Economics of Strategy

Topic 7
Mediation and Protection: Monopolistic competition and Monopoly

<u>Strategic Hell</u>

ASSUMPTIONS

Products homogenous, commoditised and highly substitutable
Many buyers and sellers have complete information
Entry to and exit from market is costless
Price determined by market supply
Firms are price takers
All firms make same normal profit

INTRA INDUSTRY VARIANCE

a.k.a. Cross section
Key to escaping strategic hell is to create market imperfections
 -> Produces super normal profits
 -> Help reduce time series variance over time

PRODUCT DIFFERENTIATION

Give quasi-monopoly market power by reducing power of substitutes
Differentiation a distinct element of a firm's product which allows supernormal profits (Porter, 1985)
ex. Easyjet differentiates itself as low cost carrier

<u>Varabilisation</u>

VARIABLILISATION - transforming your fixed costs into variable ones
Varabilisation 'resilient business model' (N. Kachaner, BCG Strategy, 2009)
Optimise total life-cycle cost of assets
Fixed costs
 -> Turn growth into economies of scale and competitive advantage
 -> Turn declines into significant losses
 -> Restrict agility (firms cannot outmanoeuvre newcomers)
 -> Constrain growth (firms cannot scale up fast enough)

BACK END varabilisation (Kachaner, 2009)
Within organisation
ex. Accor hotels

FRONT-END varabilisation (Kachaner, 2009)
Leveraged as value-added solutions for customers
 Requires firms to take more assets on board