

## DIAGNOSTIC OF COMPETITIVE POSITION AT SMALL AND MIDDLE SIZE COMPANIES

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**Abstract.** The paper presents a model of competitive position analyze at small and middle size companies, based on open system theory according which, company’s activity is potently influenced by environmental forces of competition.

The proposed model is a Michael Porter representation of environmental competition which takes account of specificity of small and middle size company’s activity. The model brings in front a new system of competition forces and especially a new ratio of different kind of pressure points.

Diagnose is focused to main factors of each kind of pressure forces which are simultaneously evaluated as sense and intensity. Model proposes a general plan of analyses, developed on stages, which allow making evident the main elements that do not miss into analyze.

Finally paper present an example of evaluation of competition position of a small package factory.

Conclusions refer to implication of analyze results on company’s management strategy.

**Keywords:** competition, competitive forces, evaluation, determinant factors, process, pressure forces

### 1. Introduction

According to the theory of open systems, the companies survive following the continuous adaptation to their external environment and grow up following its influential power increase [1]. In this context, the diagnostic analyze of the competitive position evaluates the development level of the relations between companies and its external environment, the one that determines in fact the competitive force on the market.

The diagnosis strategic model of the competitive position, defined by M. Porter, presumes the understanding of the structure and the rules so the competitions’ function on a certain market in order to evaluate the level of attraction of a certain activity, sector of activity, in terms of economical profitableness. Starting from these, the diagnose analysis states the company’s position in different competitive environments based on available resources and the capacity of estimating its value.

The M. Porter model permits to evaluate the company’s attraction level on the market through the identification of structural factors which affect the actual and potential profitability of activity. Following the model, the activity’s level of attraction is determined by the resultant of five pressure forces exercised on the sector (figure 1) [1].

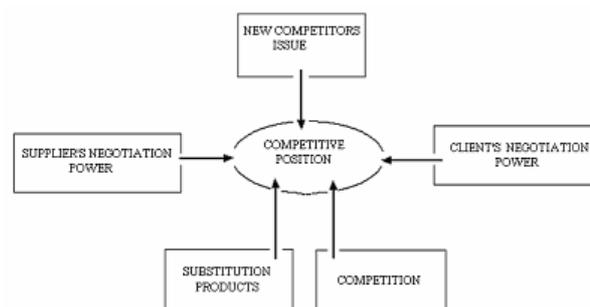


Figure 1. Pressure forces on the sector

The action of these five forces (suppliers, clients, substitution products and new and old competitors) isn't quite free and independent; it is conditioned in every national economy by the government’s power of influence. [2]. Depending on its politics, the government may or may not favor the action of one or another pressure force and can even be an active player on the product market as a supplier, customer or even competitor. The largest difficulties in revisionist diagnose analysis are tied to the identification of the pressure exercised by certain factors of politic nature.

### 2. Determining factors in analyze

Each one of the five competitive forces is determined by a group of factors and sub-factors with variable sense and intensity, one example being presented in table 1.

## Diagnostic of Competitive Position at Small and Middle Size Companies

As result of the factor's action, a pressure force is exercised on company's competitive position meant to improve or to damage the initial state and every diagnostic analyze starts by

identifying the specific factors of the competitive environment and the way in which this factors influence the company's competitive position.

Table1. Evaluation of competitive forces

COMPETITIVE FORCE	FACTOR	SUB-FACTOR	SENS pressure
Customer's negotiation power	Price level	- product differentiation degree	-
		- the weight ratio of purchase in costs	+
	Product quality	- competition level at the suppliers	+
		- the ratio of purchase in supplier's turnover	+
	Level of delivery services and services after delivery (transport, assemble, warranty and service)	- concentration level of selling	+
		- information level of customers	+
Supplier's negotiation power	Price level	- cost of changing the supplier	-
		- rejectness degree	+
	Level of facilities	- reliableness	-
		- product image at consumer	-
	Product quality	- warranty term	-
		- ensure transport	-
	The existence of substitution products in consumption, that comes from different technologies	- system installation necessity	-
		- service work-shop network	-
Substitution products	The cost of entering the market	- duration of service	+
		- concentration level of the offer	+
	Rivalry level	- the weight ratio of the customer in sales	-
		- lack of substitution products	+
	Product quality	- importance of the product on the market	+
		- penury level of the offer	+
	The cost of entering the market	- cost of changing the provider	+
		- payment term	+
	Product quality	- commercial discounts	+
		- returning invaluable products	+
	The cost of entering the market	- rejectness degree	-
		- reliableness	+
	The cost of entering the market	- product image at consumer	+
		- performance/price rapport	+
	The cost of entering the market	- integration cost	-
		- fidelity degree towards the product	-
	The cost of entering the market	- evolution tendency of the performance/price rapport	+
		- crowd level of the domain	+
	The cost of entering the market	- necessary experience	-
		- necessary capital	-
	The cost of entering the market	- access to distribution channels	+
		- level of intellectual property	-
	The cost of entering the market	- access to row materials	+
		- settlement level of the market	-
	The cost of entering the market	- reaction capacity of the attendants	-
		- number of competitioners	+
	The cost of entering the market	- diversity of action strategies	+
		- relative power of competitor	+
	The cost of entering the market	- company's implication level in the sector	+
		- rate of demand growth	-
	The cost of entering the market	- price elasticity of demand	+
		- differencing degree of products	-
	The cost of entering the market	- mobility barriers of the production	-

The analysis can go into more detail at sub factor level, permitting a different evaluation as the sense of their action, emphasizing at same time the cumulate influence to the ensemble.

Conventional, the sign + is considered as growth of influence and – for falling.

For the small and middle size companies, the main pressure forces over the competitive position come in general as a result of elevated negotiation power of the providers, determined by reduced influence of their sales with consequences on a low level of offered facilities [3].

Depending on the features of activity's economic sector, pressures can to appear from the substitution products and their competition is difficult to counteract in lack of important investments in reengineering or modernizing of production. Also, the appearance of new competitors on the market threatens in the first place the position of these companies considered an easier prey for the large companies. In addition the bilateral level of competitiveness of the small and middle size companies is more intense as a result of a generally high number of operators of this category, because of the various strategies of action and relatively low power towards the large competitors.

General reduced pressures are manifested from customers whose fidelity is generally determined in establishment of the competitive position.

The large companies can sometimes generate the strengthening of the competitive position of the small companies through vouching of long term collaboration contracts or through externalizing products/services, technologies, etc and that gives the beneficiary companies a competitive advantage towards the other competitive companies [4]. In the same time, the large companies can exercise important pressure forces over the small ones when they condition the continuity of collaboration by fulfilling performance criteria or when the product/service object of collaboration is homogeneous, depersonalized.

In general, the collaboration with the large companies creates a powerful competitive force to the small companies that benefit of important competitive advantages, at least over the duration of the contract, facilitated by the inertia of the large companies as what concerns the establishment of the collaborators [2, 5]. As a result of the collaboration the small companies are impelled towards performance through implementation of procedures and standards at the level of the large

company and by making investments for raising the technical and quality level of their own products/services.

### **3. Diagnose analysis model of the competition position at small and medium size companies**

Constrained to function and to get results using limited resources as well technical as human, the small and middle size companies are forced to strengthen their competitive position and to make of it a “key success factor” of the organizations' activity.

The proposed evaluation method of coherence presumes going through the next stages:

1. Identifying the main determining factors of the competitive position;
2. Establishing the importance of every factor; a coefficient is attached of value between 0 and 1, the sum of the coefficients being equal with 1;
3. Sub factors are established and determined for each of the factors;
4. To every sub factor is attached a number of value between 1 and 4 proportional to its capacity to affect the factors;
5. The direction of pressure influence of the sub factors is evaluated by giving each one the arithmetical sign + or – with the following signification:
  - a. Pressure +
  - b. No pressure –
6. We calculate the fractionate points on sub factors;
7. We calculate the sum of all the fractionate points;
8. The degree of deflection is evaluated, from the initial situation considering that a general positive score tends to improve the competitive position and a negative tends to weaken it;

Example: Evaluation of the competitive position of SC Dynavit Trade SRL in perspective of launching a product on a new market (table 2).

### **4. Conclusions**

- The company has to face a competitive pressure determined by entering a new market but not very intensely competitive. The positive score is not able to discourage the entering on the market especially because it is growing and has good potential;
- From the start of the analysis, the evaluation of the substitution products was disclaimed because the product didn't have a substitute;

Table 2. Example of competitive position analyze

Determining factors	Importance coefficient	Sub-factors	Sub-factor coefficient	Sub-factor	Observations
Customer's negotiation power	0,5	Products' differentiation level	-1	-0,5	Homogeneous product Reduced Reduced numbers Specialized distributor
		Selling influence on client costs	+1	+0,5	
		Selling influence on CA	+2	+1	
		competition level of providers	+2	+1	
		information level customer	+4	+2	
		cost of changing provider	-1	-0,5	
Supplier's negotiation power	0,05	concentration level offer	+2	+0,1	Providers semi-products, specialized
		selling influence on supplier	-1	-0,05	
Appearance of new competitors	0,15	experience level	-1	-0,15	High investments
		capitalization level	-3	-0,45	
		access to distributors	+1	+0,15	
		reaction capacity of the attendants	-1	-0,15	
Direct competition	0,3	number of competitors	+1	+0,3	Demand in growth
		relative power competitors	+1	+0,3	
		growth rate of demand	-3	-0,9	
		products' differentiation grade	-1	-0,3	
TOTAL	1,00			+2,35	

- The main source of pressure is the negotiation power of the main customer, specialized distributor, a very good knower of the market;
- The power of the supplier isn't significant, the company fulfills the largest part of the components in the inside and the main source of prime matter is very accessible;
- Because it is a market with potential, the possibility of appearance of new competitors is relatively high but there are barriers of entering it determined by the necessary level of investment although the reaction force of the competitors is reduced and concentrated on the price;
- The direct competition is slightly dropped, especially on the regional market, and also is discouraged by a high rate of demand. The competitors are few and almost of equal power.

## 5. Contribution

Paper present an original model of evaluation adapted to small and middle size companies, based on mathematic, in order to minimize the influence of subjective factors of analyze.

Determinant factors analyze is made follow a long experience in SME companies.

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