



Competitive Strategies on the Romanian Market. A Possible Case Study

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Abstract

In a continually changing world, marked by the exacerbation of the competitive struggle, the companies' management need to constantly analyze the field in which they run their activity to obtain information allowing them to elaborate competitive strategies in order to maintain or increase the companies' profitability.

To attain this goal, the companies need to understand the activity field in which they are running their activity, the existing and potential competitors, customers, suppliers etc. In the present article, we aim to analyze the competitive strategies in the Romanian lighting product market. We have chosen this field due to the dynamism and the competition for finding highly efficient solutions for lighting. The intended analysis represents a possible case study in this field.

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JEL Classification: L110, M100, M210

Introduction

Any company operating in a certain field must realize an overall analysis and predict the future of the field in which it carries out its activity; it must know its competitors and its own position on the market and turn this analysis in a **competitive strategy**. It requires the *finding of a formula for the way in which the company is to compete, establish its goals and formulate the policies by which it should achieve these goals* [Porter, 2001a]. The essence in the elaboration of the competitive strategy consists in the reporting of the company to the environment in which it carries out its activity [Porter, 2001b].

1. The structural analysis of the activity field of lamps and lighting fixtures

For a company, the key environmental element is the field (industry) in which it competes. Michael Porter [2001b] defines the **activity field** as *being made up of a group of companies realizing products that can substitute one another*. The structure of an activity field has a strong influence on the setting of the competitive rules, like in the elaboration of the company's strategy [Ranchhod and Gurău, 2007].

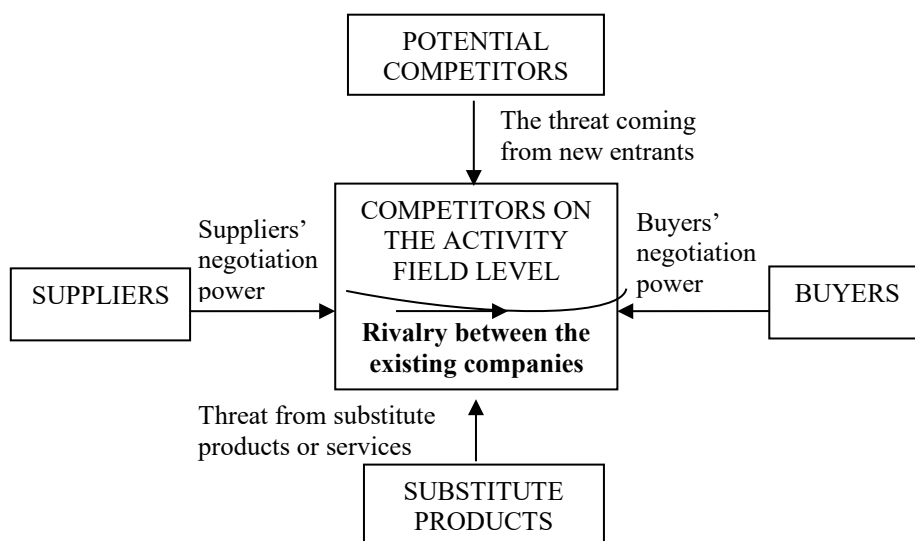
Thus, the position of a company on the market depends on the rivalry between the competitors existing in the activity field, on the threats from the new entrants, suppliers' powers, and buyers' powers (figure 1). The combined power of these forces influences the potential profit of that activity field.

Threat from the new entrants

The new entrant in a certain activity field brings a plus of capacity, shows a will of winning a market share as large as possible, and it often possesses significant resources. In the field under analysis – that of **lamps and lighting fixtures** – one can identify as new entrants the Chinese companies which, at the beginning of the 1990s, strongly influenced the **lamps and lighting fixtures (LLF)** market. The quality of the Chinese products was low; they did not carry a brand (they were even named “no name” products) but, due to their extremely low price, entered the market quickly, gaining – in a short time – a significant market share. In the meantime, the buyers realized the low quality of these products, and so their share decreased. But, these products enter relatively easily the markets where a lower purchasing power is recorded (for example Bulgaria, Romania), and harder the markets where purchasing power is higher, and buyers are much more educated (for example countries like the Great Britain, Austria, the Netherlands, Germany).

Figure 1.

Forces influencing competition in an activity field



(Source: Porter, 2001b : 79)

How can the existing companies counterbalance the threat from the new entrants? By activating the entry barriers in the lamp field, namely:

- *joint achievement of certain operations or functions*, by the manufacturing companies, for the realization of large-scale economies (in manpower, manufacture, purchase etc.); such collaborations can be achieved, for example, between a lamp manufacturing company and an electric equipment company; they can realize together a part of the manufacturing activity;

- *vertical integration*, so that the one who enters the market will have either to get integrated or to bear a cost disadvantage; an example of downstream vertical integration is a Romanian producer of lighting fixtures who has created lamp-specialized shops;

- *differentiation through product*; it reflects the fact that a company operating on the market benefits of a well-known **brand** and client loyalty;

- *access to the distribution channels*: the existing companies may get adhesion of the distribution channels' members for blocking the entry of the new entrant; in exchange, the new entrant can counterbalance this action by persuading the members of some channels to accept its product, by offering to distributors price discounts or promotional stimuli. Although these discounts can decrease the new entrant's profit (constituting an entry barrier), it might gain, in the long run, after consolidating its position on the market. The new entrant may also opt for the creation of its own distribution channel.

The expected reactions of the existing competitors constitute another barrier for the new entrants. If the new entrants expect a strong answer from the existing companies, the entry of other companies on the respective market may be discouraged.

Intensity of rivalry between the existing competitors

Rivalry between the existing competitors takes the shape of a fight to attain the best position attainable on the market – using competition strategies, by prices, advertising campaigns, new products, customer services/ guarantees improvement.

The rivalry between the competitors existing in the LLF field is fairly intense and it is characterized by the following elements:

- *Competitors' diversity*; in the LLF field there are competitors whose strategy or origin differ. This is due to some very diverse needs of lighting. Thus, they may find it difficult to understand the other competitors' intentions and establish a "set of rules". This intensifies competition;

- *"High strategic stakes"*. Rivalry in this field is increased by multinational companies like Philips and Osram, meaning to gain special success in promoting their overall strategy. These companies need a solid position on all the targeted markets to enjoy prestige or credibility throughout the world.

Pressure from substitute products

Identification of the substitute products requires the finding of those products that fulfil a function identical to that of the LLFs. This task may be difficult enough, since it requires the making of analyses which regard activity fields that are completely different from the analysed one. One of the substitute products worth considering is the new lighting technology allowing the capture of the natural light and its retransmission as light energy. This product is particularly used for the bright advertising signs.

Also, regarding the lighting installations, new ways of controlling and saving the electricity are discovered. Although such new technologies still require many investments (*as these act as entry barriers*), specialists consider that they shall have a great impact on

the lighting field. Investment in these substitute products is needed not just for research-development and manufacture units, but also to inform customers and especially the people who influence the market (designers, installers, architects).

Buyers' negotiation power

Buyers can represent a real danger in the case of an upstream integration. If buyers are partly integrated or pursue an upstream integration, they shall have a special negotiation power. Thus, if the buyers' motivation for integration is based more on the safety of the offer and on other factors unrelated to the price, the companies in the respective activity field (in our case, *lamps and lighting fixtures* manufacturing companies) can offer more price concession to hinder the integration.

In the LLF field, buyers may be the great distribution networks, the construction companies. The power of such buyers may be partly compensated when there is a menace of downstream integration. In this respect, LLF producers can create their own distribution system (as it requires their own deposits, means of transport, and own shops), or they can create a construction company that should ensure a part of orders (such is the case of a company in Alba County selling electrical appliances as a wholesaler and which has created a construction company, as well).

Suppliers' negotiation power

Suppliers may exert their negotiation power by threatening with the rise of prices or with reducing the quality of the products or services supplied. The suppliers' group may represent a danger by *downstream integration*. When we refer to suppliers, we usually think of companies. Nevertheless, *manpower* must be perceived as a supplier exerting great power in many activity fields. In Romania, the existence of an insufficient or poorly-trained manpower contributes to the lowering of profits and to the decrease of competitiveness.

A LLF manufacturing company may use threat with integration as a powerful negotiation instrument. For example, it *may integrate upstream* (in situation in which it is in the position of a buyer) by creating a manufacture workshop (for example, glass shop) that should supply a part of the raw material necessary for lamp manufacture. Producers may adopt the *conic integration* strategy [Porter, 2001b], namely satisfying a part of the necessary components out of their own manufacture while taking the remaining components from outer suppliers. Not only do these companies threat the activity field through an additional integration, but also their partial integration allows them to know details on costs that offer them an advantage in the negotiation process.

The role of the government in the competition settlement

The Government can lift some barriers in a certain activity field. For example, some non-EU governments accept only the import of foreign products that are ISO 9000 certified. Also, the government may act in its quality of buyer or supplier, and its decisions can often be controversial and determined rather by political factors than by economic circumstances.

The Government may influence competition and position of the LLF activity field by means of the settlements regarding the electricity supply. Another issue is related to the fact that the Romanian Government has supported the European Commission initiative regarding the electricity consumption reduction.

2. General competitive strategies

To face the five competitive forces, three general strategic approaches can be used [Porter, 2001a], namely: domination by total costs, differentiation and focus. The general strategies aim to outdo the competitors' performances.

Domination by total costs

This strategy was frequently used in the 1970s and requires a significant cost reduction, using experience (large-scale economy effect), low costs and control of the general expenses, avoiding insignificant customers and minimizing costs in fields like research-development, services etc. The factors contributing to obtaining a position characterized by low costs create entry barriers.

The strategy of domination by costs seems to be the headstone of the success of the LLF manufacturing Chinese companies. They achieve *important cost economies by: low remuneration level, avoiding insignificant customers* (products are offered to the markets where a higher purchasing power than in their country is recorded), *low level of advertising expenses* etc. The low costs, in this case, are mirrored in the low prices of the LLF.

On the other hand, the strategy of domination by costs can be adopted by those companies *re-designing their processes* for higher efficiency, namely by powerful, multinational companies. They carry out a larger volume of activities and can realize scale economies, consequently dominating the total costs [Danciu, 2004].

Differentiation

The second general strategy is based on the differentiation of the product or service provided by the company through a **feature giving it uniqueness** in the respective activity field. The company selects one or more attributes perceived by many buyers in a field as important and inimitably satisfies those requirements. The reward received by the company for its uniqueness shall be a higher price. Differentiation may be based on the **product itself**, the **delivery system by which it is sold**, the **marketing approach** or many other factors [Huron, 2007]. *In the case of LLF, for example, the differentiation applied by the Philips Company, the Netherlands – the European market leader – relies on product reliability, while a certain Romanian company has adopted a strategy based on its own distribution network.* Ideally, a company may be differentiated in several fields. The logic of the differentiation strategy requires that the company should choose as attributes for its own differentiation those *differing* from its rivals' attributes.

Focus

The last general strategy emphasizes a certain group of customers, a segment of the line of products or geographic market. Unlike the other two strategies aiming to attain goals on the level of the whole activity field, focus supposes choosing and serving a narrow competitive field in the industry. For example, *Ralux Company, Fieni, has focused on the manufacture of economical lamps.*

The danger of “intermediate” strategies

A company with no clear strategy shall compete in disadvantageous conditions, since the cost leader, differentiators or focusers will be better positioned for competing in

any segment. In most economic industries, pretty many competitors do not have a firm strategic direction.

The risks of general strategies

There are two main types of risks accompanying the general strategies:

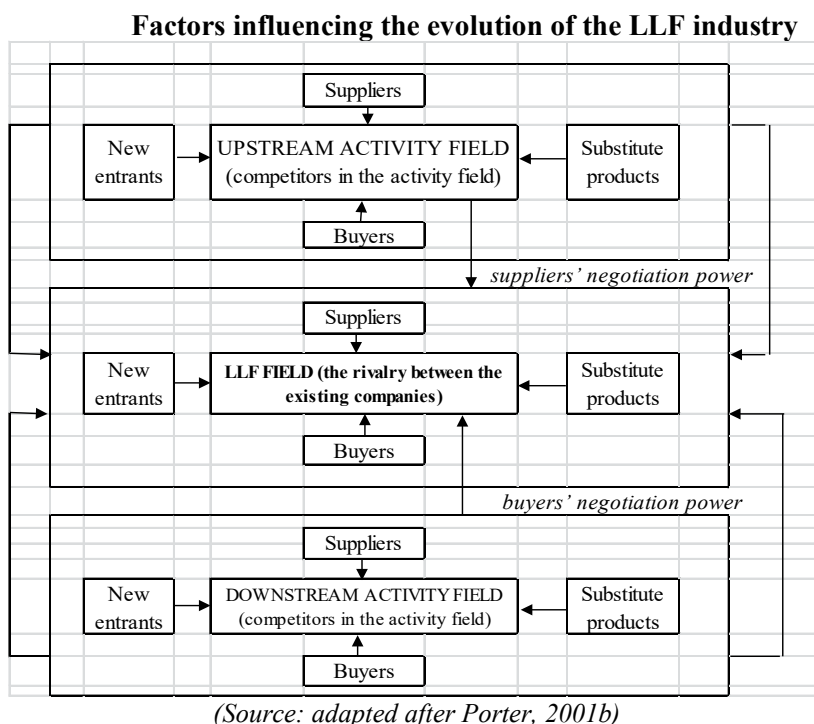
- the first is the risk of failing in turning into practice or sustaining the strategy;
- the second is the risk that the value provided by the strategic advantage might get eroded as the activity sector evolves.

3. Structural changes in the adjacent fields and possibility of vertical integration

The evolution of the activity field depends on the influence of the five factors analyzed previously. They determine the elaboration of the competitive strategy [Hill, 2009]. Yet, the suppliers' and buyers' negotiation power also depends on the structure of the activity field they belong to (respectively, the upstream and downstream areas of the industry branch under analysis). But these fields are also influenced by their own specific factors, as well.

The structural changes of the adjacent activity fields shall have important consequences on the evolution of the industrial field under analysis (figure 2). The suppliers' and buyers' influence on the LLF industry has been analyzed above. In the upstream activity fields, we can take the example of the producers of raw materials for LLF (like glass, copper etc.), electricity suppliers, manpower suppliers etc. Also, the downstream activity fields contain the domains of construction, furniture, the automotive industry, large market chains etc.

Figure 2.



The LLF activity field is a fragmented one, as there are few and small Romanian producers, but there exists, in exchange, a large number of small and medium companies in the distribution field (and a few large wholesalers). The activity fields caught in the fragmentation trap can hardly overcome this stage. Thus, in the activity field, great-scale economies can be obtained, but companies lack the capital or expertise needed for building facilities able to operate on a large scale or *for making the necessary investments for a vertical integration*. Companies may lack resources or qualifications for *developing internal distribution networks, an internal service network, specialized logistic facilities or franchises* that could promote the consolidation of this activity field. The possibility for a LLF manufacturing company to adopt these strategies is analysed in Table 1 below.

There is no general method to compete efficiently in a fragmented activity field. Anyway, there are a few strategic options in the case of a fragmented structure. They rely on low costs, differentiation or focus.

Table 1.

Strategic options for overcoming the fragmentation in the LLF field

Strategy which may be adopted	Modality of adoption of the strategy
<i>Development of its own distribution channel</i>	Even if the company does not have the necessary resources for a complete distribution system, it may try a downstream integration by creating an own sale force, or of a shop/showroom
<i>Internal service network</i>	A LLF manufacturing company may integrate in its offer equipment installation services, or design services etc.
<i>Specialized logistic facilities</i>	A viable solution might be the logistic activity outsource
<i>Creation of added value</i>	Low costs, differentiation or focusing

(Source: the author's contribution)

One of the strategic decisions available to a company operating in a fragmented activity field is **vertical integration** [Ranchhod and Gurău, 2007]. Companies integrated vertically consider that it is advantageous for them to accomplish a significant part of their administrative, manufacturing, distribution or marketing processes needed to achieve their products or services under their own “umbrella”, giving up on the conclusion of contracts with a series of independent entities. To find an adequate degree of vertical integration, the company management needs to compare the economic and administrative advantages of the integration with the economic and administrative costs.

The finding of a balance between advantages and costs shall differ according to the activity field and to the strategic situation in which the company is [Porter, 2001a]. Thus, we consider that *a fragmented activity field (like that of LLF) exerts a relatively low pressure on the company in the process of integration*. It has a variety of alternatives for the purchase and sale of its products, so that it might not consider integration necessary. The strategic situation in which the company is may determine the adoption of the integration decision. For example, a company whose strategy relies on differentiation might adopt the decision of integration, unlike one relying on costs.

Also, many of the advantages of integration may be obtained, sometimes, without bearing all the costs, using *quasi-integration* – making use of credits or shares and other means by which *partnerships are created* between vertically connected companies.

4. Competitive strategies depending on the role of companies on the targeted market

Competition in of the LLF field has been analysed in the previous sections. Nevertheless, when *competing for the customer's money*, companies are dealing with a much higher competition. One can consider that a company has as competitors all the other companies producing the same product or class of products. Yet, competitors are, at the same time, all fighting for the same customers. Thus, a LLF manufacturing company shall also compete with the companies offering consumer goods, trips, cars etc.

Another way of identifying one's competitors is to takes into account the market. From this perspective, competition is represented by the totality of the companies trying to meet the same needs or to serve the same group of customers.

Philip Kotler has classified the competitive positions, depending on the **role of the companies on the targeted market** [Kotler et al., 1998], into: domination, challenge, “peaceful following” or serving the market niches. Now, we shall analyze the specific marketing strategies to be applied by the four categories of companies.

Strategies of the leader-company

The leader is the company with the highest market share. The market leader is a key reference for competitors, being a company to be **challenged, imitated or avoided** [Kotler et al., 1999]. The LLF market leader worldwide is *Philips*, a Dutch company, and, on the domestic market, the largest lamp producer is *Elba*, a company of Timișoara. The *Philips* products own the largest market share in Europe and worldwide.

Leader companies desire to stay on the position they occupy, which requires actions on three fronts [Kotler and Armstrong, 2003]:

- Companies must find solutions to extend the total demand. It may be achieved by searching:
 - new users (for instance, the new dwellings being built need lamps and lighting fixtures, just as the new offices, shops etc, as well);
 - new uses (for example, the use of LLF in the beauty field);
 - a more frequent use (for any company it will be very hard to monitor this action, due to some European norms and worldwide concerns for the reduction of the electricity consumption and of the carbon dioxide emissions);
- Protection of the position held on the market.

To do so, they need to eliminate their weaknesses, which may be targeted by their competitors. The leader must maintain costs on a low level, and price must be in concordance with the value perceived by the customer for the respective product. The best defence is attack, and the best answer to attacks is *continuous innovation*. It may be achieved by releasing new products, new services, perfecting the distribution system, reducing costs etc. Thus, in the field of the *new lighting technologies*, one can distinguish certain applications achieved by *Philips Lighting* such as the Master Colour Elite Lamp, the first lamp of this kind created for applications in the retail field whose role is to show products in their natural, true colour. So, the lighting in the shopping areas comes closer and closer to the natural light.

This influences the environment inside the shop [www.philips.com and www.lighting.philips.ro].

- Extension of the market share.

The leader aims, first of all, to obtain a great market share; then it will try an intensive distribution to cover the market as much as possible. If it intends, first, to have a good image, then it will choose a selective or even exclusive distribution.

Strategies of the challenger-company

The challenger-companies attack the leader or the other competitors aggressively to attain higher profitability by increasing their market share. To attack the market leader, the challenger company must have a substantial competitive advantage – either costs allowing lower prices, or a more valuable offer justifying a high price [Kotler and Armstrong, 2003]. Thus, some challenger companies in the LLF field may attack the leader in the street lighting segment. For example, in the year 2009, the tender for lighting the capital city of Switzerland, Bern, during the Christmas holidays, was won by a company that suggested the use of a lighting system based on economizing sources.

The strategies of the follower-company

These companies try to imitate the leader while learning, at the same time, from its experience. The follower company may represent the main target of the attacks from challengers. Therefore, it must keep the manufacturing costs low and maintain high product quality, and must offer high-quality services. It also needs to join new markets as these markets appear. To be a follower company is not the same as being passive or being a faithful copy of the leader. On the LLF market in Romania, there are several follower companies trying to maintain their position on the increasingly competitive market. They follow the products released by the leader company (*Philips*), and study them; some of them have their own design departments and cooperate with research institutes and universities in the attempt of introducing these products in their series manufacture.

Strategies of the companies looking for a market niche

The company relying on this strategy gets to know the customers so well that it can meet their needs better than any other company occasionally selling its products on the respective niche. The main idea of serving a market niche consists in specialization. In the LLF market, most manufacturing companies have specialized depending on the products. Thus, *Luminex* Company, Ploiești, produces only fluorescent lighting fixtures, and *Ralux*, Fieni, only economizing lighting sources.

Conclusion

The companies in any activity field have to face the challenges in that environment, competition being one of them. The current context of globalization of the markets creates closer and closer interdependences between companies, as they face a competitive pressure both in their activity field and in the adjacent fields. The field analysed in the present paper, namely that of lamps and lighting fixtures (LLF), is characterized by a powerful competition on the Romanian market, where there are well-known brands of worldwide producers that compete the few small-size Romanian producers. At the same time, the Romanian companies are also challenged by the low-cost products coming from countries like China, bought by buyers whose purchasing power is low. In this respect, to face the competition, the Romanian companies either choose to invest in re-technology to obtain a competitive

advantage or enter partnerships with the multinational companies present on the Romanian market.

There is no generally valid competitive strategy that a company should adopt; what is needed is a permanent analysis of the environmental factors and a continuous adaptation to the market conditions.

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