Chapter 13
Strategic Groups:
Identification Techniques for Entrepreneurial Medium-Sized Enterprises

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ABSTRACT

The complexity of the business environment leads to its stratification for research purposes in three levels: the industry as a whole, strategic groups, and individual firms. This chapter concentrates on the middle-ground level, the strategic group. The analysis of strategic groups helps companies find a better position for their business on the market. By now, various techniques have been created to identify companies comprising a strategic group. Presented here are some of the most commonly used tools: the K-mean cluster analysis, the strategic profile of an industry, and the strategic themes matrix. To some degree, the usage of these methods is costly and thus problematic, especially for smaller companies. For this reason, the authors have developed an alternative tool, the "Profitability-Turnover Matrix Model" (PTMM). The technique is based on objective and freely available information. The focus is placed on the possibility of using the PTMM by entrepreneurial mid-sized companies.

INTRODUCTION

Strategic groups provoke various associations among economists. For the needs of the industrial analysis, the term is used in a strictly specific sense meaning a set of firms in an industry that pursue similar competitive strategies. For that reason, business organizations belonging to a strategic group are considered subject to direct competition.

Clarifying the notion of strategic groups is important. The expression should not be confused with terms like industrial clusters (a variety of economic and non-economic organizations in geographic

proximity), business networks (a set of cooperating organizations) or stakeholders (groups of business bodies influencing decisively the company's development).

The identification of strategic groups represents an important component of the structural analysis of an industry and is essential prerequisite for creating a good business strategy. The contrary is also true: The criteria with the help of which strategic groups are established depend heavily on the in-depth treatment of strategy and its components.

At the core of the methodology concerned with identification of strategic groups lie either specific or overall aspects of corporate strategy. The classical school of strategic groups (with M. Hunt and M. Porter as the most prominent representatives) adhered to the specific dimensions of strategies (inductive approach), which gave a strong imprint on the general orientation of what has been done in this field so far. In the prevailing case, researchers' efforts were geared towards determining industry specific characteristics, providing analytical information, and building up disposition models. An alternative concept set the overall strategic orientation of companies in the foreground of identification of strategic groups (deductive approach). At first glance, the deductive approach raised the level of abstraction by offering a stronger unification of strategic groups but, in fact, it established a logical framework for conducting research with focus on specific dimensions. Thus, although much less widespread, the second approach deserves a more serious attention.

This chapter will attempt to systematize the most important aspects related to identification of strategic groups using both specific (particular) and generic (overall) criteria. The advantages and disadvantages of the two approaches will be highlighted, especially in view of their applicability in companies with different socio-economic characteristics.

The low prevalence of industrial analysis, even in larger enterprises with greater financial opportunities like the mid-sized companies, is due mainly to insufficient research capacity. Hence, there is a need for creating and utilizing techniques with a simplified methodology and modest resource requirements.

In response to such a demand, the following chapter will present the Profitability-Turnover Matrix Model developed by the authors. The technique has been designed to respond to the resource constrains of smaller businesses and to provide practical support without losing the link to other popular instruments for identification of strategic groups.

Building on the research carried out so far, as well as on the revealed "white" fields concerning the topic, this chapter concentrates on the following aspects:

- Essence and significance of strategic groups
- Main components and dimensions of strategy
- Identifying strategic groups based on combinations of different strategy dimensions
- Identifying strategic groups based on pursued generic strategies
- An alternative generic strategy-driven approach for identifying strategic groups

In addition to presenting the theoretical framework of the Profitability-Turnover Matrix Model, the chapter provides an example of practical implementation of the technique. For this purpose, statistical information on the development of an important sector of the Bulgarian economy has been found and analyzed. The conclusions from the analysis have been connected then to the strategic decision-making process in a hypothetical entrepreneurial mid-sized company interested in entering the sector.

The analysis could be replicated with the same success in other sectors (or markets) of the same or another national economy. In this sense, the Profitability-Turnover Matrix Model is universally applicable.

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