# BUSINESS STRATEGY ANALYSIS IN TELECOMMUNICATION INDUSTRY

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**Abstract:** Business strategy analysis gives a general framework for financial analysis as it is studying financial statements and determining the company's profit potential is not an independent process, but is necessarily conditioned by business realities, that is, the branch the industry in which the firm operates (in our case it will be a branch of telecommunications).

Business strategy analysis is defined as the identification of profit opportunities and key business risks.

The basic financial statement is reported as a balance of success, however, this report besides providing information on the company's ability to operate profitable, it does not allow the analyst to gain knowledge of whether the company can keep it or to increase it in the future.

Sustainability of the company's profit potential is determined by making business decisions in the following key segments:

- Choice of branch or branch of activity in which the company operates and
- The way in which the company applies a competitive approach.

These business decisions are past or historic decisions, which mean they are managers the company made decisions in the past, influencing the company's profitable potential in current and future accounting periods.

The choice of branch of activity is based on the basic direction of company development. Possibility to companies are in different ways competing with competitors in the sector they chose, also affects its profit potential. There are two basic competitive strategies that the company can choose: cost leadership and strategy differentiation strategy.

Cost leadership is one of the simplest ways to achieve a competitive advantage, which is operating in the economy scale, simpler products and product design, lower input costs and more efficient organization of business processes. If the company leader in the cost will have the ability to realize extra profit.

Differentiation is a strategy through which a company is trying to make its product or a service based on unique features that customers value very highly. The main thing in the telecommunication market is how to calculate the risk and identified the proper strategy. Before application of the strategies the factors and risk must be calculated for each segment.

**Keywords:** Business strategies, analysis, telecommunication

## 1. INTRODUCTION

Business Strategy application implies finding the right attribute of products that customers value highly (quality, design, additional services, etc.) at the very beginning. The company must position itself in such a way that only she can satisfy these customer needs in a unique way (investing in research and development, engineering achievements, marketing opportunities, creativity and creativity innovation). This strategy must be at a lower cost than the price it has a buyer ready to pay. Theoreticians consider that these two strategies are mutually exclusive, but the application of one of which enables the company to achieve a sustainable competitive edge. But for achieving competitive advantage is not enough for the company to choose for one of two strategies, but also that it is supported through an appropriate value chain within the company. One differentiation-based company has an organization that stimulating innovation and creativity, while companies that have chosen leadership in Costs have an organization that promotes greater efficiency.

## 2. FACTORS AFFECTING THE PROFITABILITY OF BRANCHES

In our case, we cannot say that companies only serve one strategy, but to combine both strategies depending on their needs, nude the corresponding device with the corresponding post-paid tariff for promotional prices or pre-paid customers and offer bonus minutes, messages and data transfer over the Internet supplement to the appropriate loan amount, etc.

The ability to realize the company's profit potential and the viability of that potential depends on two basic factors:

- The level of real and potential competition in this area and
- Negotiating power of the commodity in the input market (raw materials, materials, commodities, employees etc.) and the output market (finished products).

Profit as a difference in walking compared to expenditures in the accounting period depends, above all, on the maximum price of the finished product or goods that the buyers are ready to pay. The price depends on the offer and the demand, and the offer depends on the number of competing companies and the power you have in the market. The level of competition can be deserved by the following factors:

- Rivalry between existing companies on the market,
- Failure to enter new companies and
- Substitute products.

If there is a higher rivalry, low costs of entering a new competitor, if many there are no high barriers to entry in that branch and if the products the company sells substitutes, the branch is considered to be extremely competitive and in that sense the possibility the maintenance of profitability was compromised.

The company's profit potential is further jeopardized if there is a different relationship market positions in input and output markets. Company Negotiating Position in customer relationship (output market) depends on whether the product is sold directly to end-users or to be sold to large retail chains as well as to what it is the specific product in question and whether the company is a monopoly in supplying the market or not. If a company has a monopoly position, it also affects a bigger negotiation power than when it comes to a highly competitive branch and product substitutes where it is please spare the power necessarily decreases.

**2.1 Competitiveness analysis**

Actual competition is determined by the number of business entities operating in the branch and the size of their market share, while potential competitiveness is defined the possibility of entering into this branch entirely new subjects, new companies and so deprive the existing companies of the market.

In theory there are two extreme situations: monopoly and complete, perfect competition.

The monopoly of only one company allows that company to realize an extra monopoly profit. The presence of complete or perfect competitiveness in the branch represents another extreme, where companies can sell products at the lowest prices that are equal to their marginal costs, where there is no gained extra profit.

The marginal cost is the same as the variable cost of production and is considered to be in the conditions when the company has the excess capacity, the lower limit for which it can sell its products. There are three basic factors that determine the degree of competitiveness in the branch:

- Rivalry between existing companies,
- The introduction of new companies in the branch and
- Existence of substituent.

Rivalry is most often realized through the price of the product and their reduction to marginal costs. In some business branches, companies are based on some non-essential elements of competitiveness such as innovation or branding. The degree and intensity of competition are influenced by the following factors:

- Growth rate of branches (if the branch grows fast, every company has the ability to obtain the appropriate part of the market, while in the branches that they are in the phase of saturation of a new company that they have to forfeit the market for the market share of existing competitors),
- Concentration in the branch (number of companies and their relative size affects degree of concentration; if only one company is the dominant concentration is high and the dominant company can define price and other business standards in the branch; if there are two producers in the branch they are can arrange for dinner around each other; if the branch is differentiated and has many manufacturers with similar products are fierce competitors),
- The rate of fermentation and the costs of switching to a new product (if they are products similar and non-differentiated competition is very pronounced and is basically based price; The costs of the transfer refer to the costs the customer has to pay they shifted from one product to another, if they have low costs of crossing, competition and rivalry is reduced to price competition),
- Relationship between fixed and variable costs (if the branch is high enough Fixed costs of competition are reduced to lower prices down to the level variable costs to enable greater capacity employment) and
- Excess capacity and barriers on exit (if the capacity in the branch is greater than There is a strong competition in terms of lowering the demand for demand capacity upgrading, if the high costs of leaving the branch come from m specialized machines or legal costs are high then competition based on the greater use of existing capacities).

The potential for a company to earn extra profit in the branch in which it operates depends on the possibility of new companies entering the branch. This feature of the branch can find out through the analysis of the following factors:

- Economy size (if there is a high economy, there is a new company that entering the branch is faced with high start-up costs that will not be immediately covered because capacity will not be exploited and work optimum; economy may be due to investing in research and development, development of the inside or tall investment in equipment for example mobile phones),
- The advantage of the first in the branch (companies that earlier in the branch can prevent future competitors to enter the branch, by having some exclusives

- Arrangements with a supply of strengths or buyers or by setting high standard)
- Access distribution channels (distribution channels and access to them allows easier product sales; in the branches where the new company has to develop its distribution network, as in the automotive industry, there is a barrier to entering the market and making the new company less competitive) and
- Legal barriers (in branches with very intensive research projects or in branches where there are legal licenses for doing business like taxi services, health services, including telecommunications, etc. harder is the entry of new companies).

The existence of substitute products makes the branch highly competitive. The substitutes are not just products that are similar, but those that enable performing the same functions (plastic flasks or cans, air transport and short-haul transport distances, etc.). Sometimes the substitution threat also arises when a new product contributes to better material utilization, reduced waste, or contributes to energy savings.

Customers' products are considered substitutes if they have a similar form and if they realize the same functions at a similar price. If two products have the same function customers will switch to the one who has a lower price, provided that the buyers want to replace the existing product.

## 3. ANALYSIS OF THE NEGOTIATING POWER IN THE INPUT AND OUTPUT MARKET

The company's negotiating position and the ability to make profit depends on the negotiating power of the company's input and output market.

In the input market, the negotiating power is reflected in relation to suppliers for raw materials, materials, semi-products, components, etc. The negotiating power is practical the company's ability to force suppliers to lower their prices. If there is a branch only a few of the suppliers and if they are buying big quantities of products, power the supplier is greater than the strength of the buyer's company. Conversely, if there are substitutes in a large number of supplier companies the buyer has more negotiating power than the supplier.

The negotiating position of the company in relation to the market of output or strength according to the buyers are seen to be able to sell the company by the cost itself determined without any major obstacles by customers. This is last possible in the branches where there are no substitutes and where there is a small number of producers. Price sensitivity to the price it depends on how much this product makes in the overall cost structure of customers. If it is the product essential for the buyer because it makes the bulk of its cost the buyer is up to investment only to get this product at a lower price (in the automotive industry it is big manufacturer's strength compared to component suppliers).

Relative negotiation

The customer's strength depends on the size of the purchase, the number of customers in relation to the supplier, the number alternative products, and the cost of customers to overcome the product as well as the threat for vertical integration or integration in advance.

The negotiating power of the input and output market enables the acquisition of knowledge about whether the company, which is the subject of analysis, has the potential to do so.

## 4. STRATEGIC ANALYSIS OF THE TELECOMMUNICATIONS SECTOR

Based on the factors influencing the competition in relation to our research three of the observed companies can see the following:

- Telecommunication branch (mobile telephony) is in the saturation phase since the last five.
- The number of mobile network users exceeds the total number of inhabitants.

Penetration in 2011 is 142.99%, and represents an increase of 10.75% (percentage points) in compared to the previous year, both due to the increase in the number of users and the fall of the population according to the first results of the 2011 census. There are three large companies ("Telekom Srbija" ad, "Telenor" doo and "Vip mobile "doo) which are" price-waging "among themselves, trying to attract as much as possible the user to his side (e.g. when contracting a specific post-paid tariff since the user has the option to get a symbolic price and a mobile device). By decree of the RATEL Steering Board of 25 December 2009, it is adopted number portability rule in public mobile telecommunication networks, at which operators have the obligation to allow users to transfer their national broadcaster to the second network i.e. keeping the existing number. Because of this and the low costs the transition that the user has to turn to another network of competitors and rivalries among the companies it comes to the price competition.

When "Vip mobile" doo gets into the telecommunications market in Serbia because of high economies of scale are faced with high initial costs (investments in equipment are it is great and it is necessary to go a step with the development of new electronic achievements) that he has were not immediately covered, which resulted in losses in business.

The position of "Telekom Srbije" as an exclusive fixed telephony operator lasted until On June 9, 2005, when it is in accordance with the then applicable Law the telecommunications of the Republic of Serbia has lawfully ceased to exist. This has resulted in that RATEL published a public call for participation in the public bidding procedure for the issuance of two a license for a fixed wireless access to the public telecommunications network and services, whereby "Telekom Srbija" and "Media Works" 23 purchased the licenses. January 22, 2010 RATEL has been awarded the Telenor license for the second license construction, possession and exploitation of public fixed telecommunications network and provision of public fixed telecommunications network services in Serbia based on the public In 2010, the merger of the companies "Media Works", "Neobee.net" and "SezamPro" generated the telecommunication company "Orion telekom" doo a competition for the selection of another fixed telephony operator, issued for a period of 10 years with the possibility of extension at the same time.

The Republican Agency for Electronic Communications regulates the telecommunications market in Republic of Serbia for seven years, since it was originally named Republic telecommunications agency (RATEL), founded in May 2005, in accordance with Telecommunication Act 2003. In July 2010, the Law on electronic communications, partly from 2007 in accordance with this European Regulatory Framework Act, the Agency has received a new name: Republican Agency for Electronic Communications, with unchanged abbreviations called RATEL.

Pursuant to its authority under the law, the Agency has carried out the procedure for analyzing the relevant electronic communications market in the Republic of Serbia in 2011. The Agency, in accordance with Article 59 of the Law and in accordance with the Recommendation of European Commission on Relevant Product and Service Markets in the Electricity Market 24, Decision No. 1-02-3400-11 / 11 of 7 July 2011 relevant markets in the territory of the Republic of Serbia subject to prior regulation:

- Retail market access to public telephone network at fixed location;
- Wholesale call termination rate in the public telephone network on a fixed basis location;
- Wholesale call termination market in the public telephone network;
- Wholesale market (physical) access to network elements and associated ones resources (including distinct and complete disaggregated access to the local loop);
- Wholesale broadband access market;
- Wholesale market of leased lines;
- Wholesale call termination market in the mobile network;
- The Retail Market of Distributing Media Content, i
- The retail market of publicly available telephone services from a fixed location.

EC Recommendation of 17 December 2007 on relevant product and service markets within the electronic communications sector subject to prior regulation in accordance with Directive 2002/21 / EC of the European Parliament and of the Council on a common regulatory framework for electronic communications networks and services (2007) 5046, 2007/879 / EC As the previous regulation is subject to markets where there are structural, regulatory and other permanent obstacles that do not give new operators the ability to viewed market as competitive and without any prior regulation observed the deficiencies cannot be eliminated, the Agency conducted a process of analysis of the relevant markets on the basis of which it has come to a decision on the proclamation of an operator (one or more) with significant market power (ZTS) on each of the analyzed relevant markets.

Telecommunications sector are very important for all economy in the World. The development of telecommunications sector will promote the development of other sector in the economy. Macedonia are developing countries, the infrastructure of telecommunication need to improve and upgrade to serve for the development of the economy.

Based on the International Strategies analysis framework, the case study of VIP Group entered Macedonia Telecommunication industry, here summarized some important issues within telecommunication industry:

A. International Strategy of VIP Macedonia

1. Entering Macedonia' telecommunications market, this is an
appropriate development strategy and a part of VIP's international expansion. Macedonia is a developing country, stable in growth and resembles Macedonia.

2. Joint venture was suitable for VIP Group when they selected mode
to enter Macedonia market because Macedonia' culture are different to Macedonia culture.

3.The value of VIP Group business model and Lao Asia Telecommunication was combined in VIP Macedonia. At the moment, VIP Macedonia is number one in term of infrastructure of telecommunications sector, number two in term of provider 3G service and in future, they hope become a number one in Macedonia in term of provider 3G service, infrastructure and number of subscriber.

B.Strategic Competitiveness

1. Quality of Services and Infrastructure

VIP Macedonia always upgrade their infrastructure to have a modern infrastructure and improve their services. They determined that "Infrastructure is base to develop telecommunications sector".

2. Diversification

VIP Group is very successful in Macedonia, where the market is the same Macedonia market. Hence because of understanding about market, they segment market and have a service which is suitable everybody.

3. Operation Management

The purpose of the activities of VIP Macedonia always connect to the slogan "brighter" and development vision "Human is the core element for development".

4. Market Position

As we know, before VIP entered Macedonia market, there were 4 operators in Macedonia. To success in this market, VIP Macedonia need understand what is the disadvantage and advantage of Macedonia market. Based on that, VIP Macedonia had an appropriate strategy to entered Macedonia market.

5.Strategic Partnership

Macedonia Telecom has the best choice for VIP when they entered Macedonia' telecommunications market. It can minimize the risk, costs by understanding about this market. Additional, it helps VIP can understand local law and regulations of Macedonia' government about telecommunications sector.

## 5. CONCLUSION

VIP Macedonia is a successful model for other Macedonia's firm learns. This research is focused on how VIP can succeed in Macedonia after short time they entered this market. Besides that, there are still some problems VIP need improve to continue succeed in Macedonia market:

1. VIP success in Macedonia market based on some factor but based on each factor can VIP succeed other market when they move to other market not in Macedonia after Macedonia. They succeeded in Macedonia market after short time so how they will do to continue success and become number one in term of provides service and number of subscribers. Also, VIP's introduction as the care for the environment has still not been thoroughly implemented. In their long term strategy they stated that they wanted:

"To become environmentally friendly company focused on the reduction of environmental impacts through eco-friendly, innovative policies, products & services, programs and initiatives

To be recognized as environmentally friendly company and to lead other companies and individuals by good examples"

To this day little has been done in that respect although in 2010 the company has internally launched the 3D flash animation named "Vip Eco Tour". Much to the public approve of the project being positively greeted by the employees and the society alike it did not effectively put into motion their ambitious strategy. In spite of that The Public Relations Society of Serbia awarded Vip mobile for the best Internal Communications in 2010 for the project "Vip Eco Tour".

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