COMPETITIVE INTENSITY AND ITS IMPLICATION ON STRATEGIC POSITION OF COMPANIES

Eduard Gabriel CEPTUREANU
The Bucharest University of Economic Studies

E-mail:

Abstract:

The power of competition is an essential aspect of companies' external environment and their regional units, which influence the decision on strategy, the decision to enter new regions and markets, the choice of models and assessment of performance. Even if the reflection of the issue of competition in scientific publications is very broad, the aspect of measuring and assessing it is mentioned only a few works. And, more often the degree of competition is presented as something self-evident. While the phenomenon of competition is so difficult, multifaceted and variable, that requires specific criteria and methods for assessing the intensity of competition, adequate to the specificity of a certain market or region. The present paper is focused on the analysis of competition intensity and its influence on strategic position of companies on the market. All analyzed factors are important and significantly can intensify the competition fight among the firms. Thus, the main factors determining the intensity of competition examined in the paper are the distribution of market shares among the competitors, the growth rate and the profitability of the market. In this context, the quantitative coefficients of characterized factors are proposed to be examining as the measure of the competitive intensity. Furthermore, the competitive intensity has its implication on strategic position of companies, giving each of them its place on the market.

Key words: competitive intensity, competitive forces, strategic position, dairy market

Introduction

The concept of organizational strategy is connected within the evolution of strategic management as a scientific discipline (Punnet BJ et al 1994). During the crystallization of the concept of strategy, experts have various typologies," some distinctive and others based on prior developed frameworks" (Garrigos- Simon FJ et al, 2005). Of the various strategic typologies that have been proposed during the last decades, those of Porter (Porter, ME, 1980) and Miles and Snow (Miles et al, 1986) have received the most academic attention (Veet NMK et al, 2009). Porter underline that organizations must develop either cost or differentiation strategies, making no distinction regarding strategy focus. According to him, businesses that endeavour to combine differentiation and cost typically become "stuck in the middle" (Porter ME, 1980) (p. 41), an idea that received considerable advocacy (Dess, GG et al, 1984; Hawes JM et al, 1984). Recent studies questioned Porter's controversy and suggested that businesses adopting combination approaches might outperform business with single strategy orientation (Ghobadian A et al, 2006; Murray AI, 1988; Wright P, 1987, Nicolescu C. et al, 2009).

Competitive intensity

The analysis of the essence of a competition allows talking about its significant influence on the productive level of the competitiveness of the enterprises, that is, on a level of achievement by them of the pursued purposes of activity in conditions of the competitive market (Hussey D., 2002; Ceptureanu SI, 2015a). As the factor of competitiveness of the enterprise a competition, in most cases, acts, first of all, in the form of an external force of counteraction of its activity (Tracey P et al, 2011; Ceptureanu SI, 2015b). Thus, its basic characteristic, allowing characterizing a degree of the given influence is intensity.

Hence, the estimation of the productivity level of the competitiveness of the enterprise assumes carrying out an estimation of scale of competitive intensity as one of its defining factors (Thomson J, 1967).

The analysis of the literature on the above issue allows ascertaining the fact that the estimation of competitive intensity given by it is offered to be carried out only by indirect parameters of its manifestation (Zajac E et al, 1989).

The essence of all indirect methods of estimation consists in the fact that it is carried out not by an estimation of the scale of intensity of manifestation of the competitive forces, counteracting the activity of the considered subject of a competition, but by an estimation of the scale of the factors causing their manifestation with a certain level of intensity (Sun L, 2011). Thus assuming, the presence of estimated factors and the size of their manifestation allows to judge unequivocally that, firstly, competitive counteraction takes place, secondly, the size of the competitive intensity correlates with the size of manifestation of the estimated factor or the set of those (as a rule, assuming their linear dependence). Thus, the indirect approach to an estimation of the size of the competitive intensity is based on an estimation of really controllable causes and/or consequences of the given relations (Beal RM, 2000).

The estimation of the competitive intensity is of a global importance at the market analysis as it allows revealing the general appeal of intrusion on the market, making strategy of promotion of the goods, preliminary estimating activity results. The estimation of the competitive intensity includes:

- the analysis of distribution of market shares among competitors;
- the analysis of growing rates of the market;
- the analysis of profitability of the market.

For further estimation of interference of the competitive intensity and the distribution of market shares among the enterprises it is necessary to assess the competitive intensity in the set commodity market by means of measurement of the degree of similarity of market shares of competitors (Bowman D et al., 1995). With this purpose we shall take advantage of the factor of variation equal to the relation of the average square deviation of the shares to their arithmetic-mean value.

Obviously, higher the factor of variation, lower the competitive intensity and vice versa. The formula for calculation looks like:

$$U_D = 1 - \frac{\sqrt{\frac{1}{n}\sum (D_i - D_{av})^2}}{D_{av}}$$

$$i = 1, \dots, n,$$

From the business practice it is known, that there is some critical proportion of shares of two independent competitors when the tendency to change the given proportion fades. Usually this proportion is defined as 2 to 1 and more. In other words, this is such a condition on the market when for two competitors *i* and *j* following inequality is carried out:

$$D_i \geq D_j\,,$$

and, to the contrary, the absence of a sharp difference of values of market shares essentially raises the activity of the enterprises competing for competitive advantages. Weaker ones try to attack the nearest competitors, slightly surpassing them by the degree of domination on the market. In turn, more powerful aspire to approve their position, which also demands certain efforts and is the reason of constant conflicts even on insignificant occasions (Bowman C et al. 2003).

The greatest competitive activity is observed at provisional equality of shares. In this case, at equivalence of competitors $D_i = D_j$, their strategies are often identical, which provides an attribute of a unstable, disputed condition on the market. Thus, in the absence of obvious leaders and outsiders, when the whole market of the considered goods (commodity group) is presented by the competitors owning equal market shares - the competitive intensity is maximal.

The economic factors defining the competitive intensity are:

1) the character of development of the market as a complete formation, namely dynamic characteristics of a supply and demand, which are expressed in rates of growth of sales volumes (U_{GS}). Proceeding from the world practice of business, it is considered, that the majority of situations of dynamics of commodities and services market is entered in a range of annual rates of growth from 70 % up to 140 %. In this range the values of factors of competitive intensity are distributed at developing rates of growth of sales on the given market which can be calculated under the formula:

$$U_{GS} = 1 - \frac{G_s - 70}{140 - 70} = \frac{140 - G_s}{70}$$

Where G_S - is the annual rate of growth of a sales volume in the considered commodity market without taking into account the inflationary component, %.

2) the ratio of profitability of the considered market (R_P), defined by the relation of the cumulative profit received by the enterprises in the given market (P), to the total amount of sales (TS):

$$R_P = \frac{P}{TS}$$

It is well-known, that the market with the high profitability is characterized by the excess of the demand over the offer (Capps CJ III et al, 2002). This fact allows enterprises attaining their objectives in a rather peaceful manner and by methods not infringing interests of other competitors.

With reduction of profitableness of business the situation changes to the opposite. Besides the indicator of profitableness of the market, R_P shows the level of activity of the competitive environment of the enterprise and reflects the degree of their "freedom" in profit taking (Bowman C, 2008). Higher the R_P, lesser the pressure of the competitive environment and, consequently, lower the competitive intensity and vice versa. The given conclusion can be generalized in the form of the formula:

$$U_P = 1 - \frac{P}{TS} = 1 - R_P$$

For the convenience of carrying out a comparative analysis of a competitive intensity on the various markets (segments of the market) and estimations of their appeal (from the point of view of competitive activity), turns useful to operate with the generalized characteristic of the competitive intensity.

Besides the comparison base it enables specifying results of the analysis of separate elements of the competitive environment of the enterprise and more consistently to approach to formation of the special analytical report.

The generalization of private parameters U_D, U_{GS}, U_P in view of their multiplicative character is possible to make on the basis of geometrical average:

$$U_K = \sqrt[3]{U_D * U_{GS} * U_P}\ ,$$

Where U_K - is the generalized parameter of the competitive intensity, $0 \le U_K \le 1$.

The estimation of the competitive intensity can be carried out also by means of estimation of the conditions of its occurrence and existence among the subjects of a competition. At the basis of this approach rests the concept of “five forces” of competition of M. Porter, according to which each branch (considered as the market of any goods) has a unique structure of fundamental economic and technical characteristics which are a source of competitive force for the subjects of the competition and define, at the end, their competitive intensity (Porter ME, 1980; Hoque Z, 2004; Ceptureanu SI, 2014).

According to Porter, five competitive forces exist in each industry and they together determine the intensity of industry competition and industry profitability. Competing sellers arc the first force and they affect environment of every industry (DeSarbo WS et al, 2005).

In the formation of industry competition, different influences are important. Different competitive forces have the key influence in each industry and different economic and technical characteristics of an industry are decisive for the intensity of each competitive pressure (Barth H, 2003). There are two reasons of rivalry among competing sellers: One or more competitors feel pressure, or they sec an opportunity of improvement of their position (Campbell-Hunt C, 2000). Seven factors influence the intensity of rivalry among competing sellers - industry concentration rate, industry growth rate, exit barriers, level of fixed and storage costs, product differentiation and switching costs, size of capacity augmentation, and diversity of competitors (Clemens B et al, 2008).

If an industry is highly concentrated or controlled by one or a few businesses, they rarely make mistakes in the evaluation of their own power and leading businesses are able to establish discipline. The intensity of rivalry is going down with the high industry concentration rate (Ceptureanu EG et al, 2014).

Conclusions

If an industry growth rate is low, competition is concentrated into the market share rivalry for businesses, which make efforts for expansion (Ceptureanu EG et al, 2012). Exit barriers are economic, strategic, and emotional factors, which force competing businesses into competition in the industry even though the invested capital yield can be very low or even negative (Boulding W. et al, 2001). High fixed costs push on all businesses to maximize production capacity utilization (Ceptureanu SI et al, 2015c). It often leads to rapid reduction of prices if a capacity surplus exists in an industry. Product differentiation creates isolation from competitors. Customers prefer specific sellers and keep loyal. If economies of scale depend on building new capacities in jumps, it can have destructive influence on the equilibrium between supply and demand mainly in the situation, when the threat exists, that the expansion of capacity accumulates (Mitchell W, 1991). Competitors can come across each other, if they differ in strategies, origin, economic force, and relation to their mother companies (Nicolescu et al, 2009). Proper strategic choice for one business could be unacceptable for another.

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