

ANALYSIS OF THE SECTORAL ENVIRONMENT IN SELECTED COMPANY ACCORDING TO PORTER

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Abstract

At the present time, full of dynamic changes, the necessity of a quality management system and its introduction is quite obvious. Due to strong competition, a growing number of enterprises, and ever-increasing customer demands, companies are introducing quality standards into all business processes. Our modern era requires companies to constantly analyze and monitor the environment in which they operate. It is important to foresee the trends and changes so that organizations can have enough time to react. In our work, we focused on five key areas that described it as a whole. In the beginning, we paid attention to the size of the mechanical engineering sector in which the company operates. In other parts of the work, we focused on the analysis of the power of suppliers, purchasers, and competitors. The other two points of the analysis were the threat of entering the industry, and we described the possible substitutes. The result is a table that gives the ratio between the factor and the level of risk represented for the organization. From the Porter analysis table, it is clear that the situation of Eurosvit, s.r.o. on the market is positive. It is obvious from this synthesis that Eurosvit can expect a demanding period of continuous improvement with regard to the strategic objectives, which are very challenging and ambitious. In particular, the focus should be on the continuous improvement of all business processes and quality, which will lead to improved overall performance and competitive advantages.

Keywords: *enterprise, business, analysis, industry environment, Porter's model of five competitive forces*

JEL classification: *M130, M000, M190*

1 Introduction

Industry environment is very important for organizations. There are many definitions of company's surroundings. The authors, Majdúchová and Neumannová, understand the surroundings of the enterprise as "a summary of the elements of the environment with which the enterprise is in mutual bond. E. Strážovská and colleagues define the business environment as a set of elements that can affect SMEs directly or indirectly but also small and medium-sized businesses can influence their surroundings positively or negatively. To characterize the sectoral environment of the engineering company Eurosvit, s.r.o., we used Porter's Model of Five Competitive Forces, which will give us a picture of both the company itself and the environment in which it operates. Through this analysis we obtained an overview of the competitive environment and substitutes that can pose a threat to companies. At the same time, we determined both the power of the supply and demand chains. The concept of competitive forces that define the industry environment was created by Michael Porter, according to which it is formed by the rivalry between existing firms, the threat of entry of new competitors, the threat of substitution, the economic power of suppliers, and the economic power of customers.

1.1 Size of the industry

In Porter's analysis, it is first necessary to define the size of the industry in which the organization operates. We consider a sector as a set of organizations or companies whose main business activities are similar or the same. Our attention was focused on the mechanical engineering in Slovakia, where the company Eurosvit, s.r.o. is included. Industry as such belongs in Slovakia to the engines of economy and decisively participates on the creation of the gross domestic product. According to Eurostat, the Slovak Republic belongs to the Top 10 countries of the European Union regarding the share of the engineering industry in the total GDP of the country. The average of the Eurozone is 17% and in the case of Slovakia it is 22.8%. At the head of the table is the Czech Republic with 29.2%. According to the statistics of Finstat and its database in the category of metalworking and metallurgy, from the total of about 419 000 companies 6 320 operate in the field of metalworking and there are 3005 companies in engineering, which makes a total of more than 9 300 companies that are engaged in this activity in Slovakia. In the Region of Nitra, understood as a region, we include 1 210 companies.

2 Data and methodology

The aim of the article is to analyse the sectoral environment from the view of the company Eurosvit, s.r.o. according to Michael Porter. The analysis divides the sector into five areas that describe it as a whole. In the introduction, our attention was focused on the mechanical engineering in Slovakia, where the company Eurosvit, s.r.o. is included. The size of this industry was calculated according to data from organization called Finstat. In the next part of the work, we described the power of competition, substitutes, buyers and suppliers. The last part describes the barriers to entry into the sector. At the end of the article, the results of the analysis are shown in an overview table. The data needed to perform the sectoral analysis were obtained from the company's internal resources.

3 Results and discussion

According to our research in the selected company Eurosvit s.r.o. we analysed five areas of sectoral environment.

3.1 The power of suppliers

In the area of suppliers, we will concentrate mainly on the suppliers of metallurgical materials, which make the largest share in the structure of the suppliers of Eurosvit, and they are also the most important ones, as the input materials (metal sheets, stainless steel sheets, etc.) are crucial to the company. During the existence of Eurosvit, we have encountered a number of market situations and have undergone different developments even with sheet metal suppliers. In the past, the company struggled with timely deliveries, quality and prizes. Currently, as it has a better bargaining power due to its volume of production; the situation has considerably improved. At present we consider the quality of the supplied sheets and input materials to be the biggest problem. With high-quality production and world-class customers (Scania, Husqvarna, etc.) that emphasize quality, the quality of Slovak suppliers of metallurgical materials is insufficient. The lack of quality is particularly evident in thicker sheets where the required size and tolerances are not met. This affects the production process and leads to a higher number of rejects and complaints. This situation is considered to be the greatest threat at this time. It has at least been partially resolved by the purchase of metal sheets through the Swedish partner from Scandinavian manufactures, in incomparable quality. On the other hand, the export of Sweden to Slovakia and the surrounding countries in any area, especially in the import of metal sheets, is minimal, and that is why the prices are not competitive in the long term.

3.2 The power of purchasers

Customers are key players from all aspects of the company. They play a particularly important role in engineering, where a large number of different companies are operating, and these companies can easily cover the demand, i.e. the competition is rampant.

In the past, Eurosvit, s.r.o. struggled with a very unstable structure of customers, where the demand was covered by three large companies, so the risk of loss and subsequent existential problems were very high. This risk materialized during the economic crisis at the turn of 2008 and 2009, when the company lost its largest customer.

At present, we can talk about an optimal customer structure, where the risk has already been diversified. The added value was brought by the Swedish company Laserkraft, which got Eurosvit from regional to the international markets, thus making it possible for us to reach foreign customers.

3.3 Competition

Today, when the borders between countries are getting less important and with very rapid technological advances, we are talking about transnational competition or a competitive environment. In the past, the company Eurosvit, s.r.o. operated in a small regional market and supplied mainly smaller regional customers. Through gradual development and, in particular, entering the joint venture; its horizons have expanded and we are now talking at least about the European market and growing competition. In Slovakia, the engineering industry is the driving force of the economy, and for this reason we are speaking of the fragmented structure of competition, which is formed by a large number of enterprises of different size, mostly micro, small and medium. This condition also defines the operation of individual companies, since none of the enterprises has a major impact on the development of this sector. In the engineering industry, we are facing a very strong competition, which is characterized by price wars and often unfair practices. Undertakings often operate with low margins and below prices, which has often led to their failure. In this situation, Eurosvit should clearly choose for a customer diversification strategy to spread the risk in the best possible way and build a long-term and sustainable competitive strategy, which will be based on high-quality products. On the other hand, it is necessary to mention the exit barriers from the sector, which play an important role. Companies usually work on the basis of long-term agreements or contracts (with both suppliers and customers) and for this reason the exit from the sector is time consuming and costly.

3.4 Entry barriers in the sector

In the previous section, we have described the existing competition and the competitive environment. On the other hand, it is also necessary to think about the future competition, in other words, the entry into the sector. In this section we will describe the barriers that make it difficult for new companies to enter the engineering industry. We have defined the following main entry barriers:

- **capital investment and technology**

The engineering industry in Slovakia has its relevance, significance and rich history. For a number of reasons, doing business in this field is very demanding for most companies. One of these is the investments themselves, which are very high throughout the whole operation of a company. Technological advances, new market developments, the introduction of new systems or software are costly in financial terms but unavoidable in the face of competitive struggle and market sustainability.

- **high input investments**

High entry investments are considered to be one of the key factors that prevent companies from entering this industry. High investments in machinery, various support systems and software are insurmountable in many cases. It is necessary to realize that entering the engineering industry is not possible from day to day, which can be considered as an advantage for the existing companies.

- **savings from overproduction**

As we mentioned above, the competitive struggle in the engineering industry is really very strong. Companies are fighting for each customer, and price warfare is on a daily basis. It is precisely for this reason that savings from overproduction or production volumes are very important. This is the purchase of materials, or all input materials and, of course, also the investment in machinery and constant development. We consider savings from overproduction to be one of the most important competitive advantages of the existing businesses.

- **structure of competition**

As we have already mentioned several times above, the competitive struggle is very strong in the engineering industry, and this fact can discourage the companies which consider entering the industry. Saturation of the market and a large number of small firms are characteristic phenomena.

3.5 The power of substitutes

The engineering industry in Slovakia has its rich history, and many companies have been drawing from it even today. In the past, there were large engineering

factories, which produced generations of skilled engineers and contributed to the building of education in this field. At present, Slovakia is considered to be an automotive great power, which significantly affects the mechanical engineering. In the case of substitutes, namely products that satisfy the same customer needs, it is possible to consider the market situation as a positive one, offering good opportunities for Eurosvit. The only alternative that has been piloted before is the products in the plastics industry. Compared to metal components, they have lower weight and even price, which can be interesting for customers. Many companies that have tried other alternatives have often struggled with poor quality and have come back to engineering products again. We must not forget about the high environmental protection requirements connected with plastic materials.

From the analysis of the sector, we can conclude that we have identified more opportunities than threats for the company Eurosvit, s.r.o. Due to our research in the selected company, we estimated the level of risk in each part of Porter analysis. Despite the fact that the company is operating in a very strong competitive environment, where there is a daily struggle for customers, we can see an opportunity here in the form of a partnership with the Swedish company and in building a sustainable long-term competitive advantage. The competitive environment is also influenced by substitutes, but they do not play an important role here. Future competition and the threat of new competitors on the market is in the case of the mechanical engineering industry very limited, particularly in view of the high investments (entry investments even during the existence of the company). Organizations usually work on long-term contracts; therefore, the entry and exit are time-consuming and, most of the time, financially demanding. Eurosvit, however, has to pay attention to its suppliers, increase input control and ensure competitive prices. Concerning our customers, the company has undergone a considerable development, and the structure of our customers is now considered optimal. The results are summarized in the overview table.

Table 1 Impact of Porter analysis factors and risk rate

Factor	Risk rate
<i>Power of suppliers</i>	<i>Medium factor impact</i>
<i>Power of purchasers</i>	<i>Medium factor impact</i>
<i>Risk of the entry of potential competitors</i>	<i>Low factor impact</i>
<i>Threat of substitute products</i>	<i>Low factor impact</i>
<i>Competition</i>	<i>High factor impact</i>

Source: Internal data of the company Eurosvit, s.r.o.

4 Conclusion

Eurosvit, s.r.o. is a stable engineering company that has been operating on the market for over 17 years. From a small, one-person company, it has developed into a mid-sized business with a young top management who are not afraid of changes. By constantly monitoring the environment in which the organization operates, Eurosvit has been able to build a stable position, anticipate changes and promptly react to them. Sectoral environment analysis is a stable part of it.

From the Porter analysis table, it is clear that the situation of Eurosvit, s.r.o. on the market is positive. In the context of five competitive forces, only the strength of the competition has a significant impact on the future functioning of the company. Competition in the engineering industry is strong, mainly due to the rich history of the sector in Slovakia, the large number of small companies operating on the market and the elimination of borders between countries. The power of buyers and suppliers and its impact have been assessed as moderately high. The customer structure of the company has been changed successfully and significantly, and we consider the risk to be diversified in this field. On the other hand, the input material suppliers are crucial, but even in this area, the company has spread the risk over numerous businesses. The risk of the entry of potential competitors has a low impact, according to our analysis; it is mainly due to barriers to entry into the engineering sector. We evaluated the impact of substitutes as very similar, especially due to the properties of engineering products, which can only be replaced with difficulty.

It is obvious from this synthesis that Eurosvit can expect a demanding period of continuous improvement with regard to the strategic objectives, which are very challenging and ambitious. In particular, the focus should be on the continuous improvement of all business processes and quality, which will lead to improved overall performance and competitive advantages. However, we must not forget the risks arising from the sectoral environment, such as competitive struggles, price wars, or price changes in input materials. On the other hand, through a strong organizational structure and culture, support from the partner company and a good customer structure, it is possible to prepare for these changes in advance. Nevertheless, the engagement of all employees in the company is also indispensable.

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