
Strategic Choices for Newly Opened Markets

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Harvard Business Review

Reprint 90502

HBR

SEPTEMBER-OCTOBER 1990

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As 1992 approaches, markets are opening not just in Western Europe but throughout the world. In Eastern Europe, Asia, and North America, trade walls that have stood for decades are beginning to crumble in the face of political unrest and technological innovation. In anticipation of these changes, a do-or-die atmosphere is driving many European, Japanese, and U.S. companies to become broad-based competitors. And in the deal-oriented atmosphere that has ensued, aggressive competitors are often forced to make critical decisions fast on whether and how to expand into uncharted terrain.

Fortunately, a valuable map is available: U.S. companies' experience with deregulation over the past ten years. That experience shows clearly the pattern of competitive dynamics that unfolds when artificial constraints are suddenly lifted and new entrants are allowed to rush in. Consequently, it provides useful lessons not only for markets opening because of regulatory changes but also for markets such as telecommunications, semiconductors, and autos, which are becoming global in response to technological or other discontinuities.

Perhaps the most important of these lessons has to do with time. The U.S. companies' experience shows that managers who look only to the years immediately surrounding 1992—or any other market opening—will make irreparable mistakes. Because the competitive environment changes twice—once

when the market opens and again about five years later—a ten-year roadmap is essential.

This road map will direct many large competitors away from their traditional roles as broad-line players into new, more profitable roles as low-cost entrants, focused-segment marketers, or providers of shared utilities. And for many, the map will include significant changes in course, since the actions required to survive in the early years of a market's opening are not the same as those that bring success in the second phase of open-market competition.

These lessons derive from a year-long study of the managerial implications of deregulation in U.S. airlines, financial services, long-distance telephone service, central-office switching, trucking, and railroads. The first part of this study involved a detailed assessment of the dynamics in each industry from its deregulation to the present (including an analysis of structural costs, industry cost curves, industry profitability, new entries, and exits). In the second part, my colleagues and I examined the management strategies of profitable and unprofitable companies to

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Author's note: I thank my colleague David Ernst for his contribution to this article.

uncover common patterns. (The strategic choices we considered included pricing, breadth of product or service offerings, cost-reduction activities, and marketing strategies.)

In some ways, the opening of Europe and other global markets may be even more traumatic than U.S. deregulation. New entrants will not only be fledgling companies like People Express but also powerful organizations like American Airlines and Deutsche Bank. Given histories of local protection and the large number of strong across-the-board players that are planning to build beyond their national franchises, the competition (especially among global companies) may be far more painful than it was in the United States, where deregulation was largely a domestic event. The fact that major Japanese companies are planning investments that will meet local-content requirements—often at lower cost than existing European facilities—leads to that conclusion. So does the wave of cross-border merger and acquisition activity that has already begun, allowing less time for managers to think through their long-term game plans. Indeed, the strong alliances that are already forming across Europe suggest that the competitive situation may soon be dominated by powerful, broad-based competitors holding a series of local oligopolies and making new entry extremely difficult and costly.

Despite the differences, the U.S. experience with deregulation shows how the opening of once restricted markets leads to a new competitive world. Whether the market is in Canada, Eastern Europe, Asia, or the European Community matters less than the competitive dynamic its opening unleashes. And in that competitive dynamic, undifferentiated size matters less than the strategic choices thoughtful managers make.

THE COMPETITIVE DYNAMICS OF DEREGULATION

Deregulation in the United States began in 1975, when the SEC abolished fixed rates for U.S. securities brokers. Before long, other industries were coping with deregulation as well: airlines in 1978, trucking and railroads in 1980, banking and telecommunications at intervals throughout the 1980s. In every instance, we can see the same set of competitive dynamics play itself out.

□ While the number of new entrants can be staggering, nearly all soon fail—along with many large existing competitors. No fewer than 215 new air carriers entered the market in the ten years following deregulation, compared with no new FAA-certified carriers in the preceding 40 years. But fewer than one-third of the new entrants and fewer than half

(44%) of the existing competitors survived those ten years as independent entities. Arguably, only two of the new carriers (Midway Airlines and America West Airlines) have distinctive strong franchises today (and even Midway is suffering financially as a result of recent expansion beyond its Chicago hub). In trucking the story was much the same. From a steady level of 17,000 truckers in the 1960s and 1970s, the number of competitors rose to over 37,000 in 1987. At the same time, more than 72 companies, accounting for over \$2 billion or 16% of industry revenues, shut down between 1980 and 1982 alone.

□ Industry profitability deteriorates rapidly as new entrants shatter pricing for all competitors for at least five years. The surprise is not entrants' starkly lower costs. (On average these were 40% to 50% below competitors' chiefly because the new companies carried less baggage such as seniority agreements, outmoded factories, and expensive distribution systems.) The surprise is new entrants' ability to destroy market pricing for everyone, even if they take only 10% to 15% of total market share. In the securities industry, for example, discount brokers captured less than 20% of consumer volume, but they forced a 30% reduction in market prices. Prices in the central-office and PBX-switching markets fell by 40% to 50%, yet low-cost entrants captured no more than 25% of the total market share.

□ The most attractive business segments often become the least attractive—and vice versa—as competitors all flock to the same markets and cross-subsidies unwind. In telecommunications, prices on the previously most profitable business, long-distance service, dropped 38% between 1984 and 1988, while prices on local service rose 43%. In airlines, prices on high-density, longer haul routes (like the Chicago to New York corridor) fell by 42%, while prices on previously less profitable, short-haul secondary routes climbed sharply. In the retail brokerage business, prices on institutional transactions dropped 30% on average in the year after deregulation, while prices on consumer transactions fell only 4%. In short, what appear to be less attractive strategies before deregulation often pay off after deregulation as savvy competitors avoid the rush of new entrants and anticipate the large price changes (both up and down) that soon occur.

□ Variation in profitability between the best and worst performers widens dramatically and remains high. In time, the spread reflects the strongest companies' ability to gain on weaker competitors by rebuilding their franchises. From 1984 to 1988, for example, American Airlines earned \$1.5 billion while Pan Am lost over \$950 million. (As a benchmark, the nine largest carriers had aggregate profits of approximately \$3.5 billion during this period.) But during the

first five or so years, the variation occurs because the weak get weaker, not because the strong become more profitable. In the first three years after deregulation, for example, the least profitable railroads suffered massive losses (on the order of returns of negative 10% to 50%) after just about breaking even in the previous five years.

□ Merger and acquisition activity often occurs in compressed waves that are driven by the demonstration effect of other acquisitions and by pressure to keep up with rivals that are doubling in size and/or scope. The first wave focuses on consolidating weak players, the second wave on combining the strong. In the brokerage industry, second-tier firms (numbers 11 to 25 in market share) grew rapidly in the three years surrounding deregulation by acquiring weaker competitors. But after raising its market share from 14% to 26%, this group began to lose ground before a second wave of acquisitions among the industry's largest firms.

□ Only a small number of companies (no more than five to seven in the industries we examined) can remain broad-based competitors. Most are forced to narrow their product range and spin off noncore activities to survive. The reasons are mostly financial: at the same time that profits are falling and cross-subsidies are unwinding, the cost of competing in each segment shoots up as new entrants increase competitive pressure and force established companies to invest heavily to improve productivity, research and development, marketing, and customer service. Given these pressures, many companies choose—or find it necessary—to focus on core activities in which they have strong skills and a competitive advantage.

The result is much greater segmentation within the industry, with each segment requiring its own set of skills and a distinctive business system. The trucking industry, for example, now consists of integrated less-than-truckload shippers, stand-alone, full-load carriers offering no consolidation services, and truck lessors. In brokerage, competitors have emerged to create related but distinct businesses in research, trading, and retail distribution.

STRATEGIES FOR SURVIVAL, STRATEGIES FOR SUCCESS

Looking back on ten years of deregulation, four distinct types of companies were able to survive and build profitable, sustainable market positions. They are: broad-based distribution companies that offer a wide range of products and services over an extensive geographic area; low-cost entrants that migrated over time to become specialty or customer segment-focused providers; focused-segment marketers that

emphasize high levels of service at relatively high prices or target a very specific, defensible customer group; and shared utilities that focus on making economies of scale available to a large number of small competitors.

Except for some high-end marketers, successful companies in each of these categories pursued very different strategies in the first few years of deregulation than they did thereafter. Why the change in course? Changes in industry structure—and the innovations and initiative of sharp-witted managers.

In all the industries we studied, the early years of deregulation were characterized by shakeouts, restructuring, and the consolidation of position among survivors. During this period, flexibility (especially pricing flexibility) is the key to survival. Then the competitive situation changes. After five years of intense competition, the strain on industry performance has forced many of the weaker companies to exit. Larger companies have figured out how to offer low-cost products and services to compete with new rivals. The price gap between new entrants and existing companies has also diminished as the latter's cost-cutting efforts take effect. The result: new entries decline, the industry consolidates, and competition shifts away from purely price-based behavior. In this second phase, which is continuing in many industries today, leading companies move to build new oligopolies that can be every bit as powerful as those eliminated by deregulation. (The exhibit, "After Deregulation, Strategies Change," summarizes the key strategic choices these companies made.)

Broad-based distribution companies are deregulation's equivalent of large, multinational organizations. As a rule, more companies seek this role than are able to play it. Following deposit deregulation in 1981, for example, an informal survey of executives at the nation's largest banks showed that nearly all expected to be broad-based competitors ten years after deregulation. Yet, of necessity, most of the group moved away from broad-based competition throughout the 1980s, shedding overseas operations and, in several cases, selling consumer operations such as mortgage and credit card processing.

Broad-based competitors that did succeed understood their pricing in detail and were able to eliminate cross-subsidies and disaggregate pricing if competition demanded it. Equally important, they conserved resources and were willing to bide their time in moving to dominate their markets. Early critical actions for companies seeking this role include the following.

1. Improve pricing capability. Effective competitors assess the price sensitivity and underlying costs of serving specific customer segments and adjust pricing to protect these segments from new low-cost

After Deregulation, Strategies Change

	Broad-Based Distribution Company	Low-Cost New Entrant	Focused-Segment Marketer	Shared Utility
Key Actions Early On	<ul style="list-style-type: none"> ■ Cut costs ■ Differentiate service ■ Improve pricing capabilities ■ Increase marketing, product development ■ Don't overcommit early 	<ul style="list-style-type: none"> ■ Target the most profitable segments ■ Eliminate structural costs ■ Focus on price-sensitive customers and price-oriented advertising ■ Outsource to limit the scope of operations ■ Don't grow too fast 	<ul style="list-style-type: none"> ■ Target nonprice-sensitive segments ■ Bundle products ■ Develop customer information systems ■ Build personal relationships 	<ul style="list-style-type: none"> ■ Identify separable, scale-intensive functions ■ Sign up development partners to share costs, provide inputs ■ Build a core set of clients
Five Years Later . . .	<ul style="list-style-type: none"> ■ Develop new oligopolies ■ Use detailed pricing as a strategic weapon ■ Preempt competitors via strategic alliances 	<ul style="list-style-type: none"> ■ Move up the service-price ladder ■ Identify new niches ■ Maintain cost advantages ■ Avoid competing in the core markets of broad-based competitors 	<ul style="list-style-type: none"> ■ Continue to emphasize early actions ■ Selectively expand into related segments ■ Improve customer service ■ Expand product features to support price 	<ul style="list-style-type: none"> ■ Become the industry standard by building share ■ Ensure participation and use by industry players, often by selling minority interests ■ Move to a high-service, high-price position while increasing customer dependence on the shared utility
Examples	American Airlines Merrill Lynch	Midway Airlines Charles Schwab	Hambrecht & Quist Northern Trust Goldman, Sachs	SABRE SWIFT Telerate Reuters

players. AT&T's price reductions for high-volume business customers reflected its recognition that these relationships were endangered by MCI's and Sprint's targeted marketing efforts. American Airlines became a leader in yield management by hiring a staff of over 100 people to manage the mix of seats and fares. While making it hard for business travelers to take advantage of cut-rate fares, American also moved to gain their loyalty by introducing the frequent flyer program.

2. Cut structural costs. In no instance could established broad-based companies reduce their costs to match those of low-cost entrants. But they could and did cut costs substantially. AT&T's employment has dropped roughly 20% since divestiture. American Airlines was among the first to introduce a two-tier

wage structure, paying new pilots, flight attendants, and mechanics up to 50% less than industry averages.

3. Shift quickly toward new ways of differentiating service. U.S. Sprint aggressively installed digital fiber networks to provide high-quality service between major cities. Yellow Freight System improved its ability to consolidate less-than-truckload shipments by expanding from 248 trucking terminals in 1980 to 440 terminals in 1982. Federal Express introduced a computerized bar code system to track packages.

4. Conserve capital to maintain flexibility. The most costly mistake broad-based competitors made was overcommitting capital through acquisitions, major equipment purchases, or entry into new markets, leaving themselves too thin a cushion to weather the profit storm. IU International, for exam-

ple, expanded rapidly in the less-than-truckload business by acquiring Ryder and Pacific Intermountain Express. After losing over \$125 million in two years trying to build a national carrier, the business was divested.

United hurt its competitive position in airlines by its costly acquisitions of Hertz and Westin. These nonairline holdings were sold in 1987, but by then American had been able to outpace United's growth in revenue passenger miles due in part to this diversion. In contrast to United's capital-consuming acquisitions, American grew mostly from within, conserving its cash to build existing businesses and using affiliations rather than acquisitions to extend its reach.

The key point is that during the profit squeeze that follows deregulation, capital markets often close for new funding because of low industry profitability. As a result, capital becomes scarce in deregulating industries, and conserving capital during the early years is essential for survival. This is less true later on, however, when a different set of strategic choices becomes critical for success. Of these, the most important is identifying new ways to increase market clout and to develop new local oligopolies.

At first, as we have seen, low-cost entrants and focused-segment marketers threaten existing broad-line players, and many giants topple as they fail to react quickly enough. But it is crucial not to underestimate the power of large competitors over time to make big better again. In the deregulated airline industry, the use of hub control, computerized yield-management systems, and frequent flyer programs have been powerful tools for competitors to regain clout and pricing power. The top eight airlines now control 92% of revenue passenger miles compared with 80% before deregulation. (By 1988, American alone accounted for about 20% of the airline industry's market value compared with approximately 7% in 1978.) Local oligopolies are also apparent at many major hubs: in St. Louis, TWA controlled 82% of the traffic in 1988 compared with 43% in 1979. The same year, USAir controlled 36 of Pittsburgh's 51 gates and held an 85% market share compared with 48% in 1979. By 1990, United and American represented 80% of the flights from Chicago's O'Hare.

The reemergence of oligopolies is also evident in the securities industry, where the top 25 firms increased their share of capital to 63% in 1985 compared with 51% in 1980 and 43% on "May Day" in 1975. At the same time, these firms made deep pockets more important by escalating the role of risk capital in securities trading and mergers and acquisitions. In trucking, the top ten less-than-truckload carriers held a 50% market share in 1987 compared with 35% in 1980, enabling them to gain economies

of scale by leveraging their spending on freight terminals and information systems.

In rebuilding market power, finely detailed pricing capabilities continue to play a critical role. Pricing can be used defensively, to protect profits by discouraging competitors who enter home turf, and offensively, to maximize profitability from uncontested markets. In airlines, this kind of capability makes the chances of a new entrant modeled on People Express virtually nil. By 1981, the 600,000 fares incorporated in American's computer system in 1977 had risen to 1.6 million, allowing it to meet low prices for selected routes and passenger segments without endangering its broad revenue base. Similarly, truckers filed over 1.2 million tariffs in 1987 compared with an average of 185,000 independent tariffs per year in the early 1980s.

Low-cost new entrants were the catalyst for the competitive battles that followed deregulation. But successful entrants almost always migrated relatively quickly to specialty or segment-focused competition rather than pursue a pure low-cost strategy. Among the reasons for changing strategy were the reactions of existing competitors, the appearance of "faster guns" with even lower cost structures, and the slow-but-steady rise of the companies' own structural costs.

As we have seen, low-cost entrants compete with cost structures that are fundamentally different from those of existing competitors. They have lower wage schedules, more flexible employment arrangements, and often no unions. Simpler manufacturing and distribution systems eliminate many costs of complexity. Low-cost entrants streamline their businesses and leave decisions to line managers supported by little or no staff. They also tend to outsource products and supplies. Discount brokers let clearing agents handle many of their transactions, for example, rather than build their own internal systems. Similarly, low-cost airlines avoided building computer systems, leased gates, and paid other carriers to handle their maintenance. Over time, of course, new entrants begin to develop their own structural costs as employees become more senior and facilities age. But successful players in deregulated industries continue to control expenses tightly, even when they are no longer competing on price alone.

Other critical choices that low-cost entrants make early on are to target the most profitable segments of a business—those that are cross-subsidizing other segments—and to focus on price and price advertising. In their early years, low-cost entrants are no-frills suppliers. They do not offer service, just rock-bottom price. In addition, they manage their growth. People Express failed in part because it expanded too quickly, consuming capital that was needed later to support

price competition. By the end of 1985, less than five years after its founding, People Express had grown to 3,400 employees and 78 planes with enough seats to rank as the ninth largest airline in the United States. Capacity doubled in 1984 alone, and the acquisitions continued in 1985 and 1986. Yet by the end of 1984, earlier profits had already given way to red ink as the airline was unable to fill its seats even at loss-leader fares.

The most dangerous mistake low-cost entrants can make is to take on broad-based competitors in their sensitive core markets where their larger rivals will use all their resources to defend their turfs. Most new entrants are bruised severely when the giants react, and all but a few fail. Midway Airlines's recent attempt to enter the Milwaukee-Chicago market illustrates the power of pricing against new entrants. On Monday, May 1, 1989, Midway began offering jet service from Milwaukee to its own hub at Midway Airport in Chicago. On Thursday, June 8, Midway cut its Milwaukee fares to increase its passenger loads. But Milwaukee is a hub for Northwest Airlines. By Tuesday, June 13, Northwest had not only matched Midway's fares but also cut *all* its fares on flights to and from Midway. By Friday, June 16, Midway was forced to cut back its promotion in Milwaukee to restore its pricing in Chicago.

Longer term, the key to survival for low-cost players lies in finding a viable migration route to a position as a broad-based competitor (as MCI has done) or a focused-segment provider. Identifying new niches can play a part in this migration. Midway Airlines is now the third largest carrier in Chicago. While initially it concentrated on price, today it emphasizes service, especially the convenience of near-to-downtown Midway Airport. The company's strategy has migrated away from pure low cost to a price-value trade-off that features convenience. Yet its market clout reaches just so far: recent efforts to expand to a second hub in Philadelphia have met with tough responses from the majors.

Implicit in this migration, of course, is movement up the service-price ladder. While maintaining acceptable prices, Charles Schwab now offers a range of money market and mutual funds, retirement accounts, and CDs as well as customer help lines and quotation services that increase cost but still offer a reasonable price-value trade-off. U.S. Sprint features the superior quality of fiber-optic lines. MCI has systematically built skills in new product areas like "800" lines and international service, while marketing heavily to profitable corporate customers and keeping a tight hold on headquarters expense.

Migration is difficult, however, and many companies fail as their consumer image becomes blurred. Continental Airlines seems to be caught in this di-

lemma as it tries to change its image from a cut-rate provider to a full-service airline oriented toward business travelers. Since many passengers still see the airline as a low-cost option, Continental is finding that it must offer special (and costly) incentives to lure business trade.

Focused-segment marketers target a specific set of customers or products, emphasizing service levels that are unavailable elsewhere at relatively high prices. Because success in pursuing this strategy largely depends on identifying the right niche and building strong personal relationships, many companies do not need to shift direction five years out. They can continue to develop initiatives that are effective early on.

In general, the closer the personal relationship in the sales channel between the customer and the provider, the less price sensitive the customer (and segment) is likely to be. Once these customers have been identified, segment marketers often develop a broad range of products for the customer group and encourage cross-selling. Bundling products and increasing product complexity help segment marketers by reducing price sensitivity and by creating opportunities to deepen personal relationships. Sales of corporate banking services to middle-market customers by regional banks are a good example of such product bundling.

Successful focused-segment marketers also develop customer information systems with an emphasis on databases and customer profitability levels. The relationship databases used by regional banks for upscale accounts, the customer files that make frequent flyer programs possible, and Merrill Lynch's Cash Management Account for its securities customers are all good examples of such systems.

Other essential pieces of this strategy include: (1) selectively expanding beyond existing segments into closely related segments or markets, as many regional banks have done in rolling up local community banks; (2) identifying new approaches and ways to measure service performance such as turnaround time, reprocess time, and error logs; and (3) developing new product features such as the extended product guarantees, car rental insurance, and high credit limits that now come with costly credit cards to support a premium price. In every instance, the intent is the same: to lock in attractive customers through product attributes and customized service.

Shared utilities are the last—and newest—of the strategic groups that emerged from deregulation. Shared utilities offer new entrants and other competitors the advantages of scale by sharing costs across many companies. They are usually created as competitive pressures generate demand for new information, services, or inputs that cannot be met by small,

individual companies. Relatively few places for shared utilities exist in each industry. But for those companies that can identify and capitalize on an opportunity, the strategy is most attractive.

Ironically, in the years immediately following deregulation, many observers predicted that only a few large companies would survive in each industry. But these observers never imagined the growth of shared utilities that would make many of the advantages of size available to everyone. Telerate, for example, provides government bond and foreign exchange quotations and financial market news instantly around the world from its home in New York, thereby making it possible for small- and medium-size traders to have many of the information advantages that come from scale. Telerate's average return on equity between 1985 and 1988 was more than 20%.

Similarly, Centex Telemanagement, a telecommunications remarketer in California, is now one of Pacific Bell's top customers. The company purchases telephone time in large blocks and resells it to smaller companies at attractive rates.

The first step for a would-be shared utility is to identify discrete functions with heavy fixed costs that cannot easily be developed in-house by new or small competitors. Computer expenses are often the basis for a shared utility like Dallas-based Hogan Systems, which provides systems support for small- and medium-size commercial banks.

Next comes signing up development partners to help build the utility by sharing costs or contributing proprietary information. Most deregulation-inspired shared utilities had such partners in their early years. Telerate shared development with a U.S. primary securities dealer, in part to get access to real-time trading information. Globex, the new utility for off-hours futures and options trading, has links with Reuters, the Chicago Mercantile Exchange, and the Chicago Board of Trade. Equally critical is building a set of core clients among the utility's largest users and working to ensure their loyalty through superior service. Telerate's early penetration of major trading rooms was a key to its later success.

As the service gains momentum, making sure that it becomes the industry standard is crucial. For many utilities, that means growing fast enough to meet the demands of customers and build a large installed base. Even though many customers initially had complaints about Telerate's service, it became the industry standard because it could handle extremely rapid growth in the number of terminals, information sources, and customers it had outstanding.

Unhappily for most competitors, shared utilities are natural monopolies. So while they offer attractive opportunities during the first phase of open-market activity, eventually less effective producers are

driven out of business by the scale required for satisfactory performance. Those that are largest, with the greatest ability to spread costs across a broad base, survive. The rest do not. This shakeout is now occurring in airline computer reservation systems. It is also taking place in global rating of debt securities, where the strength of Moody's and Standard & Poor's has made it hard for European-based and Asian-based entrants to prosper.

Because they dominate their markets, shared utilities have great pricing flexibility and often generate extraordinary returns. As a result, they can easily become the target of envy, prompting powerful customers to consider creating a rival. In fact, a consortium of securities firms and investment banks has recently been discussing the possibility of creating a new shared utility to compete with Telerate and Reuters in the market for U.S. government securities pricing information.

To avoid encouraging rivals and to support their revenue base, utilities often move to supply high levels of customer service and personal contact in exchange for their high price. They also seek to lock in their product or service: for example, by expanding the number of individual users who receive their services at a given company. Selling part of the shared utility to customers and suppliers may also help to ensure continued use and profitability while reducing the resentment associated with high returns.

WHEN GLOBAL MARKETS OPEN

The patterns of competition that characterized deregulation in the United States are already emerging in Western Europe. In the airline industry, early liberalization of flights between London and Amsterdam led to a 37% increase in capacity and an effective drop in prices of 16% on what had been a highly profitable route. Ryanair, a new low-cost player, has entered the Dublin-London market with round-trip fares that are approximately half those of Aer Lingus. Trans European Airways, Europe's second largest charter airline, has applied to fly scheduled routes at discount prices out of Belgium.

The wave of merger, acquisition, and alliance activity that followed U.S. deregulation is also well underway. Air France has acquired control of UTA and Air Inter to become the largest airline in continental Europe. British Airways and KLM are each seeking a 20% stake in Sabena World Airlines. Similar alliances are emerging in telecommunications and financial services, suggesting that the powerful series of local oligopolies that characterize the second phase of open-market competition are already developing, even before 1992.

Europe's competitive evolution is also being speeded up by the fact that many of the new entrants are mighty international competitors like Honda or American Airlines. These competitors will be able to capitalize quickly on current differences in global efficiency across markets. Pilots of some continental European airlines, for example, are paid, on average, more than twice what their counterparts at major U.S. airlines receive. Yet the productivity of U.S. airlines, measured by revenue passenger miles per employee, is more than double that of the European airlines. As markets open, these differences will be largely equalized.

The exact dynamics of market openings will vary, of course, from country to country. But the new competitive structure that market opening creates remains the same, not only for deregulating markets

but also for markets experiencing other discontinuities. The oil crisis of the 1970s, for example, made possible a rush of new Japanese auto entrants into the United States. And while these companies initially entered as low-cost players, they soon recognized the need to migrate to positions as focused-segment marketers and broad-based competitors in order to survive as others entered with even lower costs.

Whether in Canada, Eastern Europe, the EC, Asia, or the United States, opening markets will cause rapid changes in the character of profitable companies as cost cutting, pricing, and market segmentation become far more important than undifferentiated size. Managers who use the lessons of U.S. deregulation wisely should be able to avoid many of the hard landings that so often surround market openings.

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