



"Train-the-Trainer" Curricula Models

**PROGRAM I: INNOVATION AND
CREATIVITY IN THE FUNCTION
OF THE ENTREPRENEURSHIP**



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1. CREATIVITY AND INNOVATION

1.1. Defining the concepts of creativity and innovation

Creativity is a process that presupposes the ability to create new ideas. These ideas can be more or less interesting and original, but they are important from the point of view of a business organization. Innovation further means using these new ideas.

In the company, this process means the form of a new product or service, or a new developmental direction within the business. It can also mean a new business policy. Each of these novelties for the company represents the materialization of the idea, i.e. her application in practice. For these reasons, in today's economy, market rewards largely belong to companies that are constantly innovating - they create new business models and products that are based on changing technology, demographic opportunities and consumer habits.

New products and services, generally accepted - new business models, as a rule, overcome the existing ones, thus creating new values posing a threat to the traditional way of doing business. From the above, it follows that innovative strategies are the only way to align with constant changes.

From the point of view of management, in order for the creative thinking process, as well as the whole atmosphere of nurturing in one environment to come to life, it is necessary that these ideas have practical value, that is, that they are applicable in practice. Thus, only those

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creative ideas that are subsequently transformed into useful products and services have an epitome of innovation. In this way, creativity represents a base for innovation, while innovation is the final result of applied creativity. The conclusion is that innovation does not exist without creativity, but it also says that any creative idea does not have to become an innovation.

Today's managers have the opportunity to embark on challenging and creative research processes in order to create new and more creative products and services. How on the one hand they can be the initiators of all creative events in their internal business, they can also with their rigid and extremely inflexible attitude to prevent any possible creativity within the company.

It is evident that the creation of new and creative ideas pushes the company forward, and that the absence of the same company leads in the opposite direction. The role of modern managers is more and more complex. That is why it is believed that in the turbulent economic situations that today almost every day occurs, creativity takes a very important place.

It is quite understandable that successful companies are reluctant to change their tried and tested business policies. However, over time, every business model and strategy is outdated. Traditional planning maps the presumptions of the past into the future, and thus creates a sense of false security that is then associated with currently existing, successful business models. It is considered that an innovative environment can be created if the company is ready to renounce old rules, habits, customs and traditions. If creativity is the basis for innovation, then innovation is an applied creativity. Every creative idea does not have to become an innovation, but there is no innovation without creativity. Many companies suffer from the lack of new and creative ideas, and they are unconscious of how they stimulate the choking of themselves.

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The key to improving company creativity is to allow creative potentials to develop throughout our lives. Some previous research suggests that creativity is mostly innate, but it supports techniques and methods by which creative and inventive thinking, as an important tool in the hands of managers, is encouraged and developed.

Creating an idea pushes a successful company forward, and lack of them revolves. In this way, the role of the manager becomes more necessary and more complex. They have the ability and authority to encourage the process of creating more creative and quality products and services. Managers at the same time can be the drivers of explosion of creativity and other potential employees, but they can also with their rigid attitude and rigidity discourage every thought of creative thinking.

True changes and creative processes, by analogy begin by identifying problems or opportunities in the business process. If a company wants to create innovative individuals, it must first include them in all important business flows. On the other hand, if it wants to truly understand their needs and wishes, they should work closely with them.

The first step in any creative process is to generate as many different ideas as possible. Evaluation, practicality, reality and cost-effectiveness of each of these ideas are done later. In this process of collecting ideas, in order for them to be creative, their own subconscious should also be included. In doing so, one should not be discouraged by the fact that the first idea is not revolutionary, because it rarely happens that the first time a creative individual comes to an extraordinarily good and fruitful innovation. When we consider the best solution to give the problem, it is desirable to implement it. Implementation is also the hardest step because it implies that the idea of a creative individual is supported by a work team, i.e., a company.

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1.2. The concept of the creative process

According to Thomson, creativity is the ability to see things that others see almost identically, in a completely different, universal way. The stages of the creative process are:

- liberation (it is essential for this stage to essentially find the place and time most suitable for creating some new ideas),
- expression (in this stage is typical exposure of a business problem),
- Creation (the characteristic of this phase is to create an idea),
- actions (ideas should be considered from the company's own point of view in terms of success, properly understood visions, implementation modes, etc.).

A creative process is considered a very complex creation. It consists of four stages that overlap each other:

1. Unconscious searching - is a preoccupation with the given problem (this phase often goes much shorter than necessary, and in practice, for this reason, managers make premature decisions).
2. Intuition - links the previous stage of creating a creative process with the next stages. This phase requires a certain amount of time within which creators of creativity come up with certain ideas.
3. Determination - represents the focus of the idea not only on new, but also on existing problems that affect certain products and services. This stage of creation of a creative process can easily occur in a phase when it is not even thought intensively about that problem.

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4. Verification - the last stage of a creative process that represents a logical formulation, or testing the process itself. It is concretized in that the experts are called upon to help with the critique of the creative process with their criticisms and suggestions or simply continue to work on the creation of ideas.

1.3. Creative process techniques

The three techniques for forming a creative process are most often used: Brainstorming techniques or technique of sudden ideas, synectics and technique of a nominal group.

Brainstorming technique is based on the solution of the current problem by finding new and unusual solutions, whereby the amount of ideas is stimulated and encouraged by other ideas, as this technique is usually performed within certain work teams, i.e., command groups. This technique additionally stimulates group activity and collects as many creative and varied ideas as possible to help solve the current business problem. Thanks to this technique, besides generating new ideas, we are actively working on building a creative team within the company.

Prior to the problem, the whole process begins by defining it through certain already grouped questions and detailed explanations. Problems that are being tried through the Brainstorming process should be clearly and precisely defined. It is insisted on the quantity of ideas, so that in the second part of this creative process the number of solutions could be reduced only on quality and efficient ones...

There are several types of brainstorming processes:

The Group Equality Technique - assumes the equality of all participants in this process - ideas can be subsequently discussed either publicly or anonymously.

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Idea forwarding technique is that each participant within the Brainstorming process records his idea and forwards it to others in the group, in order to make the paper with suggestions of the other participants in the team.

The technique of mapping team templates - is for the background of the associations that are obtained from the participants in the given team. The process begins with, so called, individual brainstorming, that at the end of the idea, all the participants will generate in one place with which the list of references is made.

Computerized Brainstorming Technique - with this technique, the Brainstorming Process Moderator electronically generates the ideas of all participants individually; on the basis of the same ideas, makes up a proposal of all forwarded ideas which then sends to each participant for further consideration.

Synectics represents the formation of a creative process by selecting the members of the synectics team in view of the type of problem being solved, which the team leader skillfully directs in the discussion, without revealing to them the nature of the problem. The basic advantage of this kind of approach lies in the fact that it does not overplay in the solution of the problem and the proper management of such a process often leads to a new invention or technology.

Synectics as a group technique of creative thinking make the following stages:

1. The stage of getting to know the problem - in this stage, each participant in the team clarifies the process of generating ideas. In this stage participants are not familiar with the content of the problem they need to solve.
2. The stage of postponement of the problem and the search for adequate analogies - in this stage, the most important problem is to suppress the problem that will be dealt

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with later; it is important that they come up with adequate analogies that will be associated with problem solving techniques.

3. Connecting stage - in this stage, all analogies are projected to the original problem.
4. Analogy is basically defined as a similarity between two things or phenomena. By analogy, there can be significant credibility of the true problem. This stage in the creative process is necessary because it is important to distance yourself from the initial problem, because in this way it becomes more objective in creating new creative ideas.

Theorists distinguish the following types of analogies:

- direct analogies (compared with parallel phenomena and things),
- fiction analogies (they very consciously ignore real phenomena, for the sake of a more efficient solution to the business problem),
- Symbolic analogies (in problem solving, various symbols that satisfy a factor similar to the original problem are used),
- An analogy with the identification of a personality (the identification of a person with an object or phenomenon is sought to be defined and resolved in more detail).

For creative process, Gordon concluded the following:

- the creative result is increased when participants in the awareness of the same are aware of all psychological processes that control their behavior and decision-making,
- The irrational component is much more important than the intellectual component,

Both of the above mentioned components must be balanced in order to increase creativity and innovation.

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One of the most common techniques for creating a creative process is the technique of a nominal group. By definition, the nominal group blocks the discussion and every interpersonal communication in the creative process. It consists of the following stages:

- participants first form a creative team, but before any conversation, they write their own ideas on a given business problem,
- each participant presents the idea and this process lasts until the ideas and other participants are presented and recorded,
- team discussion of ideas, mostly due to evaluation, selection of the best and interpretation of the same,
- Finally, the ranking of ideas is done by each participant individually.

The basic advantage of this creative thinking process is the formal existence of a group that does not in any way limit the individual ideas and courts.

1.4. Use of emotional intelligence

Certainly, the biggest influence on accepting leadership approach within a given company lies primarily in the flexibility of the same company to respond in a timely manner to changes from the micro and macro environment. The ideal organization of the future is precisely a model that will enable the company to successfully deal with all the complex problems it encounters in everyday business. In situations of turbulent economic conditions, power is not at the top, but in leadership and expert work teams. More precisely, power is not in the position, but in the knowledge of the members of the given team.

The self-consciousness of the modern manager consists of the following characteristics:

- Emotional intelligence,

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- Precise self-evaluation,
- expressed self-confidence.

The configured leaders quickly recognize all their internal signals and are able to fully engage them in the sphere of everyday business activities and act agile to solve specific problems in practice. Precise self-assessment gives the leader the opportunity to better understand his abilities, but also the limits. Expressed confidence comes from strong leadership, which is further assumed to be easier to access execution of business tasks.

It is certain that flexible managers can more easily and simply respond to the requirements within the organization. In doing so, they adapted well to the requirements of the environment, with visible concentration, following all the changes in the same. What is really most important is that in crisis situations they react boldly and visually, enabling them to make rational decisions. Emotional intelligent managers anticipate business situations and do not wait for them to happen to react afterwards.

Awareness of the company gives the manager the opportunity to recognize the values and norms in the organization and, accordingly, build the vision of a creative and innovative one. A creative manager makes his / her own business more interesting, and is an example of what is required of employees. This kind of creators has a natural initiative to support and encourage other colleagues at work to constantly improve their abilities.

Emotional intelligent leaders are very successful in managing and conflict situations in the company. They adequately manage to balance between different opinions, as well as the attitudes of the opposing sides. These managers are more than capable for team work in which they foster an atmosphere of empathy, mutual understanding and collegiality. They succeed to coordinate good and quality interpersonal relationships in a given collective.

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For the business competence and the success of the business task implementation for a company, it is very important that managers have the ability to mobilize rational business decisions. Emotional intelligence leads the leader to efficiency and effectiveness in the decision-making process (information collection, selection, implementation, control and monitoring in the planning process).

Organizational culture is an area in which harmonization of all business interests takes place. Through the image of the manager, all environmental influences, demands of employees, demands of lobbyists, demands of the media, demands of the government, etc., are reflected in the company, where everyone in the company sees support and support for unobstructed business. Emotional intelligence refers to the ability of the creative manager to achieve a balance between racial and emotional behavior and to exclusively use them to achieve important organizational goals.

The ability to implement information that comes through the use of emotions helps managers to more effectively manage an organizational culture, i.e. to motivate other employees more efficiently, to better analyze, plan and realize the desired business goals. The basic task of an emotionally intelligent leader is to trigger positive emotions in the desired direction, as well as blocking unwanted emotions. In this way, the culture of a company is perceived through the process of creative mission and vision, as well as the opinion and behavior of managers.

Employees will not always accept new values given by creative managers without resistance. However, they will be able to achieve good co-operation through the prism of trust, mutual understanding and quality communication. Creative managers are precisely those who direct members of their team to a realistic view of reality, which most directly affects the culture of an organization. More than ever, it has been proven that all decisions in one company are based on emotions, while logic gives a rational variant of the same.

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Author Jukl thinks that the contribution of managers to the overall quality of the group process can be adequately used to assess the effectiveness of leadership. Especially because in modern conditions of economy, flexibility and adaptability are expected to be met by the creative manager. However, not only managers are responsible for the process of creativity and innovation in the collective, but also all other employees.

Managers in companies are aware that emotional intelligence is often a crucial factor for all employees to get to know the mission and vision of an organization's business, and to accept changes in business. But in practice, it often happens that employees find it difficult to accept changes due to the risks they carry.

Douglas Mc Gregor differentiates two theories:

- theory X (according to which employees are unreliable and insufficiently committed people who are interested in salaries in the company),
- theory Y (according to which employees are responsible adults and are eager to work and develop a corporation).

According to theory X, companies are facing the problem of creativity and innovation because people do not have the desire and will to innovate. For this reason, the decision to recruit the most capable employees among the employees in the collective is imposed.

Peter Drucker thinks that innovation is actually disciplining employees. Namely, many employees have talent to work, but true learning requires discipline - the process of realizing potential through commitment, action, patience and perseverance.

Knowledge is a base that is necessary for every successful manager, but only knowledge is often not enough. In addition to the ability of logical thinking and conceptualization, the

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skills of diagnosing, social and emotional abilities, creativity is also needed. It helps the manager to unite, with great confidence, art of mutual relations and communication.

Creativity is a key part of the management mechanism. It is necessary to avoid routine examination and problem solving, to resort to unconventional and original solutions. Today, creativity and adaptability are considered to be the most important weapon in the hands of successful managers.

Creative managers intuitively respond to incomplete information, to unknown situations, without prepared patterns, even without proper preparation. A creative manager, with the appropriate knowledge, uses an improvisation that relies on intuition.

Creative managers have the following characteristics:

- flexibility - the ability to perform a business task in different ways, depending on the situation,
- innovation - the ability to introduce newspapers, new ways of working, new paradigms;
- originality - innovation is prone to experimentation, the production of new ideas, with, perhaps, an unexpected outcome,
- improvisation - the ability to perform jobs without pre-determined forms and procedures,
- Intuitive - using synthetic thinking strategies,
- holistic approach - a synthetic view of objects and entities, perceiving the process of work as a single entity,
- Orientation to the future - lack of interest in the past, focus on future work,

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- possession of a vision - the existence of a more or less clear idea of the direction in which the business future should be directed.

Creative people do not rely solely on a rational process of solving certain business problems, but also include the emotional aspects of their personality. The fact is that creative people can greatly contribute to the quality of the particular company they are engaged in, but their work can sometimes be very reluctant to accept, for reasons of inflexibility and rigidity, and certainly not accepting changes. Changes may result in a change in the entire organization of business, so that creative managers can therefore be targeted by their colleagues who, on the other hand, blindly apply the already accepted business organization and very reluctant to accept any innovations and changes.

1.5. Creative thinking

From the point of view of thought content in the formation of a creative process we distinguish the following types of thinking:

- Convergent thinking - everything is directed to solving the problem in which the problem is solved by dividing it into parts (for example, various diagnoses of business situations, market analysis, etc.), it is mandatory to start from the assumption that there is only one solution for a particular business problem, and all creative efforts are directed towards finding ways to solve this problem,
- divergent thinking - it means resolving the problem by presenting a number of different solutions (for example, the strategy of the business performance of a company in the market, especially in relation to competition), creativity is thus directed not only to one but also to more possible problem solutions, vertically thinking - this kind of creative thinking is developing step by step. This type of process is rather slow and strenuous,

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but on the other hand it ensures continuity and rationality that are cost-effective in the long term because of its efficiency, lateral thinking - it moves relatively unpredictable curvilinear flow, because it allows the influence of all ideas during the process of resolving the problem, which creatively enriches final Output.

Although research shows that creativity is largely inborn, there are definitely some techniques that stimulate creative and inventive thinking. If the business environment is rigid, it is quite certain that any form of creativity will be suppressed at the very beginning. As the market competition is a challenge for each of the companies, it is logical to assume that in the modern environment there will be an increasing attitude that is inclined and receptive to people from creativity and innovation.

It is believed that the encouragement of creative thinking and tolerance is further encouraged by the following factors:

- information exchange,
- eliminating everything that impedes innovation (e.g. excessive planning or intolerance of mistakes in innovation).

As a rule, the number of new ideas and creations increases if the same company is stimulated, but also if the organization is open to them.

Useful techniques leading to the formation of the creation are:

- change of perspective - monitoring the market by observing consumers from "their shoes", i.e., we follow their way of thinking and judgment about the purchase of a particular product / service,
- hot / cold techniques - presupposes thinking given in contrasts,

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- extrapolation in the future - imagines the emergence and solution of the problems in the future in accordance with the current position in the present,
- thinking in certain symbols - greatly facilitates communication with consumers.

1.6. Creative business groups

The need for an employed creator is primarily realized in work in small social groups. For this reason, the group takes the basis of human social behavior and overall functioning. Leaders in creative processes must by definition include all employees who are covered by certain business changes. Individuals who are not involved in the process of creation and innovation, seen from practice, often become angry opponents and saboteurs of new things.

The broad involvement of members in creating change is primarily due to avoiding resistance and supporting change, but also by avoiding the fact that team work is synergistic towards the final results of each business. More than ever, no one can reliably predict the successful interventions within the dense networks we call a business organization.

Interpersonal orientation is reflected in the very characteristic relation that individuals have toward other members of the group. It is customary for members of small groups to differ from each other as they want to be different from others. It is noticeable that among individuals there may be a desire for certain domination, and this is primarily manifested in an effort to take the lead position, i.e. position of management.

People who are prone to creativity and innovation emphasize emotional stability - characterized by the presence of emotional control, tolerance and adapting to often turbulent business moments. Research even suggests that large differences in the intellectual characteristics of group members, and especially between the so-called. creators and the rest

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of the group are not desirable, as they can cause lower efficiency on the whole group level. Creative and innovative people are by definition intelligent persons, and such persons tend to be more active and less conformist. Therefore, it is rightly considered that such persons are more successful in positions of leaders as well as on key positions within the group.

Within the division of groups, creative and innovative members will most often meet in the so-called. formal working groups on leadership positions and it is customary not to fit with the formal leader. Team leadership by the creators has a presumption:

- defining, analyzing and solving concrete problems,
- encouraging the participation of others,
- assisting and facilitating business situations,
- respect and trust in business associates.

A leader - a creator is defined as a person who has the ability to influence his business colleagues in different ways, so that they successfully cooperate and joint efforts influence the achievement of set business objectives and tasks.

It's also common that people who are prone to creativity and innovation are part of job improvement teams. This type of team is primarily oriented towards better efficiency of work and business. Leaders are usually engaged in project or problem-solving teams.

Project teams are made up of members of different organizational units. Within this type of team, it is much more difficult to establish cooperation, because there is a trend of a large number of individualist members.

Problem solving teams work at the level of different departments, and consist of specially selected individuals involved in making important decisions.

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1.7. A practical example of stimulating creativity and innovation

A good example of corporate stimulation of creativity and innovation of employees is certainly the English-Dutch company Royal Dutch Shell, which generates 138 billion US dollars of income, has over one hundred thousand employees and an extremely long tradition of existence. Within a rather fragmented organization, it is considered that access to capital is strictly controlled, and that the barriers to innovation were very large, i.e. that new and creative ideas were being realized very slowly.

Conscious of all this, in 1996, the company launched an interesting internal action called Game Changer. A group of leaders within the company has been allocated a \$ 20 million budget to contribute to the development of new and creative ideas. In the meantime, they started receiving proposals from different sectors and services, all with the aim of detecting new and creative ideas at the start and ensuring their visibility and plausibility beyond existing programs.

Game Changer meant the start of corporate innovation for Shell. Today, every employee who has an extraordinarily good and profitable idea is encouraged to publicly demonstrate the same and receive even a valuable prize. The conclusion of such an initiative in the meantime is that several of these ideas have come to life in the company, some have been referred to further research, while others have been extinguished or written off as interesting but not profitable.

The above example just shows how it is possible to build an internal structure that supports and influences changes in such a way as to provide space for the manifestation of creativity. Unlike companies that are extremely hostile towards creativity and innovation, this example

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provides evidence that traditional companies can create an environment that will be open to change.



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2.

INNOVATIVE ENTERPRISES’ STRATEGIES

2.1. Competition analysis– strategic dimension of trading companies’ business

The previously exposed model of competitive rivalry points to the fact that competition analysis is the starting point in identifying the determinants of competitive behavior. In the conditions of internationalization of trade, when domestic trading companies develop the strategy of creating and maintaining long-term competitive advantage, the analysis of

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competition becomes the strategic dimension of their business. Competition analysis by domestic trading companies is realized through a number of activities, which is the subject of special consideration in the next presentation.

2.2. Identifying the competition

Given that competitors are all companies operating on the same market and targeting the same consumer group, it is important that these competitors identify themselves. In addition, the subjects of identification are not only existing, but also potential competitors. Identification of competitors, with special emphasis on existing and potential foreign trade companies, is an analysis of set of factors that directly affect the domestic trading company and its activities. Namely, the identification of competitors, or their assortment and other marketing mix instruments, is focused on predicting the dynamics of their activities, responses and intentions. In this way, further strategic intentions and activities of the company are enabled.

In order to identify existing and potential competitors, contemporary theory and progressive management practices propose activities such as: testing, control, forecasting and assessment. The coexistence in their use results in the chances and dangers that come from identified competitors.¹

However, before accessing these activities, trade companies collect data from all available sources. Davidson divided all of the data on competitors into three groups: 1) Published data (annual reports of competitors, press releases, newspaper articles, analytical reports, control reports, reports of official state institutions, presentations); 2) noticeable data (price lists,

¹Valikangas, L., Gibbert, M., "Boundary-setting strategies for escaping innovation traps", *MIT Sloan Management Review*, Vol. 46, No 3, 2005, p. 58-65.



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promotional campaigns, tenders); and 3) Opportunistic data (meetings with suppliers, seminars, conferences, recruitment of former employees with competitors, discussions on joint distributors, social contacts with competitors).

These data represent the basis for further activities in the form of testing, control, forecasting and evaluation.

The test is the activity through which the trade company identifies the first signals of potential changes in competitors and detects the existing changes.² This is especially important for companies that operate in a dynamic environment. The research relies heavily on the use of specially designed software that helps companies identify changes in competing companies. In this sense, the Internet provides multiple test options, as information on certain changes related to product assortment, price change, the introduction of new promotional instruments, etc. can be found on the Internet. Thus, it is possible that a domestic trading company, analyzing the online presentation of a foreign trade company in another country, "perceives" potential changes and innovations that may occur in the coming period.

Non-surveyed data are provided through control activities that identify trends in a competitive environment.³ A critical factor for the success of controlling is the ability of a company to detect the significance of all events and trends in a competitive environment. By controlling trends, companies can better prepare themselves for the introduction of new products and services at the right time to take advantage of the opportunities that these trends offer to them. Controlling, together with testing, is especially important in the conditions of introducing technological innovations into the business of trading companies. Not only does

²Patton, K.M., McKenna, T.M., "Scanning for competitive intelligence", *Competitive Intelligence Magazine*, Vol. 8, No 2, 2005, p. 24-26.

³Dahlsten, F., "Avoiding the customer satisfaction rut", *MIT Sloan Management Review*, Vol. 44, No 4, 2003, p. 73-77.

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this provide all the necessary information, but it also assesses the possibility of introducing innovations.

After testing and controlling, the prognosis activity is carried out, through which projections of potential events and their speeds are performed, as a result of changes and trends detected by testing and control. For example, it is a matter of estimating the time that is necessary for the introduction of technological innovations, given the information intensity of the trade sector. Adequate forecast of events and results is a particular challenge for domestic trading companies.

The objective of the assessment is to determine the duration and significance of the effects of changes and trends on the company's strategic management. Integral application of testing, controlling, forecasting and assessment allows the company to identify competitors, as well as their existing and potential activities, which is important for its positioning in a particular market.

2.3. Determining the goals of competitors

After identifying competitors, the domestic trade company seeks to answer questions: What does every foreign trade company, as an identified competitor, seek on the domestic market? What determines the behavior of each competitor, or which goals are they guided by?

In an effort to answer these questions, a domestic trading company is starting to assume that competitors tend to maximize their profits. In doing so, a distinction should be made between companies that place emphasis on short-term goals, compared to long-term goals. On this basis, strategies of "fighting" with competition and increase of competitive advantage will be created.

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In the theory and practice of management, when determining the goals of competitors, it starts from the competitors trying to meet the needs and demands of consumers in the best possible way. In that intention, competitors choose the following five goals:⁴ 1) growth, 2) maintenance, 3) winning market niches, 4) picking up profits, and 5) withdrawing.

Growth targets are suitable for growing markets. This group also includes the Serbian market, which is the starting point for domestic trading companies in determining the goals of foreign competitors. Due to the fact that the market is growing, all participants, in this case both foreign and domestic trading companies, can achieve higher sales. This situation is contrary to the mature market in which the increase in the sales of one competitor must be at the expense of other competitors. If the expectations of certain competitors are high in terms of market growth, they can fail when expectations are not met. For example, if the great expectations of market growth led to the expansion of business capacity, the trade company could face the problem of their incomplete exploitation, which, on the other hand, is in favor of domestic trading companies. However, they need to be informed about the goals of the growth of competitors and the way their domestic commerce company is operating in emerging markets, such as the Serbian market, as new consumers can be acquired through them. This would be the starting point for further strategic initiatives.

Maintenance goals represent defense of the company's existing position from possible attackers. These goals make sense in a mature or declining market, when the domestic trade company is in the role of attackers. Maintaining the leading position of competitors involves taking advantage of the marketing advantages of bargaining power with suppliers, the advantages of brand image, and the company's experience and image. In a rising market, the goals of maintaining competitors involve a higher growth in sales volume and market share

⁴Kotler, P., "Upravljanje marketingom", MATE, Zagreb, 1997, p. 235-237; Jobber, D., "Principles and Practice of Marketing", McGraw-Hill Book Company, New York, 1995, p 552.

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than anticipated benefits. This is most often the case when foreign competitors face aggressive rivals who react strongly to any competitive attack. In such situations, marketing managers often choose to maintain the current situation, avoiding actions that can provoke aggressive competitors.

The goals of winning market niches can be the strategic goal of competitors. Market niches can be small or secondary market segments, or even segments within a particular market segment. By identifying market niches, identified competitors can avoid competition with companies serving the main market segments. However, a company oriented to winning market niches, if successful, can attract the attention of other companies, in our case domestic trade, and give them an idea to expand and increase sales.

Identified competitors who rely on profit-taking goals improve the profit margin per unit of product, even when sales decline. Although the sale falls, the company is trying to make the product profitable in the short term, in order to generate more cash flow that can be used to finance the growth of other products or the company's business in other areas.

Identified competitors may decide to close sales outlets or to withdraw products from the selected range from the assortment. This prevents larger losses in markets where poor results are achieved. There are numerous examples of the withdrawal of international trading companies from certain foreign markets.⁵

Determining the previous goals of competitors is important for domestic trading companies, all in order to create the development of strategies for creating and improving the competitive advantage.

⁵Primera radi, *Marks&Spencerse* povukao iz Kanade, *Home Depotiz* Čilea, *Aholdiz* Poljske i Slovačke i drugi primeri.

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2.4. Identifying competition's strategies

The closest competitors to the domestic trading company are those operating in the same market and applying the same strategy. A group of companies that follow the same strategy in the target market is called a strategic group.⁶ It is important for a domestic commercial company to identify the strategic group within which it is competing.

Competition among companies within the strategic group is more intense than competition between companies as members of the group and companies that are outside the strategic group. Therefore, intra-strategic competition is more intense than inter-strategic competition.

Strategic dimensions, such as technological leadership, product and service quality, price policies, distribution channels and consumer services are areas that companies in a strategic group are considering in a similar way. Competition analysis within the strategic group implies that companies, like its members, have a similar position on the market, offer similar products to a similar group of consumers and can use similar sales techniques and other organizational processes.⁷ This leads us to the conclusion that members within certain strategic groups partly define the essential characteristics of the company's strategy, in our case, a domestic trading company.

The strategic group is a useful tool in analyzing the competition and its strategies, since it enables diagnostics of competition, positioning and profitability of the company. The importance of the strategic group is even greater if it arises from the fact that they differ in terms of their performance and that its members remain stable over time.

⁶Porter, M.E., "CompetitiveStrategy", The Free Press, New York, 1980, p. 43.

⁷Greve, H.R., "Managerial cognition and the mimetic adoption of market positions: What you see is what you do", *Strategic Management Journal*, Vol 19, 1999, p. 967.





Although competition is the most intense within a strategic group, there is often a rivalry between the two groups for several reasons. First, some strategic groups may be attractive to overlapping consumer groups. Second, consumers may not see big differences in the offers of different strategic groups. Thirdly, each group may wish to expand its market share, especially if the companies are about the same size and strength, and the barriers between groups are low.⁸

For one company it is essential to monitor the dimensions of the business of its competitors, i.e. their marketing, sales, research and development, finance, human resources strategies, product and service quality, characteristics and mix of products, customer service, pricing policy, policy distribution coverage, advertising strategy and sales promotion.

This leads us to the conclusion that the company must constantly monitor the strategies of its competitors, i.e., it must be prepared to change the wishes and needs of consumers and how competitors revise their strategies in order to fulfill the new wishes of consumers.

2.5. Assessment of competitor's strength and weaknesses

Realizing the strategies and goals of competitors depends on their strengths and weaknesses. Starting from this, it is necessary for a local trading company to identify competitive strengths and weaknesses. In this way, it is possible to create further strategic activities and ways of responding to competitive strategies and goals.

One way of assessing competitors' strengths and weaknesses is to gather up-to-date information about the performance of competitors, including sales data, market share, profit margin, cash flows, and capacity utilization. This information is most often collected from

⁸Kotler, P., "Principles of Marketing", Prentice-Hall, New Jersey, 1999, p. 234.





secondary sources, which have already been discussed, but also from primary research by consumers and suppliers.⁹

If primary data are used as a source of data, it is possible to conduct a consumer analysis that competitors will rank according to certain characteristics. For example, if the three largest competitors are analyzed, consumers' attitudes towards the quality of products from their product range, product availability, quality of service, technical assistance and sales staff will be explored. The results of the research will show in which segments competitors have advantages, and in which weaknesses, which allows the domestic trading company to create and maintain a long-term competitive advantage.

In identifying the strengths and weaknesses of competitors, many companies use benchmarking techniques. Due to the growing importance of this technique in the theory and practice of marketing management, the following is the way of its implementation.

Benchmarking is an important tool used to test the quality of a company's business. This tool compares the company's business practices (activities and tasks) with a similar practice of a company that is superior in that area of business. This comparison helps the company to identify the difference between the forms of business it currently has and what it should be applying, which refers to the superior company.

Benchmarking is a process of constantly discovering new ideas that are related to methods, practice and their application in order to get "the best of the best".¹⁰ In this way, the company's management can determine the extent to which business improvement is possible. Benchmarking does not set firm goals but gives rich ideas for improving existing ones. The

⁹S obzirom da je ovde reč o inostranim trgovinskim kompanijama, kao identifikovanim konkurentima domaćim kompanijama, u oceni njihovih snaga i slabosti značajnu ulogu imaju informacije koje se prikupljaju sa drugih tržišta na kojima su ove kompanije internacionalizovale svoje poslovanje.

¹⁰Camp, R., "Benchmarking: The Search for Industry Best Practices That Lead to Superior Performance", Milwaukee, WI: ASQS Quality Press, 2000, p. 56



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result is that benchmarking allows us to find such a practice that leads to the creation of superior performance of the company. Benchmarking also allows companies to more adequately meet consumer demands, which leads to their high level of satisfaction. In addition, companies are given the right measure of productivity. Finally, benchmarking helps companies achieve a competitive edge.

Benchmarking can be divided into two parts: benchmark measures and benchmark practices.

Benchmark measures represent the best practices in quantitative form, while benchmark practice methods used to realize business. Benchmarking should first start by researching practice. After that, the identified practices should show numerical effects. All this leads to an adequate engagement of management, organizational communication, participation of employees, and ultimately creates superior performance of a particular company.

Perhaps the hardest part in benchmarking is the identification of variables that will be benchmark markers or comparatives. The key to solving this problem is to identify the business result. For example, the logistics function within the marketing cycle consists of several strategic variables, such as the level of expected consumer satisfaction, the level of inventory to be maintained, and the desired level of costs to be achieved. These variables serve as the starting point for benchmarking, while each of them should be closer to the specific activities that will be benchmark markers. Consumer satisfaction can be benchmarked by researching factors that determine consumer satisfaction, such as reliability and time of service, professionalism, competence and kindness of service personnel.

Finally, there are several common denominators used in benchmarking. First, a thorough knowledge of one's own business is required, with an assessment of internal strengths and weaknesses. Secondly, you should know who is the leader or competitor in a given area of business. Thirdly, you need to learn from the leader and imitate his strengths. Fourth,

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benchmarking should be used as a proactive tool, not just by observing competitors, but also by what consumers' value and how many other companies know their needs. Fifth, benchmarking should constantly be part of the company's corporate culture.

2.6. Assessment of competitors' response

Determining strengths and weaknesses of competitors helps domestic commercial companies assess competitors' responses to others' strategies, such as lowering prices, boosting promotional activities, or introducing new products into the assortment. In addition, each competitor has a certain concept of business and a certain organizational culture that gives him a stamp and it is necessary to have their knowledge in order to be able to assume with greater probability how he will react.

Starting from previous facts, it is important to know the competitiveness of certain groups. According to Kotler, most competitors belong to one of the four categories:¹¹

5. Relaxed competitors - do not react quickly or strongly enough to the rivals' moves. They are based on the assumption that consumers are loyal to them, are slow to take action or do not have enough financial resources to undertake proactive activities. Such competitors are most favorable to domestic trading companies, with the need to consider the reasons for their relaxed behavior;
6. Selective competitors - only respond to some types of rival attacks. I can respond to price reductions, but not to increase of advertising costs. Knowing these competitors helps domestic commercial companies to defend themselves from such competitors, but also to create an adequate strategy;

¹¹Kotler, P., "Principles of Marketing", Prentice-Hall, New Jersey, 1999, p. 239.





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7. Competitor "tiger" - quickly and strongly reacts to any attack by the rivals. These competitors send signals that it is better not to attack them because they will fight to the end. For domestic trading companies, such competitors are a real challenge because it is necessary to devise a "real" strategy to be applied in the "right" way. Most often in the role of these competitors there are strong international trading companies that have acquired the image of high-performing companies in many foreign markets;
8. Unpredictable competitors - do not show predictable response models. Such a competitor can and does not have to repay in a certain way. There is no way to predict his reaction based on the economic situation, the past or anything else. Many small companies are unpredictable competitors in certain markets when they can afford to fight, but they give up if the competition is too expensive for them.

In addition to this division of competitors, Porter's division is also interesting, according to which all competitors can be divided into "good" and "bad".¹² A domestic trading company can support its good competitors and attack badly. Namely, good competitors have many characteristics: they play according to the rules of the trading sector, they set prices in a reasonable relation to costs, they are limited to a certain segment of the market, motivate others to reduce costs or improve the differentiation, thus accepting the overall level of their share and profit. Poor competitors violate the rules: they are trying to buy market share instead of earning it, risking it, investing in excessive capacity, and disturbing the balance in the commercial sector. Bearing in mind such a division, for domestic trading companies it is important to "defend" from bad competitors through the strategy of building up and improving the competitive advantage, which will be further discussed.

¹²Porter, M.E., "Competitive Strategy", Free Press, New York, 1980, p. 22-23.



2.7. Strategies to increase the competitive advantage of the trading companies of the host country

After analyzing the competition as the strategic dimension of the host country trading company's business, it is necessary to improve the created competitive advantage. In addition, it is possible to use one of the following strategies: leadership strategy in cost, differentiation and strategy based on focus.

2.8. Leadership strategy in costs

One of the strategies for creating and improving competitive advantage, according to Porter, is leadership in costs. It is about creating a competitive advantage based on low operating costs, which requires effective management of activities across the entire value chain of the trading company, which will be further discussed.

2.8.1. Basics of cost advantage

A cost leadership strategy is an integrated set of activities designed to produce or sell (in trade) products and services on features that are acceptable to consumers at lower prices than competitors.¹³ Companies using this strategy sell standardized products and services to a large number of consumers. While cost leadership implies keeping costs as low as possible, products and services that are sold must have quality and characteristics that are acceptable to consumers. Therefore, any focus on lowering costs with the marginalization of product characteristics is ineffective, and the company can put it into a situation that consumers do not want to buy its products and services. Only for the company that sells comparable

¹³Isto, str. 35.



products and services more efficiently than its competitors it can be said that successfully implement the strategy of leadership in costs.

The strategy of cost leadership implies a set of interconnected tactics, which include:¹⁴ aggressive creation of effective skills, vigorously finding opportunities to lower costs, firm and permanent cost control, avoiding marginal costs, and minimizing costs in all value chain activities, such as research and development, services, sales and promotion.

Company infrastructure	Cost-effective management information system	Relatively smaller management team to reduce overall costs	Simplify planning practices to reduce planning costs	Margin	
Human resources management	A consistent policy to reduce circulating costs		More intensive and efficient training programs to improve work efficiency		
Development of technology	Ease of use of technology		Investing in technologies to reduce operating costs		
Purchase	Systems and procedures to work out the lowest cost		Frequently evaluating provider performance	Margin	
	Highly efficient systems for linking vendor products to business processes	Use economies of scale to reduce costs Creating effective skills	Scheduled delivery to reduce costs Choice of transport to reduce costs		Highly qualified staff Pricing that generates a significant sales volume

¹⁴Dess, G.G., Lumpkin, G.T., Eisner, A.B., "Strategic management-Creating Competitive Advantage", McGraw-Hill, New York, 2008, p. 147.

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Inbound Management Outbound logistics Marketing Services
logistics and sales

Figure 5: Implementation of the strategy of leadership in costs through a value chain¹⁵

It can be noted that cost leadership focuses on finding ways to lower costs in relation to competitors, constantly reviewing primary and supporting activities in the value chain, while maintaining the required characteristics of products and services.¹⁶ The possibilities for lowering costs through value chain activities can be seen from Figure 5.

In the implementation of the strategy of leadership in costs, it is necessary to look at all activities in the value chain in order to find additional sources of cost reduction. The optimum combination of low cost and acceptable quality of products and services enables successful implementation of leadership strategy in costs.

However, the strategy of leadership in costs also carries a certain risk.¹⁷ One of them relates to "obsolescence" of products and services due to innovations by competitors. These innovations offer competitors the ability to offer products and services at prices lower than the cost of the leader or to provide differentiated characteristics of products and services without increasing sales prices. Another risk of this strategy is that the cost driver can focus on reducing costs without understanding perceptions of consumers. The third risk is that there is a risk of imitation. Practice has shown that competitors often imitate leaders in costs. When it comes to this, it is necessary to add differentiated features to products and services in order for consumers to decide for them.

¹⁵Porter, M.E., "Competitive Advantage: Creating and Sustaining Superior Performance", The Free Press, New York, 1988, p. 47.

¹⁶Parnell, J.A., "Reframing the combination strategy debate: Defining forms of combination", *Journal of Management Studies*, Vol. 9, No 1, 2000, p. 33.

¹⁷Hoskisson, R.E., Hitt, M.A., Ireland, R.D., Harrison, J.S., "Competing for Advantage", Thomson South-Western, Canada, 2008, p. 139-140.



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Therefore, each cost leader must be careful when reducing prices, in the sense that the price level is defined at the real level, and not at the one that can jeopardize the achievement of an adequate margin or that it does not respect the needs and requirements of the consumer.

2.8.2. Sources of benefits in costs

In order for a company to create and improve its competitive advantage on the basis of low cost, it is necessary to find available sources of cost advantage. The relative importance of individual sources of cost advantage varies from company to company, but also between individual activities within the company. Finding a source of cost advantage for a competitive trading company involves first analyzing its position in relation to identified competitors and sources of inefficiency, and then analyzing the way through which cost inefficiency is overcome.

Modern theory and progressive practices point to certain sources of cost advantage, which are: 1) economies of scale, 2) economics of learning, 3) sales techniques, 4) design of products and services, 5) input costs, 6) utilization of capacities; and 7) other sources of efficiency.¹⁸

The economies of scale as a source of cost advantage are related to the existence of a large number of companies in a particular sector, in our case, trade. A volume economy exists when a proportional increase in the amount of input results in lower costs per unit of product. First, the economies of scale were bound to produce, while today it has its application in the service sector, such as the trade. This is particularly noticeable in the segment of the development of hard disk drives, in which the principle of economies of scale comes to full expression. In addition, economies of scale can be achieved in three ways:

¹⁸Grant, R.M., "Contemporary Strategy Analysis", Blackwell Publishing, Oxford, 2008, p. 227-230.



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- 1) technical input-output relationship,
- 2) the indivisibility of resources and
- 3) specialization.

The learning economy as a source of cost advantage is related to improving sales skills at both individual and group level through the development of organizational routines.

Technological changes can appear as a source of cost advantage in commercial companies, especially when it comes to the introduction of new technologies and innovations they bring with them. New technologies can significantly reduce operating costs.¹⁹

The design of products and services in commercial companies can significantly save business costs. The goal is to make the products and services available to consumers, which is one of the key elements in the orientation towards the company's sales facilities.

Capacity utilization, as a source of cost advantage, refers to adjusting the available capacities to changes in demand. This is particularly important for those trading companies with a high share of fixed costs, where profitability is sensitive to any drop in demand.

Costs of input, as a source of cost advantage, are related to local advantages, access to supply sources, where domestic trading companies have greater advantages over foreign and negotiating power.

Other sources of cost advantage are related to the elimination of all excess costs, which is quite associated with the incorporated organizational culture of a trading company.²⁰

¹⁹ Primera radi, tehnološka orijentacija trgovinske kompanije u pravcu implementacije EDI koncepta i RFID tehnologije značajno smanjuje troškove rada, obrade papira, i sl. što u krajnjoj instanci vodi nižim troškovima poslovanja i nižim cenama u odnosu na konkurenciju.

²⁰ Navodimo primer američke trgovinske kompanije *Wal-Mart* koja neguje organizacionu kulturu štedljivosti i domaćinskog ponašanja.

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Starting from the previously identified cost-benefit sources, the company-leader in costs can achieve its advantage in three ways:²¹ 1) reducing variable costs, 2) reducing marketing costs, and 3) reducing operating costs.

Reduction of variable costs to the company should enable a higher level of profitability than the competition. These costs in the trading company relate to distribution costs, that is, the cost of discount sales, the costs of commissioning fees and transport costs. The key factor for these costs is market share and volume of sales, so trade companies that have significant market share can achieve low variable costs. This is due to the fact that any increase in sales volume leads to a reduction in variable costs per unit of product. On the other hand, a trading company can reduce variable costs in three ways. First, any increase in procurement volume leads to a better negotiating position and reduction of variable costs per unit related to procurement. This situation is particularly noticeable for large retail chains that supply large quantities of products from suppliers, which allows them to lower prices and increase profitability. When it comes to smaller trading companies, the alternative they can use is to establish a relationship of cooperation or to associate with other small traders, who will order more volumes of products from suppliers, go to a lower price and a higher level of profitability. Second, the variable costs can be reduced by the introduction of new products into the assortment. These are products that do not require additional investment in advertising, additional manipulation or repackaging. Third, variable costs can be reduced by improving sales skills and organizational routines of sales staff.

When there is no possibility of reducing variable costs, it is possible to go on an alternative to reducing the cost of marketing. This is possible in the context of expanding assortments when the same sales efforts are invested in existing and additional products, that is, there are no

²¹Best, R.J., "Market-Based Management", Prentice-Hall, New Jersey, 2004, p. 150.

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additional investments in sales leading to lower variable costs per unit. The same effects are achieved also on the cost of the advertisement because each expansion of the assortment implies the same marketing costs and lower variable costs per unit of product.

Many trading companies have the ability to reduce operational costs compared to competition, which leads to cost advantage. Practice has shown that operating costs for trading companies can be reduced by using the franchising system as a business model, since no additional investment in building construction, design, interior decoration is required. This is a standardized activity that reduces variable costs per unit and leads the cost advantage of the company.

2.9. Differentiation strategy

In addition to cost leadership strategy, in order to create and improve competitive advantage, according to Porter, it is possible to use a differentiation strategy, i.e. differentiated advantages. It is about creating a competitive advantage on the basis of a differentiated "package" of supply, which requires effective management of activities across the entire chain of values of a trading company, which will be further said.

2.9.1. Basics of differentiation and differential advantage

The differentiation strategy is an integrated set of activities designed by the company in order to deliver products and services that consumers perceive as different in relation to competition.²² A differentiation strategy involves creating a "package" of offers at competitive prices and in a way that is different in relation to the competition, and which consumers are willing to pay. Successful implementation of this strategy implies that the

²²Porter, M.E., "Competitive Strategy", Free Press, New York, 1980, p. 35-40.



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company understands what the target consumers want and for what they are willing to pay even the higher price.

Differentiation strategy can occur in different forms:²³ ownership of the prestigious brand, differentiation of sales technology, introduction of innovations, differentiated characteristics of the product range and services, and network of cooperation with suppliers.

Through the differentiation strategy, companies offer non-standardized products and services that consumers value more than competitors who offer them at lower prices. The variety of products and services can, in addition, be achieved in different ways. On the other hand, consumers will pay for them if they see the company and its products as unique. The ability to sell such products and services that significantly outweigh the cost of creating different characteristics allows the company to create and improve the competitive advantage.

However, finding ways to differentiate products and services for which consumers will be willing to pay a higher price implies managing basic and supporting activities in the value chain. Differentiation possibilities through value chain activities can be seen from Figure 6.

²³Dess, G.G., Lumpkin, G.T., Eisner, A.B., "Strategic management-Creating Competitive Advantage", McGraw-Hill, New York, 2008, p. 163.

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Human resources management	Sophisticated Information System for better understanding of the Consumer Preference		Big emphasis on the importance of high-quality products		Margin	
	Compensations Programmes for Custom Content Creation	Greater use of subjective efficiency measures	Employee training			
Development	Development of research capacity		Investing in technology to develop "package" deals		Margin	
	Systems and procedures for development of high quality products		Purchase of high quality products			
Purchase	Adequate handling of products to reduce damage	Constantly creation of attractive "package" deals Quick response to user needs	Accurate and responsible processing of orders Timely delivery of consumer products	Consumer credit agreements approval Development of strong connections with suppliers and users	Providing services for installing products Providing opportunities for product replacement	Margin
	Inbound logistics	Management	Outbound logistics	Marketing and sales	Services	

Figure 6: Differentiation strategy Implementation throughout the value chain ²⁴

In the realization of the differentiation strategy, it is necessary to observe all activities in the value chain in order to find additional sources for creating a different "package" of supply in relation to the competition. The optimum combination of diversity and affordable price of

²⁴Porter, M.E., "Competitive Advantage: Creating and Sustaining Superior Performance", The Free Press, New York, 1988, p. 47.





products and services makes it possible to successfully implement a differentiated advantage strategy.

However, the differentiation strategy also carries a certain risk.²⁵ First, there is a risk that consumers perceive a huge price difference between differentiated products and those offered by competitors at lower prices. In this case it is possible to offer products that go beyond the needs of consumers, which puts the company in a situation when it becomes vulnerable to competitors who are ready to offer consumers an optimal combination of products and prices that are consistent with their needs. Second, there is a risk of limiting consumers' willingness to pay more for the differentiated "package" of the offer, given that competition offers similar products at lower prices. Thirdly, there is a risk of imitating a differentiation strategy, when competitors "copy" the structure of assortments and services offered to consumers.

Therefore, each leader of differentiated advantages must be very careful in the sense that he creates a "package" of offers that will be unique and different from the competition, and above all, "hard" for imitation, with the willingness of consumers to pay more for him.

2.9.2. Sources of differential advantage

Successful implementation of the differentiation strategy implies the existence of a balance between the consumer demands for the differentiated "package" of the offer and the capacity of the trading company to make such a "package" available to the available consumers. For this reason, sources of differentiated benefits will be observed from two angles: 1) demand and 2) company offers.²⁶

²⁵ Hoskisson, R.E., Hitt, M.A., Ireland, R.D., Harrison, J.S., "Competing for Advantage", Thomson South-Western, Canada, 2008, p. 144-145.

²⁶ Grant, R.M., "Contemporary Strategy Analysis", op.cit. p. 244.



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Analysis of consumer demand enables the company to determine the variables of the product range and the services that can be differentiated, the willingness of consumers to pay for the differentiated characteristics and optimal positioning of the company in terms of variation of the differentiation. It begins by understanding the reasons why consumers buy products and services of the company. In this context, market research is taking a significant place, which systematically reveals the preferences and perceptions of consumers. Thus, the key to successful differentiation is the understanding of consumers, their perception of product attributes and their positioning, as well as the sociological and psychological factors that determine the behavior and attitudes of consumers.

When it comes to analyzing consumer perceptions in relation to differentiated product attributes, a number of models and research techniques have been developed in literature and practice.²⁷ We will outline the technique of multidimensional measurement, conjoint analysis and analysis of hedonistic prices, which enable the positioning of new products in the assortment, repositioning existing products and determining the price of products. For example, multidimensional measurement allows for the perception of consumers in conjunction with similarities and differences of company's products and competitors, and interpretation of key attributes of assortments that can be differentiated compared to competition. The conjoint analysis takes into account consumer preferences towards the differentiated attributes of the assortment. This technique first requires the identification of key qualities of the assortments, and then the ranking of hypothetical products that contain the identified attributes. The result of this technique can be used to estimate the percentage of consumers who will prefer a hypothetical new range of the company in relation to the existing competitor on the market. The price at which a differentiated assortment will be

²⁷O tehnikama istraživanja potrošača bliže videti u : 1) Maričić, B., "Ponašanje potrošača", Ekonomski fakultet, Beograd, 2009, str. 150; 2) Milisavljević, M., "Marketing", Savremena administracija, Beograd, 2001, str. 110; 3) Stanković, Lj., Đukić, S., "Marketing", Ekonomski fakultet, Niš, 2010, str. 254.

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offered to consumers is determined on the basis of a hedonistic price analysis summarizing the key variables of building a different advantage.

In addition to the previous analysis elements, the perception of the willingness of consumers to pay for the differentiated "package" of the offer does not end with the analysis of their perceptions and preferences. A much more complex analysis is needed, including demographic factors (age, gender, racial structure), socioeconomic (personal income, education) and psychological factors (lifestyle, personality type). In this way, a clearer picture is obtained about the attributes of products and services that can be differentiated and the willingness of consumers to pay for it.

However, creating a different advantage depends on the ability of the company to offer a differentiated "package" of the offer. For that purpose, it is necessary to analyze the factors on the supply side, the sources of company's uniqueness, the integrity of the product range and services and their positioning and brand of the product, i.e., the trade mark, which in recent years has gained significance in the process of differentiation from competition.

Creating a differential advantage primarily requires the company's uniqueness. On the other hand, uniqueness is not related to just one activity or function of a company, but it applies to all activities. Thus, a theorist in the field of management, Porter, has identified several sources of differential advantage companies:²⁸ the characteristics of products and services and their performance, complementary services (credit approval, technical instructions, delivery, installations), the intensity of marketing activities (promotion, sales promotion, etc.), the introduction of technological innovations, the quality of products and services, the procedures for monitoring the company's activities quality control, development of service

²⁸ Isto kao pod 54, str. 145.



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delivery procedures), skills and experience of employees, location of sales facilities, and degree of vertical integration.

The use of previous sources of differentiation implies the existence of integrity of the product range and services. On the other hand, the integrity of the range of products and services points to the consistency of the company's differentiated advantages, that is, the overall balance between the many features of products and services, including their basic functions, aesthetic characteristics, reliability and economy. The integrity of the range of products and services has its own internal and external dimensions. Internal integrity indicates the consistency between functions and the structure of products and services. External integrity is the measure of how good the function, product and service structure meets the goals of consumers, their values, lifestyle and consumption habits.²⁹ Combining internal and external integrity is particularly important for products whose differentiation is based on the psychological and social needs of consumers. In this case, the differential advantage depends on the consistency of the presented image.

In the process of creating a differentiated advantage, a brand takes a significant place or in the case of trade companies, a trade mark. It represents an indicator of quality and consistency because it is a valuable asset of the company. Appearing on a market with different brands allows the trading company to differentiate itself from the competition and to build consumer preferences and their willingness to pay for the differentiated "package" of the offer.³⁰

²⁹Clark, K.B., Fujimoto, T., "The Power of Product Integrity", *Harvard Business Review*, November-December, 1990, p. 107.

³⁰Trgovinska marka bila je predmet posebnog razmatranja u okviru trećeg poglavlja.

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2.10. Focusing strategy

In addition to the previous ones, in order to create and enhance the competitive advantage, according to Porter, it is possible to use a focus strategy. It is a strategy by which the company directs its competencies to the needs of the narrower consumer segment or market niche, in a more exclusive way than others. Thus, the company can focus on: 1) specific consumer groups (younger or older population), 2) different segments of the product line (such as consumer segments that buy in DYT-do it yourself), 3) different geographic markets for example, the eastern or western part of a country). Thus, the focus strategy is an integral segment of activities designed to deliver products and services that meet the needs of individual segments of consumers.³¹

A company can use a focus strategy to meet the needs of a particular consumer segment in a more efficient way than its competitors. Successful implementation of this strategy implies serving a particular segment of consumers whose needs are specialized, so that competitors focused on the broader segment cannot satisfy them or satisfy them in an inadequate manner.

Through a focus strategy, the company creates a competitive edge in a specific market segment, as it does not have a competitive edge in the wider market area. In this way, this can be a significant strategic alternative for domestic trading companies, bearing in mind the market area on which they compete.

Modern theory and progressive practice are familiar with two forms of focus strategy: 1) strategy of focusing on costs, and 2) strategy of focusing on differentiation.

³¹Isto kao pod 52, str. 98.





On the example of the Swedish Ikea trading company, we will analyze the focus strategy on costs.³² The target group of consumers of this company is young people who want style furniture at low prices. For them, the company offers furniture that represents a combination of good design, functionality and acceptable quality at low prices. Accordingly, low costs are realized at each stage of the business activity. Thus, the company does not hire furniture manufacturers, but its engineers design furniture pieces that are ready for assembling by consumers. In addition, products are exposed in a special way, thereby eliminating the additional costs of engaging decorators that help consumers to imagine how the furniture would look in their apartment. This approach requires less sales costs, which reduces the overall cost of the company. Significant savings are also achieved by the transport of furniture (in a disassembled form) by the consumers themselves. In this way, Ikea creates a unique offer package aimed at young consumers, medium purchasing power.

A strategy of focusing on differentiation, such as a strategy of differential advantage, involves creating a "package" of a bid different from the competition, but focused on a narrow segment of the consumer or market niche. In doing so, the differentiation is realized in different ways, which we have already talked about.

Both alternatives to the focus strategy include the use of primary and secondary value chain activities, that is, the identical implementation, as well as the cost advantage strategy shown in Figure 5, and the strategy of differential advantage shown in figure 6.

2.11. Integrated implementation of leadership in cost and differentiation

The more intense competition imposed by international trade companies and technological advances, the domestic trading company puts the challenge of integrating a strategy of cost

³²www.ikea.com





and differential benefits. This is due to the fact that the company does not only need to "run faster" than its competitors, but "more different and smarter".

An integrated application of cost and differential advantage strategy offers the opportunity for a domestic company to gain a better position in: 1) faster adaptation to changes in the environment, 2) faster learning of new skills and technologies, and 3) more efficient use of their competences in relation to competitors.³³

Practice shows that there is a connection between the application of the integral strategy and the average level of profit, that companies through this strategy usually compete on the markets with medium profit potentials, which, on the other hand, enables them to successfully integrate the strategy of cost and differential advantage in a unique way.

However, a company focused on the application of an integral strategy is confronted with certain difficulties that are due to the fact that the strategy of cost and strategies of differentiated advantages emphasize the different primary and secondary (supporting) activities of the value chain.³⁴ In order to integrate them, a careful combination of activities that reduce costs with activities that differentiate the "package" of the offer is necessary. Modern theory and progressive practice, in order to find the optimal balance between lower costs and differentiated "supply packages", as a solution, suggest the use of a flexible organizational structure, that is, strategic flexibility.³⁵

Strategic flexibility is the result of developed business systems, procedures and methods that enable the company to quickly and efficiently use the opportunity to reduce costs or increase

³³Voelpel, S., Leibold, M., Tekie, E., Krogh, V., "Escaping the red queen effect in competitive strategy: Sense-testing business models", *European Management Journal*, Vol. 23, 2005, p. 37.

³⁴ O tome smo govorili u okviru tačke 4.1. i 4.2. ovog poglavlja.

³⁵ Bliže o tome videti u: Sanchez, R., "Strategic flexibility in product competition", *Strategic Management Journal*, Vol. 16, 1995, p. 140.





the differentiation. It has been shown that flexible business systems, information networks and total quality management are three basic sources of strategic flexibility, which facilitate the successful implementation of an integral strategy of cost and differential benefits.³⁶

Modern information technologies facilitate the development and application of flexible business systems that increase the flexibility of human, physical and information resources to successfully create a differentiated "package" of offer at low prices. The goal of these systems is to eliminate trade-off "low costs versus product diversity" and to make it easier for the company the continual flexibility in the range of products that will be offered to consumers at lower prices than competitors. Adequate use of flexible business systems enables the company to respond effectively to changes in the needs and demands of consumers, while maintaining low cost and consistent quality of products and services. By increasing the delivery speed and satisfying the changing needs of consumers, the company is able to efficiently integrate the cost and differential advantage.

The information network, which connects the company with suppliers and consumers, is another source of strategic flexibility, by facilitating efforts to meet customer expectations in terms of product quality and service delivery, and delivery speed. An exciting example is the successful implementation of the Customer Relationship Management Concept (CRM). Companies that implement the concept of CRM tend to retain existing customers in the long run, as well as to develop relationships with them based on mutual trust and commitment, whereby such relations acquire some characteristics of interpersonal relationships (such as: sharing of values, trust, mutual respect, mutual benefit, frequent communication, mutual

³⁶ Isto





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honesty, cooperativity, flexibility and attachment).³⁷ Overall, it is possible to successfully integrate the strategy of cost and differential advantage.

Total quality management is the third source of strategic flexibility, which allows: 1) increase consumer satisfaction, 2) cost reduce, and 3) shorter time required to introduce innovative products and services into the assortment. It is a completely new philosophy of management that relies on continuous improvement of quality in all segments of business, with the active participation of all employees, with the aim of satisfying the wishes and demands of consumers and surpassing the competitors. As a causal effect of these activities, the maximization of profits occurs on the company level, as well as in the social level as a whole.³⁸ Implementing the concept The TQM company seeks to continuously improve the quality of products in ways that are valued by consumers, to increase the level of productivity of employees and to reduce the total cost of doing business. The achievement of these goals places an obligation for the company to adhere to certain principles, such as:³⁹ 1. the principle of full consumer satisfaction, 2. the principle of understanding and improving the organization of the business process, 3. the principle of employee involvement, and 4. the principle of decision-making based on data.

The efficient use of flexible business systems, information networks and total quality management leads to strategic flexibility that enables successful integration of cost and differential advantage strategy. In this way, the domestic trade company creates and improves the competitive advantage in the target market, which, on the other hand, enables it to effectively combat the coming foreign competition.

³⁷ Barac, N., Milovanović, G., "Menadžment kanala distribucije", Ekonomski fakultet, Niš, 2001, str. 94.

³⁸ Ćuzović, S., "Menadžment ukupnog kvaliteta (TQM) – poslovna filozofija preduzeća u novom milenijumu", *Direktor*, 1/2001, str. 21.

³⁹ Hanna, M.D., Newman, W.R., "Integrated Operations Management – Adding value for customers", Prentice-Hall, New Jersey, 2001, p. 178.

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