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DETERMININGTHEGENERIC STRATEGIES OF BUSINESS COMPETITORS

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ABSTRACT

Establishing the business strategies of competitors is an important prerequisite for developing company's own strategic path. The focus of this paper is the so-called generic strategies, whereas two main approaches for clarifying their nature are discussed. The first oneis based on individual product characteristics and the second one builds on achieved financial results. The advantages and disadvantages of these approaches and the related specific methods are commented in view of the possibilities for their usage in the strategic analysis of smaller businesses. Particular attention is paid to the"Profitability-Turnover(P-T)" matrix developed by the authors.

KEY WORDS: competitors, generic strategy, strategy analytics, P-T matrix

INTRODUCTION

In a market economy, business is a game of rivalry. "Competition between firms keeps prices down and acts as an incentive to firms to become more efficient" (Sloman, J. & Wride, A., 2009).

Winners from rivalry are mostly consumers. However, those businesses that adapt better to their requirements also benefit. The rest usually underlie negatives. That is why, it is important for the companies to monitor the signals coming from both customers and competitors and react adequately to the emerging trends in the changing business environment.

Rivalry is a complex phenomenon. The diversity of rivalry is usually explored by a specific methodology, and the result is different concepts of competition (Listra, 2015). Microeconomists pay most attention to its main types, i.e.free, oligopolistic, and monopolistic competition. Business economists prefer studying itin industries asdirect/indirector current/future competition.

This paperfocuses on the analysis of direct competitors and, more precisely, on determining their generic strategies. The question is important: If a company is aware of competitor's strategy, it can better shape its own! We will first recall whatgeneric business strategies are. Next, we will briefly dwell onthe existing methodology for their disclosure. Finally, we will implement an alternative approach to identifying generic strategies making use of the firm's return on investment indicator. To demonstrate the possibilities of the alternative methodology, we will present a strategy investigation of Bulgarian companies from the tourism industry.

DIRECT COMPETITION AND GENERIC STRATEGIES

According to www.entrepreneur.com, determining the direct competitors of a business is pretty easy: "Companiesthat offer the same or similar products as you do are may be competitors. If their geographical market areas overlap with yours and their price points also resemble yours, it's almost a certainty they're competitors"(Entrepreneur, 2019).The national statistics "looks" at competitors differently:Direct rivalry is spread over companies manufacturing a similar product and using a close technology. The management science is not indifferent to the issue of establishing direct competitors in business, too. Itsearches for an answer by launching ideas that

simultaneously cover the main components of every business, i.e. its market, product, and technology.

Because the trinity of product, market, and technology is moldedthrough strategic decisions, researchers assume that direct competitors in an industry(in the narrow sense of the word)are firms pursuing the same or similar strategy (Porter, 1980).
Each business component, and the strategy behind its creation and development, can be "broken" into characteristics (dimensions). The main alternatives (endpoints) are presented in Table 1.

Table 1. Business components and characteristics

Components	Characteristics (Dimensions)	
Market	Broad	Narrow
Product	Mass	Differentiated
Technology	Standard	Specific

Source: Authors' own elaboration
The combination of the characteristics taken from the second and the third columnvertically allows the deriving of two main types of generic strategies:[1]

- If a company offers a mass product to a broad market using a standard manufacturing technology, the company is considered pursuing a "cost leadership" strategy (also called a "low-cost strategy"). By implementing such a strategy, the company aims to sell the product on the market at the lowest possible price compared to the competition. Because low prices usually go hand in hand with small profit margins, companies compensate the latter with higher turnover,thus achieving the desired volume of profits.
- If a company runs in a narrow market, offering a differentiated product created by a specific technology, the company is considered pursuing a differentiation strategy. Its purpose is to offer products or services perceived by buyers as high-quality, fashionable,prestigious, or even unique. As sophisticated workmanship is associated with higher costs, differentiated products are usually offered at premium prices. However,with the increaseof

[1]To the generic strategies belongs also the so-called focus strategy. In its deep essence, however, the focus strategy represents a specific variationof the two strategies, discussed beneath.

prices demand and revenues normally fall. To achieve a desired volume of profit, margins are set higher.

It should be noted that the boundary between the one orthe other strategy is flexible. The exact borders dependfrom the context in which the industry develops.

A TRADITIONAL WAY FOR DETERMINING GENERIC STRATEGIES

Which competitor what generic strategy is pursuing? Finding an answer to this question seems plausible. First,draw a border line between high/standard product quality and high/low manufacturing and selling costs. Often used separatorsareindustry-specific "average" values for quality and costs, derived on the basis of experts' opinions.Second, gatherand process company-specific information about the level of quality and costs. Third, distributethe investigated companies around theborder lines andmake conclusionsabout the type of generic strategy they are following.
Such an approach was used by W. Hall (Hall, 1980)more than 40 years ago, who investigated the strategies followed by North American manufacturers of trucks. Hall gathered datato constructindicators like "relative delivered costs" and "relative performance" and put them in a matrixcalled "Strategic profile of the industry" to visualize the results(Figure 1).

The selected indicators aligned perfectlywiththe main characteristics of the low-cost and differentiation strategy. The intersections along the chosen indicators clearly reflected the strategic orientation of each company. So, Ford and General Motorswereobviously pursuing low-cost strategy, while Paccar and Mack seemed oriented towardsdifferentiation strategy. The other three companies did not show preference towards the one or the other strategic direction. They were obviously offering arelatively expensive, but not thathigh-quality product.[2]

[2] Porter calls such companies „stuck-in-the-middle"(Porter, 2008).

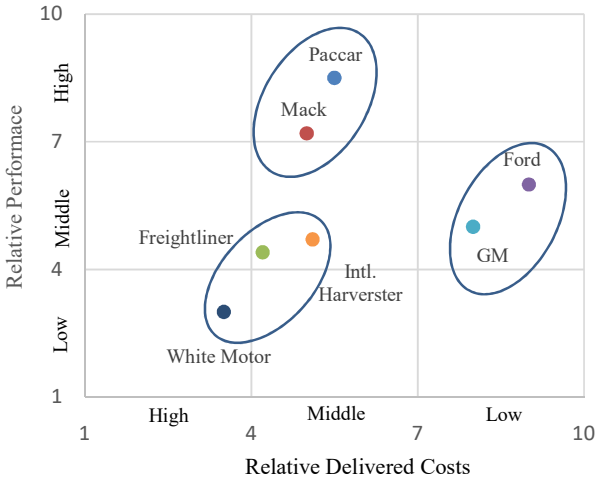

Figure1.Strategic Profile Matrix of an Industry
Source: Adapted from (Hall, 1980)

However, the widespread usage of Hall's technique proved limited due to difficulties withsupplying quality information. For example, data aboutrelative performance could be obtained only after averaging judgments of questioned professionals. If the latter are not selected properly, the information would be inaccurate. In addition, techniques such as surveys and interviews are time consuming and costly. As such appears to be also the provision of information about incurred relative costs, because it is normally hidden behind corporate secrecy.

AN ALTERNATIVE WAY OF DETERMINING GENERIC STRATEGIES

The disclosure of the generic strategies pursued by direct competitors requires an approach that is not only consistent with the economic logic, but is also based on objective, easily accessible and inexpensive information. Assuming a direct dependence between nature and quality of a strategy and achieved financial results,[3]one can assumethe existence of logicin the

[3] Studies that confirm such a direct linkhave long been conducted. For details, see (Rhyne, 1986).

opposite sense: Achieved financial results could give a clue to the nature and quality of the underlying strategy. Such an approach is used byhistorians, whooften conclude about entire epochs only on the basis of discovered artifacts.

If such an approach is adopted, a suitable measure of company's financial success needs first to be specified. The chosen "rod"shouldbe in direct connection with the company's generic strategy. A measure thatmeetstherequirement is the well-known indicator "return on investment" (*ROI*). In addition, the alternative approach mustshow eventually own research tools. For that purpose, the authors of this paperhave conceptualized a "Profitability-Turnover" (P-T) matrix(Papazov, E. & Mihaylova, L., 2019). Well-known is the fact, that *ROI*is a proportionof company's profit and the investment undertaken to achieve it. „Profit" is usually understood as „operating profit" (*OP*), while"investment" is normally substituted by the total assets (*TA*)it has created.

When it comes to clarifying the generic strategies pursued by competing firms, a plausible comparison between the different$ROI_i$is not productive. It is necessary to present the analytical type of the function, so as to show the direct connection between financial results and the strategy underling (Formula 1):

$$ROI_i = m_i . a_i \quad (1)$$

Here$m_i$stand forthe profit margin (or the ratio between profit and revenue; OP_i /SR_i), while$a_i$reflectthe turnover of total assets (or the ratio between revenue and assets"; SR_i/TA_i). The value of *m*shows the ability of a company to profit from its activity, while the value of *a* indicates the degree of company's activity, measured by the number of turnsin a period.[4]

Data on income, profit and assets can be derived from the company's balance sheet and income statement. As a rule,the documents are public. For most Bulgarian companies they can be found in the Commercial Register(Registry Agency, 2020).

Formula (1) can be presented in an alternative way without changing its nature (Formula 2):

$$ROI_i = m_i \,/\, \frac{1}{a_i} \qquad (2)$$

[4] As a mathematical construct, the expanded form of the *ROI* formula does not make sense, because after canceling out the revenue terms, it returns to its original form. The formula is more important for the economic analysis.

The reciprocal of value of $a_i$expresses also assets turnover, but as duration of one turn. The indicator is extremely popular in the business community. For the purposes of the present study, it will be used as a means for improvingthe graphical representation of the results. The reason: If we use a_i from formula (1), it will be difficult to visually compare areasof rectangles formed by ($m_i.a_i$), while if we work with $1/a_i$fromformula (2), we can compare tangents ($m_i: 1/a_i$)of triangle angleseasier.

Now, let us go back to the general business strategies. As already mentioned, on the one hand, the low-cost strategy requiressmall product prices, which results in moderateprofit margins and profits. On the other hand, revenuesincreaseand with themthe turnover of assets, measured as number of turnsina period (if measured as durationof one turn,then the turnover decreases), which compensates the company for the low margin and leads in the end to an acceptable profitvolume. In the case of the alternativestrategy, the sales of a differentiated productappear less due to the required premium price. The profit margins, however,are set high, which compensates the company for the reduced (or increased) turnover of assets (depends on how it is measured) and leadsin the end to the achievement of an acceptable volume of profit. Thus, by co-opting the indicator "return on investment" in its "expanded" version, an opportunity opens to assess the strategic orientation of the companies in the industry.

However, there is a problem. In most cases, all$ROI_i$and the indices that make them up (m_iи $1/a_i$), take different values.The problem can be resolvedby accepting one of the three indices (ROI_i,m_i or $1/a_i$) equal to a constant (say, to the industry average) value, and, in parallel, recalculatingthe values of the other two. Logically, the adjustments must be made in a way that does not lead to a change in the levels of ROI_i.

Let's look at the case where we equate the profit margin for all analyzed companies m_i to the average m (without index!) of the industry. The casewill be demonstrated on the basis of real data for 7 touristiccompanies, falling into class 55.10 of NACE.BG-2008 (NSI, 2009). The sample includes hotels operating near the seaside, in mountain resorts or in the capital of Bulgaria. The company "Black Sea" is included in the analysis as independent. The rest are hotel chains ("Festa", "Lyon" and "A Hotels").It should be noted that "A Hotels" takes part in the investigationwith itsfour(legally) separate companies, united in a chain by common ownership (Ivanova, 2016)

The tourism industry selected for analysis is one of the most important sectors for the country's economy. Nowadays, it provides nearly 12% of the GDP and 11% of the employment. In addition, tourism is considered one of the fastest growing industries in the world(Karadjova, V., & Angelevska-Najdeska, K., 2013).Due to the large investor interest, the industry is characterized by intense competition and usage of various forms of entrepreneurship and management (Trajkov, A., Biljan, J., & Andreeski, C., 2016).

The aim is to determine the strategic orientation of the analyzed touristic companies based on data concerning sales revenues, operating profit and total assets, as well as calculated indices like return on investment, profit margin and assets turnover. All specific data and derived values are set out in Table 2. In order to facilitate the analysis, the term "turnover" will be used hereafter only in the sense “duration of one turn”.

Table 2. Financial data and calculated company indices

Indicator	Festa	Lion	ChM	Atlas	Astera	AsteraB	Azalia	Ø
SR_i	15 175	3 942	3 272	4 110	5 721	2 314	6 441	5 854
OP_i	501	185	95	564	801	-77	807	411
TA_i	61 213	32 253	4 025	21 747	23 834	22 585	14 891	25 793
m_i	0.0330	0.0469	0.0290	0.1372	0.1400	-0.0333	0.1253	0.0702
a_i	0.2479	0.1222	0.8129	0.1890	0.2400	0.1025	0.4325	0.2269
ROI_i	0.0082	0.0057	0.0236	0.0259	0.0336	-0.0034	0.0542	0.0159
$1/a_i$	4.0338	8.1819	1.2301	5.2912	4.1661	9.7602	2.3119	4.4063

Source: Own elaboration based on company’s data (Registry Agency, 2020)

The data presented in Table 2 and visually in Figure 2 does not allow us to draw reasonableconclusions, because we are facing a combination of different values related to thecalculated indices.

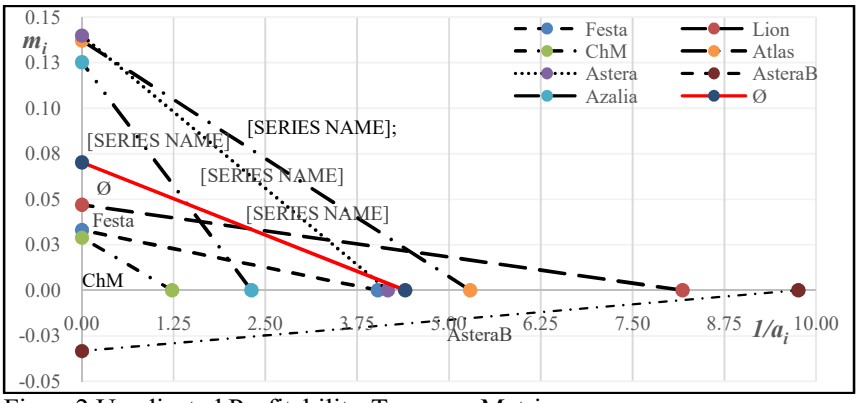

Figure2.Unadjusted Profitability-Turnover Matrix
Source: Authors' own analysis

The strategic orientation of the individual companies can be identified after transformation of the data towards leveling the indices$m_i$to the average profit margin of the industry m.To preserve the authentic values of ROI_i, the magnitudes of $1/a_i$need to be adjusted with the quotients of $m$andROI_i. The coefficients $m/ROI_i$are obtained after elementary conversion of formula (2) and are presented in Table 3.

In differentiated companies, the profit margin $m_i$is generally higher than the industry average. Therefore, after the equalization$m_i$will decrease to m, but to catch up the ROI_i, the turnover must also be adjusted downwards applying the m/ROI_icoefficient (such a constellation is observed in the companies Azalia, Astera and Atlas). Although less often, in case of profit margin lower than the industry average, in order to preserve ROI_i, the turnover should be adjusted upwards using the above-mentioned coefficient (the situation corresponds to the Black Sea company).

Table 3. Adjusted turnover and profit margin data

Indicator	Festa	Lion	ChM	Atlas	Astera	AsteraB	Azalia	Ø
$1/a_i=m/ROI_i$	8.5758	12.2368	2.9738	2.7064	2.0885	-20.5873	1.2952	4.4063
$m_i=m$	0.0702	0.0702	0.0702	0.0702	0.0702	0.0702	0.0702	0.0702

Source: Authors' own elaboration

Graphically, the adjustments appear as a parallel shift of the curves reflecting the functions $m_i=f(1/a_i)$of all firms, until all $m_i$coincidewith the

industry average *m*. The result is an "adjusted" matrix (Figure 3), which allows for a more accurate summaryof companies' strategic orientation.

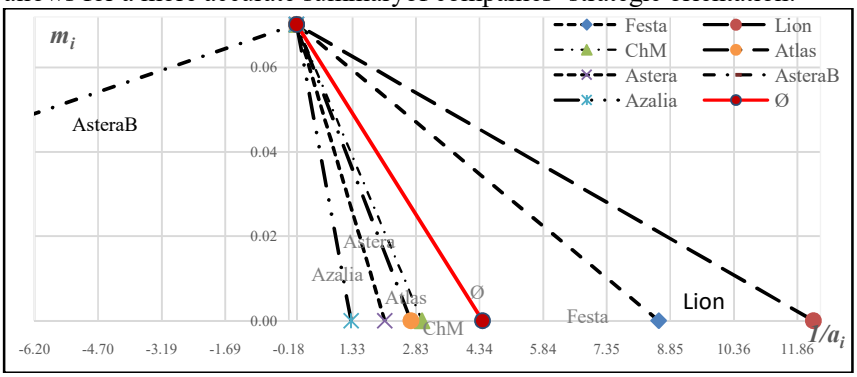

Figure 4. Adjusted Profitability-Turnover Matrix
Source: Authors' own elaboration

Relevant to the distinction between the two main types of strategy is the recalculated average turnover for the industry. All companies that have lower values than the average (their location falls to the left of the average point on the chart) will be considered oriented to the differentiation strategy (in this case these are the companies Azalea, Astera, Atlas and Black Sea). Conversely, firms with higher than the average turnover, i.e. those depicted to the right of the average point on the chart (such as Festa and Leon), will be considered adhering to the low-cost strategy. The economic logic is following: By "compressing" the high profit margin (and thus the selling price) to the lower value of the industry average, differentiated companies will make higher turnover due to the better quality of the products they offer. As a result of the increased sales, the duration of one turnover will go towards and below the industry average. For companies pursuing low costs, the opposite logic will apply. Their turnover will increase. Graphically, such companies will be shownon the chart to the right of the point showing the industry average.

The AsteraB strategy can hardly be referred to the one or the other strategic alternative. Most likely, the company is trying to offer a relatively high-quality service at lower price, which leaves it at a loss. For such companies, the qualification of M. Porter as "stuck-in-the-middle" is applicable.

The application of the P-T technique foridentifying the generic strategy of direct competitors does not presumehuge efforts from the side of entrepreneurs, managers and researchers. The necessary information is provided by public sources, and MS Excel® is sufficient for its summarization and visualization.Once created, the tables and the figures can

be multiplied easily to form time series and images and capture the overall economic reality. Therefore, the implementation of the P-T matrix will not require large company's resources, which is important forfirms with low budgets for economic research,such as SMEs.

CONCLUSION

Analysts and managers have made efforts to define the strategies of direct competitors. A considerable number of tools has been created, most of which are based on studying individual strategic dimensions. Revealing the orientation towards generic strategies is less common in research, but if done, it plays a key role when trying to "fine-tune"the company's own strategy. Suggesting a solution in this direction,the paper focusesfirst on a selected financial indicatorrelated directly with the company's generic strategy, and then discusses the possibility of the "Profitability-Turnover"matrixas an appropriate analyticaltool. An important advantage of the technique is that it "works" with easily accessible and objective information.

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