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Market position of a mining company as a factor determining the choice of the marketing strategy[1]

Key words

Mining company, marketing strategy, export, mineral raw materials

Abstract

In order to choose the marketing strategy to be applied on the given foreign market, a mining company has to first determine its market position there. That is often the starting point in the strategy selection. The basis techniques to determine the market position of mining companies on the foreign markets are presented: the rates of absolute and relative market share, portfolio analysis and SWOT analysis.

Introduction

Apart from internal factors involving the mining company in itself and integrally related to it as well as external factors determined by the company's environment on the particular foreign market, a mining company has to consider its market position while choosing its marketing strategy to be used on the given market. It is extremely important that this element should be considered as well, especially when the company is evaluating the strength of its competitors on that market. Very often that is the starting point for marketing decisions in relation to strategic issues. There is no doubt that the choice of the marketing strategy should be based on the analysis

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of available methods and indices allowing for evaluation of the company's competitive strength on the given market, taking into account the expected trends and dynamics of changes. The simplest indices are the rates of absolute and relative market share.

The rate of the absolute market share is the relationship between the value or the amount of sold minerals (i.e. company's products) in a specified time period in relation to global sales of products similar in terms of their functional parameters by all exporters to this market. Thus defined relationship, analysed for subsequent time periods, allows to evaluate the company's market position in relation to its major rivals in a simple and direct manner. Furthermore, it helps to define the trends and rates of market changes. The analysis of relative market share is also possible. That is done in relation to the sales values of the strongest competitor or several major rivals, or in relation to local suppliers.

Anyway, the market structure and the market share the company won are crucial factors while evaluating the company's position on that market because when the market share of the company increases its position in relation to major competitors will become more advantageous. The company's position in negotiations with purchasers will change as well. It often happens that when the market share of the company grows, its profits increase too. That happens when the scale of production is enhanced, or when production is modernised so that the company may get higher price for its product in relation to earlier periods.

The index of market share of a mining company may be also used in portfolio analysis for evaluating the company's market position. This method has become immensely popular lately. It has its origins in investments selection techniques. Originally, the portfolio techniques were applied to management of company's investments where the risk and profit levels should vary. In newer models portfolio technique is adapted to evaluation of the company's market position. The main aim is to seek the optimal connection between the company's products and markets where these are or ought to be sold. This choice depends on the market position of the company. To determine its market position the company has to compare multi-dimensional characteristics of conditions prevailing on the desired market with company's potential. In the first place this method should be utilised by mining companies which offer several products (several types of exported minerals). Using that method the company may decide which product would sell more on the given market in future and which product should not be exported to that market at all.

The most popular technique within the portfolio analysis is Model BCG (Boston Consulting Group). That model allows to find the company's position on the given market by determining the increase in sales of given minerals on one hand and on the other — the relative market share of the company. These two indices considered jointly allow to determine the position of company's products on the given market. The rate of the relative market share may be given as:

— the ratio of company's sales on the analysed market to the total sales of that product on that market,

— the ratio of company's sales to the sales of three major competitors,

— the ratio of company's sales to the sales of the strongest competitor.

In order to find the other element considered here (i.e. sales increase on the market) the following indices can be used (Sznajder 1992):

— the average yearly sales increase in fixed prices,

— the average yearly sales increase in current prices,

— forecasts of the average sales increase in the following years,

— expected average sales increase for the next four years in relation to the 10 years' forecast (as the starting point).

Determining the market position of various company's products on the basis of these two factors may involve the following matrix BCG:

Sales increase %	Relative market share	
	Products with uncertain future (?)	High potential products (stars)
	Declining products (dogs)	Products with stable position (cows)

Fig. 1. "Portfolio" matrix
Source: Sznajder 1992, pp. 55

Rys. 1. Macierz „Portfolio"
Źródło: Sznajder 1992, s. 55

With regards to the financial effects, the products sold by the mining company can be divided into four groups:

1. High-potential products (stars) which are likely to succeed on that market in the future. They have already won a large share of a dynamic market. They are often financed by products having the stable position on the market.

2. Products with a stable position (cows) have already large market share yet the sales levels do not increase fast. Taking into account their life cycle on the market, they already achieved the phase of maturity. Sales of these products bring much profit and is the main source of proceeds received by the company.

3. Products with uncertain future are those having a small market share. These include products newly introduced on the market or high potential products which do not sell any more. High costs are required to keep or increase sales, i.e. financial support in needed. They have yet some potential to make good in future as the demand for these products is growing.

4. Declining products (dogs) have a small market share, the sales and demand are stable or already declining. Sales values do not increase hence the company reduces the financing for production and marketing of these goods. The proceeds from sales are not the main source of company's profits.

The position of "dogs" is rather unfavourable. The company should stop producing and selling these products, in accordance with plans. That will be the a "deinvestment" strategy — the strategy of withdrawal. "Cows" have a strong market position, however the market does not seem to be attractive in the long run. In this situation it does not pay to invest much in this product. The company should therefore choose the strategy of fast and best profits possible and the proceeds should go to develop the "stars" — products which can be well placed on existing and potential markets — that is where the demand grows dynamically. Uncertain products (question marks) require a thorough analysis. The company may choose an offensive strategy aimed to transform them into "stars" or may choose a defensive variant and leave these product at the mercy of supply — demand fluctuations.

Shell makes use of a more advanced system of co-ordinates which allows for precise determination of a mining company's position on the given foreign market. The Shell matrix involves two basis parameters relating to profitability of the company's production sector and to evaluation of its competitive strength on the given foreign market (Otta 1984).

Evaluation of future profits involves the number of factors:

1) rate of growth of the given branch of mining industry, showing the potential for production increase in response to higher demand,

2) market share of four biggest mining companies in that sector,

3) number of customers (in percents) comprising 50% of sales,

4) the ratio of investment outlays to sales volume,

5) the need to provide fixed assets,

6) the degree of utilisation of production capacity,

7) relations between costs of production and sale of the given mineral, taking into account all the factors mentioned above,

8) prices of minerals on the foreign market where the company intends to export.

While evaluating the competitive strength of the company on the given foreign market the following parameters have to be considered:

1) relative market share of the company,

2) absolute market share of the company,

3) relative quality of marketable minerals,

4) relative levels of sales price,

5) the relationship between capital expenditure on research and development and sales levels,

6) the relationship between capital expenditure on marketing and the sales levels.

Defining the market position of products exported by the mining company allows to find the optimal structure of the product assortment in the light of long-term export projects. The portfolio analysis allows to identify the threats and risks when declining product have too large a share. Furthermore, it allows for the choice of well-thought strategy so that the mining company could effectively compete on the foreign market. Utmost care should be taken that the assortment of products be well-balanced, that is it should ensure the financing of sales activities and help to maintain the liquidity of company's resources. This is a most important consideration in free market conditions. It relates to providing constant cash inflows, i.e. proceeds from sales especially of those products which finance current activities of the company and in second place enable the company to produce other products, which at the moment may not be profitable. Therefore, the share of stabilised products in the company's assortment is of primary importance and the proceeds from sales can be used to finance other products and development activities. We have to bear in mind that if the assortment of products includes few products belonging to this group, the company may face serious financial difficulties in the future.

Another variant of portfolio analysis ("Portfolio") is creating the matrix similar to the BCG matrix, taking into account the attractiveness of the given foreign market where the mining company is present and competitive strength of the mining company.

Determining the mining company's position on the given foreign market on the basis of these two criteria involves the following stages (Sznajder 1992):

1) determining the factors deciding about the attractiveness of the given market,
2) ascribing weight coefficients to each of these,
3) evaluating each partial component using a suitable scale,
4) multiplying thus obtained scores by the weight coefficients to get the final value.

Selection of factors that ought to be considered while evaluating the company's strong points and the attractiveness of the given market should depend on the market branch where the company operates and the features of the market. The factors influencing the strong points of the mining company in the light of marketing activities are related mostly to parameters of the mined mineral — i.e. the export product, taking into account the importers' requirements, quality of exported minerals (assortment range), prices and terms of payment (i.e. the price levels acceptable to importers, price reductions through lowering production costs or marketing costs, price discounts), promotion activities (information about the product and company's potentials, public relations techniques, promotion campaigns, advertising techniques) and distribution (logistic network, reliability of deliveries, dynamic organisation of sales, costs of intermediaries and the ways to reduce these costs). The strong points of the mining company are: favourable financial conditions, good management (professional managers and qualified personnel in research and development divisions).

The factors deciding about the attractiveness of the given market are economic considerations (market demand and sales levels, demand and sales increase rate, market share the company already has and the potential for further growth, price trends, competitors' strength, substitutes, existing intermediaries, evaluation of competitors (existing competitors, new competitors, new directions and rate of changes in supply/demand relations, legal policy in the importing country).

The sum of thus evaluated company's strong points and the factors deciding about the attractiveness of the given market determines the company's position on that market. When this position seems favourable, the company should choose offensive strategies making use of its internal conditions and attractiveness of the market. When the company's position is rather weak, it should better withdraw from that market. In all mid-way positions the company should choose temporary strategies to improve the company's strong points or to make the given market more attractive, depending on company's position with respect to the co-ordinate system: company's strong points — attractiveness of the market.

A better developed and more detailed version of the evaluation method is SWOT analysis. SWOT stands for Strength, Weaknesses, Opportunities, Threats. It involves the analysis of company's weak and strong points taking into account also the opportunities and threats. To determine the strength and weaknesses of the mining company one has to use the information about its material, financial, humans and information resources. Opportunities and threats result from economic, technological, legal and cultural environment. This problem is discussed in more detail in another paper.

The matrix below allows for relating the strength and weaknesses of the company to opportunities and threats from the company's environment (Sznajder 1992).

	Internal strength S	Internal weaknesses W
External opportunities O	O-S Max- max	O-W Max- min
External threats T	T-S Min - max	T-W Min-min

Fig. 2. Matrix of internal strength and weaknesses and external opportunities and threats.
Source: Sznajder, 1992, pp. 64

Rys. 2. Macierz atutów i słabości wewnętrznych przedsiębiorstwa oraz jego okazji i zagrożeń zewnętrznych
Źródło: Sznajder, 1992, s. 64

In theory, the company may find itself in four positions:

1. T-W means that external threats are still enhanced by internal weaknesses of the company. In such situation the company should undertake any measures to minimise its weaknesses and threats, i.e. choose the min-min strategy. Internal weaknesses of an export company may be eliminated in different ways, depending on their type and scale. When the company has limited financial resources in relation to its needs, they may increase the resources by starting cooperation with other companies. Cooperation has a very broad meaning here, it may involve cooperation on the horizontal level, that is cooperation between companies operating on the same level of production or sales (for example between producers of similar minerals or between companies dealing in international trading) or vertical cooperation — understood as connections between producing and exporting companies. Furthermore, cooperation with foreign partners may also reduce or even eliminate the external threats when the co-operating company is at the same time a competitor on that market. Practice has shown that this is a very effective technique of dealing with business rivals. The strategy of cooperation is a good step for enriching company's resources, at the same time enabling the company to make use of all opportunities and to strengthen its position on the competitive market.

2. O-W means that the company finds it difficult to make use of all market opportunities because they are accompanied by company's weaknesses. Such situation forces the company to minimise its weaknesses in order to make use of external opportunities or even to create new opportunities. Accordingly, the company ought to choose the max-min strategy. Expanding the assortment of offered products can be given as an example here. The company may find out that too narrow range of products — a weakness — does not allow to increase export in the condition of growing demand for more diverse products.

3. T-S means that the company's internal strength is related to external threats. In such situations min-max strategies should be chosen. That means that while minimising the external threats the company aims at effective utilisation of its own strength.

4. O-S means that the company is in the most favourable conditions as its strength is fully utilised when new opportunities appear. The max-max strategy involves maximisation of company's strength in favourable external conditions. For example, a mining company which attaches much importance to innovations in the conditions of growing demand ought to try to

TABLE 1

Mining company's strength and weaknesses

TABELA 1

Mocne i słabe strony przedsiębiorstwa przemysłu wydobywczego

Criteria of evaluation	Scale					Ranking of criteria		
	1	2	3	4	5	1	2	3
Marketing — market position of the company — market share — knowledge of importers' needs — competitive position of company's products (minerals) — quality of products — awareness of market research								
Production — productivity and modern facilities — production costs — potential for expansion and development — quality control systems — scale and type and investment activities								
Innovations — innovative products — innovative methods — creating new market segments								
Commercial — effectiveness of applied sales techniques — choice of distribution channels — tailoring the product to importers' needs								
Evaluation of company's resources — financial resources — profit levels and material assets — effectiveness of planning — human resources and motivation schemes								
Organisation — clear objectives and strategy — management techniques — organisational structure								

Source: Author's own sources.

TABLE 2

List of major opportunities and threats for a mining company on a foreign market

TABELA 2

Zestawienie najważniejszychj okazji i zagrożeń dla przedsiębiorstwa przemysłu wydobywczego na danym rynku zagranicznym

Opportunities and threats	Scale				Impacts on the company	
	1	2	3	4	+	—
Economic factors						
— favourable market conditions in the importing country						
— recession in the importing country						
— economic boom in the importing country						
— growing demand for minerals						
Legal factors						
— consequences of accession to EU						
— scope of differences of the legal system in the importing country						
— impacts of legal regulations on export conditions						
Technological factors						
— new technologies						
— innovations						
Competition						
— competition on the foreign market						
— substitutes on the foreign market						
— selection of strategy						
— competition from local companies in the importing country						
Importers' policy						
— emergence of new market segments						
— increase in importer's demand						
— trading policy of importers						
Impacts of the company on the market						
— public relations activity						
— pressure						
— reliability of deliveries						
— price policy						

Source: Author's own sources.

most effectively utilise its production capacity when the situation on the foreign market is favourable.

In practice the SWOT analysis involves two tables, one of them summarising the company's strength and weaknesses, the other - opportunities and threats produced by the environment. The analysis of company's strength and weaknesses involves distinguishing major factors that influence its competitive strength and market position, using the evaluation techniques based on certain scales and criteria. A summary of a mining company's strength and weaknesses is given in table 1. The scale used to determine the company's position in relation to the major competitors is as follows:

1) very weak,
2) weak,
3) satisfactory,
4) strong,
5) very strong.

Main opportunities and threats to mining companies, due to its environment, may be grouped according to the subject matter. The scale indicating how the opportunities and threats affect the mining company will be as follows:

1) negligible,
2) moderate,
3) strong,
4) decisive.

The influence of major trends on the foreign market on the company can be evaluated as follows:

(+) positive influence,

(–) negative influence.

Such an approach allows to prepare a summary, in accordance with table 2.

The methods and techniques presented here allow to determine the company's position on the given foreign market. They are very important when the company chooses its marketing strategy for the given market. Sometimes they should be treated as the starting point for marketing decisions. Evaluation of the company's position is of primary importance as its a major condition for successful competition with other suppliers of minerals.

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POZYCJA PRZEDSIĘBIORSTWA PRZEMYSŁU WYDOBYWCZEGO NA RYNKU ZAGRANICZNYM JAKO ELEMENT WYBORU JEGO STRATEGII MARKETINGOWEJ

Słowa kluczowe

Przedsiębiorstwo przemysłu wydobywczego, strategia marketingowa, eksport, surowce mineralne

Streszczenie

Określenie pozycji przedsiębiorstwa przemysłu wydobywczego na interesującym go rynku zagranicznym jest ważnym elementem wyboru jego strategii marketingowej. Pozycja ta jest niejednokrotnie punktem wyjścia przy wyborze tej strategii. Scharakteryzowano podstawowe sposoby określania pozycji przedsiębiorstw przemysłu wydobywczego na danym rynku zagranicznym: obliczanie wskaźników bezwzględnego i względnego udziału przedsiębiorstwa w zaopatrzeniu tego rynku, stosowanie metody Portfolio i analizy SWOT.