

# The barriers of entry of some large industries marketing essay



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The overall strategy of Virgin is to penetrate new markets that enjoy strong growth in order to offer products or services. The goal is to compete with companies already present in the market by offering higher quality at a lower price and introducing new innovative products and concepts.

Branson's strategy aims to create value-added for products and services that they launch into a market in order to constantly reinforce the Virgin brand image and create authority and reputation. Indeed, the Virgin brand is an important and valuable asset for the conglomerate because it is based on values and not on a particular business sector (no core business). It is difficult for consumers to associate the brand to a particular product.

The Virgin Group has found a way to lower the barriers of entry of some large industries and sectors by developing and launching new offerings on mature markets where the leader companies were not taking care of their customers and were not innovating.

## **Decentralization**

The Virgin conglomerate is controlled mainly by Richard Branson and his financial partners. The managerial policy is carried out by decentralized decision-making and accountability of managers of each major activities of Virgin.

The purpose of the conglomerate is to create completely autonomous companies under one brand name " Virgin". This organization based on decentralization of powers and decisions brings about a greater accountability of managers, but also avoids the negative effects of bureaucracy and allows rapid and efficient decision-making.

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## **Diversification strategy**

Diversification is a mean of development that involves an expansion into new domains of activity and thus to acquire new skills and integrate them.

Diversification is realized through a new set of key success factors unique to one or more new domain of activity.

In order so select potential new domains of development, Virgin is interested in two criteria:

Potential of the market: is this sector of activity interesting? Is this sector growing?

Intensity of the competition: is there a lot of competition?

The strategy of Branson, which has proved to be effective, is to be in the right place at the right time. We cannot say that the performance of a firm depends only on external factors related to its environment. There are numerous other factors that allow a company to be more efficient than its competitors such as innovation, quality of product or service offered, price etc. Those are the main assets of Virgin to compete on new markets.

As a result, Virgin targets domain of activities where there are not many competitors that do not create enough value for their customers, either owing to inefficiency or excessive concern for competitors. Virgin targets different and various activities and generally succeeds in penetrating new markets with overconfident competitors that create a white space to provide products and services at lower prices with higher quality.

Certainly, the development strategy of Virgin is hazardous and risky.

However, they start new activities only if they are sure that those four conditions are satisfied:

The new market present good growth opportunity

Virgin would have the ability to challenge the authority of competitors by creating value added

Provide higher quality

Be innovative

The diversification strategy of Richard Branson has 3 dimensions

Horizontal diversification: the firm has various business activities in sectors that have little or no synergy. However, for conglomerate, even though there is no link between activities, there are still interesting synergies related to financial and management skills that the group will have on its operations.

Geographical diversification: Virgin expands globally, creating joint ventures and acquiring businesses around the world. As rules and distribution networks are specific to each country, factors of success are also different.

Investment diversification: Virgin tries to diversify its business portfolio. This allows in one hand, higher profitability through the sale and acquisition of subsidiaries according to opportunities, and secondly it reduces risk and frees up cash flow for potential investments.

The expansion doesn't benefit from any synergies; in fact it is a development through opportunities. Thus, there is a low involvement of the headquarter in the various activities and each activity is financially independent and isolated. However, we can note a dependence of each unit vis-à-vis the image of the Virgin Group. If a division damages the image of Virgin, others can suffer as well. In addition, the subsidiaries of the group share common values and a vision of long-term expansion.

## **Differentiation Strategy**

The diversification strategy of Virgin is built on the success of its differentiation strategy.

Strategies of differentiation usually form the competitive advantage of the company thanks to the specificities of its offer.

To enter new markets, Virgin usually uses its ability to offer new products or services with high added value and competitive prices. To do so, Virgin analyses offers of the competition on a specific market and then identify the flaw or the weakness that it can use to conquer the market. Deep market research and marketing surveys are conducted to help the group Virgin to identify consumer needs and expectations.

We can identify two differentiation strategies adopted by Virgin:

Differentiation through the value: Virgin aims to provide good-quality products which have features or components different from those offered by competitors and at lower price.

Differentiation through the image: advertising, branding, fame and authority of Richard Branson. Marketing is orienting consumer preferences.

## **Innovation**

The whole strategy of the conglomerate is built on innovation. Indeed, innovation is the main asset that allows Virgin to penetrate new markets and to meet the needs of customers dissatisfied. Also, innovation is a very effective way to undermine competitors and impress potential clients. This also contributes to strengthen the name and image of the brand “ Virgin”.

In terms of innovation with Virgin Galactic, Virgin was the first to launch space tourism.

## **Porter’s Value Chain**

### **To be completed**

Development Process at Virgin

## **Idea Generation**

Little is known about the actual idea generation or development process.

Unfortunately, neither Will Whitehorn, the president of Virgin Galactic, nor Sir Richard Branson, president of the whole Virgin group haven’t stated in any interview how they came about to target the space tourism industry as their newest venture. It is, however, probably not said too much that the idea of space travel fits well with the hugely diversified portfolio of the group, as well as with the culture of the whole company.

Although the company's fields of activity are widely spread and the identification of core competencies is difficult to impossible, three main fields of activities that the company pursues can be filtered out:

Travel

Entertainment

Lifestyle

Obviously, the undertaking of Virgin Galactic fits best into the first category and integrates itself into a long list of other travel related businesses.

Neither of their other business however is quite as 'flashy' or 'sexy' as this. Such a status comes mainly from the novelty and highest exclusiveness that space travel represents. And so, it is also - to a lesser extent - integrated into the other two fields of business, namely entertainment (in the sense of providing the general masses something to dream of) and lifestyle (in the sense of actually catering to the most prominent members of society).

The group has - not including Virgin Galactic - alone ten major brands (discounting smaller or similar brands) which shows clearly how interconnected this topic is within the large Virgin Group. Travel is one of their strengths so it is not at all surprising that they choose to expand in this direction.

Another factor I mentioned above deals with the culture of the company. To understand the culture, one has to know that it was largely shaped (and still is today) by its founder and president, Sir Richard Branson.

“ My interest in life comes from setting myself huge, apparently unachievable challenges and trying to rise above them... from the perspective of wanting to live life to the full, I felt that I had to attempt it.”

Sir Richard Branson (1998), *Losing My Virginity*

Richard Branson is known the world over as a very successful businessman who has founded and still leads his conglomerate of over 300 companies under the heading of the Virgin Group. Moreover, and way more interesting in regard to the culture of his companies is his personality and the challenges he sets himself outside the business area. He is known as being very adventurous, daring, and open to all new and fascinating things. His above quoted statement underlines that he tries to live life to the fullest and does not shy away from a challenge or an opportunity. This attitude has transferred over in the corporate culture of his companies. Furthermore, he oftentimes tries to realize his personal challenges through the use of a new business venture.

This is where Virgin Galactic comes into play. It is a daring endeavor; to show that it is possible for a private company to enter space commercially after space having been ‘ controlled’ for so many years by governments only. The sky and beyond is something that has ensnared people for quite some time and Sir Richard, as he likes to be called, is no exception. He is, however, indeed an exception as he has the money, the competencies, and especially the willpower to create a (hopefully) successful business endeavor out of this.



## **R&D Process**

The actual R&D as well as the construction of the carrier airplanes as well as the shuttles is not carried out by Virgin Galactic itself. For the construction and manufacturing process, a joint venture was formed by Burt Rutan and Richard Branson in 2005. Burt Rutan is an American space and aircraft engineer who has been lauded for his efficient designs and is currently the head of Scaled Composites. This new company is – simplistically – called ‘The Spaceship Company’ (TSC). It is jointly owned by Virgin Group and Scaled Composites, an aeronautic development company. TSC will own all the technology that has been developed for this project for potential future marketing. The first customer of the company will – unsurprisingly – be Virgin Galactic, having placed an order for five SpaceShipTwos and two WhiteKnightTwos. Virgin Galactic has the “ exclusive use of the systems for the initial 18 months of commercial passenger operations”.

The aforementioned company ‘ Scaled Composites’ is the one that actually designs the whole carrier and spaceship systems. They are responsible for the research and development of new technologies to utilize for the Virgin Galactic operation. The company has extensive experience in the creation and development of aircraft as well as some experience when it comes to rockets and space reentry vehicles. Mostly, however, the company has concentrated in the past on developing specialized aircraft for special uses, e. g. in the agricultural business. It seems as if Virgin Galactic has found an able and also enthusiastic partner to develop not only their first, but also the current second generation of SpaceShips. It is furthermore rumored that the

Scaled Composites is already working on a third version of the WhiteKnight carrier aircraft as well as working on the SpaceShip3.

External Analysis of Virgin Galactic

## **Porter's Five Forces of Competition Framework**

The Porter's Five Forces analysis was conducted in order to identify structural variables influencing competition and profitability in the commercial space tourism industry. It aimed to determine what business type Virgin Galactic is about to enter. As this is relatively new industry, still in the phase of forming, Virgin Galactic will have also an opportunity to shape this industry to some extent as the first market entrant.

## **Market Definition**

Commercial Space Tourism is a new subsector of the space tourism industry. It gives the opportunity to allow many ordinary people, who don't necessary have any space of flying practice, to experience space and non-gravity feeling. To this date, less than 500 people have experienced space travel, but almost without exception they were all the participants of the governmental scientific expeditions. Commercial space tourism is aiming to bring this experience to a far higher participants number than ever before.

## **Analysis**

The sector of space tourism looks promising but also very demanding for the potential business. To get into this industry a heavy investments and capital is required and not only in monetary terms, but also in terms of knowledge and experience in the aviation/space industry. The costs of the tourist space

program are very high – Virgin Galactic expects that the beginning a space tourism program will cost \$100 million as an initial investment, later more costs will be added up related to maintenance of the spacecrafts and infrastructure etc. Virgin is the first company whose spacecraft was developed by a wholly private company (a joint venture between Paul Allen and aviation companies), other existing spaceships were supported by governmental funding.

Also the know-how is important, and companies without experience and highly educated and skilled people cannot simply access this new market. Another issue is the fact that very soon some legislation changes are expected, which will probably further limit the potential market entrants.

## **The Porter's Five Forces Matrix**

### **Threat of New Entry – EXTEREMLY HIGH**

Very expensive to enter the industry – high capital requirements

Extremely high technological barriers to enter the industry

Experience and knowledge needed and training very difficult available

Highly developed and very costly infrastructure needed

Economies of scale

Possible legislation barriers soon

### **Supplier Power – HIGH**

Very limited number of suppliers for the aircraft

Large suppliers

Limited ability to change the supplier

Unique products – Aircrafts offered by various suppliers are not the same

Locked in to one supplier effect – very high switching costs

Low ability to substitute

### **Competitive Rivalry – LOW**

Very few competitors in the pipe – low concentration

Relatively small size of competitors comparing to BG

High costs of leaving market, high exit barriers

Low differentiation of services offered by various companies

No big diversity of competitors

### **Threat of Substitution – NONEXISTING/**

No substitution to the service of commercial space tourism possible

### **Buyer Power – MEDIUM**

At the moment – no substitution for VG services

Substitution for VG will be possible soon which will change the current situation

Easy to substitute by experiencing the space with other space travelling company

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Low price sensitivity

Buyer willingness - unknown

Low cost of switching (One time orders mostly)

Low customer loyalty

Very low buyers volume

The positive side of having the money invested in the commercial space tourism is the fact that any other substitution to this service is practically not available. Currently, the only way to buy a trip into space is to pay for a seat on the Russian Soyuz launcher. Tickets purchased through Space Adventures cost more than \$20m and take the client to the International Space Station for a short holiday. However this program is individually tailored and can hardly be called commercial due to the extremely high costs and long time of preparation for the trip, plus in most cases the person is required to do some scientific researches. There are also some governmental programs, but the ordinary people cannot take part in them or simply book their tickets via the phone or Internet. To sum up - this service is totally new and unique and there is at this moment any substitute that could help every person to experience non-gravity state and see the Earth from the space.

Supplier Power is estimated to be high as there are not many producers of the super hi-tech spacecrafts. Virgin solved this problem by establishing its own joint venture with the aviation companies, but many other companies that are trying to enter this market have to cooperate with the governmental agencies, like NASA, in order to have their spacecrafts developed. There are <https://assignbuster.com/the-barriers-of-entry-of-some-large-industries-marketing-essay/>

not many producers that the space tourism company can cooperate with, the companies that are dealing with that are large (Boeing, Russian company – Energiya etc) and the products they offer are very unique, so that makes it harder to change the supplier. That makes the suppliers strong in the terms of their power regarding the space tourism industry.

Buyer power is assessed as medium. The price sensitivity of potential customers is not very high – people who are willing to pay around \$200, 000 for 15 minute experience in the space rather will be focused on having the most rewarding experience and will not be so price sensitive. Also the buyers switching cost in most cases are not related to this industry, as in most of the cases the space travel will be a very short, but also very expensive one-in-the-lifetime experience. This may change later, when the industry will get into the mature phase and it will be common to travel more than once a life. A dark side of this part is the very low buyers' volume, so every potential customer will be very important for the company in this sector. A bright side for VG at this moment is the fact, that at this moment there are not other companies who are sending people to space on the regular basis, so there is not substitution for their services.

Industry Rivalry is low, as there are only very few competitors who are ready to start their operation soon. Also Virgin is the largest private company on the market and the sector is not very diversified. Another factor are the very high potential exit barriers, that are mainly connected with the utilization of the used spacecraft, infrastructure etc.

To conclude, the space tourism sector is still in statu nascendi, but it looks like a highly demanding industry only for the companies that will be able to join together the highest technology and the most rewarding experience. At this moment this is typical monopoly – where one company, Virgin Galactic took over the slowly forming market, but it can be expected that it will be soon developed into the oligopoly and the industry will be dominated by the small number of major companies.

## **PEST, Business Environment Analysis**

Pest analysis was conducted in order to identify the macro-environmental factors that impact on the space tourism industry and in the same time will affect on the Virgin Galactic's business.

### **Political Factors**

The cold war was facilitating the space exploration by many years. At this moment one of the main factors of developing the space technology is money orientation. Private companies together with the governmental agencies are working in close cooperation in order to design new solutions for the satellites or space transport. This cooperation of the private firms with the governmental bodies and organizations (US, European, Chinese, Russian) can have a great impact on the future of the commercial space travelling, mainly because of the access to the new technological development and possibilities to share risk and costs of Research and Development.

Another very important factor that may impact the space tourism industry is the legislation. At this moment there is no clear international or local rules

that would regulate the space tourism industry. However some early signs of changes in the situation can be already observed. In the end of 2005, the US Government has announced a set of proposed regulations for space tourism, which included screening procedures and training for emergency situations but didn't mention any health requirements. These regulations are still in the process of design and currently any of the countries have introduced any specific rules that would regulate this industry. However this will be the issue that sooner or later will be dealt with by the national and international decisive bodies and which can impact the industry to a great degree.

## **Economic**

The current economic factor that is impacting on the space travelling industry is the economical slowdown and recession. US has already cut their expenditure for the NASA and many companies interested in entering the market of space travels (for example Amazon, Paypal etc) will have to postpone its plans of expansion and cut the investments for the R&D in order to save money and fight with the lower consumption of their clients. Also obtaining the credit for further development can be more difficult as banks and governmental organizations may be less willing to borrow money.

Economic crisis can also take its toll on the number of potential clients - at the times of the recession and financial instability many interested clients will postpone for later or resign from experiencing the space and consider this as an unnecessary spending.

Also the oil and oil prices can affect the space tourism industry as the spaceflights are dependable on the oil as the fuel. In this sense this is a very



sensitive industry, as without huge amounts of oil this business simply cannot function, so international crisis, wars and all other factors that are impacting the prices of oil will have an indirect effect on the space tourism industry as well.

## **Social**

At this moment, as space tourism is a relatively new sector with the non-constituted market yet, it's very difficult to assess what will be the real interest in this service. However tourism has been developing steadily and successfully over the past 50 years. The industry accounts for a high percentage of the annual GDP in many countries and represents one of the most important and fastest growing sectors on the world. The number of British and Irish visitors keeps growing. Also the face of tourism has changed during the last 50 years – people are travelling more and more far away from their home location. The reason for that is growing transport and tourist infrastructure but also the wish to explore other parts of the world. These changing travel habits of people have very wide implications for the space tourism.

Another point is the fact that the potential market for space tourism and its development depends not only on the number of people who are willing to travel to space and who have also the money to do so but also on the physical and mental ability for space travel of the interested people. The principle health requirements for space tourists in terms of fitness and age will have to be taken under the consideration by the companies while building up their fleet, infrastructure and new space programs for their clients.

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## **Technological**

Technology seems to be one of the most important, if not the most crucial, factor that affects the space tourism industry. Research and Development in every company within this sector should be focused on delivering the new solutions that would make the space travelling more cost effective, so even a small upgrade can bring a huge difference for the business. For example Virgin has implemented an innovative fuel saving system, that helps not only to use less fuel but also is more environmentally friendly (the carbon footprint for each customer flying to the space is estimated to be the same as one way flight from the US to Europe). The fuels and energy saving technologies are very important in relations to the problems of the natural resources' scarcity. Also it can improve the revenue by cutting down the big part of the expenditures.

It is worth also to mention the possibilities of the various forms of cooperation between various organizations, both governmental and nongovernmental. Virgin Galactic has established a successful joint venture with other aviation and hi-tech companies in order to create a spaceship that is technologically advanced in comparison to existing once. This is an example of the successful cooperation between the companies on the R&D field.

### Future of Virgin Galactic

It remains to be seen if the concept of Virgin Galactic adds up over time. They are off to a promising start, but whether the market is big enough to recover the huge initial investments is difficult to gauge at this point in time.

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As long as the technology does not evolve rapidly to, for example, provide much better energy efficiency, the price is likely to stay in the same region it is now. Should it, however, come down then we could be looking at a new mode of transportation in the future. Obviously, the technology is going to stay costly, so even a reduction by 50%, although more than significant, would still exclude most of the world population. Nevertheless, such a reduction could create enough incentives for sufficiently wealthy people to view the undertaking of Virgin Galactic as something else than a once in a lifetime experience. It could in fact become an extraordinary quick method of travel. The inherent time savings that could be utilized are staggering.

A very important part of not only this potential future strategy, but also today's marketing efforts is, however, the availability of start and landing bases throughout the world. As of now, the only start, as well as landing, base is located in the Mojave Desert in California, USA. The craft has a very limited cross-range capability and until other planned spaceports are built worldwide, it has to land in the area where it started. Further "Spaceports" are planned in Dubai and elsewhere, with the intention that the "spaceline" will have a worldwide availability and commodity in the future.