

PRODUCTION AND ECONOMIC PRECONDITIONS OF INCREASING COMPETITIVENESS IN THE FOOD INDUSTRY

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Abstract

Almost 99.9% of the Slovak business environment is created by SMEs, including start-ups and emerging businesses. We place the emphasis primarily on their growth and innovation potential, which significantly impacts on increasing of competitiveness of different sectors. Start-ups and emerging businesses are an integral component of a dynamic and complex business environment in each country.

Many of them contribute to the development of the sector in which they operate high added value and development of competitiveness primarily at regional and global levels. In the paper we point out the examination of production and economic preconditions that contribute to the growth of competitiveness of enterprises in the sector in which they operate and in which they are exposed, during their existence, to a constantly changing business environment.

The object of this research is also to highlight the impact of factors from external but also internal environments. They lead, with a considerable degree, to the achievement of competitive advantages of enterprises, to their retrieval and affect the growth of competitiveness in selected sectors.

Key words: business strategy, competitive advantage, food industry

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Introduction

Strategic management has been getting on the top of corporate management nowadays while bringing new and better ways into the strategic work.

Given the complexity and volatility of the business environment many authors report that strategic management evolves in an evolutionary way while changing its focal point and identity. Its challenge is to look for answers to questions dealing with discipline. Finding them will enable achieving the understadning of the issues in strategic areas which are still justified

even today. Start-ups, current and emerging businesses must constantly deal with issues of their future development.

Strategic management represents an important area that helps businesses to reach the expected results. Like this it can predict the consequences of their future development. The focus is mainly on the external environment of the business. However, we should not definitely state that this area completely bypasses the internal environment. Factors arising from the internal environment also play a key role in right strategic decision making.

In general we can say that strategic management contributes to the achievement of competitive advantages of businesses and the improvement of their competitiveness.

By these aspects we refer to the production and economical assumptions based on the selection of the appropriate business strategy that affects the competitiveness of a chosen sector and the possibilities of product realisation on the local and foreign markets.

1 Objective and methodology

The main objective of this contribution is to understand the basic terminology with regards to the importance and formation of the business strategy and competitive advantages that represents the heart of all business strategies. We characterize these concepts through the acquisition of theoretical knowledge from renowned authors. This theoretical knowledge was gained by studying mostly foreign but also domestic literature investigating the field of strategic management. We also point out the aspects of how to increase competitiveness of selected businesses operating in the food industry of Slovak Republic.

1.1 Business strategy – the nature and the process of its creation

The circumstances that current businesses are facing are lead by the business strategy which has a particularly high priority. Its importance is closely linked with the structure of resources in business entities. At the end, it is their effective usage in the business environment.

Finding new competitive advantages in businesses regardless of their size in a complex and constantly changing business environment is a conclusion offered by business strategies. Why do business strategies arise? The answer to this question is clear. It is the effect of numerous factors, like the formation of new surprises in strategic management or the strong competition on the domestic and foreign markets.

„The strategy, in order to gain competitive advantage, can focus on performance or effectivity. The higher the need for performance, the bigger the addiction to centralisation is.

This is connected to the control of the costs. The higher the need for efficiency, the bigger the likeliness of decentralisation is.“¹

Some of the authors consider that „the focus point of strategic management in the successful small- and medium sized businesses is shifted to the research and evaluation of the global perception of the environment and comparison with the competition in order to either find but mainly to create dynamic comparative advantages thanks to which the business will gain competitive superiority.“²

„Business strategy is formed in order to meaningfully describe the direction that a business should take to achieve the desired results. Business strategy stands for a series of managerial decisions aimed at market information, insights about products or services. Equally an emphasis is put on the corporate culture which develops the business objectives, processes of decision making and success measuring. If the business strategy is outlined in such a manner, the result has a power to encourage, makes an impression that is characterized by dynamism and meaningfulness. Often we think about questions like 'why does the dominant part of the business seem to be forced, confused and stagnate?' “³

The theoretical knowledge makes it clear that the process of corporate strategy creation is primarily influenced by the size of the business, description of business activities and relevant characteristics resulting from the business environment – to what extent this environment is stable and how strong the competition is.

1.2 Competitive advantage – the aspect of increasing the economical assumptions of competitiveness

„The competitive advantage is the most important concept of strategic management. The simplest definition of competitive advantage is the ability of generating higher profit margins compared to the average of existing industry. Some authors do not agree with this definition of competitive advantage. This statement, however, has two sides. The first one refers to the fact that it is recognized by a number of strategies. The second one is a reference to the fact that it is a simple verification used for measuring the competition.“⁴

¹ HREBINIAK, L. (2013). *Making Strategy Work: Leading Effective Execution and Change*. Upper Saddle River: FT Press.

² LESÁKOVÁ, Ľ. (2008). Vplyv globalizácie na malé a stredné podniky. *Ekonomický časopis*, 56(6), 607-621.

³ INGLE, R. B. (2013). *Design Thinking for Entrepreneurs and Small Business: Putting the Power of Design to Work*. Boston: Harvard Business School Press, pp. 31.

⁴ FONTAINE, R. – AHMAD, K. (2013). *Strategic Management from an Islamic Perspective*. Hoboken: Wiley, pp. 13-14.

„The term competitive advantage describes the ability of a company doing business in one or several areas better than its competitors. The conditions of the environment or internal resources are characterized as a potential source for the development of a competitive advantage. The concept of the competitive advantage should be understood as a relative advantage of the business over the company's competitors. For this reason it is important to establish a comparison of the given business to its competitors. Like this we can determine if the real potential bringing success is suitable for gaining competitive advantage or not. The important fact is that the competitive advantage is never absolute.“⁵

„We basically have potential sources of the competitive advantage everywhere. Each department, unit, branch or other organizational unit has its own functional role that needs to be defined and understood. Many individual activities executed by a business also serve as a source for competitive advantage when designing, producing, presenting, supplying and supporting its own product.“⁶

„Explanations of the competitive advantage that mainly rely on the location of a company in a sector or introduction of organizational resources through relations with the competition relatively lost their importance. Recent studies continue to focus their attention on industry structure. Researches integrate their insights at the organizational knowledge with industry or competitor views. Empirical findings shown that the differences among organisations may represent a greater variance in the company's performance than the differences among industries. Although important sectorial actions may be present, differences at an organizational level are actually considered as a critical source of variability in the company's performance beyond sectorial differences.“⁷

„A maintainable competitive advantage is dependent on the compatibility between actions, compromise and the company's position. (Porter, 1996). Achieving a competitive advantage and a competitive strategy can make it difficult for the competitors in terms of imitation of the same set of activities. In such case it is possible to maintain this competitive advantage.“⁸

⁵ BEINRAUCH, R. (2012). *Diversity Management: A Source of Competitive Advantage?* Munich: GRIN Verlag. pp. 2.

⁶ MIŠÚN, L. – MIŠÚN, J. (2006). Znalosti ako jeden zo zdrojov konkurenčnej výhody. *Ekonomické spektrum*, 1(3), 22-26.

⁷ ARGOTE, L. – INGRAM, P. (2000). Knowledge transfer: A basis for competitive advantage in firms. *Organizational behavior and human decision processes*, 82(1), 150-169.

⁸ JAVAID, J. (2013). *Competitive Advantage of Sino-British Joint Venture*. Munich: GRIN Verlag. pp. 9.

„The company is said to have a sustainable competitive advantage when implementing a strategy of value creation that is not implemented simultaneously by any current or potential competitors, and where those other businesses can not duplicate benefits of this strategy.“⁹

„The question of how companies can gain a sustainable competitive advantage to overcome their competitors and survive in the long run, is the basis for strategic management. One of the most important of the theories of strategic management is the theory of sources, that is considered to be as a source of sustainable competitive advantage in the existence of strategic options. A group of authors (Barney, 1991; Amit – Schoemaker, 1993; Makadok, 2001) claim that strategical options of a business are represented by specific organisational processes ensuring a sustainable advantage by their value, rarity, inimitability and irreplaceability.“¹⁰

„Business entity that fails to clearly define the uniqueness of its market and competitive advantages can not exist on a market for a long term. It is important to point out the fact that it is not enough to define a business‘ originality. It is also important to know how to sustain, develop and recover this originality in any situations.“

„The essence of business decisions on a strategic level is to know how to do things in a different way. Those are decisions that will bring a sustainable competitive advantage if the company is able to maintain a significant difference compared to competitors. At a time when the strategic movement is completed and how these decisions at a strategic level differ from those involving problems at the operational level will not only be understood but also highly respected in a completely different way.“¹¹

The term competitive advantage can also be read as "getting ahead because the market is referred to a product or service that competitors can not provide with similar parametres or cannot provide at all.“¹² A group of authors say that a competitive advantage can also be obtained in a manner that "increases the usefulness of a product, which is intended for the final consumer.“¹³

⁹ BARNEY, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1), 99-120.

¹⁰ STIX, M. (2010). *How Control Fosters Learning*. Munich: GRIN Verlag. pp. 1.

¹¹ GOPINATH, C. – SICILIANO, J. (2013). *Strategize!: Experiential Exercises in Strategic Management*. Mason: South-Western. pp. 4.

¹² HUČKA, M. (2005). Správa společnosti a konkurenceschopnost: Existuje vazba?, *Acta oeconomica Pragensia*, 13(4), 154-166.

¹³ CAROTHERS, H. G. – ADAMS, M. (1991). *Competitive Advantage Through Customer Value: The Role of Value – Based Strategies, Competing Globally Through Customer Value*. In STAHL, M. – BOUNDS, G. (Eds.). (1991). *Competing globally through customer value*. New York: Quorum Books. pp. 32-66.

„Competitive advantage may appear in businesses where achievements are clearly reached.“¹⁴

During the examination of competitive advantage in strategic management we realised the frequent reproduction of the concept of "value chain.“¹⁵ The essence is in a set of activities engaged in various businesses.

Insights about competitive advantages inform us about the fact that the competitive advantage of a business entity can only pass by a smaller number of activities that are business critical. The essence of competitive advantage is joining one activity with another.

With regards to competitive advantage it is recently mentioned that it may also depend on the managers of a business. But for reaching the given assumptions these managers have to be competent enough. There exist hundreds of definitions of the competence in literature that also cause that competence in management is not sufficiently supervised in practice and it is limited to insufficient knowledge and application skills, but ignores social maturity of the individual.¹⁶

1.3 Case study of the creation of business strategy and sustainability of competitive advantage in the food industry

Examination of the production and economical assumptions that increase competitiveness in the food industry is illustrated in business start-ups operating in the Slovak market. The mission of the company is to make awareness of the quality ingredients and fair handicraft in the production of apple cider. Cider, apple cider in Slovak, comes from Spain, it is known from England, consumed in a French manner and it started to be produced in Slovakia at the turn of 2012 and 2013. Sajder or cider is not a beer or radler. It is a sparkling drink of an apple flavour and it is an alcoholic apple cider drink. The name remained faithful to Slovakia not only because it was the first Slovak sajder but also because it is produced for the domestic market by trying to get closer to the people. It is made from the juice of apples grown in Slovak-own apple orchards. Like this, founders can supervise and guarantee the quality of raw materials from cultivation until it gets on the shelves of supermarkets. The idea of starting producing an unknown commodity in Slovakia – the cider, came from England in 2012, where one of the founders tasted cider for the first time. He liked it so much that after

¹⁴ SOUTH, S. E. (1981). Competitive advantage: The cornerstone of strategic thinking. *Journal of Business Strategy*, 1(4), 15-25.

¹⁵ PORTER, M. E. (1994). *Konkurenční výhoda*. Praha: Victoria Publishing.

¹⁶ PORVAZNÍK, J. – MIŠŮN, J. (2013). Importance and role of social maturity in the concept of holistic managerial competence. *Proceedings of the 10th Eurasia Business and Economics Society conference (EBES): May 23-25, 2013 Taksim Nippon hotel, Istanbul, Turkey*. Istanbul: EBES, pp. 217-232.

returning back to Slovakia he literally became a cider-fan and he also found out that no local producers have existed so far. There were just few points of sales where people could buy the English or the French version of the drink. Later he met the future co-founders of the company and during a table football match they decided about the production strategies.

The vision of the company is to become the best producer of apple cider in Slovakia and providing its customers a 100% natural product from Slovak apples with no preservatives, minimum use of sulphites, unpasteurized, semi-sweet and without added sweeteners. The aim of the company is to make people perceive the production of cider not only through the apple but mainly that in this product they can find quality.

The Slovak cider market was established in early 2013. The two biggest Slovak breweries – Heineken Slovensko and Pivovar Topvar – introduced a new product category called Strongbow cider and Kingswood that is available in stores in Slovakia. Both new and so far the only producers of this product believe in cider production and that is why they invest a lot of time and money in its development. The illustrated company is a small business that started the apple cider-production but it is not that famous like Heineken or Topvar and sells its products to smaller customers, since it has no capacity to produce large quantities that would be enough for the Slovak market. Cider market is slowly but surely becoming more dynamic, but so far there are only few producers of this commodity.

Slovakia started to manufacture apple cider based on the model from neighboring countries in Europe, but originally coming from North America. Most ciders are consumed in Great Britain and Ireland. This drink is well known on an international level therefore foreign producers are more popular in this industry.

The competition in cider industry of Slovakia is so far very small. The interest for this drink has been growing in the whole world as well as in Slovakia, especially among the small producers who enriched the market of ciders by different flavours and delicious tastes. Similarly is growing more popular domestic production. For the analyzed company's largest competitors cider Strongbow and Kingswood, who came to Slovakia in early 2015. With regard to competition in Slovakia in small domestic companies, the largest competitor is Sigelsberg from Štiavnicke Bane, which produces a family business according to recipes grandfather and also we They just could not find in any store. Other brands of cider it rests. It was founded by brothers Oprendeckovci of Budimir near Kosice. They are promising that their cider is a 100% natural product without preservatives or sulphites, self-made and packaged, which is very similar to our illustrative examples. Our competitors are also Czech producers of cider, because they are harmful to him. Producer of Kladno describes its drink F. H. Prager

as lightly sparkling, golden also drink from 100% apple juice. It has its own recipe inspired by the British and Spanish domestic cider Sidra and produces it from apples, but also pears and organic fruit. Cidrerie of Všenory is the French sounding cider and is produced near Prague. It is also produced from domestic apples, is maturing first in barrels and then in bottles, is unfiltered, unpasteurized and non-carbonated. It is inspired by the earlier version of the traditional French drink.

Competitive advantage as well as added value for consumers is that organic products are producing in Slovakia. Compared cider offered in retail is that this one is real healthier and better design. Price is based on the prices of competing products. Product can not find in retail or wholesale trade, but only in underground bars that are adapted to hipster style, for people this age. It is also sold in the traditional markets, fairs and festivals.

Strategy of analyzed company is affecting by the segment, which we may call the emerging sector. The emerging company come on the Slovak market first and began producing cider and subsequently sold to local traders. Emerging segment is fragmented, yet started to build their operations, is looking for appropriate associate. It must also handle a number of technical, production and marketing problems. Company in such cases may be under the uncertainty, and this for two reasons. Technical uncertainties had not, since from beginning of the business they knew what exactly will be the subject of their business. In the inquired company is strategic uncertainty, because they can not predetermine exactly promising exceptional skills and the kind of successful strategies. As the first company in the industry to improve the quality and the performance of the product in order to retain customer loyalty and goodwill. At the same time respects the basis of its strategy and quality, creating a barrier against imitations.

Company management have to pay attention to changes in the environment and make sure that a corporate strategy is still actual, or it needs to be changed or adapted to the current situation. Upon the occurrence of certain events which occur randomly and spontaneously, it is important that the company is able to respond flexibly and eliminate damages that might occur. Therefore, it is important that the starting company be able to respond to new trends, which might come with new competitors on the market. The company have to go forward with technology, promotion, marketing and other elements. Quick reaction from company ensure the lowest possible losses, as well as continuous operation continued without undue halt production or change in strategy. For example, at the beginning of co-workers faced the problem, that the word cider the Law knew, and therefore could not be incorporated into any

line of business. At present, the situation is different and the word cider is not the problem now for businesses.

Current is the major problem in the agriculture. People are limiting the amount of agricultural land, because they want used to build infrastructure or buildings later. The land is now contaminated and for manufacturer is a big decision of choice farmers, which will supply the raw materials for the company. Apple production in Slovakia decreases, both for climate change and global warming. Unfortunately, when it will continue like this, it is possible that in the future will not be sufficient production of apples, respectively apples more costly that businesses will have to change the foundation of your business.

Conclusion

In this contribution we put emphasis on exploring the competitive advantage, a core business strategy for start-ups active in the food industry, which, during its existence, has been exposed to a turbulent and complex business environment. It was a newly established business that has a high potential in becoming a big and successful company in the future. After evaluating all the facts gained during the analytical part of this work we shown the production and economical aspects that act to increase the competitiveness of the food industry.

The apple cider market of Slovakia is still in its early stages slowly getting represented by local producers and international suppliers. In the domestic market, the company should focus on the offer their future drinks to be included in current portfolio companies. The portfolio should be larger annually by at least three to four new products. Our Business should relocate in the near future and produce more hectoliters of cider, in order to supply a bigger part of the market. Solution for increased visibility start-ups for a small domestic producer, we see in the introduction of online orders via the e-shop. It should bring more training for employees, to increase their motivation to work in the company. In the future the company should expand to a greater foreign markets, mainly in the Czech Republic and Poland, which has a high potential for the customer, but at first, they have to produce more.

In the turbulent and complex business climate existing businesses are making efforts to maintain in this environment and protect themselves. Not afraid to take risks, despite they constantly searched for new sources of value for customers, and investigated how it will affect them and their business. The opposite of such enterprises are starting businesses. This is the type of business where risk is unidentifiable. It can not be modeled or predicted.

Great idea to continue developing on many levels is the beginning of each business. It is identical also in start-ups companies. Trends of the enterprises from the origin of great idea to the moment, when it becomes a full-fledged businesses are unique processes. Start-ups and emerging businesses as already existing business entities, based on a clear manual - from the business model in a difficult business environment they face. They are also creating new competitive advantages in the industry.

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