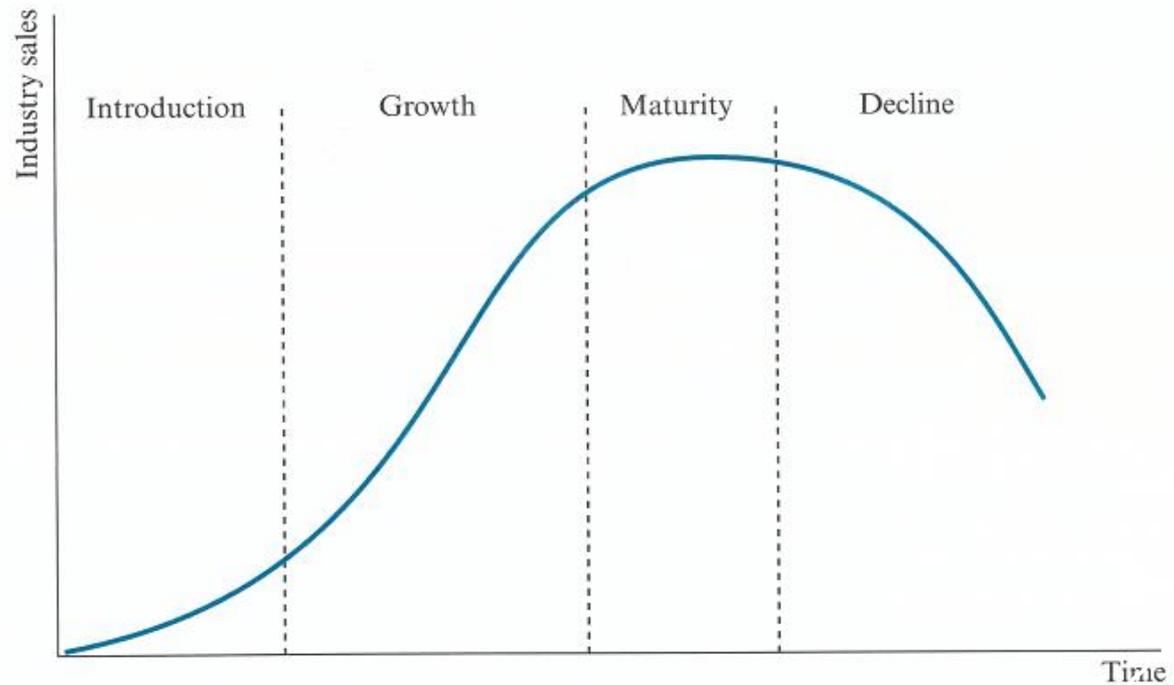
Table 2. Share of Value of Shipments Accounted for by the 4, 8, 20, and 50 Largest Companies in Each of the 3-, 4-, 5-, and 6-Digit NAICS Industries: 1997

[For meaning of abbreviations and symbols, see introductory text. For explanation of terms, see appendixes]

NAICS code	Industry group and industry	Companies ¹	Value of shipments ² (\$1000)	Percent of value of shipments accounted for by the—				Herfindahl-Herschmann index for 50 largest companies ³
				4 largest companies	8 largest companies	20 largest companies	50 largest companies	
311	Food mfg	21 958	421 737 017	14.3	22.0	34.8	50.8	91.0
3111	Animal food mfg	1 077	27 732 347	23.1	34.7	56.1	73.1	238.8
31111	Animal food mfg	1 077	27 732 347	23.1	34.7	56.1	73.1	238.8
311111	Dog & cat food mfg	129	8 688 239	58.4	80.2	92.4	98.3	1 266.5
311119	Other animal food mfg	962	19 044 108	23.7	36.3	54.5	71.2	240.6
3112	Grain & oilseed milling	534	52 075 763	45.3	59.1	77.1	89.1	711.4
31121	Flour milling & malt mfg	324	11 141 876	38.7	51.8	71.4	89.2	485.7
311211	Flour milling	254	8 001 978	48.4	62.5	79.2	93.4	699.6
311212	Rice milling	56	2 364 582	51.8	75.3	92.5	99.8	894.2
311213	Malt mfg	19	775 316	69.0	94.5	100.0	N	1 458.7
31122	Starch & vegetable fats & oils mfg	179	31 835 054	57.7	73.0	88.3	96.9	1 213.5
311221	Wet corn milling	30	8 455 172	71.7	90.3	99.8	100.0	1 507.4
311222	Soybean processing	43	14 036 271	79.6	94.5	99.5	100.0	2 035.4
311223	Other oilseed processing	32	1 720 738	66.6	81.9	98.9	100.0	2 149.2
311225	Fats & oils refining & blending	91	7 622 873	36.7	63.0	89.5	98.8	602.8
31123	Breakfast cereal mfg	48	9 098 833	82.9	93.5	99.2	100.0	2 445.9
311230	Breakfast cereal mfg	48	9 098 833	82.9	93.5	99.2	100.0	2 445.9
3113	Sugar & confectionery product mfg	1 556	24 114 454	41.9	56.4	75.0	86.3	580.3
31131	Sugar mfg	49	7 399 171	64.4	84.0	95.9	100.0	1 452.2
311311	Sugarcane mills	34	1 457 482	56.6	71.4	94.3	100.0	1 158.7
311312	Cane sugar refining	12	3 209 186	98.7	99.9	100.0	N	D
311313	Beet sugar mfg	8	2 732 503	85.0	100.0	N	N	1 997.6
31132	Chocolate & confectionery mfg from cacao beans ..	152	3 755 268	79.5	92.5	97.6	99.0	2 567.1
311320	Chocolate & confectionery mfg from cacao beans	152	3 755 268	79.5	92.5	97.6	99.0	2 567.1
31133	Confectionery mfg from purchased chocolate	796	7 879 752	65.2	75.3	84.2	92.0	1 600.6
311330	Confectionery mfg from purchased chocolate	796	7 879 752	65.2	75.3	84.2	92.0	1 600.6
31134	Nonchocolate confectionery mfg	578	5 080 263	40.7	60.1	78.0	91.0	623.0
311340	Nonchocolate confectionery mfg	578	5 080 263	40.7	60.1	78.0	91.0	623.0
3114	Fruit & vegetable preserving & specialty food mfg	1 394	46 618 107	26.6	35.6	51.8	69.2	253.3
31141	Frozen food mfg	531	19 691 664	31.3	44.6	62.8	79.8	349.5
311411	Frozen fruit, juice, & vegetable mfg	177	9 549 256	34.3	47.4	70.6	90.5	443.7
311412	Frozen specialty food mfg	363	10 142 408	40.2	56.9	74.9	88.6	530.5
31142	Fruit & vegetable canning, pickling, & drying	887	26 926 443	27.9	39.3	58.3	76.7	342.0
311421	Fruit & vegetable canning	661	15 801 279	24.9	38.0	59.7	77.1	259.3
311422	Specialty canning	122	8 051 059	67.2	83.5	96.1	99.5	2 165.1
311423	Dried & dehydrated food mfg	125	3 074 105	30.3	51.1	80.2	96.9	440.8
3115	Dairy product mfg	1 329	58 670 293	16.5	26.0	45.4	64.2	147.0
31151	Dairy product (except frozen) mfg	948	52 812 384	18.1	28.4	48.6	66.7	169.8
311511	Fluid milk mfg	402	21 995 148	21.3	31.0	50.5	72.2	204.6
311512	Creamery butter mfg	32	1 367 548	52.4	73.2	97.3	100.0	889.8
311513	Cheese mfg	399	20 232 146	34.6	50.9	70.6	85.1	524.6
311514	Dry, condensed, & evaporated dairy product mfg	169	9 217 542	47.1	58.6	78.1	94.0	816.9
31152	Ice cream & frozen dessert mfg	409	5 857 909	32.3	48.7	71.1	88.3	444.7
311520	Ice cream & frozen dessert mfg	409	5 857 909	32.3	48.7	71.1	88.3	444.7
3116	Meat product mfg	2 794	112 979 006	35.0	47.5	61.3	72.1	392.6
31161	Animal slaughtering & processing	2 794	112 979 006	35.0	47.5	61.3	72.1	392.6
311611	Animal (except poultry) slaughtering	1 307	54 284 253	57.0	70.8	81.5	89.7	1 069.1
311612	Meat processed from carcasses	1 163	24 260 511	20.4	30.3	45.0	62.0	171.6
311613	Rendering & meat byproduct processing	137	2 556 547	37.4	54.1	75.5	92.6	569.4
311615	Poultry processing	257	31 877 695	40.6	54.0	72.6	90.0	667.7

The determinants of seller concentration

- 1) Economies of scale
- 2) Barriers to entry
- 3) Sunk cost expenditures
- 4) Regulation
- 5) Distinctive capabilities and core competences
- 6) Industry life cycle



Analysis of the competitive environment

2) Barriers to entry and exit

Key elements of an industrial structure affecting a firm's competition context:

- a) Seller concentration
- b) **Barriers to entry**
- c) Product differentiation

Barriers to entry: definition

- Conditions that allow established firms or incumbents to earn abnormal profits without attracting entry (Bain, 1956);
- A cost of producing (at some or every rate of output) which must be borne by a firm which seeks to enter an industry but is not borne by firms already in the industry (Stigler, 1968);
- Any competitive advantage that established firms have over potential entrants (Spulber, 2003).

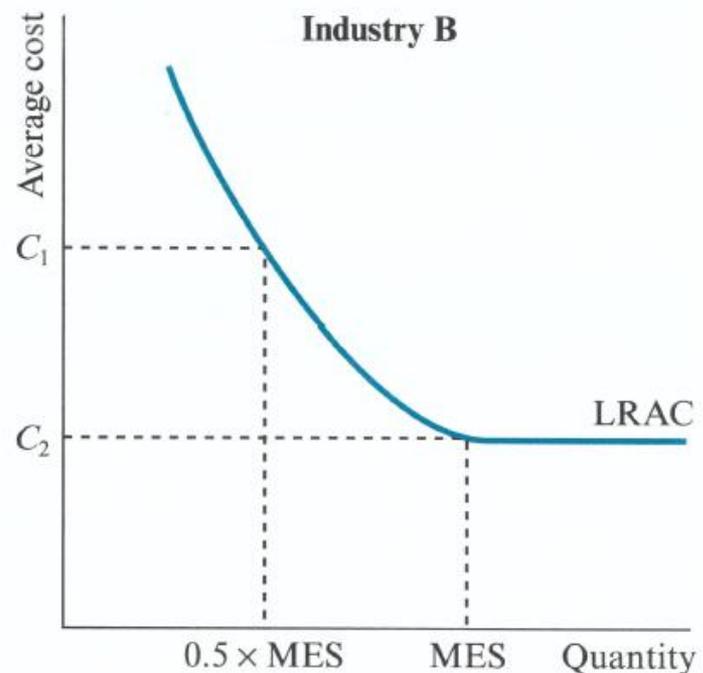
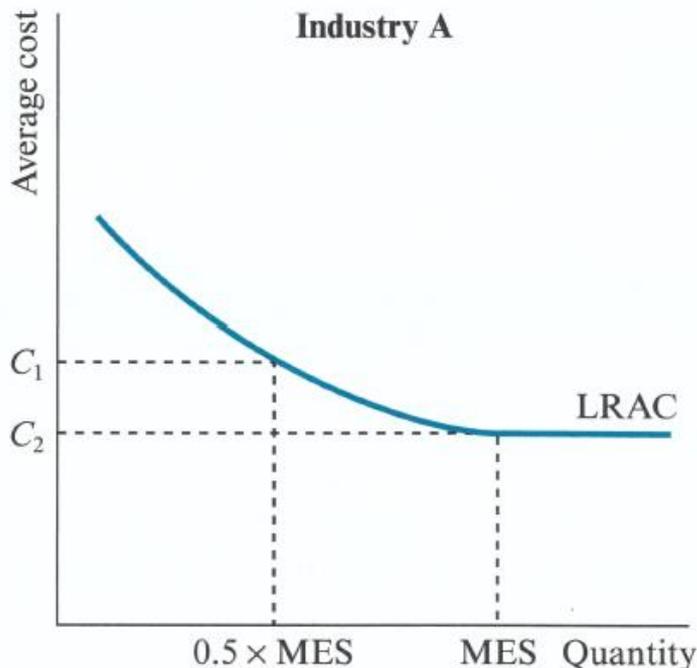
They can be:

- a) Linked to product or technology characteristics
- b) Legal
- c) Strategic

a) Barriers to entry linked to product or technology

1. Economies of scale

- a) The nature of technology may be such that firms must claim a large market share in order to produce at the MES (natural monopoly);
- b) The penalty for producing below the MES can be very high

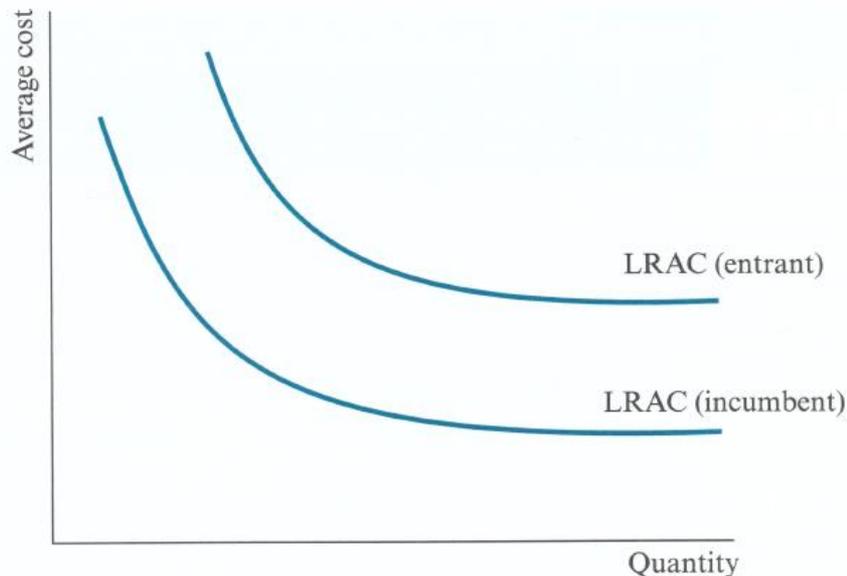


a) Barriers to entry linked to product or technology (cont.)

2. Absolute cost advantage

This could happen because:

- a) Incumbent may have access to a superior production process, hold patents or be party to trade secrets;
- b) Incumbents may have exclusive ownership of factor inputs forcing entrants to rely on more expensive, less efficient or lower-quality alternatives;
- c) Incumbents may have access to cheaper sources of finance:
- d) Vertically integrated incumbent may force an entrant to operate at more than one stage of production to overcome incumbents' cost advantage.



a) Barriers to entry linked to product or technology (cont.)

3. **Product differentiation:** customers are loyal to the established brands. To overcome existing brand loyalties or customer inertia high advertising costs are required to entrants;
4. **Switching costs:** faced by customers deciding to change the supplier of a good/service (search and how-to-use costs). Further switching costs arise when a good/service is tied to an aftermarket (refills/components): bargain-then-ripoff pricing.
5. **Network externalities:** the value of a product/service to a consumer depends upon the number of other consumers using the same product/service. When an incumbent has already established a wide user network, entry is more difficult. Success in establishing a network depends on users' expectations as to which network will achieve dominance.
6. **Geographic barriers:** physical (frontier control), technical (technical standards), fiscal (tariffs), preferential public procurement policies, language and cultural barriers.

b) Legal barriers

Erected by the government and enforced by law.

- registration, certification and licensing of businesses and products (ex. official permission to trade);
- Monopoly rights;
- Patents;
- Government patents.

c) Strategic barriers: barriers to exit

Intentionally planned and implemented actions aimed at excluding or making it more difficult for entrants to access the market.

The aggressiveness of incumbents depends on the existence of **exit barriers**, i.e. high costs that incumbent firms have to face in order to exit the market. The main exit barriers are:

- **Sunk costs**: highly specialised machinery that are difficult to transfer;
- High **fixed exit costs** (ex. Labour costs);
- **Strategic interdependence** with other activities;
- **Emotional** barriers;
- **Political** and social barriers.

The presence of exit barriers can be considered a typology of entry barrier, because they induce incumbents to be more aggressive.



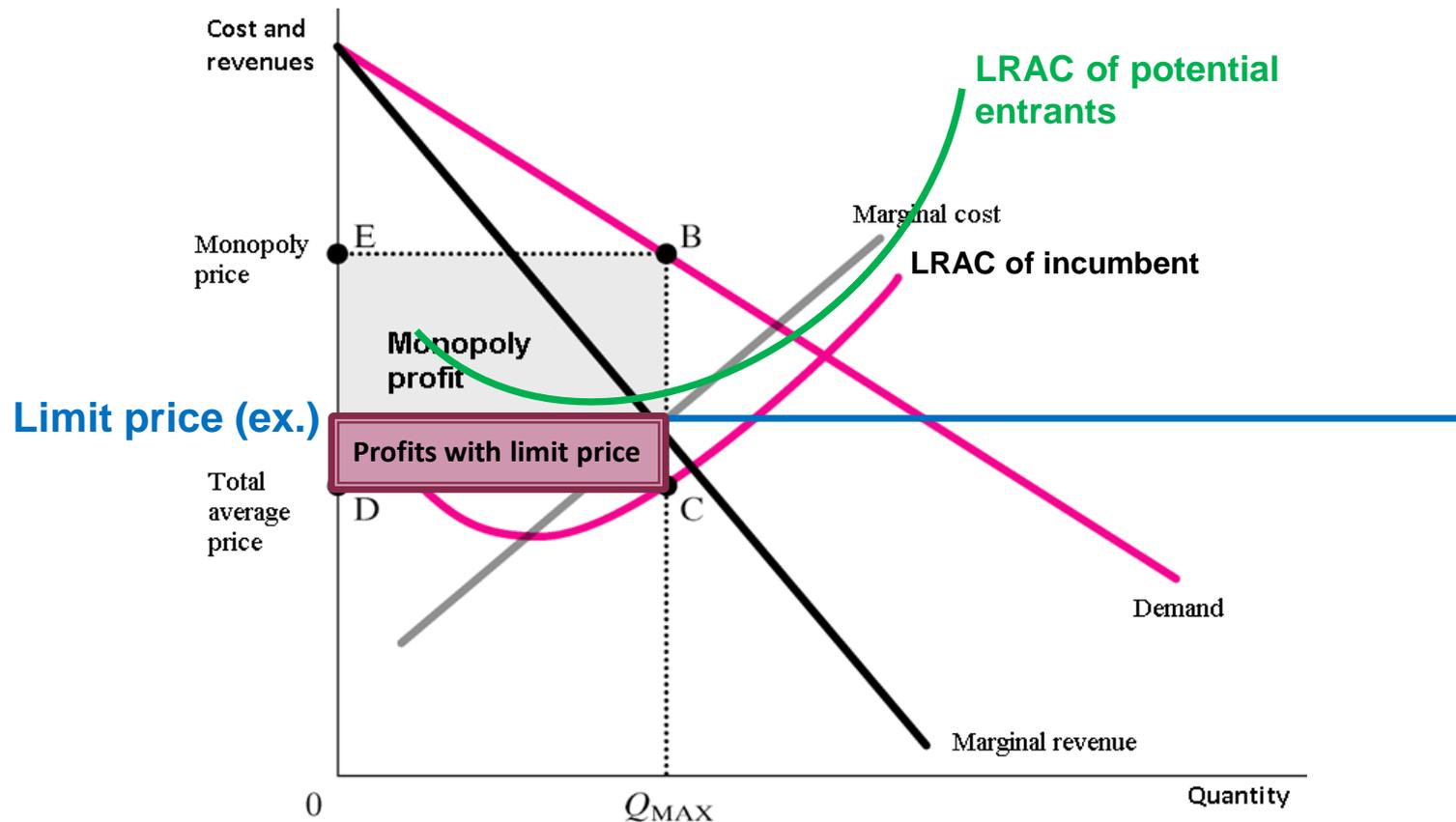
c) Strategic barriers: barriers to exit

The main strategic barriers are the following:

- a) **Limit pricing**: the incumbent might try to prevent entry by charging a limit price, i.e. the highest price the incumbent believes it can charge without inviting entry (lower than monopoly price, above incumbent's average cost: abnormal profit). It is effective only if the incumbent enjoys some form of cost advantage over the potential entrants.
- b) **Predatory pricing**: incumbents cut prices in an attempt to force a rival firm out of business. When this happens, the incumbent raises its price (the boundary between illegal anti-competitive practice and legitimate strategy is very fuzzy).
- c) **Brand proliferation**: the incumbent crowds the market with similar brands in order to deny an entrant the opportunity to establish a distinctive identity for its own brand (risk: cannibalisation). Similar strategies: loyalty discounts, exclusive dealing and refusal to supply.

Limit pricing

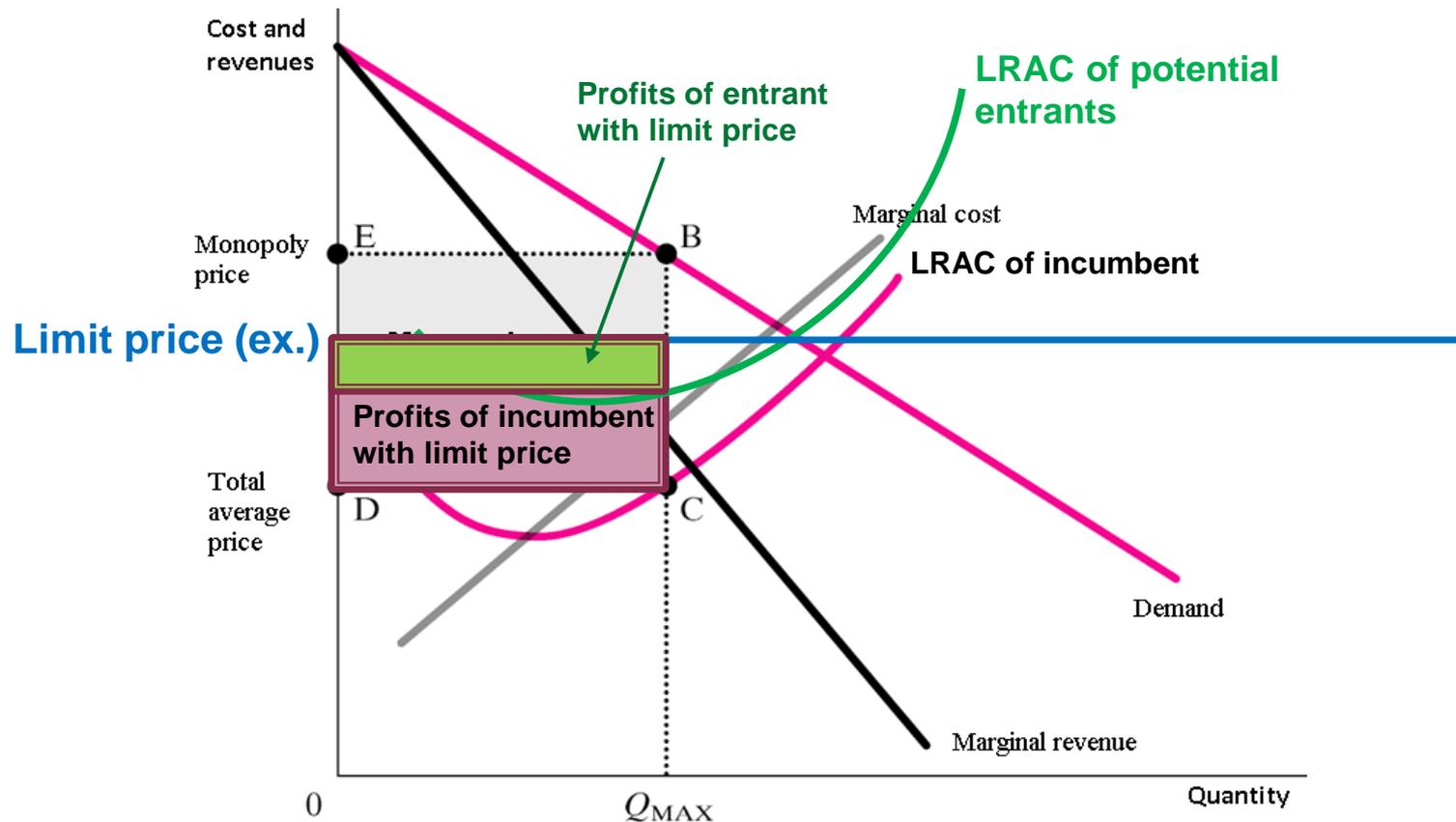
The highest price the incumbent believes it can charge without inviting entry: lower than monopoly price, above incumbent's average cost: abnormal profit. It is effective only if the incumbent enjoys some form of **cost advantage** over the potential entrants.



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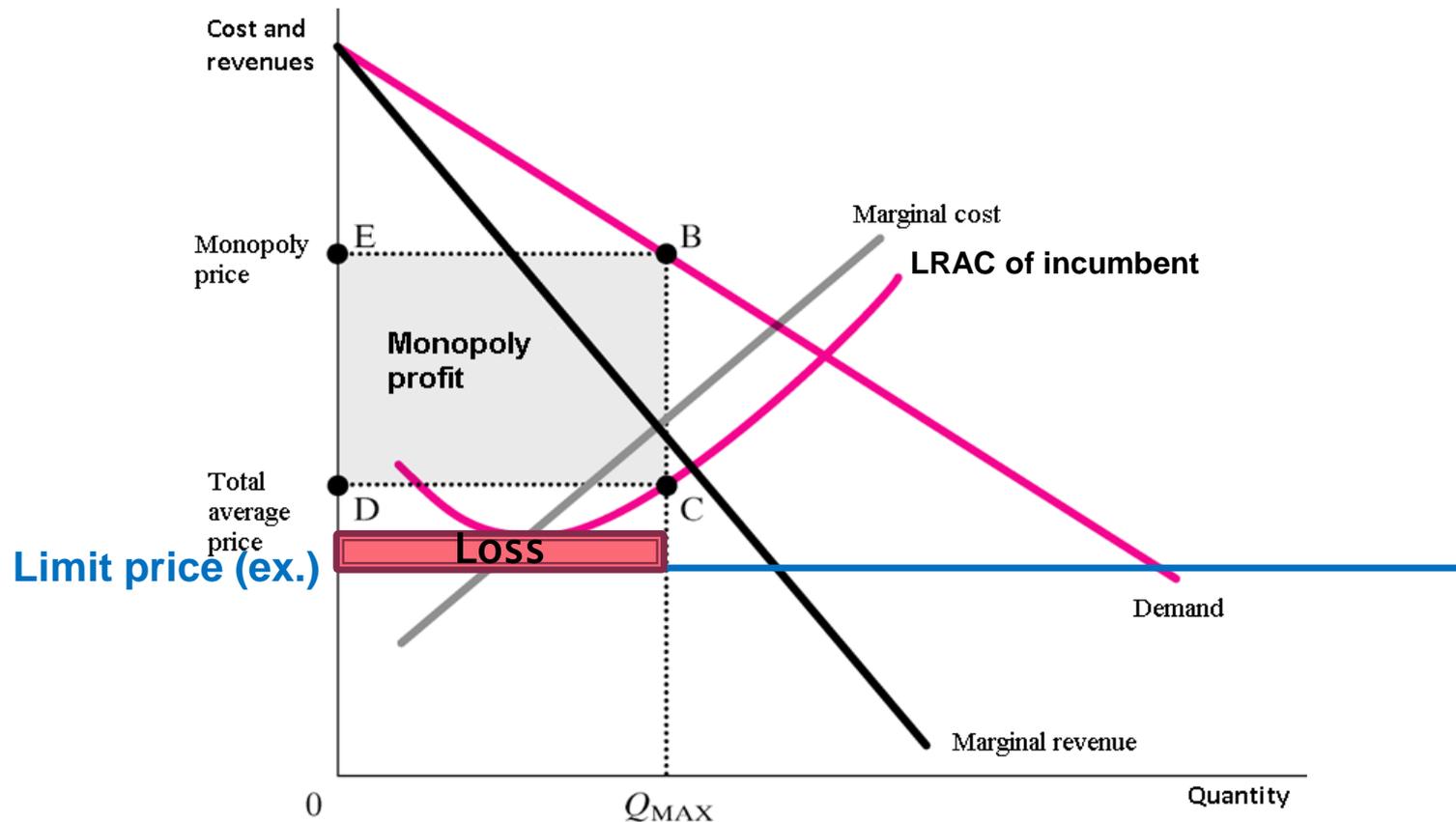
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Limit pricing

The highest price the incumbent believes it can charge without inviting entry: lower than monopoly price, above incumbent's average cost: abnormal profit.

It is effective only if the incumbent enjoys some form of **cost advantage** over the potential entrants.



“ I became confused after realizing that we only sold our products up to a certain price, but my boss explained that we could produce them cheaper than anyone else and could control the market in the long term through limit pricing. ”

Wal-Mart Charged With Predatory Pricing

Stacy Mitchell | 0 Comments | Nov 1, 2000

In September, Wal-Mart was hit with three separate charges of predatory pricing. Government officials in Wisconsin and Germany accused the retailer of pricing goods below cost with an intent to drive competitors out of the market. In Oklahoma, Wal-Mart faces a private lawsuit alleging similar illegal pricing practices.

The Wisconsin Department of Agriculture, Trade and Consumer Protection filed a complaint with an administrative law judge accusing the retailer of violating the state's antitrust law. The complaint says Wal-Mart sold butter, milk, laundry detergent, and other staple goods below cost in stores in Beloit, Oshkosh, Racine, Tomah, and West Bend. The company intended to force other stores out of business, gain a monopoly in local markets, and ultimately recoup its losses through higher prices.

State officials filed the complaint after Wal-Mart failed to take corrective action following several warning letters sent as early as 1993. The administrative law judge will review the charges and recommend further action to the department's secretary. The complaint carries a total of 352 violations, each of which could incur a fine of \$500.

In Germany, Wal-Mart was charged with similar predatory tactics. The federal Cartel Office accused Wal-Mart and two other large supermarket chains of selling goods below cost and ordered the companies to raise prices immediately. Wal-Mart could face fines of DM1 million (\$434,000) if it fails to comply.

The items in question include about a dozen staple products like milk and vegetable oil. A common Wal-Mart strategy is to price such staples, known as "corner products," very low. Corner products are items for which consumers know the going price. By setting prices on these items very low, Wal-Mart creates an overall impression of having very low prices, when in fact much of its merchandise may not be such a good deal.

German law prohibits below cost pricing, because of its impact on small businesses. In this case, authorities feared a price war among the country's three largest food retailers would decimate independent shops, ultimately leaving consumers with fewer options and higher prices. "The material benefit [of below cost pricing] to consumers is marginal and temporary, but the restriction of competition by placing unfair obstacles before medium-sized retailers is clear and lasting," said the Cartel Office.

Microsoft accused of predatory pricing of security software

The [SunBelt security blog](#) has accused Microsoft of "predatory pricing" which it defines from Wikipedia: "the practice of a dominant firm selling a product at a loss in order to drive some or all competitors out of the market, or create a barrier to entry into the market for potential new competitors."

The first problem is that Microsoft OneCare costs \$49.95 for three PCs, versus Symantec and McAfee. "Both of these companies have AV products that retail for \$39.99," says Sunbelt, "but they also have three-user offerings, at \$69.99 (McAfee) and \$89.99 (Symantec). Incredibly, Microsoft has priced themselves almost 50% below the market leader, and no one has said a peep." Second is Antigen, which competes with Trend ScanMail for [Microsoft Exchange](#), Symantec Mail Security for Exchange and McAfee GroupShield. Microsoft is 53% to 63% cheaper over two years.

The ready-to-eat (RTE) breakfast cereal industry provides an excellent illustration of the basic principles of **brand proliferation**.²¹ Despite relatively low production scale economies, the industry has been highly concentrated and has earned high profits. The minimum efficient firm size is estimated to be between 3% and 5% of market. Yet the market share of each of the largest firms exceeds 15%, and the industry has experienced relatively little entry.

According to the Federal Trade Commission (FTC), a key strategy used to forestall entry in the RTE cereal industry has been **brand proliferation**. In 1972, a formal complaint was filed against the four largest manufacturers: Kellogg, General Mills, General Foods, and Quaker Oats. The complaint charged that these firms behaved as a shared monopoly and that their “practices of proliferating brands, differentiating similar products, and promoting trademarks through intensive advertising resulted in high barriers to entry into the RTE cereal market.”

- 1950-1960: **23** new brands;
- 1961-70: **41** new brands;
- 2000-2010: **77** new brands.



Source: Tremblay V.J. and Tremblay C.H., *New perspectives on industrial organization*, Springer, 2012

		BARRIERS TO EXIT	
		Low	High
BARRIERS TO ENTRY	Low	Low and stable profitability	Low and risky profitability
	High	High and stable profitability	Low and risky profitability

Barriers to entry impact on the **profit** level: if high, they allow incumbents to earn abnormal profits.

Barriers to exit impact on **riskiness**: if high, they force incumbents to stay and may determine a persistent situation of losses or low profits.

Market structure and market contestability

Barriers to entry vary across time for type and size.
They have an impact on **market contestability**

1 seller = monopoly?

100 sellers = perfect competition?

Summary

Analysis of the competitive environment

1. Seller concentration
 - Definition on market
 - Substitution measures
 - Market boundaries
 - Measures
 - Determinants
2. Barriers to entry and exit
 - entry
 - Definition
 - Typologies
 - Exit

Reading list

- Chapters 9, 10 (exl. 10.3, 10.4), 11 (exl. 11.4, 11.7), Lipczynski et al., 2013