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MARKET STRATEGY AND COMPETITIVENESS OF BULGARIAN COMPANIES

The purpose of the present study is to substantiate the paramount importance of the strategic market-oriented company policy as an element (important factor) of competitiveness and particularly the powerful effect of that factor in conditions of the forthcoming accession of Bulgaria to the EU; to establish how prepared companies are to meet the challenges, connected with the new conditions; to provide answers to the following questions: Are Bulgarian companies strategically ready for the accession, do they possess analytical and management approaches, market strategies and action programmes and are they prepared to adapt those successfully.

The role of the level and the quality of the market strategy for the successful competitive development of Bulgarian companies is discussed.

Also pointed out is the need to view the requirements, the characteristics, the methods and means of strategic analysis, forecasting, planning and control in the light of the changed conditions in which companies are to operate.

JEL: D21; M21; M31

Strategic management and the marketing approach are of crucial importance when there are considerable changes in market conditions and industry characteristics. The reflective management of companies or organizations, adaptive strategies, following top leaders and effective coverage of the average industry requirements such as productivity, cost-related standards, average promotion and advertising costs, incl. benchmarking, are frequently reasonable alternatives for strategic choice in short or medium term. That is so, provided they are an integral part of the management, are subordinate to a global strategic goal and no major changes in the overall competitive situation are expected. However, when there are expected changes in market characteristics, in the structure of the competition and the nature of the rivalry, incl. the role and intensity of the main competing powers, the adoption of an adequate market strategy or the repositioning of the already existing one is a prerequisite for effective market management, and often for the survival of the company.

This country's accession to the EU and European markets respectively is a real situation of serious and significant changes in branch characteristics and conditions, which puts the management of Bulgarian companies to the test, and most of all their strategies, their preparedness to make adequate and correct decisions, the ability to establish and defend the strategic advantages in the new conditions.

The accession is a purposeful and gradual process of ever tighter and tighter convergence. Our being accepted into the European Union is not unexpected, rather, it is the result of a long period of preparation, equalization of institutional, legal, market, trade, customs, etc., requirements. No matter how successful and

efficient that process has been for the preparation of the company, forthcoming changes are a real stress factor for Bulgarian companies and their competitiveness. There are changes in the intensity of competition within the branch, the market potentials (sales volume), the number and type of operating competitors, the strategic groups, the conditions at the input and output of the respective branch of industry (horizontal competition), the barriers to entry, the nature of potential competitors and the threat of newly entering companies, the price-quality ratio and consequently the threat of product substitutes (vertical competition).

All those changes cannot be faced successfully, if the company is not prepared for them in advance, in terms of strategy. The analysis and forecasting of these changes, the reconsideration of competitive advantages in view of the situational factors and the internal strengths and weaknesses of the organization, the optimization of the business portfolio and risk characteristics, the synergy of the system for instrumental market positioning are of crucial importance not only for the competitiveness of individual companies, but also for the common process of successful and effective economic presence, and sometimes (probably even pretty often) for their survival in the conditions of European markets.

This paper presents the results of a study (survey) carried out at the Institute of Economics with the Bulgarian Academy of Sciences, which is a part of the research plan of the Institute. Apart from an analysis of the results of the survey, there are also forthcoming in-depth interviews and focus groups, which are to confirm and specify those results, by helping to identify leading company and branch (industry) practices, appropriate and beneficial to the competitive strategic market management of Bulgarian companies in conditions of pending accession to European markets.

The issues which are subject to discussion and in relation to which there has been purposefully collected and processed primary economic information, may be divided into two large groups, referring to:

- establishing the level and quality of strategic market management of companies as an element of company competitiveness (strategic parameters);
- establishing the level and quality of strategic marketing management of companies as an element of company competitiveness (instrumental parameters);

Microeconomic competitiveness is a comprehensive indicator for assessing the ability of companies to compete at all levels through identifying and choosing various strategic priorities, developing long-term defensible competitive advantages on the basis of innovations in products, technologies, the organization of production and distribution mechanisms. It measures the competitiveness of the national economy directly and more effectively than any other macroeconomic factor, since it reflects the immediate situation in terms of the process of company reproduction. The maintaining of a stable macroeconomic environment eliminates uncertainty, lowers risks and creates a favourable climate for competition among companies and for the full effect of the regulatory and motivating function of the

market mechanism. It is a necessary but not sufficient condition for the creation of competitive local production. The sustained comparative advantages of the economy which determine its competitiveness are contingent on the increase in productivity and are created at microlevel under the influence of competitive pressure to renew technologies and provide more effective production and goods and services of higher quality in view of the requirements and needs of consumers¹.

The analysis of competitiveness includes indices for assessing the state and dynamics of three components or *pillars*, as Jeffrey Sachs and John McArthur call them, making up the overall competitiveness index at macrolevel. These are the technological index, the government institutions index and the macroeconomic environment index.

An important element of the analysis is the business competitiveness index developed in the Global Competitiveness Reports 2003-04 and 2004-05 by the World Economic Forum. According to Competitiveness Reports data Bulgaria ranked 77th in 2003 and 75th in 2004. Actually, the country ranked last among the EU member states, incl. the newly accepted ones (see fig. 1). It would be interesting to make a comparison with Romania, which ranked 76th in 2003 (as against Bulgaria's 77th), while in 2004 it moved 20 positions upwards – 56th (as opposed to Bulgaria's 75th).

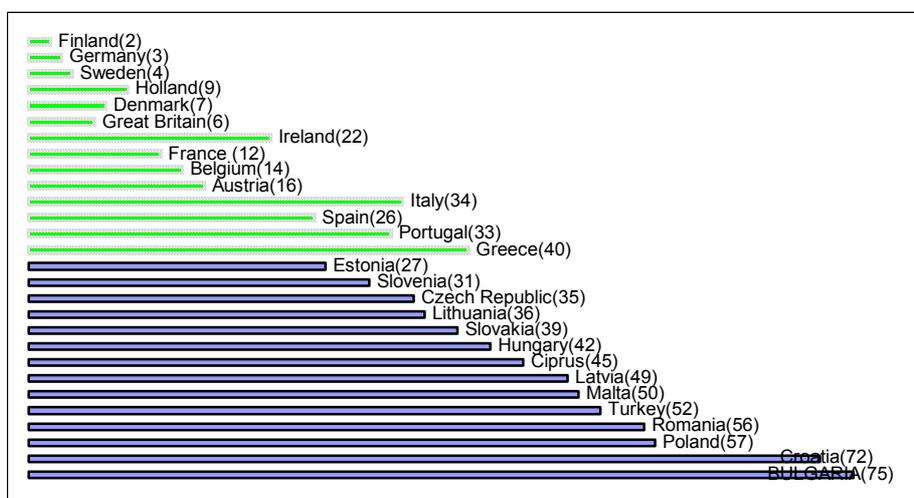


Fig. 1. Business Competitiveness Index of EU and preaccession countries (2004)

Source: Global Competitiveness Report 2004-2005. World Economic Forum.

¹ See Competitiveness of Bulgarian Economy. Annual Report. Sofia, CER, December 2000, p. 197-203.

If we go deeper with regard to the methodology for formulating that index, we will notice that it is formed by two very significant subindices – company activities and strategies and quality of the business environment (see fig. 2 and 3). The data shows that as regards the quality of the business environment Bulgaria has gone three positions upwards in comparison with 2003, yet irrespective of that positive change the country holds the last place.

The other subindex – company activities and strategies (the second part of which is the subject of the analysis), shows loss of position. In 2004 Bulgaria ranked 86th – again last in relation to the European comparison we have been following (meanwhile Romania went up to the 61st place).

The above data is indicative of how important it is for this country, as well as for each individual organization, to take serious measures in order to improve the business climate and the company strategies and activities.

An important part of these efforts is connected with raising the level of strategic market management of companies, instrumental marketing planning, increasing the requirements towards the work and qualifications of management teams in companies and organizations, encouraging and providing wider access of local producers to quality consulting services in the area of business strategies, management, company auditing and control, etc.²

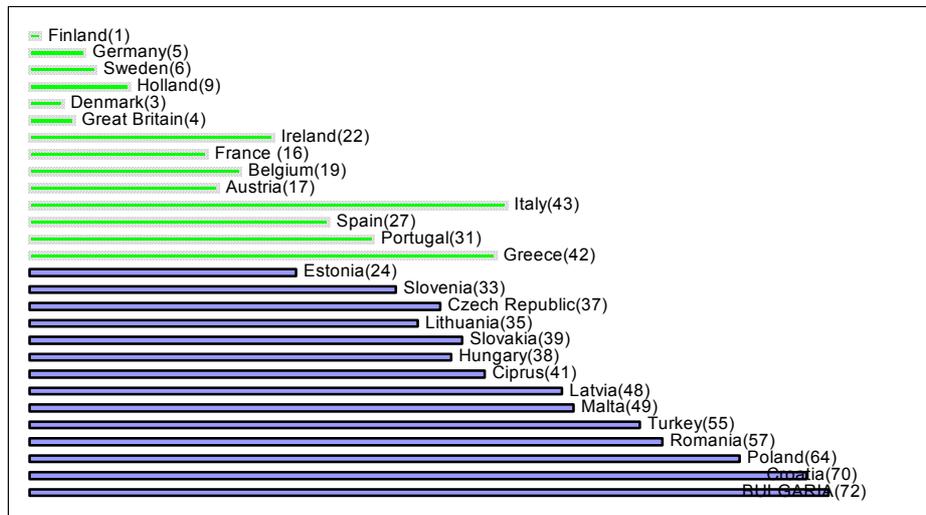


Fig. 2. Business Environment Quality Index, EU and Preaccession Countries (2004)

Source. Global Competitiveness Report 2004-2005. World Economic Forum.

² See World Economic Forum, Global Competitiveness Report 2004, www.weforum.org; Competitiveness and Economic Growth, February 28, 2005; Is Bulgarian Economy Competitive. World Economic Forum methodology reports, Davos; www.ced.bg, etc.

Market Strategy and Competitiveness of Bulgarian Companies

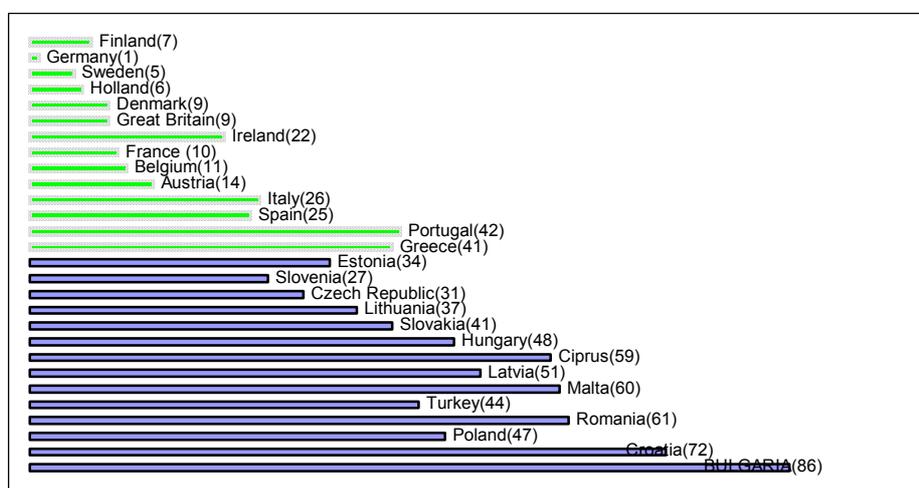


Fig. 3. Company Activities and Strategies Level Index, EU and preaccession countries (2004)

Source: Global Competitiveness Report 2004-2005. World Economic Forum.

From the analyses made in the quoted publications, we can identify as most essential the following issues, which Bulgarian companies face and which are factors for lowering the competitiveness of the latter:

1. The existence of various segments-consumers, characterized by differentiated wants and a high degree of finality, is a serious incentive for building company competitiveness. Bulgarian consumers are not demanding enough. Purchasers do not tend to look for the newest products and technologies. That weakness is particularly serious with companies, which carry out their activities on the industrial markets.

2. There are no developed clusters, which include suppliers, specialized institutions such as University and research centres, training programmes, etc. As far as support production is concerned, suppliers are mostly local and insufficient in number. They are not competitive and in international context cannot ensure new products and technologies. In the production processes no leading technologies are applied, not even any good or very good technologies (we rank last on that index).

3. The competitive advantages of Bulgarian companies on international markets are not due to unique processes and products. There is also the diminishing role of cost advantages having to do with the low price of the workforce, those advantages being frequently the leading element of company competitiveness of Bulgarian companies.

4. There is the ambition on the part of companies to create and improve their own product design, to position and develop their own brands. The amount of goods which Bulgarian companies sell under their own trademark is on the

increase. The ratings on the state of the standards in effect in this country are relatively better, which is undoubtedly a positive result of the work done on synchronizing our standards with European ones.

5. The rating on antitrust policy is good, which is an important prerequisite for stimulating competition, the development of functioning market structures, reinforcing the effect of their regulating and stimulating function.

Strategic indicators. Level and quality of the strategic market management

There is hardly any need to discuss the necessity to use contemporary methods of analysis and management of competitiveness, of building an effective market strategy of the company. Modern strategic management requires that after an assessment of the attractiveness of product markets and segments, constituting a part of the company target market for operation, there should also be analyzed the state of the competitive situation separately for each one of them, that is, for each strategic business unit. That allows us to determine the nature and the power of the competitive advantage the company possesses in respect of the other players on the market and in the respective strategic group.

The purpose of the analysis of competitiveness is to determine the type of competitive advantage, with which a given company, brand or product may present itself, to assess the degree to which that advantage is defensible, taking into consideration the competitive situation, the balance of existing forces and the positions occupied by competitors. During the working out of the company strategy the need for such analysis is unconditional.

It requires measurement and analysis of the elements of the expanded rivalry, the main competitive forces; the competitive advantage, the ways to achieve the latter; the close connection and the importance of concepts such as competition, quality, competitiveness, competitive advantages, strategic planning and management.

To the questions "Does your company possess a long-term strategic plan?" and "Have you formulated a mission and a principal goal of the company?", 100% of large companies respond positively (however, only 10% of those claim that the goals of all company divisions stem out of it). Operational decisions, connected with the organization of company activity, are strategically consistent with 98.4% of large companies. For the most part they are consistent with the annual plans, which, on their part, are consistent with the strategy of the holding company and the subsidiaries. The responses to those two questions give grounds to conclude that the most general formulation for the creation of a modern market strategy is part of the real activity of the contemporary Bulgarian company.

72.6% of the companies have clarity as regards the choice of base strategy. The absence of such clarity, observed with 27.4% of them points to the fact that it is impossible to determine effectively the nature of the competitive advantage, which is sought, and therefore the kind of strategic positioning. This leads to diversity in market policies and a sharp reduction in the overall synergy and the efficiency of each one of them.

A clear-cut, explicit definition of a long-term defensible competitive advantage is found in 79.7% of surveyed companies. With 74% of them only the management is familiar with that definition, whereas with the other 26% the entire personnel has been informed and called upon to defend it. The good practice of clarifying and formulating the strategic advantage is unfortunately halfway through to its objective. Bad intercompany information or the inability to formulate it adequately and provide it to the entire personnel deprive companies of the major effects, which would be witnessed, if all employees were familiar with it and motivated to work actively in the stated direction.

With the question whether competition is analyzed in the area of the activity of the company by individual elements (competitive forces, kinds of threats, branch competition), responses are as follows: 30% (28.78) of large companies reply "Yes, the intensity of each one of those is assessed", while the other 70% (71.2) – "Yes, we have an idea of the average intensity of competition".

This information presents a pretty disturbing picture of the strategic management of Bulgarian companies. In the preaccession period, when most substantial changes are expected in the sphere of competitive structure, the kind and nature of threats, in the priorities of competitive forces in each one of the industries, subindustries, branches and areas of activity, more than 70% of the large companies make strategic decisions, develop their company policy and will fight to keep and raise their competitiveness on the basis of an "average idea" of the intensity of competition.

All companies respond positively to the question whether there has been made an analysis of competitors in the industry (subindustry, area of activity). The next results, however, show that the purpose of the analysis of the competitors is divided as follows: 56% - for the development of the strategic plan; 40% - for the sales management; 4% - for familiarization with the large companies and the creation of a reactive profile of the more important competitors (Fig. 4).

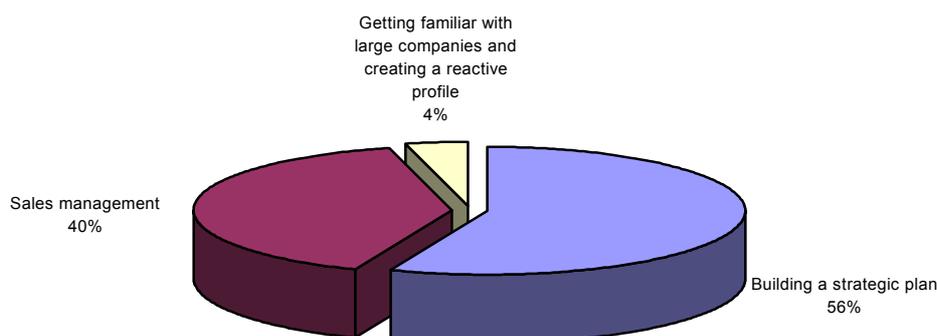


Fig. 4. Purposes of Competition Analysis

It is hardly necessary to interpret results, which show that 44% of the companies are creating reactive profiles of major competitors, but that does not constitute a part of and does not even touch upon strategic planning. Without underestimating the role of that analysis for the purposes of sales management, it is a waste of strategic resource, ineffective utilization of valuable primary information, to put it mildly. Somewhere in the technology of company planning many companies skip the role of competitors in the first strategic group, the leading companies in all the remaining groups, of the short-term and long-term goals they are after, the blanks in their assumptions, the market reactions that are expected of them whenever there is a change in competitive conditions, etc.

Another group of issues in the present study have to do with the use of modern strategic methods of analysis and planning. They cover familiar and widely used approaches, which are not a novelty in company management in this country. We seek answers to the questions as to which are the most frequently used methodologies and what is the level of their efficiency, assessed from the point of view of acting managers.

A considerable percentage of the companies - 95.59%, make an analysis of the strong and weak aspects of their activity. The responses to the question "What approaches do you use in the analysis of strong and weak points?" are divided as follows: the expert opinion of the owners and the managers of the company - 46%; the "value chain" model - 5%; independent expert reports - 18%; comparisons with average industry value indicators - 12%; comparisons with average indicators for the respective strategic group - 5%; comparisons with leading companies - 14%.

There is no way to give a positive rating to the quality of company practice in the analysis and assessment of the internal, endogenous factors. The only good result is that most companies realize the need for that analysis and carry it out. However, the way they go about it is seen from the fact that merely 5% of the companies use and provide the necessary information for the widespread and easy to apply methodology called by Cynthia Montgomery "value chain".

It is a fact that the internal specialists and managers (who may well be the best) are emotionally and professionally involved, for instance with a product, on whose creation and positioning on the market they have worked or made decisions. It is not right to substitute the assessments of independent external experts with those of company managers, experts, specialists. Paul Peter and James Donnelly call it "vicious practice".³ This often does not save any money, it may even lead to the loss of money and resources for companies, having in mind how costly mistakes can be.

³ Peter, P., J. Donnelly. *Marketing Management: Knowledge and Skills*. Boston, IRWIN/BPI, 2002, p. 467.

The question "Has there been carried out situational analysis for the purposes of your company?" got a positive response by 44% of the companies (94% of the large companies). What is more, with 36% of those that analysis is performed by company experts, with 19% - by company experts with the help of external consultants and with only 2% - by a company specializing in the respective elements of the analysis. It's as if situational analysis is not a system of methodologies for gathering information and assessing the state and anticipated changes in external factors, but rather a matter of common knowledge and additional study of those factors by means of secondary information on the part of company managers and experts.

The intensity of the analyses of company internal factors is considerably greater than the efforts aimed at studying the external, exogenous factors. This is a matter of course in view of the simplified access to company internal information and the active nature of endogenous factors as controllable parameters. The principal threats, however, especially in the conditions of preaccession, are related to the changes in external factors, which directly (by way of the elements of horizontal competition) or indirectly (vertical competitive forces) will affect company results and competitiveness.

The forthcoming integration into European markets means the removal of all restrictions as regards the movement of goods and capital (but not workforce). That is connected with changes in the competitive structure of the market rivalry, the kind and number of the real players, redefinition of strategic groups and serious transformations in the strategic position of each individual company. Here we advocate the need for companies to conduct specific, thorough and high-quality analysis and to forecast these processes in their area of activity and in relation to the strategic group, to which they belong. Bulgarian companies are required to make serious efforts in view of the state of their current management practice.

**Marketing indicators. Level and quality of strategic
marketing management of companies
(Instrumental parameters)**

Product policy

The new conditions connected with the forthcoming accession, make the requirements to the product policy of companies a very significant element of the marketing mix. The unified European market imposes mandatory and very high quality parameters and requirements in respect of the technical, economical and operating characteristics of goods and services, in order for them to be competitive. These major requirements are turning into a barrier of sorts and to some extent are reducing the opportunities for competing by means of the product, when the element of uniqueness is lacking.

A change in the factor significance of product policy shows the growing role of strategic product positioning. The need to study new markets and the consumer characteristics of their segments, the development of matrix (panel) product indicators, need (want) indicators respectively, the assessment of the level and development of differentiation will be at the base of the requirements for the management of the product portfolios of Bulgarian companies. For the successful integration of the latter into the new conditions they are expected to create new goods and services or to purposefully adapt the existing ones to clearly defined and well-researched target markets, market segments or niches.

An important element of product management is the use of the theory of the product life cycle.⁴ That theory and the ensuing model structures are widely known as an analysis and forecasting tool at microlevel. In modern conditions it has turned into a philosophy and a major principle of product strategy under the influence of the development of the theory of systems and quickly enters the other areas of contemporary company management. As goods or services pass through the consecutive stages of the life cycle, there also change the respective strategies and the optimal decisions in respect of promotion, the distribution policy, pricing decisions, etc. For each stage of the life cycle we have, as a rule, different structures of marketing decisions, being familiar with which is a prerequisite for the market management of any company.

The accession to the unified European market will inevitably affect the market cycles of a major part of the products on the national market, and the adaptation of Bulgarian goods to the conditions of that market cannot be carried out successfully without such analyses.

The present study shows that the strategic market approach to the development of the product policy of companies in that respect⁵ is not at a very high level.

When forecasting sales and planning on a per good basis, 56% of large companies believe that without the use of the product life cycle model (PLCM) they could not do any forecasting and planning successfully, 25% point out that it should be taken in consideration only in isolated cases, 19% - that it is not appropriate for the particular type of company activity. No company has stated that the use of that model is unnecessary or that it has not been used in analysis (see Fig. 5).

⁴ The concept of the product life cycle was developed and published for the first time by Theodore Levit in 1965 (*Levit, Th. The Product Life Cycle. - Harvard Business Review, 1965, Vol. 43, p. 81-94.*

⁵ We make this clarification, because the goods policy of companies has a number of other dimensions, too, e.g. innovation, technology transfer, meeting GMP requirements, trade mark policy, methods of studying consumer needs, developing product levels, etc., which we cannot discuss here. The subject of the present study is the role of the level and the quality of the used market strategy for the successful competitive development of Bulgarian companies in view of the forthcoming accession to European markets.

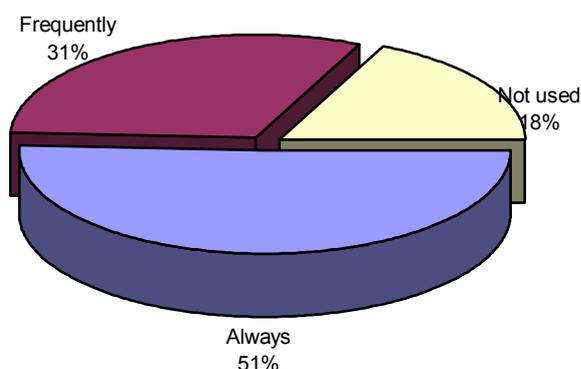


Fig. 5. PLCM use

The results of the survey, covering all companies, do show certain differences, however, the deviations are insignificant. There is a change in the percentage of companies in the first group, which goes down by 9% (8.76) on account of an increase in the other two groups by 3% (3.3) and 6% (5.56) respectively.

The need to align the entire complex of marketing activities with the stage of the life cycle of the respective good is acknowledged by company management, and, quite naturally, this is far more evident with large companies. 52% of them think that such an approach is crucial, 36% state that without it they could not manage their sales, and 12% - that this is not of considerable significance for their products. Undoubtedly, the product life cycle theory has an important role in sales management, but that, as far as the strategy is concerned, is a pretty limited and unacceptable utilization of the capabilities of that model, which was adopted worldwide a long time ago. It should be disturbing that 48% of companies do not apply or use sparingly - at an unacceptable level - a management practice which is widespread and long since adapted to the conditions in this country (and at the same time lacks an alternative).

After the accession to the European market Bulgarian managers expect changes in the product policy of the company, connected with:

- increase in quality requirements, growth in the need to differentiate the company product, expansion of the product range, increase in the number of products offered;
- search for and acquisition of new market niches, shortening of the market life of goods, particularly those produced at present, development of new products and services according to the new trends in the respective markets and market segments; the need to increase investment in the development and innovation activities, greater flexibility of production capacities.

We should highly appreciate the interest of companies in the conditions of European markets, in studying the opportunities to expand their activities and search for suitable market niches (however, companies forget that market niches are created rather than "sought"). Also, we should not underestimate the need for them to assess the product policy in order to strengthen their competitiveness on target markets and market shares they are currently serving and whose competitive parameters are also expected to change.

Pricing policy

We expect a number of significant changes with microeconomic company pricing. First and foremost it is changes in the type, the kind of market in which companies operate, on the basis of the change in the two comprehensive indicators - the height of the barriers to entry on the market and the rate of product differentiation. The anticipated shift in the sphere of activity (business field) as regards these principal factors, determining the type, objectives and approaches of pricing, raises the need for really serious market analyses and projections regarding the impact on pricing decisions in each particular case. The pricing policy depends on the type of market on which companies operate and the nature of market competition.

In markets close to the polipoly homogeneous competition leads to the establishment of uniform market prices. The individual production and placement costs of the company in such market conditions cannot be the basis for the pricing of goods. They are only one of the factors, which affect the profitability of the company, but not the level of its prices. The price level of the respective market and its dynamics are viewed as a factor that is exogenous to the company, which is projected and on that basis the base calculations concerning technical and economic minimums, efficiency and the other elements of the market and product activity are calculated.

With the type of market featuring monopolistic competition there exists a high degree of differentiation as regards consumption, goods and services differ in terms of quality, properties, layout, number and type of accompanying services, etc. Offering different variants leads to deals being concluded in a wide price range and the pricing strategy of the company is of crucial importance. It must be developed along with the other marketing activities, in view of the chances to obtain considerable synergic effects. The target orientation of the marketing activity is maximum individualization of company product and company supply. Monopolistic competition predetermines as most effective such a pricing concept that emphasizes the nature and peculiarities of market demand and that of the target markets respectively. The main pricing factor becomes the rate of satisfaction of the target consumer, the pricing policy realizing the competitive advantage of the company and the advantages of the overall marketing mix.

On oligopolistic markets, currently the predominant type, a limited number of sellers (and buyers) is constantly maintained. The high barriers to entry, hampering

the penetration of new players, are related to capital requirements, the effects of scale, the scarcity of resources, the marketing barriers.

If we consider the barriers limiting the entry into oligopolistic markets in detail, we will notice that the majority - nearly all direct price barriers, are expected to be higher on the individual industry markets, compared to those on the respective Bulgarian markets at the moment and with regard to the remaining two-year period until the accession. What does this mean for Bulgarian companies? First and foremost it means serious difficulties in respect of expanding the activity and especially in respect of the possibilities to start new production and enter new markets respectively. This restricts the diversification and optimization of company portfolios in the postaccession period, and at the same time "opens" the oligopolistic structures on the existing national markets and the risk of new competitors entering the market rises sharply. The sellers on the oligopolistic market take up considerable market shares and the level of interdependence among them is too high, each one of them being sensitive to the pricing and marketing strategy of the others and needs to be prepared and react adequately to every change in the actions of competitors.

On the basis of its considerable market share the oligopolistic company is able to exert influence over the total amount of commodities on the market and over the formation of prices (and respectively be affected by any of the other companies, especially new entrants). The influence over prices can be direct - through production and placement costs and through the pricing principles and approaches applied by the company, and indirect - through influencing the volume of supply (cuts in production or increase in reserves) and through stimulating demand (advertising, sales promotion, motivating sales staff, etc.). Under the conditions of the unified European market, Bulgarian companies will be subjected to the type of influences, which frequently redefine the conditions of business. That is why they should be prepared to adapt those and to continue successfully and competitively their market activity.

We are not touching upon the hot issues of monopolistic markets not because they will not arise or are insignificant, but because that is a heavy and specific matter, which is outside the purposes and scope of analysis in the present study.

After the accession of this country to European markets in many subindustries, branches and areas of activity of companies there will occur considerable changes not only in the dimensions of capital and marketing barriers to entry (consider for example the most common and simple indicators, such as the average amount of assets and the average promotion and advertising costs), but also in product differentiation. These changes may markedly affect the basic pricing factors and if the company does not analyze and take them into consideration, that will lead to costly inaccuracies and mistakes as regards the most sensitive element of competitiveness at product level - the market price of goods. There are methodologies for analysis, which should be adapted and used

by company managers. The direction in which the strategic area (business field) is moving is generally predictable - it is upwards and to the right, but it is extremely important that those processes should be measured and recorded in time.

There are also changes in the base terms of the pricing problem. First and foremost changes are to occur in the factors determining the minimum (internal cost rates) and maximum prices (the price elasticity of the respective product market), that is, the region of acceptable values of reasonable pricing decisions for each company. Not recalculating the limits of the price ranges of goods (and especially the elasticity), would mean not defining correctly the conditions of the pricing problem, not determining the region of acceptable values of the solution or, to put it in other words, the boundaries, the range of rational prices which close the reproduction cycle.

The need for purposeful studies and determination of these elements for each individual business hardly requires any further argumentation.

Let us consider the results of the inquiry, showing the degree of preparedness of companies for those changes. With 98.6% of them the pricing process is consistent with the type of market on which they perform their activity. The question "Is the pricing process consistent with the kind of competitive advantage of the product?" gets a positive response by 94.6% of the companies and 100% of the large companies. Some 5.4% respond negatively and according to 2% of them there is no point in asking that question.

The responses of company managers to the questions connected with determining the state and dynamics of price elasticity on the markets in which companies operate are of certain interest.

The responses to the question "Is price elasticity kept track of?" are as follows: "Yes, by means of a specially maintained database (incl. primary data)" - 25%; "Yes, but no special market information is gathered" - 18%; "Yes, on the basis of company experts opinion" - 43%; "Yes, in the form of analysis of actual performance" - 14%; "No" - 0%.

As far as pricing approaches are concerned, the most widely used in the practice of Bulgarian companies are the following: based on "average costs" - 11%; target return - 14%; on the basis of the good's value to the consumer - 16%; on the basis of current market prices - 41%; other - 18%.

Besides the requirements for a guaranteed closing up of the reproduction cycle, before price positions the risk-profit ratio, it is a major factor for the realization of the strategic market goals, set in advance by the marketing strategy for the respective group of products. That is connected with defining the strategic price range. Here a major indicator are the prices of leading competitors. Their change may narrow or even render that strategic range non-existent, which alters not only pricing targets, but also the possibilities for strategic positioning of the respective product, the business unit, and thus the entire company portfolio.

The pricing policy is the most sensitive element of market management and a means of positioning competitive advantages. Its decisions reflect the effects of

all the other market policies. (The remaining elements of the marketing mix - the product policy, distribution and promotion, are expenditure elements from the point of view of financial analyses. The effects of their successful or unsuccessful management realize themselves in two ways - through a higher market price achieved or through increased sales volume.) Every mistake when fixing prices and their management has a direct effect over all results of the activity of the company - be it in strategic, operating, financial or other respect. Therefore it is not surprising that the best results on the state of management practice of Bulgarian companies are obtained in respect of the level of use of approaches and means for building the price system. This, however, is also the sphere that is the most difficult to manage, and it will be affected most dynamically during the period of accession of the country to the EU.

Distribution policy

In EU market conditions there function the distribution channels, customarily used in international exchange. In the various countries the specific and traditional features of distribution channels are preserved. The established relations and dependencies between importers and traders, the growing differentiation of consumption and the market segmentation lead to high switching costs and are at the base of the stability of the channels of placement in European countries.⁶

In the placement of goods and services there are used not only classical traders and importers, but also new, modern forms, concerning above all the degree of channel control and the management of the distribution chain at minimum cost and systematic market approach including the combined action of the entire complex of the marketing mix. The strong vertical marketing systems of corporate, contractual or administrative type are developing very quickly. The advantages of those large, vertically integrated structures over the traditional distribution channel besides the flexibility, versatility, the direct contact with the end user are also related to the leading role, which can be performed by a producer, a wholesale distributor or retailers. The common uniform control creates the conditions for greater efficiency of functioning, averting conflicts among the individual participants, the most effective variant in terms of channel size (number of participants) is achieved, doubling of efforts is avoided. Controlling the behaviour of the members of the channel and avoiding conflict, when independent companies pursue their own conflicting interests, vertical marketing systems achieve effects from their synchronized activity, which are allocated among the participants, allowing them to function far more effectively, than in any other structure. The modern vertical marketing systems are professionally run and centrally programmed networks, oriented towards achieving economies of the activity and maximum market impact. All these

⁶ Дамьянов, А. Международен маркетинг. .АИ "Д. А. Ценов", Svishtov, 2004.

advantages lead to the very fast development of vertical marketing systems and they have turned into a major method of distribution on contemporary markets.⁷

Against the background of those expectations for increasing the role of modern distribution and logistics in the conditions of the unified European market it is very important to respond to the question concerning the degree of preparedness of Bulgarian companies to meet with forthcoming changes in strategic aspect, without any stressful effect on their activity, and to be able to preserve and even strengthen their competitiveness.

The response to that question depends on the actual state and the issues of company activity at the present moment. The process of accession to European markets will to a great extent enforce the negative sides of that activity, revealing them in conditions of a more modern and more efficient practice.

82% of companies have developed a distribution plan, while 18% of them do not plan that activity. All large companies, which have taken part in the inquiry, pursue their own distribution policy and have a plan for their placement activities.

To the question "How do you choose your distribution channels?" 17% respond: "By way of optimizing the structure and the degree of channel control", 48% - "On the basis of expert decisions by company specialists", 35% - "Operatively, according to changes on the market".

To the question "Have you developed a logistics concept?" 14.5% respond "Yes, as an independent activity"; 15.5% - "Yes, as part of the distribution policy"; 41% - "Yes, it is directly connected with the strategic plan, it constitutes an integral part of the plan"; 14.5% do not have any such activity and according to them that is not necessary, while another 14.5% view the process as physical distribution.

The research of experts in the area of logistics⁸ generally point out at the following issues:

1. With reference to the connection between logistics and the strategic plan of the company - it is often missing. The organizational and management structures are not adequate to the market conditions in which they are functioning, much less so to those they are to meet with in the postaccession period. They are centralized and burdened, most companies do not have a marketing department, which means that no analyses, assessments and projections of the market and production are made. This leads to underestimating the question of managing the logistic activities and the

⁷ For instance between 70 and 80% of products on the consumer market are distributed in that way.

⁸ In her work Liliya Chankova gives a generalized picture of those issues, identified as a result of analyses carried out for many years. Here they are presented in terms of their importance as regards the market strategy, which is the subject of the present analysis.

potential, which lies in their rationalization in order to raise the efficiency and competitiveness of companies.

2. With reference to the logistics concept - it is not known and is not applied. L. Chankova is right to believe that the reason for that is the fact that some widespread concepts in modern management, for instance the value chain, is not used (which is also obvious from the results of the inquiry discussed above).

3. With reference to the use of computer and information systems - the level of provision of computer and information services to production and logistic processes and activities is very low.⁹

Promotion and advertising

In the contemporary conditions of development of business each company maintains a complex system of communications with the elements of its environment, with its middlemen, with consumers, with the entire contact audience. In terms of analysis and assessment, this is one of the most difficult spheres of activity of companies. The specificity of the product and the market, the degree of differentiation, promotional absorption, the average levels of market saturation, the nature of the rivalry, the evolution of the industry, the life cycle are factors of different direction and impact dynamics, which substantially affect the structure of the promotional mix and the characteristics of each of its elements. Bulgarian companies have a short history in respect of that factor of market positioning. During the past 10-15 years they were to accept and adapt the expertise of developed markets.

The sphere of promotion strategy and advertising policy of the company is rather difficult to analyze because of the complexity when measuring the effects, the power and the duration of their effect. Another factor, which makes it difficult is the high risk component of that kind of an activity, which essentially is throwing "live" money without any residual value on the market. All this requires the company to solve the issues, connected with determining the promotion budget and measuring the effects of the activity. If these strategic indicators are missing and the companies do not possess contemporary methods for their formulation, the promotion activity becomes a costly advertising game. We are not under the delusion that in conditions of the unified European market the specific parameters of that element of the marketing mix will change in almost every sector. That is why the degree of preparedness of contemporary Bulgarian companies to control it at a highly scientific level is of crucial importance.

⁹ See Чанкова, Л. Логистиката във фирменото управление. – In: Логистиката в икономиката на прехода. София., 1999; Логистичният подход и възможностите за неговото прилагане. – In: Логистиката в България – теория и практика. "Ибис", София., 2004; Логистика и конкурентоспособно развитие на фирмите. - Икономическа мисъл, 2005, N 1.

The analysis of practice shows that only 58% of the companies conform their promotion activity and advertising to the stage of the product life cycle. 52% of the companies in the survey are not aware what the average promotion and advertising costs in the sphere of their activity are, that is, they have no idea about the simplest indicator of marketing barriers. What is more, 18% of them think that this is unimportant. The other 48% do possess such information and keep the level of their own costs, taking into consideration those indicators - 41% are near the average costs value, while 7% are trying to have costs higher than those.

The promotion and advertising costs (overall promotion budget) are defined as: a percentage of the sales volume - in 20% of companies; as a percentage of the realized profit - in 14%; depending on the current financial capabilities - 39%; depending on the competitive parity - 15%; other approaches - 12%.

To the question "Is the effectiveness of promotion and advertising measured?" we have the following responses: "Yes, we use selected methods" - 43%; "No, that is not possible" - 18%; "Normally, the results are obvious" - 12%; "By the effect over the sales volume" - 27%; "By means of the possibility to position higher prices" - 0%.

Many companies point out that the effectiveness of promotion and advertising is measured by their effect on sales volume. These are only a part of the effects, which appear. The promotion activity is an investment process through which a large part of the intangible assets of the company are created. This leads to the possibility to realize higher prices, which is actually its more natural function as an element of non-price competitiveness. None of the companies has paid attention to that role of promotion and advertising in the process of their planning, resource provision, carrying out and measurement of results. Giving such answers, companies clearly confirm that they view promotion and advertising as a factor for stimulating the placement of goods and services, rather than as a system factor for developing a competitive market position and an element of the marketing structure.

The results are quite unacceptable in view of the European requirements for including the promotion policy in the marketing mix as one of the powerful factors for maximizing synergic effects. It is true that this is a new activity for the practice of Bulgarian management. We should also take into consideration the fact that the companies, especially when they are positioned mainly on domestic markets, start up and develop such an activity in conditions of partially or completely non-existent market economy. In those conditions effects are hard to measure and they cannot be planned every time, they do not appear as expected, as in the well-regulated and developed market economies. May be it is precisely those largely objective circumstances that are at the basis of the advertising and promotion activities of Bulgarian companies, which are unsystematic, random, occasional and sporadic. We have good reason to

assume that with the stabilization of the economy during the past few years of the preaccession period, such negative factors will die away and we will observe a fast process of development of promotion and advertising as an integral part of the market policy of companies, bound to the other controllable parameters, and as a major factor for the development of company competitiveness.

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The results in respect of the strategic company policy and the preparedness for adaptation to the challenges of the accession to the European market confirm the rather pessimistic picture presented by the generalized expert indicators of the microeconomic competitiveness.

On the whole, the conclusions from the analysis of the primary data on the state and the preparedness of company management and the level of the used company strategies, viewed in the light of the forthcoming accession of the country to European markets, are as follows:

1. The use of contemporary approaches and methods for strategic company management and the development of a modern market strategy is part of the actual activity of Bulgarian companies. There are, however, substantial weaknesses, the major ones being:

- lack of clarity as regards the nature of the competitive advantage and the type of strategic positioning;

- no analysis is made of the structure of industry competition, the ratio and the role of competing powers, the kind of major competitive rivalries and threats;

- in the process of accession there are expected significant changes in the dynamics of exogenous factors. The state of activities, connected with the internal and situational analysis shows that in their activity companies pay greater attention to internal rather than to external factors.

2. The European market sets mandatory and also very high quality parameters and requirements in respect of technical, economic and operating characteristics of goods and services. This high level of requirements is turning into some sort of barrier and to some extent reduces the possibilities for competing through the product, when the element of uniqueness is lacking. Non-price competitiveness of companies is also changing in conditions of domestic markets.

3. The parameters of product management are changing. With the accession to the European market there are created conditions for repositioning on foreign markets, which is a rather favourable opportunity for national companies. At the same time the life cycles of a large part of products on the national market are inevitably affected, the market life of goods and services gets shorter.

4. Bulgarian companies take certain interest in the conditions on the European market, they gather information and carry out some research, however, the need for reinforcing the competitiveness on the national markets is underestimated.

5. The pricing policy is the most sensitive element of the market management and a means for positioning competitive advantages. There are very good results, having in mind the state of management practice of Bulgarian companies, in respect of the degree of use of methods and the means for development of the price system. That is the area that is most difficult to manage, and it will be most dynamically affected in the period of accession to the EU.

6. An important element for preserving and developing macroeconomic company competitiveness is the adaptation and optimization of distribution policy. The process of accession to the EU will largely reinforce the negative aspects of the placement activity of companies and their logistics, placing them in conditions of a more modern and more effective practice.

7. The results of the survey clearly confirm that companies view promotion and advertising as a factor for stimulating the placement of goods and services, rather than as a system factor for developing competitiveness and strategic market position. For that reason the promotion activity lacks systematic character, it is not bound to the other controllable parameters of the marketing mix, it is not consistent with industry characteristics and strategic groups. The informational and advertising measures are random and to a great extent accidental.

The analysis of anticipated changes in the examined market states and the respective indicators for each individual product, the good forecasts on their dynamics are at the basis of developing the product and company competitiveness in the postaccession period. This is connected with redefining priorities, determining strategic opportunities and preparation of the company for expansion in the new conditions respectively. The lack of such preparation means loss of market effectiveness and may be fatal.

10.X.2004