TABLE 5.1 Nontraditional Barriers to Entry

Barrier to Entry	Explanation	Example
Strength of management team	If a start-up puts together a world-class management team, it may give potential rivals pause in taking on the start-up in its chosen industry.	Square
First-mover advantage	If a start-up pioneers an industry or a new concept within an existing industry, the name recognition the start-up establishes may create a formidable barrier to entry.	Facebook
Passion of management team and employees	If the key employees of a start-up are highly motivated by its unique culture, are willing to work long hours because of their belief in what they are doing, and anticipate large financial gains through stock options, this is a combination that cannot be replicated by a larger firm. Think of the employees of a biotech firm trying to find a cure for a disease.	Amgen
Unique business model	If a start-up is able to construct a unique business model and establish a network of relationships that make the business model work, this set of advantages creates a barrier to entry.	Netflix
Internet domain name	Some Internet domain names are so "spot-on" in regard to a specific product or service that they give a start-up a meaningful leg up in terms of e-commerce opportunities. Think of www.1800flowers.com, www.1800gotjunk.com, and www.bodybuilding.com.	www.1800contacts.com
Inventing a new approach to an industry and executing the idea in an exemplary fashion	If a start-up invents a new approach to an industry and executes it in an exemplary fashion, these factors create a barrier to entry for potential imitators.	Cirque du Soleil

- **Degree of difference between products:** The degree to which products differ from one producer to another affects industry rivalry. For example, commodity industries such as paper products producers tend to compete on price because there is no meaningful difference between one manufacturer's products and another's.
- **Growth rate of an industry:** The competition among firms in a slow-growth industry is stronger than among those in fast-growth industries. Slow-growth industry firms, such as insurance, must fight for market share, which may tempt them to lower prices or increase quality to obtain customers. In fast-growth industries, such as e-book publishing, there are enough customers to satisfy most firms' production capacity, making price-cutting less likely.
- **Level of fixed costs:** Firms that have high fixed costs must sell a higher volume of their product to reach the break-even point than firms with low fixed costs. Once the break-even point is met, each additional unit sold contributes directly to a firm's bottom line. Firms with high fixed costs are anxious to fill their capacity, and this anxiety may lead to price-cutting.

Bargaining Power of Suppliers

In general, industries are more attractive when the bargaining power of suppliers is low. In some cases, suppliers can suppress the profitability of the industries to which they sell by raising prices or reducing the quality of the components they provide. If a supplier reduces the quality of the components it supplies, the quality of the finished product will suffer, and the manufacturer