

COMPETITIVE ANALYSIS OF THE BUSINESS WITH THE MICHAEL PORTER MODEL

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ABSTRACT: *One way to analyze the competitive environment is to use the five forces model developed by M. Porter (1979). The strength and importance of each varies from market to market, but all are relevant when analyzing the conditions under which a business operates. These forces (factors) are: bargaining power of buyers; bargaining power of suppliers; products or services that can substitute for the business offer; new competitors entering the market (new business); existing competitors in the market. In this paper I will present the methodology of applying the Michael Porter competitive analysis model, with an example at a business. being used for the purpose of setting strategic objectives in business.*

KEY WORDS: *analyze, business, competitive, suppliers, customers, substitutable, environment, competition, advantage.*

JEL CLASSIFICATIONS: *M10, M11.*

1. INTRODUCTION

The business environment refers to the conditions in which firms operate involving a large number of forces acting in this environment and on which companies base their strategies, tactics and day-to-day activities. Firms today are increasingly connected to this business environment, whether at local, national, European or global level.

Under these conditions, competition and the competitive environment are becoming more and more profound and firms need to operate with high productivity, quality products and services, and well-defined competitive advantages. In this context, managers must think in terms of business projects that identify opportunities for business development, business improvement, adaptation to different conditions, adaptation to customer behaviour and needs, reliable and close collaboration with business partners and collaborators, including analysis and forecasting of business

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risks. Analysis of the competitive environment of a business can be carried out at different levels (Bâldan, 2005):

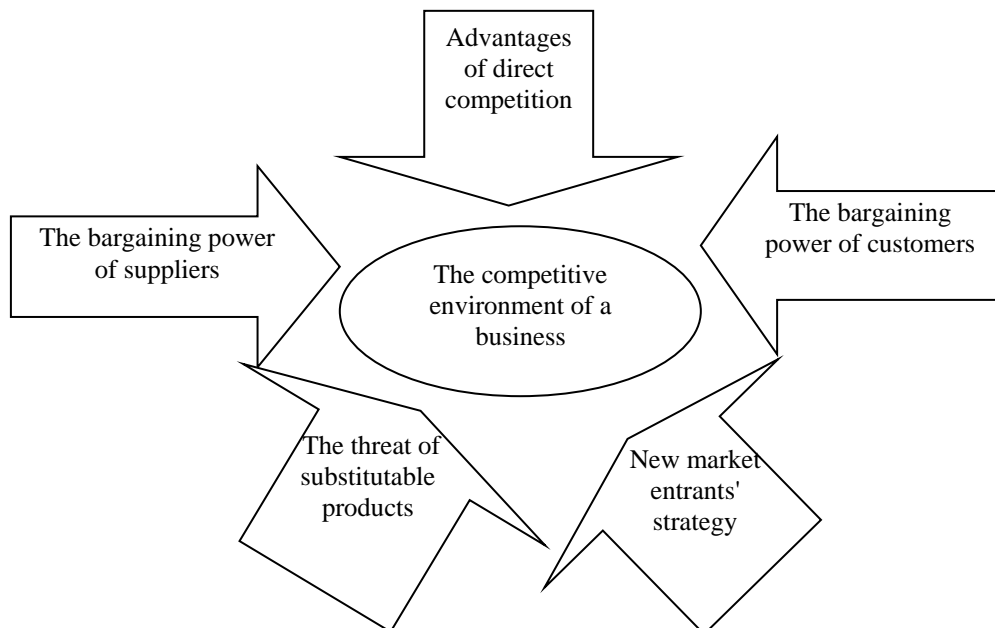
- Macroeconomic - national
- Medium - industry or regional level
- Micro - at local level.

In formulating a strategic plan, the management of the company must first start with a diagnostic analysis of both the internal environment regarding the state of its business and the external competitive environment. A very useful method of analysing the competitive environment is the model developed by Porter.

2. PORTER MODEL METHODOLOGY

The presentation of the methodology for applying the Porter competitive analysis model (also known as the 5 forces model, or the Porter diamond model) is the result of the study of several sources: management, strategic management, diagnostic analysis, business management. The most representative sources can be found in the bibliographical references, which belong mainly to the author Michael Porter.

According to the American management professor Porter, the microenvironment of a firm or a business comprises of "those external factors that directly influence the firm, and the firm can exercise some control over them, influencing in turn, through specific actions, the configuration of the microenvironment" (Porter, 2007).



Source adaptation: Porter M.E, 2007

Figure 1. Michael Porter's Model

In its competitive environment, the firm is subjected to a system of forces which, according to Porter, is composed of:

- the degree of rivalry between existing competitors,
- the threat coming from new competitors entering the market,
- pressure from substitute products,
- the bargaining power of customers
- bargaining power of suppliers (Porter, 1998).

However, it is important for the analyst to understand that these forces are not independent and that they influence each other. For example, too much supplier power can be an additional incentive to look for substitutes and, at the same time an, obvious disincentive for new entrants. In a more analytical sense, the firm viewed as a microenvironment must be analysed in terms of its ability to se develop and offer the market a certain mix of competitive products and services in relation to competition and customer expectation. The width and depth of its product mix, the depth of its product lines and the performance of each of its offerings are studied and evaluated at this level of analysis. (Moşteanu, 2000; Porter, 1998).

1. The suppliers of an enterprise are those economic environmental factors that provide it with the resources necessary to carry out its activities. When we say resources, we mean all types of resources: material, human or financial. Thus, suppliers must be seen not only in their traditional sense, but also as private or public service providers (transport, repair and maintenance establishments, post, telephone, telegraph, Internet providers) or providers of human resources (labour distribution offices, job fair organisers, education and training establishments, headhunters). The largest share is accounted for by enterprises providing goods and services compatible with the firm's activity.

2. Customers. These can be grouped under the concept of the firm's customers, i.e. those legal or individual persons to whom the firm offers its products or services. End consumers, whether they are businesses or individuals, make their purchasing decision by probing their own needs and basically taking a series of steps to enable them to select the most suitable product from a range of choices. From this point of view, the consumer's social environment, individual circumstances and psychology combine to influence the purchasing decision. Customers are becoming more demanding by the day as their expectations of the quality, reliability and durability of the products and services they receive are constantly rising. This is true for both consumer and industrial goods customers, regardless of the area, and is due to a better knowledge of the characteristics of the product sought and an awareness of the customer's position of strength - a phenomenon that has become evident in many economic sectors.

3. Competitors or competition. Unlike the categories of external factors described above, i.e. the firm's suppliers and customers, competitors are not in direct contact with the firm, but they are marked its relations with the external environment. The circle of competitors includes economic agents with a similar or different profile to the firm, who are likely to satisfy the same customer needs and are perceived by consumers as alternatives for satisfying their needs.

4. Substitutes are those competitors who produce and/or commercialize goods and services that are different from our firm's but which, satisfying the same consumer needs, can replace our firm's products. Substitutes and their manufacturers are a real danger to a firm whose products are substitutable, with consumer choice sometimes hinging on a more aggressive advertising campaign or simply on the fact that technological development can create products that improve the way the consumer is satisfied.

5. New entrants are those competitors who have just entered a market or sector and will attack the positions of already established firms. We distinguish mainly two categories of potential new entrants.

- those who already sell in the market but decide to expand their product range and attract new customers by competing with existing products.
- Another type of new entrants are firms at the front end or at the back end of an activity, who are thus trying to secure either a reliable source of supply or their own distribution network.

The ease of market entry of new entrants is directly proportional to the ability of other 'neighbouring' competitors to impose and strengthen so-called 'barriers to entry', which are mainly the degree of differentiation of their products and the loyalty of their customers.

3. EXAMPLE OF APPLICATION OF THE PORTER MODEL

3.1. General business presentation data

In this example we consider a company Y, which owns a business in the furniture industry, in a niche segment - wooden furniture, with a market age of about 3 years.

From the analysis of the internal situation based on the accounting data, it can be deduced that the company is in a good situation, has been profitable since the first year of operation, as most of the investments have been made with borrowed funds, and so far the turnover has been increasing and the profitability rate is about 4% of turnover. The company is relatively new to the market, with a limited number of customers and orders. The company's management wants to expand the business and, for this purpose, an analysis is carried out at branch level, applying the Porter model to see its position in relation to the forces identified by this technique (in particular in relation to direct and indirect competition and substitutable products).

3.2. Analysis of the competitive environment

For the analysis of the competitive environment of business Y, Porter's five forces model adapted to the available data and information by categories of main factors was chosen.

Customers and suppliers

Depending on the type of furniture manufactured, customers are individual or legal persons. In the case of made-to-order furniture, the majority of buyers are individuals. The main customers are those who usually have higher than average

incomes, as wooden furniture is more expensive, but quality, comfort, durability and refinement are more important and therefore, customers who are more demanding and who are keen to have a special and luxurious home opt for this type of furniture.

In recent years, the furniture market has been at an important stage in its development, as customers have become more educated and are increasingly switching from chipboard furniture to solid wood items. The furniture market is seeing a majority of people moving away from kitsch and increasingly opting for quality furniture.

However, customers' tastes in finishes have remained diverse, with some preferring bold colours and more sophisticated fronts and others going for straight lines and natural colours. As the business develops, export opportunities will arise, raising the question of greater competitiveness of furniture produced in comparison with what is produced and offered by other countries or major domestic competitors exporting wooden furniture.

The factory produces any type of furniture to order and depending on the customer's budget, the products will be adapted to different solutions in terms of raw material used, such as veneer, for certain bodies, or other materials. The factory will also put out some products to create a catalogue and show potential models to customers, but also after each order photos will be taken to improve the offer and complete the product catalogue.

Furniture can also be made from beech, ash, linden or softwoods such as fir, and pine at the customer's request. If you want the look to be made of oak, the fronts or casing can be made of this type of wood, and the rest, the parts that are not visible, can be made of oak veneer.

In conclusion, the main customers are mostly those who have higher than average incomes, who are moving into new apartments and who care about quality and design.

The main supplier of timber is company Z- which is a logging and wood processing company with 2 timber yards in the area close to the business Y under analysis, about 50 km away but also nearby lumber yards.

Competition is particularly well represented. Wood processing has always been a basic occupation of Romanians (given the particular resources available in the territory of the country) and this tradition has been preserved from generation to generation.

Thus, in the last 25 years, a number of factories have appeared, operating on a larger or smaller scale. A special category are the factories that have existed since that period, most of which are still operating on the inherited 'skeleton'. A number of large and very large companies operate on the market, carrying out complex production, distribution through their own specialised shops or through dealers, and export activities. In order to cover the unsatisfied demand, a number of small factories have also appeared, mainly focused on custom-made furniture, which have the advantage of flexibility in production and lower costs and prices, as will be the case for the business under analysis.

For the strategic plan of firm Y which is manufacturing solid wood furniture the competitive forces are represented by:

- Direct competition - furniture factories in the country or area, wood furniture stores

- Indirect competition - represented by imports of wooden furniture and the second-hand market of solid wood furniture
- Substitutable products - melamine-wood furniture - chipboard, MDF, wrought iron, in some items also plastic or other synthetic material
- Customers
- Suppliers especially of raw materials and accessories.

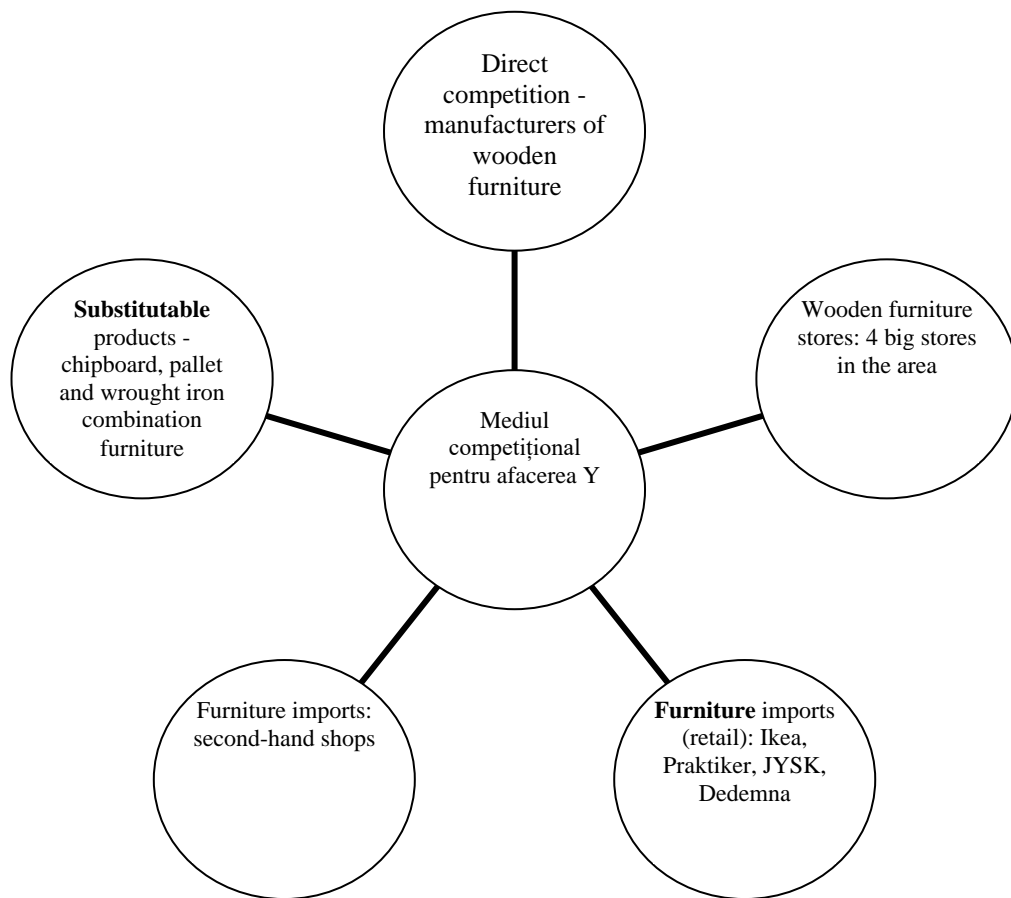


Figure 2. Competitive environment for business Y

Competitive environment for Business Y

Direct competitors are the easiest for the firm to identify, as they are those economic agents offering the same type of products or services to satisfy the same customer needs. In general, these products are sold at prices close to each other and often through the same distributors reach virtually the same potential customers.

For the furniture factory in City C, the direct competitors are wood furniture factories and furniture shops. These in order of importance, the strongest competitors are(<https://artwood.ro/>; <https://www.bricodepot.ro/>):

- S.C. Art Wood Company S.R.L. Sibiu - producer of premium wood products at much higher prices than the products offered by the analysed factory;
- SC SOFIA'S WOOD ART - Iasi - similar products
- Wooden Technic Prodimpex - Zalău - accessories
- ECOSILVA WOOD CARVING SRL - Tg Mures - accessories

Specialized furniture shops

- True Wood Furniture -Cluj, Rom Confort from Iași - more imperial style
- SC Turcan Wood Modeling SRL -Arad, Rustic Butique, Retro Butigue
- Wooden Design Furniture SRL - Tg Secuiesc , Mobila Epoxy -Timiș.

Indirect competition

These are firms that offer similar products to consumers but with different features that satisfy the same needs. Although these indirect competitors are less threatening than direct competitors, they still present a danger because they retain the willingness to attack another market or another customer base if they wish, thus becoming direct competitors. In the case of the Y. wooden furniture factory, the indirect competition identified in the market is represented by (<https://www.dedeman.ro/>; <https://www.ikea.com/>):

- Imports of second-hand wooden furniture and sold through second-hand furniture stores in H. County or neighbouring counties.
- Do-it-yourself and retail dealers. The most important are: IKEA PRAKTIKER, DEDEMAN. And more recently also eMag sells furniture.

Table 1. Presentation of the competitive advantages of the competition in relation to the firm under review

Strengths	Weaknesses
Direct competition from furniture manufacturers	
<p>First competitor experience in the field - high-performance machinery and equipment -experienced employees -innovative and luxurious hardwood products: walnut and cherry -good relations with suppliers - experience in exporting products -consolidation of market position - good quality products</p> <p>Second competitor - experience in the field, produces and markets similar products, already has contracts and collaborations with real estate developers in the surrounding area</p>	<p>First competitor - products are up to 40-50% more expensive than the products offered by the business under review, and in some cases up to 100% more expensive - the products are targeted at a narrow customer segment - very high income customers - longer manufacturing time - complex upholstered products with shapes and designs that are more difficult to make with special machines</p> <p>Second competitor - does not offer products in the style of furniture produced by company Y., classic and antique style</p>

Ikea is a major competitor, as they have improved their customer service, but the fact that there are only 2 centres open in the country is not a big problem for customers who love the furniture offered by this company.

Praktiker is becoming a strong competitor, especially after it was bought by Birco-Depot Romania group, the owner of this business is Turkish businessman Ömer Süsli, who came up with new ideas on brands sold through these stores under the Homelux brand in furniture and decoration.

Dedeman owns a well-developed chain of stores in recent times, offering furniture and furniture parts. It is a strong competitor in terms of prices and mobility of transport, payment in instalments of products.

Table 2. Presentation of the competitive advantages of the competition in relation to the firm under review

Strengths	Weaknesses
Indirect competition and substitutable products	
<ul style="list-style-type: none"> - Chain stores across the country - Praktiker, Dedeman, Ikea JYSK preponderant, affordable prices and transport facilities - Casa Rusu Furniture, Lem`s Furniture - they are quite well known on the market - Large number of factories and workshops of furniture made of chipboard during micro-enterprises - second hand shops with wooden furniture brought from different countries: Germany, Holland, Austria, Belgium - Including sales on various websites such as :OLX, Lajumate, publi24, offers360 - Can be assembled quite easily - Affordable price for both chipboard and second-hand wooden furniture 	<ul style="list-style-type: none"> - Not very high quality and very long life on chipboard furniture - Can easily peel - Second hand furniture can be with outdated designs or with various defects and wear and tear

3.3. Market strategy and definition of competitive advantages for business Y

From the analysis of the competitive environment at industry level it can be concluded that the furniture industry is in a period of continuous growth and expansion, therefore the conclusions of this analysis should be taken into account in the business project.

In a fast-growing industry such as the furniture industry, having a range of numerous models, sizes and product options can be useful from a competitive point of view. In a mature industry, however, characterised by price competition and the struggle for market share, the proliferation of product ranges can prove costly.

Narrowing the profit margin requires careful cost analysis to identify those items in the product range that contribute little to nothing or even erode the overall profitability of the firm. The central idea of the strategy for eliminating non-performing products is to discard these items and concentrate on those with high profit margins and/or where the company has decisive competitive advantages over rivals. Evaluating the product range on the basis of overall average costs (obtained by arbitrarily allocating common fixed costs) is not a recommended method in profitability analyses.

The reason is that without a detailed analysis based on correctly established and quantified relevant costs, loss-making products, which are subsidised by the above-average profits of leading products, cannot be identified.

The final conclusion is that in markets characterised by strong competition, the success of the firm depends primarily on an 'awareness' of how profit is made.

The Y business will define a strategy of concentration that consists in offering wood furniture products in classic, antique style, and the quality-price ratio will be fair and just towards customers.

A strategy of concentration and specialisation aims to build a competitive advantage and secure a certain position in the market by: meeting the somewhat special requirements of a particular group of customers, i.e. people who usually have medium to high incomes and lovers of wooden furniture in classic style, but at the same time with new and modern designs.

The particular aspect of this strategy is that the firm specialises in serving only a certain segment of the total market. The decisive assumption, which forms the basis of the strategy, is that the firm can serve the targeted market segment more effectively than rivals whose position is itself wider, more general, in the market.

The competitive advantage of this strategy is gained either through differentiation (better meeting the needs of the targeted market segment) or by achieving best value in serving the targeted consumer group, or both.

The main competitive advantage is the design of the furniture products and the second competitive advantage would be the quality-price ratio.

For the policy of promoting the business project and creating competitive advantages the following is considered:

- Investment in design! Designers have become important assets if they lead to innovation and combine traditional designs with the beliefs of the most sophisticated customers. Innovation is the key.
- Investment in marketing! Business models are meant to be either captive and not too aggressive. They are confined to passivity. Furniture product models are not yet present in the market as found in chipboard furniture or some imperial style products. Marketing means investing in the creation of a website to present the company and its products, a catalogue, which will be periodically supplemented and improved in leaflets stuck on the distribution machines.
- Using research and innovation to be able to pay higher salaries to employees! Attracting and retaining skilled employees. Most important is the degree of entrepreneurial openness to research-innovation and attracting quality employees. The project manager aims to develop a profitable strategy using other competitive advantages, i.e. those related to innovation, market niches, distribution and smart everything technologies, internet of things, sales based on traceability.
- Focus on quality! The company needs to focus on quality, good and fair value for money as it cannot compete with cheap furniture products. The business is aimed at buyers with medium to high incomes. And this can be a good niche where the business can be competitive over time.

4. CONCLUSIONS

We can say that the competitiveness of a business is the degree to which it meets the requirements of customers compared to other businesses for the products and services it offers and is determined by a number of factors that ensure sales success. Porter developed a model for analysing the competitiveness of a business as a function of five factors - called competitive forces. These are understood to be:

- customers - economic strength and leverage in negotiating with customers;
- suppliers - economic strength and bargaining leverage with suppliers;
- direct competition - changes in position between rival firms as a result of strategic moves and countermoves made to gain certain competitive advantages;
- new business - the danger posed by potential new competitors entering the industry;
- substitutable products/services - the dangers resulting from the substitution of products with those of firms in other industries.

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