THE CHARACTERISTICS OF COMPETITION ENCOUNTERED ON THE EXTERNAL FINANCIAL MARKET AND ITS IMPACT ON THE ELABORATION OF GENERAL STRATEGY OF SMALL AND MEDIUM-SIZED COMPANIES IN THE CONTEMPORARY ECONOMY

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Abstract: One of the characteristics of external financial markets is represented by the very strong competition and its tendency to increase. The reason the competition is strong is that, firstly, the supply brings together goods and services produced by many companies from different countries. Thus, on the market there is present a large number of identical, similar or replacement products, fact which generates the presence of a very wide range of products which are brought into the customers' attention.

Keywords: external financial market, companies, factors, cash, behavior, competition, profitability.

1. INTRODUCTION

The large number of companies present on the market and implicitly the variety of products lead to a strong competition.

The factors which influence the competition level on the external financial market which must be taken into consideration when planning an international marketing strategy are (D, 1996):

Product quality – which is represented by the technical parameters the product has: finishing degree, design, but also the type of technology used to produce it (in the developed countries the use of non-pollutant materials and technologies is more and more emphasized).

Price - its correlation to the product quality being the first condition for the trial to promote a product on an external market. Besides it, each producer makes special efforts to reduce the price by reducing the costs and then by increasing the productivity. The products price on the markets of the developed countries is established by the direct competition of the companies that hold the largest shares on the market. Many times, small countries speculate the competitive advantage of holding a qualified labor force cheap enough to compensate for the additional costs which result from a bad technology and a low productivity.
Services additional to the product, including those services which are offered for free or against money. Also from the range of services additional to the product are the home delivery and installation.

Commercial terms, very important in the decisional process regarding the purchase of a product have been lately the commercial terms offered by the supplier. We mention the possibility to pay in installments, to give discounts for the use of a certain payment form, to give discounts for the purchase of large quantities or above a certain amount, to return the balance if it was not used in the case of an advance payment for many goods or services, to give seasonal discounts, to offer products at promotional prices, to clear a stock etc.

The aspects related to the environment protection, become more and more a condition to introduce and maintain the products on external markets. In this sense is taken into consideration, firstly, the extent to which that product represents a source of pollution and is set the maximum allowed levels from case to case. On the other side, it is also emphasized the evaluation of the danger degree the product has for the consumer (in the case of foods are set lists of ingredients and the minimum and maximum limits within which they can be present in the product). Not the least, the possibilities to reintegrate into the environment the waste after the use of the product is estimated.

2. THE CHARACTERISTICS OF COMPETITION ENCOUNTERED ON THE EXTERNAL FINANCIAL MARKET

The strong competition and the much diversified supply of products which are found on a developed financial market have the role of emphasizing the fact that, if a very serious diagnosis analysis is not made and if the adopted marketing strategy is not comprehensive, then the chances of success of the companies reduce significantly. Due to the totally different conditions a domestic company faces on the external financial market compared to the internal financial market, it is necessary that each type of international commercial action it plans should be first analyzed from the point of view of its effectiveness and then of its efficiency. The introduction on a financial market of some new companies, large or small, intensifies, obviously, the competition on that market, creating additional problems to the companies already present. It is obvious, under these conditions, that the companies situated on a financial market aimed at by the companies outside it, should create a series of obstacles which encumber their entrance on that market.

The barriers to entry represent „the circumstances or practices which allow the companies already present on the market to protect themselves against new competitors” (O, 1991:26). The theory of barriers to entry was elaborated in the second half of the sixth decade, by J. Brain and completed by P. Sylos-Labini, representing an approach in a new vision of the competition theory.

According to the conception of Bain, the ample issues of competition must be approached in a global vision, which should take into account the basis conditions on the market, its structure, the behavior of the companies present on the market and their performances. The famous paradigm Structure (S) – Behaviors (B) – Performances (P),
proposed by J. Bain, rapidly became an element of reference in the future theoretical developments and paradigms of industrial economy. According to this paradigm, the performances of the companies on a market and, by summing up, the performances of that industry, depend on the behavior of these companies, behavior influenced at its turn, by the market structure and its more or less competitive behavior: the lack of competition or its low level explain the passive behavior of the companies on the market and, implicitly, their modest performances.

According to this paradigm, the quoted author develops the idea of potential competition, which joins the effective one on a market and which is based on the following realities: - introduction of new companies on the market; - new companies which managed to enter on disadvantaged markets; - the market presents a certain „viscosity” which is against the easy entrance or exit of new companies.

The barriers created by the competition at the level of prices or outside them (“non-price competition”) are extremely various and represent obstacles sometimes insurmountable, especially for the small and medium-sized companies.

The scale economies represent a barrier which acts in the favor of large companies able to make huge volumes of production allowed by this criterion of profitability. The small companies which aim at entering a market are strongly disadvantaged by this criterion, and the large ones, which aim, also, at entering that market, have to make huge investments in order to raise their production volume at the level of scale economies which corresponds to the current companies, fact which raises a lot the costs.

The cost advantages are, also, on the side of the companies present on a market, being determined by: the preferential access these company enjoy – on the basis of their notoriety, of their proven accuracy in the contractual relations and their stable policy – to the necessary human, material and pecuniary resources, the most advantageous from the prices point of view; the technological advance they acquired in the area they got specialized a long time ago; the organizational and managerial expertise resulted from the specialization too.

The innovative potential of the current companies – materialized in the number of the patents taken out and the patents awarded, which give the right to use exclusively some new technologies and the exclusive manufacture of new products – also acts as a strong restrictive factor for „the new comers” on the market, which do not have the know-how specific to the companies which hold consolidated positions (A, 2000).

The products differentiation represents a form through which constant preferences of clients for some products offered by the present companies are gained, the trust and fidelity of consumers to some trademarks which imposed themselves on the market; under these circumstances, the penetration of new companies on the market requires from their side huge expenses for research and development in order to differentiate significantly their products compared to the current ones and required by consumers, as well as for advertisement in order to impose the new products.

It is obvious the fact that the modalities to overcome the barriers to entry on a market by the new competitors are not accessible to most of small and medium-sized companies in different industries. For this last category of companies, the chances to
enter a market protected by barriers to entry are, mainly, two: either to have an offensive strategy, or to become subcontractor of large companies (P, 1999).

The development of the theory of barriers to entry and the attempt to update them to the market realities in contemporary economy were done by W. Baumol, J.Panzar, FR. Willing and E. Baily who, at the beginning of ’80, elaborated the theory of contestable markets.

A market is perfectly contestable if the entry/exit into/out of it is absolutely free. The structure of a contestable market includes all the companies which meet the request of that market.

According to the theory of contestable markets, the companies on the market are not advantaged compared to the ones that aim at entering it. The lack of barriers to entry makes equal the companies on the market to the ones that want to enter, from the point of view of the access to the production factor markets, to the specific technologies and the current infrastructure. The exit from these markets is done without additional costs, the irreversible costs being inexistent.

A contestable market is balanced (sustainable) when no entrance on the market in rational, in the sense that the companies currently on the market do not register losses, and the new comers do not realize superior profits to those registered by current companies, equal to the profitability reached on other markets (H, 1997).

The characteristics that define the equilibrium of a contestable market correspond to the equilibrium characteristics of the markets with perfect competition and pure competition.

From this point of view, the contestable market can be considered as an extension of the competitive market and of the pure one. The equilibrium characteristics of a contestable market overcome thought the condition of supply atomization, defining for the perfect competition. Thus, a natural monopoly can represent a contestable and sustainable market that means it exists in a state of equilibrium, which has the same characteristics as a market completely atomized by perfect competition (D, 1998).

This situation is explicable through the „setting” role the potential competition of the companies found on that market plays, which can enter at any, time that given market. In what concerns the small and medium-sized companies, the theory of contestable markets would offer encouraging arguments for their entrance/exit on/from the competitive markets. In fact, it is difficult to admit the idea that there are no barriers to entry/exit, especially regarding the smaller companies, the realities of the markets in modern economy confirming, to a large extent, such an affirmation.

3. THE ELABORATION OF GENERAL STRATEGY OF SMALL AND MEDIUM-SIZED COMPANIES

According to A. Chandler definition, the company’s strategy means „to define the company’s long-term main objectives, to adopt the directions of action and to allot the necessary resources to reach the objectives” (C, 1962).

In the case of small and medium-sized companies, it is essential to set their development strategy, having to take into account their characteristics: small size,
relatively limited economic and financial potential, mobility, flexibility, products or services manufacturing with short cycle.

In order to reduce the negative impact of inflation and, as far as possible, to transform its effects in opportunities and benefits, a company must apply adequate strategies. As a consequence of different activities, structure, organizations, systems, capacities, the intensity with which the companies are influenced is different. In spite all, there are rules that must be adapted to the individual situation of each company.

In an inflationary environment, the following topics must be well-defined: structure of assets, structure of financing, price policy and possibility of transfer, sensibility to government decisions, flexibility and coordination.

The company’s assets represent the values of any kind that belong to it, the elements that belong to it and have value, the concrete form of the company’s resources. Depending on the liquidity degree, the assets are made up of: fixed assets; circulating assets. Depending on their nature, the assets can be fictitious assets (expenses to set up the company, to increase the capital), financial assets (cash, bank deposits, shares, bonds) and real assets (buildings, sites, equipment, raw materials, finished products).

In the case of many small companies „the cash” represents the most important asset a small business holds. The lack of this asset may lead the company to bankruptcy, its level having to be high enough so that the company may face its obligations.

Creditors, employees and all those that gave credit to the company, wait to be paid on time, and „cash” is the exchange. Some small and medium-sized companies, though, retain the level of „cash”, sometimes excessively, with the goal of preventing unforeseen situations. This immobilized money represents though an important potential of gain that the owners of small companies ignore, making the company lose profitability.

The management of financial means represents, especially, a problem for the small companies which develop rapidly. Many successful companies, in development and profitable may go bankrupt, because they become insolvent; they no longer hold the adequate „cash” to prevent the requirements of the developing company. The crisis-type financial problems can create irregular financial means that usually, each small business has.

Similarly, the amounts to be paid fluctuate drastically from one month to another. The slow payment or the failure of clients to pay complicates more the problem. That is why the owner of the small company, if he uses management techniques of the financial means, can foresee these problems and make plans.

In a small company, the permanent transactions which take place are perceived as events which change continuously the level of financial means. Thus, the receipts from sales and bank credits will raise the available financial means, while the payment of tax, interests, dividends and debts will cause the reduction of these availabilities.

It is necessary to define the adequate level of financial means, with which to meet the company’s necessities; what means enough ”cash” for a company, may be totally inadequate for another, depending on the size, nature and particular situation of each company.
The owner of the small company must understand that profits and cash are not the same thing. The profit represents the difference between receipts and expenses, being possible to distribute it on different destinations; in exchange, the creditors, employees and all those that give credit to the company are not paid from profit, but from the company’s available “cash”. The „cash” represents the financial means which circulate in the company in a continuous cycle, without being incorporated in other assets. In the case of a small company it is vital to act promptly as soon as a sum becomes an unpaid debt. An extremely low money collecting rate may force the small company get out of business.

The reimbursement time is very important, for the sums to receive as well as for those to be paid. The manager of a small company must try to delay as much as possible the payments outside the company, without deteriorating its position as debtor and to speed the receipts collection. In other words, the rotation speed of circulating assets must be accelerated, on all possible ways.

The stocks represent a significant investment of circulating means for many small companies. The excess of stocks represents money invested in means that do not bring income and which immobilize unsatisfactorily the company’s money assets. Thus, a satisfying structure of assets is the one that minimizes the total investment, without endangering current activities. The principle of minimizing the unproductive assets, valid in a stable economy, becomes even more important in an inflationary economy. The measures that can be taken include: minimization of deposits in local currency, elimination of clients financing, reduction of stocks level (except the case in which the stocks offer an adequate protection against inflation). Due to the speed the changes in economic variables take place, the companies must be flexible in order to react rapidly to different alternatives (M, 1996).

The profitability depends to a great extent to the financing at low cost. The decisions in this regard take into consideration the company’s liquidity and the solvency objectives. According to them, the strategic principles to get resources at a real cost less than the profitability of the assets realized with their help are more valid in an environment with a high level of inflation. The main difference consists in including the inflation rate as additional financing cost. The objective is to cover the monetary assets with monetary obligations in order to get a situation with neutral or negative exposure to the inflation effects. It represents a natural protection and presents a fundamental importance because the exposure level to inflation can represent the difference between financial success and failure.

In the same time, a special attention must be paid to the net exposure in foreign currency to keep an adequate protection against the risk of appreciating local currency.

It is very important to emphasize the necessity to have a centralized control of the cash in order to minimize the unoccupied deposits of cash, to eliminate the cash deficit, to ensure the investment on time of temporary excess of cash and to reduce the investment in clients and stocks.

Often a small company can risk more than a large company. That is why, the management of the financial means and the identification of the way in which they circulate within the company, represent attributes of the system of financial evidence.
Small and medium-sized companies tend to use a higher financing rate on short term. The results of investigations show that once a company is set, its access to the working capital manages its capacity to grow. In general, small and medium-sized companies tend to have an inadequate access to cheap credits, on long term, especially because of the lack of guarantees. In the economies in transition, the financial intermediaries cannot or do not want to answer enough to the financing needs of small and medium-sized companies. There is a variety of reasons for this attitude, including:
- high costs of transactions;
- lack of experience;
- absence of monitoring systems in banks;
- capitalized banks;
- absence of secondary markets;
- existence of better alternatives for investments;
- lack of a history of the activities of small and medium-sized companies.

There are data that small companies give relatively more commercial credit than the large ones. Moreover, small and medium-sized companies seem to receive less credit from their suppliers than they give to their clients. Even so, in recession, the delayed payments of the commercial credit can be to the detriment of the performance and the survival perspectives of small and medium-sized companies.

The following conclusions regarding the structure of financing can be drawn:
- In an economy with a high inflation rate the financing tends to be short. This dynamism requires a special attention and limits the capacity left for operation;
- The protection of the cash excess requires a special attention given to the analysis of all possibilities of available investment;
- Although the market offers in general investment tools appropriate to the economic environment, the financing options depend on the real availability of these tools;
- The inflationary process creates the necessity of some additional credits, but at the same time the available credits can be fewer and more expensive.

The definition of a price policy which allows the transfer of higher costs (including the financial costs) to buyers represents a key element of the management strategy. In order to make a total protection, the price increase should not be delayed till the moment higher real costs appear, but it must be planned in advance, so that cash inputs compensate the cash outputs (M, 1994).

For an adequate management of assets, as well as in order to set up a marketing structure which minimizes the inflation impact, a company needs a very high volume of information regarding the market behavior in the future. In situations with a high level of inflation, the information correctness and promptness is more important than in the case of a stable economy.

The sensitivity to the governmental decisions represents a factor of special importance, because the governments intervene frequently in the market, by exercising the control on prices, the guarantee of subsidies, the set of official exchange rates, and the stimulation of exports and imports or through monetary policies. It is vital for a company to have update information about governmental agencies with direct impact on operational and commercial activities and, also, it is vital the speed with which it adapts to political, social and economic changes.

The flexibility and coordination express the reactions to incidental changes, to the impact of the environmental changes, as well as to the economic events, such as
recession. The company must be flexible enough in order to adapt its policy, structure and operations to the requirements of each new economic scenario.

4. CONCLUSIONS

The lack of ability to react quickly to such changes (the speed at which the changes take place varies in proportion to the inflation level) generates successive problems which can accumulate and can threat the company’s survival. All the company’s departments and levels must be fully aware of the management policy and strategies. The most important reason to adopt this principle of close coordination between all departments is that it will generate a homogeneous and consequent behavior. Shortly, the company’s survival strategy in a strongly inflationary economy depends on its capacity to „think in inflationary terms” when it makes decisions and develops its activity. Most of the principles mentioned above are not applicable in the case of an inflationary economy, but the reaction speed coordinated to a new flow of events should be even more emphasized.

When the general strategy has been defined, the management should detail the specific actions for each functional sector, in order to implement the given strategy. In other words, it should detail the settlement of daily operations in each of the following activities specific to a company: production, sale, purchase, finance and accounting, credits and receipts, staff-wage system, economic and financial planning, managerial information.

All these prove that the company’s general strategy, its informational system, its capacity to anticipate possible governmental decision and the speed at which it adapts to the circumstances are the most important elements which decide the success or failure of decisions, to a larger extent than the rational analysis used in elaborating those decisions.

REFERENCES: