

Mitigating market entry barriers

[Finance](#), [Market](#)



Introduction

Porter's (1979) five forces theory highlights market entry barriers as one of constraints in establishing a new business. Investigating market entry barriers for McLaren enables us to assess the level of competition and the possible barriers hindering the progress of McLaren in the mass car industry.

As McLaren began diversification in the 1960's it helped them greatly in averting market entry barriers to through economies of scale. By branching out into different industries such as McLaren racing and McLaren automotive, McLaren was able to benefit greatly from economies of scale. This has aided McLaren with their high capital investment requirement for establishing a mass car producing company. As a high value vehicle, to purchase the parts and have the McLaren consumer car manufactured would be extremely expensive. However, McLaren entered the mass car market as part of its diversification strategy which has allowed the company to utilized same value chain for its consumer car equipment. Therefore, the initial high investment capital barrier required for the market entry was successfully mitigated by McLaren.

Apart from the huge capital investment requirement, product differentiation is also one of the market entry barriers in the mass car market. McLaren overcame this barrier quite easily because it already had established brand equity and a loyal clientele. McLaren is a known worldwide for its formula one racing team in high regards so establishing new businesses under its brand name wasn't difficult. McLaren's cars were easily differentiated from

other high end car producers due to the company's already established brand image. (Fahri, K & Michael, J. 1989)

Another barrier to market entry within the car industry is the distribution channels. McLaren was not required to establish its distribution channel for consumer cars because it did not produce them in large numbers and most of its cars were purchased by car enthusiasts who keenly sought after the brand. The strategic 'pull' strategy for marketing its small number of high end consumer cars averted its needs to establish a distribution and sales channel (Terpstra, 1994).

Another entry barrier to the mass car market and an important one is the requirement of consumer cars to adhere to safety specification and environmental specification. . The automotive industry is subject to government rules and regulations that include the vehicle safety and environmental matters. Vehicle safety is to ensure that each car that is supplied is safe for the driver and its passengers at all times. Environmental matters include emission levels to reduce the damage each vehicle creates to destroy our environment. McLaren has its own research and development centres and state of art test facilities and production plant where it could develop, implement and monitor its car performance in accordance with the legal requirements.

The Level of Diversification Achieved by McLaren

According to Ansoff (1957), there are four basic corporate strategies for growth. These are market penetration; market development; product development and diversification (see fig1).

Fig. 1

The first three growth strategies require a firm to change its product and/or market structure. Unlike these three, the fourth growth strategy i. e. diversification requires a change in the characteristics of a company's product line and/or market. Diversification " calls for a simultaneous departure from the present product line and the present market structure" (Ansoff, 1957, p. 114). Pertaining to this growth strategy classification, venturing of McLaren into several distinct businesses can be classified as its diversification strategy.

Over the years, McLaren has ventured into several distinct businesses. These are:

McLaren Racing involves formula one racing team that competes in formula one racing. This business focuses mainly on the racing team of the company. McLaren Racing sets out to be one of the best known formula one team in the world. McLaren Racing has established its brand by pocketing 181 Grand Prix victories (William, 2009).

McLaren Automotive is a business that designs and builds super cars made for the mass consumers. McLaren road cars are designed to meet the high expectations in terms of speed, performance and endurance. As a worldwide brand, McLaren Automotive aims to not only produce the best automotive

vehicles but to continuously 'raise the benchmark in automotive design' (McLaren, 2013).

McLaren Electronic Systems(MES) creates electronic control systems for the McLaren Racing team. The company's electronic systems are used in formula one vehicle for various telemetry and sensory systems. The company also creates electronic control units for other teams in the motorsport industry to use across Europe and North America. (McLaren, 2013)

McLaren Applied Technologies(MAT) focuses on supplying the best technology to boost the technical support in world of sports and to enhance the performance of McLaren's formula one vehicles. McLaren Applied Technologies has continued to boost McLaren's reputation as the 'forefront of British engineering and technology' (McLaren, 2013). MAT has helped worldwide sports by providing technology to help improve the efficiency of the participant's performance in the best way possible. This could be something as simple as providing mountain bikes that weigh less without hindering the efficiency of the bike.

Absolute Taste is engaged in hospitality and event management business. It serves food to McLaren's customers and fans at formula one race. Absolute Taste also provides a catering service and hospitality to upper class customers around the world. They also organise events and serve various cuisines to cater its global customers (McLaren, 2013).

McLaren's Horizontal Diversification

The aforementioned diversification strategies of McLaren can be categorized as either related or un-related diversification strategies. Related diversification strategies can be further divided into three categories as horizontal, vertical and cross-sector diversification (Charles et. al, 2010). These related diversification strategies differ due to their different combination of industry similarity and value chain similarity (see fig 2). Horizontal diversification pertains to a business's venturing into a new field which uses the same value chain as its core business and falls within the same industry. Considering this definition, McLaren has not diversified horizontally as it has not acquired any other formula one racing teams.

Fig. 2

(Source: Charles et, al. 2010, p. 296)

McLaren's Vertical Diversification

Vertical diversification refers to a diversification initiative within the same industry, but one which uses a different value chain than that of the company's core business. (Charles et, al. 2010). McLaren diversified vertically through its automotive business as it operates within the same industry but has different customers and marketing channels. Likewise, McLaren's electronic systems and applied technology business can be termed as vertical diversification as it operates within the same (formula one racing) industry, but it requires a distinct value chain i. e. production, distribution and customer network (McLaren, 2013).

McLaren's Cross Sector Diversification

Cross sector diversification occurs refers to diversification within a different industry, but one which has a same value chain (Charles et, al. 2010).

McLaren's venturing into the catering, hospitality and event management business (Absolute Taste) can be classified as cross-sector diversification.

Absolute Taste share's the same value chain as McLaren's core business as it is an extension of the company's own marketing activities and thus uses the same managerial and other resources. However, Absolute Taste also operates in a complete different hospitality industry; a field completely different from car racing business. Similalry, McLaren's applied technologies can be termed as cross-sector diversification in that it also operates in other industries such as medicalscienceapart and sports (other than car racing).

McLaren's Unrelated Diversification

Unrelated diversification is referred to a firm's engagement in a completely un-related business (Charles et, al. 2010). McLaren, diversification strategies so far do not include any un-related diversification as the company achieves economies of scale and synergies through all of its diversification strategies.

McLaren has developed this portfolio of companies to boost the Group's reputation and to expand. The development of the production centre improved McLaren's chances of increasing economies of scale. By having so many of the McLaren companies being managed under the same roof, it allows each company to make the most of tangible and intangible resources and materials that wouldn't have been used otherwise (McLaren, 2013). The joint use of inputs means that different McLaren subsidiaries share the

transaction cost of machinery and other possible production costs for the vehicles that are produced.

Once the McLaren production centre was built, it meant that the internal process of vehicle production would change. Within the production centre research is continuously gathered on how to improve the general performance of McLaren's Racing and Automotive vehicles. As the car is built they can then send it off to be spray painted by hand within the same facility which not only saves time but reduces errors that may have been made on the paint work by machines.

Managerial ambition is the drive of many businesses. McLaren has a reputation to withhold as the ' forefront of British engineering' (McLaren, 2013). McLaren are always attempting to produce the best. By diversifying into so many subsidiaries it creates new targets for the groups as a whole. The diversification strategy allows the company to increase its business profile and spread risks accordingly.

McLaren's Diversification strategy as a Reflection of Historical Trends in Corporate Strategy

Throughout the midst of 20th century till the early 1990s, there were several dominant logics of strategic management. During 1950s, there was an emphasis on general management skills, along with widespread un-related diversification moves by corporates. It was followed by the prevalence of requiring specific management skills for different industries in the 1970s and 1980s. This was coincided with the requirement of portfolio planning. It was

not until 1990s, that the focus of management practitioners and academics was led to prevailing themes of core competencies and dominant management logic view to achieve synergies through growth and diversification strategies (Goold and Luchs, 1993).

During this time (i. e. 1990s) McLaren embarked upon its diversification initiative as part of its growth strategy. McLaren's growth strategy precisely coincided with the prevailing business view of achieving synergies through diversification. Once the new McLaren production centre was built it allowed McLaren Automotive to increase their daily production and enabled them to introduce new road cars such as the MP4-12C sports car. The production centre has not only boosted the production rates but has also got a production line which allows McLaren to test its vehicles (Fosters plus partners, 2013). The production centre is also connected to the McLaren technology centre which is ' connected by a subterranean walkway, lined with interactive exhibition spaces' (Fosters plus partners, 2013). This connection allows the technology centre to provide for the McLaren Automotive department by coming up with new McLaren electronic systems for their vehicles. With the production centre in place it allows the diversification of the McLaren industries to take advantage of the ability to share machinery. With the connection of the Production centre and the Technology centre it allows McLaren to develop new technology to be used by MES for McLaren Automotive and McLaren Racing to use in their formula one vehicle. To either improve the vehicle performance in some way or to generally improve the safety of the racing car. Absolute taste provides food for the McLaren racing team and other clients such as Mercedes-Benz at all

grand Prix races worldwide (McLaren, 2013). Igor Ansoff defined synergy as ‘Exploitation of similarities between different lines. Two plus two equals five’ (Ansoff, 1957). This analogy is saying that when similar industries combine such as McLaren Racing and McLaren Automotive it increases the production levels beyond the predicted rate. This synergy was improved greatly once McLaren has built the new Production centre. It allowed the McLaren group to all operate in the same vicinity roof which inevitably improves synergy amongst the different industries. All of each other’s resources are at the disposal of whoever wishes to use it.

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