

STRATEGIC ANALYSIS MODEL. PORTER'S 5 FORCES MODEL: CASE STUDY

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ABSTRACT

The research is an analysis of strategic management for a company in the field of retail in Romania using the model of the 5 forces of Porter. The biggest threats in the Romanian retail market come from the area of the existing competition but also of the new entrants, the company facing real problems due to this, being obliged to identify new spaces on this market. In the case of the company that is the subject of this case study, this is obvious, given the fact that the Romanian market has been invaded in the last 10 years by companies with foreign private capital. Thus, the company makes great efforts to be able to withstand a competitive market of such a nature, this being possible only by developing new approaches. In this context, the main purpose of the research is to determine the strategic mistakes of Romanian retail companies. In order to achieve the objective, the research is trying to answer the question: Is strategic management the cause for which Romanian retail companies fail? The importance of the research is given by the fact that the retail sector is the main component of GDP in Romania, in 2020 it has or gross growth of 2.2% compared to 2019.

Keywords: Retail market, strategic management, performance.

Jel Codes: L20, L21, L81.

1. INTRODUCTION

Strategic management is the planning, monitoring, analysis and ongoing assessment of all the needs that an organization needs to meet its goals and objectives.

Changes in the business environment will lead organizations to constantly evaluate their successful strategies. The strategic management process helps organizations to summarize their current situation, to discover strategies, to implement them and to analyze the effectiveness of the implemented management strategies.

Strategic management is generally considered to have financial and non-financial benefits. A strategic management process helps an organization and its management to think and plan for their future existence, fulfilling the main responsibility of a board of directors. Strategic management sets a direction for the organization and its employees. Unlike the strategic plans made once, an efficient strategic management continuously plans, monitors and tests the activities of an organization, resulting in a higher operational efficiency, market share and profitability.

Strategic management is based on a clear understanding of the organization. The process requires a commitment to strategic planning, a set of business management tools that involves an organization's ability to set both short-term and long-term goals. Strategic planning also includes planning strategic decisions, activities and the allocation of resources needed to achieve these goals.

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Having a defined process for managing an institution's strategies will help organizations make logical decisions and quickly develop new goals, to keep up with changing technological, market and business conditions. Strategic management can thus help an organization gain a competitive advantage, improve market share, and plan for its future.

2. COMPANY OVERVIEW

MAYA SUPERMARKET is the economic operator of the largest store network in Prahova County. The company has 100% Romanian private capital, being a family business, currently among the few companies, belonging to the field of retail trade, in Romania, within the local store networks (LKA), which managed to develop in the conditions in that this market has been invaded in the last 10 years by companies with foreign private capital.

MAYA SUPERMARKET has acquired a reputation, at least locally, for its seriousness and continuous orientation towards satisfying customers' needs. The company's mission derives from the desire to bring the concept of supermarket and modern trade close to as many communities in the county in which it operates, the market offered by Prahova County being quite large, nationally being the second county by population.

Thus, from its establishment in 2009, which coincided with the first store inaugurated, until 2020, the company managed to open another 19 stores making the store network an important player on the local market and, according to the number of operating points operated, one of the largest traditional networks at national level, the company's strategy aimed at horizontal development. Also, with the new store openings, the number of employees in the store network increased to 350. The salary level is with a percentage between 5-10% above the average salaries offered in this field by competing companies, which makes MAYA SUPERMARKET an attractive company for people looking for a job.

The development of the company has accelerated in the last 3 years, the company managing to tick the opening of 12 new work points, which means approximately a new opening every 3 months. This development has as main source the change of the management team, about 4 years ago, which resulted in a change in the perspective of the company's activity in terms of development and how it relates to current economic factors.

Among the changes offered by the new management are:

- the inauguration of the central warehouse which helped to obtain lower acquisition costs given the fact that it was possible to purchase larger quantities, being sufficient and adequate storage space.
- issuing a flyer with bimonthly promotions addressed to customers and subsequently issuing a magazine in the true sense of the word with promotions that would make the store's product offer much more attractive.
- the number of new products listed on the network was very large, customers being able to find on the shelves of stores products that benefit from television advertising.
- The company does not have any source of external financing, such as an investor, investment fund or bank loans, the budgets for the development of the store network being fully supported by the revenues generated by the company's activity.

3. ANALYSIS USING PORTER'S FIVE FORCES MODEL

Porter's Five Forces model is a framework that helps analyze the level of competition in a particular industry.

According to this framework, competitiveness does not only come from competitors. Rather, the state of competition in an industry depends on five basic forces:

- threatening new entrants
- the bargaining power of suppliers
- buyers bargaining power
- threatening with replacement products or services
- competitors in the existing industry.

The collective power of these forces determines the profit potential of an industry and therefore its attractiveness. If the five forces are intense, almost no company in the industry earns attractive returns on investment, and if the forces are light, there is room for higher returns.

Definition of the 5 forces:

➤ **Replacement products**

The company has stability regarding this factor, this being generated by:

- the large size of sales capacity through the 20 points of sale
- the quality of products;
- the tendency of consumers to purchase superior products from a qualitative point of view.
- diversity of products sold
- a competitive shelf price for the end customer

➤ **New entrants**

As for new entrants, the company is facing problems, as the number of operators with foreign capital, the large international chains of stores (supermarkets and hypermarkets) has grown rapidly in recent years.

Due to the lack of regulations regarding the opening of new stores, there are practically no barriers to prevent the appearance of new players on the market.

➤ **Suppliers**

Suppliers are largely represented by local distribution companies, but there are also national suppliers or even producers who also have their own distribution capacities.

Thus, the bargaining power of suppliers is moderate, because, unlike large chains stores that have their own distribution platforms, so distributors are restricted access to this market, the company that currently operates 20 stores, makes the routes of distributors to become profitable. Therefore, the suppliers consider the company as a strategic partner and have every reason to offer very good collaboration conditions.

➤ **Consumers**

The main market is represented by Prahova County, but the company also operates two stores in Dâmbovița County.

The main customers are the inhabitants of the localities where the company has shops, but there are also transit localities where customers are also people from other areas of the country.

The bargaining power of consumers is important, because customers are interested in the lowest possible price and high quality.

➤ **Competitive level**

It is given by the number and strength of competitors in the retail industry. In Romania, this competition is very high due to the large international chains of stores that have literally invaded the market in the last 10 years.

These international chains, which benefit from extremely large development budgets, make the development of the traditional ones in this field quite difficult or even impossible, in some cases, which unfortunately are more and more frequent, even lead to the closure of the points. Of companies with Romanian capital that cannot keep up with the level of investments supported by these foreign companies.

The main advantages of these companies are offered by the development and promotion budgets, which offer them the possibility to build new locations in the absence of spaces for rent and promotion at national level on the main television stations.

Depending on the intensity of the action of the forces, they are grouped as follows:

- Low intensity forces:
 - Threat of substitute products
- Medium intensity forces:
 - Bargaining power of suppliers
- Forces of increased intensity
 - The threat of new entrants
 - Rivalry between existing companies
 - The bargaining power of customers

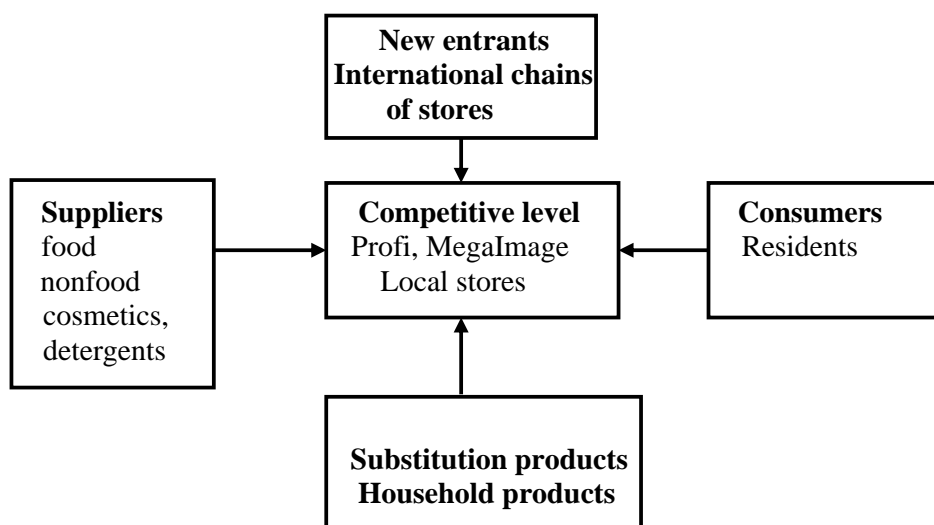


Figure 1. Graphical representation of Porter's 5 forces model (own creation)

4. CONCLUSION

The strategic analysis of the organization includes the analysis of the strategic situation of external and internal environmental factors as well as the establishment of relations between them.

Starting from the establishment of the vision, the mission of the objectives and the strategy of the company, from the initial or taken over organizational culture, the companies are in front of some strategic alternatives aiming to ensure the competitiveness on the market in relation to the other players.

Porter's 5 forces model helps entrepreneurs in evaluating the business, taking into account the market position but also the branch of the industry in which it operates and provides the necessary tools to determine the prospects of maintaining the market and at the same time development.

From the analyzes performed, we can deduce the conclusion that in addition to employees, business partners or customers, environmental factors play an increasingly important role.

Following the analysis using the model of Porter's five forces, it can be seen that the retail market is one of the most dynamic in Romania, if not the most dynamic, registering significant increases in recent years, with the appearance on the market of great international players.

Compared to the European market, in Romania the consumptions are still low, but the consumer market has seen more and more increases.

One of the main factors determining this evolution is the increase of the purchasing power of the population. Also, people have started to pay more attention to the way they do their daily shopping, being oriented towards stores that pay special attention to the experience offered during the shopping sessions.

From Porter's analysis we find that organizations are not only competing for resources such as information or obtaining low purchase prices, but also for gaining legitimacy from the environment, implicitly customers.

In the case of the company that is the subject of this case study, this is obvious, given the fact that in recent years, the Romanian market has been invaded in the last 10 years by companies with foreign private capital. Thus, the company makes great efforts to be able to withstand a competitive market of this nature, this being possible only by developing new approaches.

The biggest threats come from the area of the existing competition but also from the new entrants on the market, the company facing real problems due to this, being forced to identify new spaces on this market.

The analysis based on Porter's 5 forces model highlights the company's main problem, which is that due to the emergence of several international store chains, competition is increasing, customer options are diversifying, thus affecting the company's revenues and implicitly profit. In addition, the number of localities that do not have a supermarket store for the daily shopping of the inhabitants is reduced.

Thus, part of the company's problems lies in the company's inability to react to the massive movements in the market in which it operates.

Of course, during this period, it is not the lack of information that is the problem, as it was a few decades ago, but the ability to filter it, to extract the useful ones from the data explosion that floods us daily and that grows exponentially.

The challenge is great, the obstacles to the implementation of strategies for maintaining the market and even development, are numerous, from putting employees in front of the need for a strategic change to limited resources, motivation and even the company's internal policy, but this does not excuse the lack action in this direction.

If we look at last year's statistics on insolvencies in Romania, we find that the sector of companies whose main activity is retail is 17% of the overall total of the 23 most important industries.

These companies are in this situation due to management, unable to understand market changes. One thing is quite certain, those who do not know why they have grown, will not know why they will decrease or disappear from the market.

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