CONSIDERING THE ECONOMIC CHARACTERISTICS OF THE SECTOR IN THE PROCESS OF DEVELOPING A COMPANY STRATEGY

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Introduction

Working out the development strategies for companies is a very actual issue. In the modern changing environment, it is generally difficult to choose a development strategy for a company that results in unconditional success. It should also be noted that while developing strategies, the situation in the sector must be taken into account and its economic characteristics as well that influence the process of strategy development.

Main Part

The sectors differ greatly in their structural and basic characteristics, so the analysis of the overall situation and competition always begins with a discussion of the key economic characteristics.

The main economic characteristics of the sector in general are:

- Market size;
- The scale of competition;
- Market growth rates and life cycle stages;
- Number of competitors and their relative size - Many small companies operate in the sector if they are dominated by several large firms;
- Number of customers and their financial resources;
- Whether there is a "rise" and "fall" in the integration of key competitors;
- Paces and directions of technological changes, both in production and in the creation of new products;
- Easy market entry and exit;
- Whether the products / services of competing firms are highly differentiated, less differentiated or practically the same;
- Whether the company is able - to economize on production scale, transportation, marketing and promotional activities;
- Compactness of deployment of key companies in defined regions;
- The existence of "teaching / experience" effects, when costs on each product are reduced with the cumulative increase in production as a result of accumulated manufacturing experience;
- Maximum amount of production capacity as a major precondition for reducing production expenses;
- Whether necessary capital investments are made in the sector, conditions for entry into and exit from the sector;
- The level of profits in the sector is high or low compared to the average data in the economy. (Arthur A. Thomson – Junior. Stickland A.J III, 2010: 131)

-The economic characteristics of the sector are important because they play a certain role in the development of the company's strategy.

For example: In a capital-intensive industry where the cost of a single enterprise is worth hundreds of millions of dollars, a company is able to reduce its constant expenses based on its intangible asset strategy and with this increase profits.

In order to increase revenue, airlines reduce the length of time the aircraft is on the ground and reduce the price of a ticket to fill cabin seats.

In the sectors where one product replaces another, companies have to spend more time and resources on innovating to maintain technological advantage and to introduce products earlier than competitors.

In the semiconductor manufacturing sector, the cost of the unit's output is reduced by 20% at the expense of the "teaching-experience" effect, as the cumulative output doubles. (Arthur A. Thomson – Junior. Stickland A.J III, 2010: 133)

It is precisely these basic economic characteristics of the sector that need to be taken into account to develop the right strategies and at the same time pay much attention to the competitive environment in the sector.

Michael Porter, a well-known professor at Harvard Business School, proved that the state of competition in the sector can be characterized by five factors, namely:

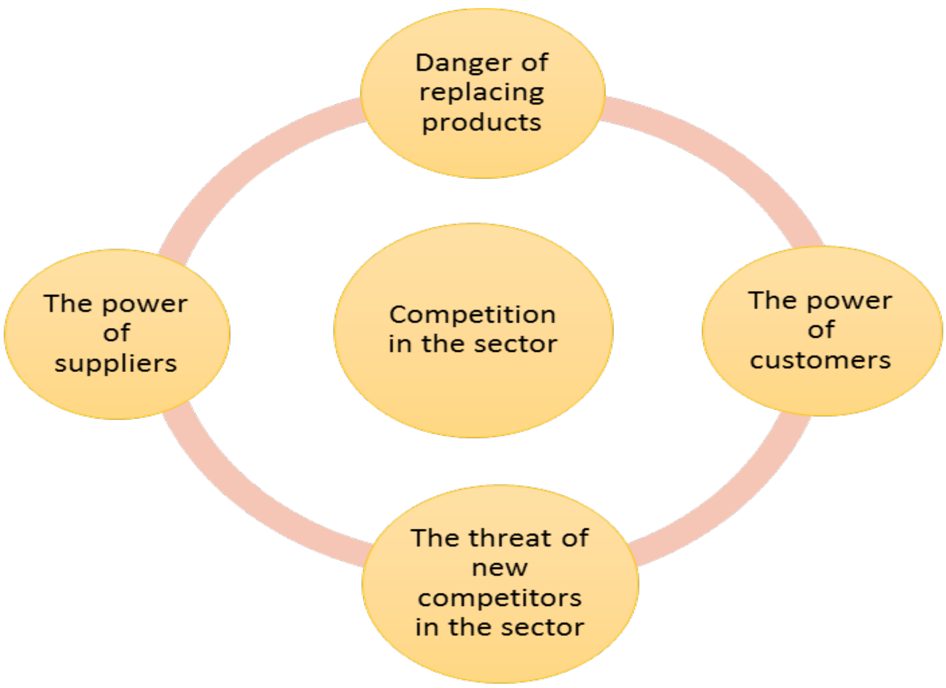
1. Competition in the sector;
2. The threat of new competitors in the sector;
3. Danger of replacing products;
4. The power of suppliers;
5. The power of customers.

Porter's five Competition Force Model (Fig. 1) (Business Hub, 2019: 1) is the most effective tool for analyzing the major competitive forces affecting the market and determining the degree of impact.

The competition takes place when one of the firms

Figure 1

Five Main Models of the Competition - The Key Competitive Environment Analysis Tool



has the opportunity to meet customers' demand best or improve their service.

Despite the strong or weak competition, each company must develop a successful strategy that will bring advantages to them and strengthen the company's position in front of customers.

Even the most successful strategy for achieving a specific advantage depends on the strength of the position of competing companies and their strategy. Such interdependence indicates that no matter what measures the firm uses in its strategic plan, competitors respond with appropriate, offensive or defensive countermeasures.

The strengths and weaknesses of a company's competitive power depend on the conditions in the sector, the firm-suppliers and the importance of the products they produce.

While considering the issue of determining whether a competitor has a favorable or unfavorable position in order to gain market position, we need to concentrate on assessing its potential in relation to other competitors.

Accurate determination of which competitors will strengthen or lose their positions on the market will help managers to predict the steps of their main competitors while developing strategies.

Competitors that are satisfied with their own situation often maintain existing strategies and make only minor changes to them. Analysts need to determine whether competing firm managers are capable of making serious strategic changes, or vice versa - steadily following predetermined strategies and making only minor changes.

In order to calculate the next steps of the competitors, the analyst must thoroughly study which of the options available to the competing firm the manager will choose. This is a really difficult and long task, so much so that the analysis is based on the small amount of information that comes from different sources.

However, well-planned information-searching activities allow us to identify the future steps of the competitor which he chooses in the course of action for his company.

Conclusion

The company is not always able to choose any strategy. Its actions are usually restricted by the law, state policy, social regulation, and public attitudes. Companies have to take into account public opinion, values and priorities. The external analysis of the company should take into account the laws and regulations. This is especially important in the conditions of overwhelming pressure from society and the media.

The manager of the firm is required to study the expected steps of the latest competitors. If a company does not pay enough attention to competitors' actions, and blindly enters the competition, then it will not gain the advantage of competitors and will not be able to determine their future plans.

In order to develop the right strategies for a company, it is necessary to take into account the competitive situation and economic characteristics of the sector, and then decide on the direction in which to develop and what types of strategies to develop.

Reference

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