STRATEGIC BUSINESS APPROACH. OR HOW BIG? AND WHAT FORM?

Neamțu, Liviu[1]
Neamțu, Adina Claudia[2]

Abstract

The concept of strategic approach is a concept that has systematic eluded from literature so far. Or at least it was integrated into the concept of strategy as part of the decision regarding the increase, maintenance or reduction of business activity in the market and firm size. Through this study we try to establish what is and is not the strategic approach in order to differentiate the two concepts, the strategy and the strategic approach, based on different decision needs inside the business company.

As a strategic decision, the strategic approach must be positioned as the first strategic move of the company before taking any decision on portfolio strategy and business behavior. From this point of view the company will have to develop a coherent and integrative vision on the businesses they will run on medium and long term with the purpose to establish an identity on the market and folding on manifested needs in the consumption. The paper also proposes a model for the development of strategic business approach in relation to the specifics of the market in terms of its current or estimated size and to forms under which consumption occurs.

Keywords: *approaches, strategy, vision, market, system*

JEL Classification: L19, M10, M30

1. Introduction

Each organization is primarily an entity that is part of a larger system, a system that has a certain orientation. Business systems that integrate or to which organizations relate are called operating industries. Within these business systems firms must develop a strong identity and vision in their struggle to secure a market position in the industry. Building a market position through a strong identity is essentially to have a strategic approach. Identity is obtained by defining business domain or defining what the company makes.

Companies that do not develop a consistent business approach and fail to define the strategic domain reach a certain point that no longer hold a set of values, principles, business models and methods or otherwise a strong identity, oscillating between many options regarding business direction or keeping itself in a neutral defining zone with no impact in the market. In this way a firm in the tourism industry can build neutral corporate identity as tourism firm but also can develop new concepts of business like integrated network that includes tourism agency, resort-type services and transportation-transfer services. A business definition for a particular tourism agency can take the form of travel agency or even broader like travel & leisure agency.

The way to make this strategic definition of the scope of business will ultimately determine all other elements of the strategy like products and services portfolio, business marketing and offer positioning or product and services conception and design. The strategic approach becomes scoping the business and how large or small it is the business thought. Or otherwise: How big the business are?; and What form the business has?

But defining business cannot be achieved only due to the desire of business owners or management. Definition will have to be based on a coherent analysis of the market and its capacity. Market extends to where? What the market allows and does not allow? In this way the business environment, by its long term orientation, represent reference framework to guide

[1] Associate Professor, Department of Management and Business Administration, Constantin Brancusi University; professor.neamtu@yahoo.com
[2] Professor, Department of Management and Business Administration, Constantin Brancusi University

strategic approaches of firms. Meanwhile, if an approach is based on internal company interests and sufficient resources, then the companies are trying to influence the business environment in relation to their own strategic approach. But nothing will be possible unless there is a latent or potential availability of the market. And for this the companies should identify potential markets, available markets and sometimes niche markets.

Some authors consider that scoping is best done through the company mission. Regarding this conclusion is clear; within an organization cannot miss what is called global vision that can substantiate a clear mission, mission followed and monitored throughout the organization. If a shared vision exist then may be possible to formulate and implement a comprehensive long-term strategic approach, for a period of up to 10-15 years.

In organizations management, a unified strategic approach it is more necessary than corporate strategy given that the strategy follow a coherent business approach. Strategic approach offers a shared vision at the level of organizational and structural system and across all undertaken businesses and activities.

Adopting a strategic approach is equivalent to choosing entry in a business network. For example business markets in the tourism industry can be considered leisure market and travel market. Each market has its own characteristics and consists of a well-defined demand but also through a network of companies participating in the specific offer. Penetration in several markets as part of a strategic expansion causes complexities that must manage, such as corporate management of companies that are gradually becoming business groups.

Entry into one or another business market as fundamental strategic approach obliges the company to undertake several actions:

- identify perspectives for market growth and their own position in this market;
- to choose the most advantageous business network consists of carefully selected partners in relation to their resources and skills compared to his own;
- to determine how to enter and operate into the business market to take advantage of their core competencies;

When entering a large business market or multiple markets same time with defining strategic domain then the business capital invested in the company, be it their own or attracted, becomes one of interest much wider than the managers or employees and even at the current shareholders. For this reason the capital must be managed within the expectations of broad categories of stakeholders and investments will be made according these expectations. This is why capital management, especially in large companies seeking to gain a greater coherence, strengthens the role of the main shareholder against smaller ones.

Instead penetration in niche market segments allows preserving capital controls by independent shareholders, individuals, and not holding by other companies or entities. Usually this approach generally allows greater flexibility and also vision and business approach more clear and unified.

Whatever the decisions on strategic business approach there is needed to build a business network or the entry into a strategic business network in order the company to be able to grow. This need arises when increasing the complexity of products and services and the company is considered ready to address multiple markets.

2. Markets and business networks

2.1. Relations between the strategic approach and business networks

The strategic approach means delineating markets the firm will operate by defining the product they offer to meet specific needs of each operating market. When we define a market we refer both to define the offered product and its geographical distribution. For this will be the company to create, develop or enter the network and business relationships.

Company problems about connecting to markets and business networks were largely ignored in the literature. These networks they are dynamic being sensitive to conditions in which the market works: markets are not integrated; markets are partially integrated; fully integrated; or are critical markets. The networks also depend on the stage reached on demand in the business market: niche markets; potential growth markets; available expansion market; mature effective market. For small firms it is difficult to find developed network if they address niche markets at the same time it is difficult to penetrate and make network connections in a mature market or markets with growth potential. These difficulties to build strategic business networks in new markets is mainly due to the fact that companies in the field or in an area are also still developing, unable to develop large networks business, and even administrative institutions do not have support mechanisms for market development.

Various market development models have been proposed in the past (Bilkey, 1978; Cannon and Dawson, 1977).In the coming years, there have been a number of criticisms about stages model, as many companies have not followed the predictions, especially high-tech companies in sectors with short life cycles of products. More recently, studies show that the development of short cycle products on the market should not be confused with market cycle in business domain. Company growth within a business market must take into account the evolution of the domain business cycle on the medium and long term and strategic approach should not be limited to dynamic of one product or another. The product will not become decision element he only had to be well planned as part of a broader strategy for growth. Strategic business approach of networks of business and exchange relations on national and international markets are analyzed in a growing number of papers and approaches based on the business networks theory. Reputed authors from European and American scientific literature, such as P. Ellis, D. Blankenburg, A. Salmi, W. Danis, A. Parkhe, J. Johanson, L.G. Mattsson developed the term "strategic network", a term regarded as a set of inter-organizational interactions between companies in a strategic business area.

Johanson and Mattsson (1988) approached the business networks through the existing contextual environment in each market, introducing a temporal dimension called ”network development stage. This feature of the market, determine four types of market development. At the business level there is a category of markets developing primary network while the degree of doing business is still low on the market and firms size and inventiveness inside the network is reduced. A second stage are the independent networks in which first major players appear, some of them internationalized large companies who want to enter on a growing market although their market share is not very high. Third, it develop mature networks that includes some large internationalized companies and many small companies who play in correlation with the major ones. The structure of these networks is well structured, consisting of many competitors who occupy well established positions in the market and very difficult to establish new positions within the network. Finally, when the market is fragmented leader networks who dominates certain segments of the market appear and are part of a network of networks globally interconnected.

2.2. Types of markets ranked by offer levels and business networks

The four types of networks are based on four types of markets. Companies and capitals may face four types of markets (see Figure no 1) and forced to classify these markets according to their overall strategy.

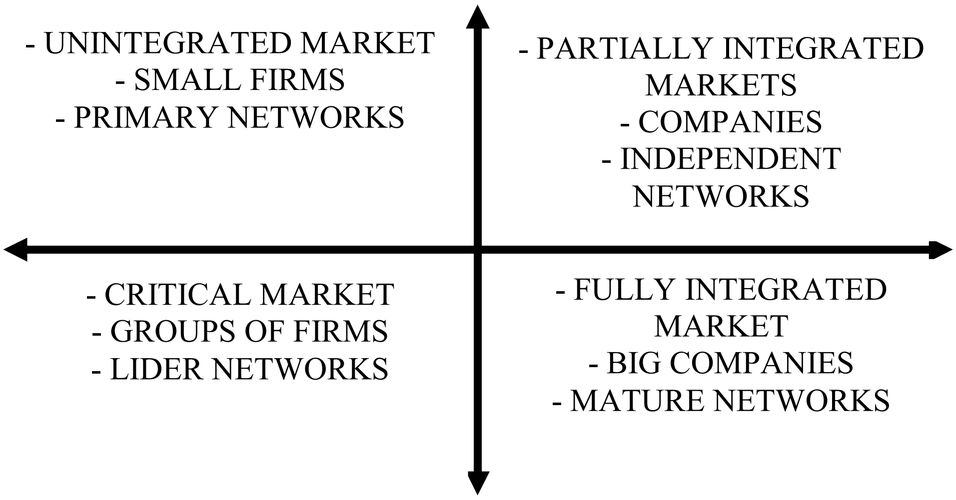

Figure no. 1 Types of business markets

A first strategic market position could be considered that of the markets having low absorption capacity of equities and assets. These form a category called **unintegrated markets**.

Thus these markets are characterized by a high diffusion of capital but also of consuming categories without strong clustered structure of demand and supply. This means that the market cannot provides areas of concentration of purchases and transactions to support large enough sales and ensures sufficiently high profits or opportunities to reduce overall costs.

In these circumstances companies regard these markets as risk markets and partially integrate them into the business portfolio waiting for the moment the markets will have a large enough development to directly penetrate.

A second markets category is **partially integrated markets**. At the same time these types of markets represent another development level and degree of integration in relation to the company that wants to enter a particular market and carries on business. Generally these are markets where demand is already formed so is just have to diversify the consumption and enlarge the range of products or business fields that the company can run on these markets.

The company generally holds much closer relations with partners into the market with a possible primary integration between partners. Such can achieve a much stronger control on the performed work. The company tends to consider these markets increasingly important amid a rapidly demand expanding and its poor coverage by competition. Even if the large firms core operations is performed on other markets they will search for entries by association with partners in this market. Gradually entering firms will realize direct investment in the market.

In these circumstances, the company develops new products being possible to adapt products from other neighboring market to new conditions and new market and positioning on significant segments that create new consuming patterns in the new market. With the expansion on the new market the company will be able to much better manages his commercial interests and can successfully develops a marketing strategy embodied by best possible price management based on specific investment and demand in the market.

During evolution the markets may experience an increase in volume and general manifestation in all consumer groups throughout the entire area of specific market transiting to a new level of **fully integrated markets**. These represent markets of great importance to international business companies because here they can raise big revenue and profits. Fully integrated markets benefit from a coherent institutional framework that favors development of capital and assets.

The disadvantages of this type of markets are some reduction in sales growth on medium term as a result of reduced possibilities for offer innovation and consumption stimulation. Prospects for economic growth and technological development decline gradually feeling economic capping on medium-term for some of these markets and direct competition enhance between strong competitors in the market.

Companies that decide strategic orientation towards a fully integrated market will have to invest on collateral business areas that support the main market expansion. Being strategic markets involved firm will tend to assign increasingly more capital both his own and of strategic partners in the market.

Critical market is the ultimate stage of a market in firm's markets portfolio. These markets are considered essential being placed under the direct control of the company management. These markets ensure maximum profits and revenues and may influence the success and survival of the company. Some critical market failures can generate the failure of large global firms.

All critical markets from the firm's portfolio are integrated as core or central market. Risk-sharing solution is in the markets specialization and the allocation to each market to a specific part of the overall activity of the company. So many companies working on critical markets develop a divisional organization dodging complete allocate capital towards a single market.

Regardless capital allocation model the strengths of companies in such markets will consist of integration forms of distribution, after-sales services developed in each market and low levels of costs. This cost is achieved by capital allocation on markets where reduced costs are obtained through economies of scale resulting from specialization and product standardization.

3. Strategic approaches models adapted to different types of markets

The assessment carried out on market size and manner of expression will enable companies to obtain the answer to the questions: What markets the company operates?; How big the business be?; and How will show the business?

Compared to the situation in the operating industry, the company will take a decision to what market and business area wants to move within the industry. In the selection process of market position the company will pick a market at one of the four levels of evolution, according to two major criteria: market size relative to company size (high value vs. large number of buyers) and market development mode (either extensively or concentrate).

Based on the two options of choice in defining the vision and strategic business domain, we propose four types of strategic approach: niche approach; growth approach; expansion approach; volume approach (see Fig.no. 2).

A first decision is dependent on how the size of the market is estimated. The estimation may be in value or in number of buyers. In case the company decides that the market will evolve intensively by increasing the value of consumption and not by increasing the number of consumers strategic approach of the company will also be intensive type by increasing business value and added value for each product in the portfolio opting either for a niche approach either for growing in the field approach. If instead it is estimated an increase number of buyers rather than increasing the value of domain then the firm can choose either volume approach either expansion in adjacent areas approach.

The second decision level takes into account how the industry develops. If the company estimates that the market will follow an extensive logic with the emergence in the field of new consumption segments and new types of competing products then the company can decide a growth approach in main field of the industry launching high-quality products and new product lines or an expansion approach from the base domain to the adjacent ones adding new variants of new products for the new consumer groups. Conversely if the company will estimate the concentration of the field then it will consider a volume approach centering his activity on the most productive consumption segments or a niche approach by identifying the segments that will generate greater value in the future.

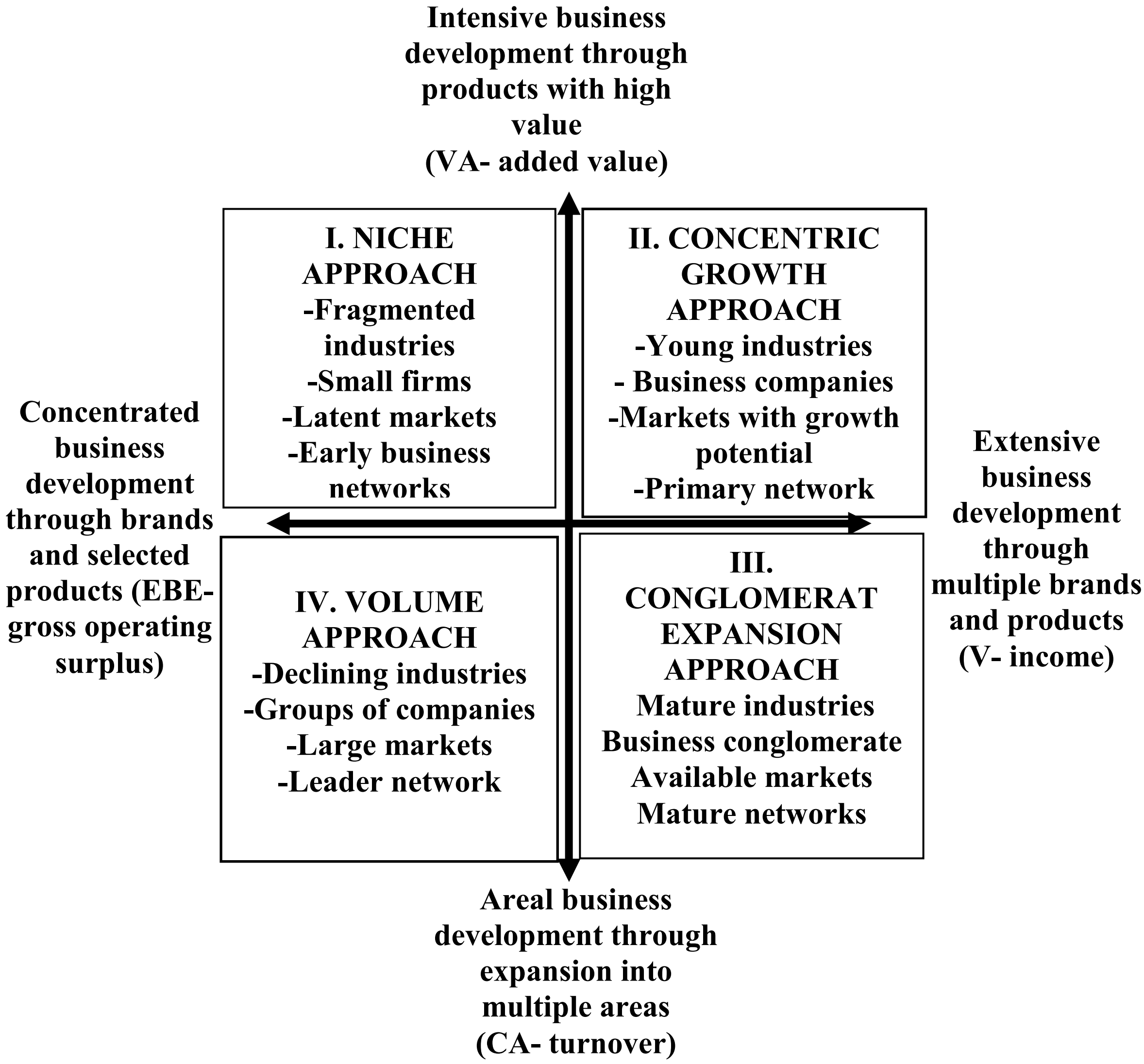

Figure no. 2 – Directions in setting strategic approach

4. Conclusions

Summarizing the above, we can describe the four strategic approaches through the company's actions correlated with the specific of demand and the specific of business networks.

I. Niche Approach. It is about company orientation linked to consumer categories. These consumers are distributed unevenly in the market body and they have a certain common need or a specific category of needs. At the same time and the company's market orientation will be to different classes or different types of consumer attitudes in relation to the products. Such an approach can say about that is intensive in relying on the fact that there are many uses of a product or technology that have not been put into practice. The orientation will follow on the one hand increasing nominal volume of consumption for this product and secondly growth value of individual consumption. This approach is also specific in business domain with a higher degree of innovation which have not stable market but evolving market that cannot be effectively delimited. Business domains hat favor this approach are by specific competitive markets with high intensity of competition based on indirect/substitute products.

II. Concentric growth approach. A second business approach is based on mixed development philosophy both intensive and extensive in business market. Demand is derived from previous generations of product causing rapid emergence of new generations of products or services. This type of business will be based on a market orientation towards consumer categories and segments. It is often called the cultural approach of the markets. Consumer poles are often dispersed on market body making it difficult to manage the activities so firms appeal to systems like outsourcing, licensing or franchising activity. Also we talk about diffuse and segmented demand in the market also making it difficult activity requiring its focus on clear consumer segment within the market area and use a intensive distribution system with numerous business partners. It is more value oriented market prompting firms to pay special attention to customers' needs and product quality.

As specific competition there are many participants, midsize and large companies that determine the market game. These business participants are known vectors of market growth forming a monopolistic market. These are growing business domains being impelled by strong growth poles formed from strong competitors inside these markets. Market trends also show frequent concentration of activity and collaboration between competitors forming strategic alliances within the scope of business. Market competition meets the demand using new and multiple product versions and models gradually forming strong product range. Small firms are gradually phased out in slowly transiting of the industry to forms the oligopolistic situations. Many countries support small and medium size companies in these industries to remain competitive in national market but also in international market.

III. Conglomerate expansion approach. It can be applied in markets that have high availability for extension in new adjacent business field while the medium term trend shows a stable growth and maturity. At the same time the market is conglomerating around countless groups of consumers but some of them are not well served and the product is not yet thought for them. Extensive approach is described by this feature of expansion into new groups of buyers or new areas of the market which will be separately served with tailored offers.

Companies that will achieve such a strategic approach will attempt to address regional markets in which can invest homogeneous very often in partnership with manufacturers, service providers or other local companies. The market is dominated by large and very large companies carrying out business forms and various combined activities. There is a certain tendency of developing oligopolies conglomerates of companies that associate to hold significant market shares and become market leaders.

IV. Volume approach. This strategic approach is possible only if market demand is generally very concentrated and homogenous. Thus demand is largely specialized without much difference in value between products amid a generalized technology. Instead demand in these markets is capped with sideways trend so that intensive solution is linked to the re-stimulation of consumption and attracts new consumers to the industry and the company's products with new forms of activity close to the lifestyles and buying style of population.

Competitors orientation in the event of such approaches will be to a business area focused around products or services highly demanded in the market. If the market is concentrated at a general business model there will be business leaders with extended sales networks that create monopolies with which appear small flexible companies having cost reduction possibilities and new levels value. These small companies usually focus on local markets will tend to gradually erode the position of the major international firms offering alternative types of businesses on alternative technologies beyond the old business types. Firms seeking entry into this approach are firms with opportunities for expansion capital and resources that can acquire large competitors forming large business groups.

References

1. Bilkey, W.J., (1978). An attempted integration of the literature on the export behavior of firms, Journal of International Business Studies, , 8 (1), p.33-46
2. Blankenburg, D., and Johanson, J. (1992). Managing network connections in international business, Scandinavian International Business Review, 1 (1)
3. Cannon, T., Dawson, G. (1977) Developing the export potential of small firms, Industrial and Comecial Training, 8 (7), p. 292-295
4. Duduiala Popescu, L. (2010). Foreign economic affairs internationalization by franchising operations. *Annals-Economy Series*, *2*, 173-182.
5. Duduiala Popescu, L. (2014). The Financial Crisis And The Emerging Markets. *Analele Universitatii" Constantin Brancusi" din Targu Jiu. Serie Litere si Stiinte Sociale*, (3), 84.
6. Ellis, P. (2000). Social ties and foreign market entry', Journal of International Business Studies, 31 (3), 2000
7. Enea, C., & Enea, C. (2009). Crisis management effects on tourism services firms and its impact on development sustainable cities. *Annals-Economy Series*, *1*, 159-170.
8. Enea, C., & Enea, C. (2015). Romania's EU Advantages Integration. *Ovidius University Annals, Series Economic Sciences*, *15*(2).
9. Johanson, J., Mattsson, L-G. (1988). Internationalisation in industrial systems–network approach, In Hood, N., and Vahlne, J. E, (Eds), Strategies in Global Competition, Croom Helm, New York, pp. 287 – 314.
10. Mungiu Pupăzan, M. C. (2013). Measuring Competitiveness Of Economic Entities. *Annals-Economy Series*, *6*, 131-135.
11. Mungiu Pupăzan, M. C. (2015). Illusion Of Excessive Consumption And Its Effects. *Annals-Economy Series*, *6*, 234-236.
12. Neamtu, L, & Neamtu , A.C. (2009). Management strategic. Academica Brâncuşi, Târgu-Jiu
13. Neamtu, L, & Neamtu , A.C. (2011). Afaceri internaţionale. Academica Brâncuşi, Târgu-Jiu
14. Răbonţu, C. I. (2010). Creativity and Innovation–Economic Crisis Possible Counters. *Annals-Economy Series*, *3*, 209-226.
15. Răbonţu, C. I. (2015). Services And Their Role In Romanian Contemporary Economy. *Annals-Economy Series*, *6*, 253-259.
16. Romanescu, M. L. (2013). Strategies Adopted by the Company Leadership in Different Situations in Time. *Ovidius University Annals, Series Economic Sciences*, *13*(2).
17. Romanescu, M. L. (2014). Influence in the Organization's Strategic Business Management of the Firm under the Conditions of Globalization. *Ovidius University Annals, Series Economic Sciences*, *14*(2).
18. Salmi, A. (2000). Entry into turbulent business networks: the case of a western company on the Estonian market, European Journal of Marketing, 34(11/12)

19. Sanda, G., & Enea, C. (2012). Risks And Responsibilities Between Buyer And Seller In International Relations In Context Of Economic Integration. Ways Of Sharing In The Multinational Companies. *Annals-Economy Series*, *1*, 205-209.
20. Sanda, G., & Enea, C. (2014). Financial Crisis From The Macroeconomic Level To The Microeconomic Level. *Annals-Economy Series*, *4*, 277-282.
21. Toyne B., Walters P. (1993). Global Marketing Management. A Strategic Perspective, Allyn and Bacon, New York