business policy[1] in its curriculum in the 1970s. Michael Porter has taught similar course for many years in the past. The aim of *business policy* was to integrate knowledge previously acquired in other courses in order to develop student competencies on using the acquired knowledge. The focus, from day 1, was on the case study method, a practice taken from HBS. For example, instead of having students participate in solving business problems needed for a financial or marketing analysis, business policy focuses on the development of competencies for identifying and solving real problems from a broader field of mutually independent areas.

A process of reconceptualisation of the content of business policy has occurred in the 1970s in which the course has been expanded, whereas the focus has shifted from relatively intern orientation to relatively extern orientation. The accumulation of acquired knowledge and the increase of research papers created ground for a new academic discipline: Strategic management. Such an expanded approach has led to the change of the course name from business policy to strategic management (Wheelen and Hunger, 2008).

After that, Michael Porter has taught Industry and Competitive Analysis as well as Competition and Strategy course for many years in the past.

The aim of strategic management is for students to make a connection between theory and practice by developing a comprehension of strategic tools and their limitations. In addition, an application of such comprehension is required in solving individual situation problems by identifying business strategies that fit each different situation.

Porter's theoretical ground for developing this discipline

Based on different definitions, we can conclude that the determination of business strategy is based on two key strategic dimensions:

1 Business strategy as a manner of company *behaviour at a certain period*;
2 Business strategy as a manner of company *development in the desired direction*.

Modern literature (Brnjas, 2000) tends to link these two concepts closer and integrate them. One of the best attempts at doing so was made Michael Porter himself; he used the concept of industrial organisation as the starting point. Based on his many years of work and published research on this subject, Michael Porter introduced concepts which were developed for years into the area of business strategy. Due to the dynamics of teaching which relies on the case study practice, Michael Porter was able to explain the behaviour of an individual company and the behaviour of the corporation surrounding and the way the company and the surrounding interact by means of business strategy.

He founded a rigorous theoretical framework for the industrial organisations with, back then, a still developing field of strategic management and

elevated it to its current status of an academic discipline (Huggins and Izushi, 2012).

Industrial organisation is a discipline founded on microeconomic analysis. The methodology used in industrial organisation has been taken from methodologies of other theoretical disciplines and was used as a means of developing empirical research, i.e. insisting that each theoretical hypothesis is to be tested and checked through empirical research. That fact positions industrial organisation on a somewhat lower level of abstraction – it acknowledges empirical facts such as the imperfection of competitive relationships and changes in the ownership hierarchy and the corresponding changes in function of the goal.

The standard approach to studying industrial organisation according to Joe Benin (Shy, 1995) is to decompose the market to its structure, conduct and performance.

Although it is a highly developed discipline with a host of literature processing and developing in detail the theoretical concepts created from a wide variety of highly complex research, its overall theoretical, methodological and empirical literature can be placed within a simple concept known as the structure conduct performance paradigm. The relations between the three elements indicate their cause and effect character and the direction of their operation is strictly rectilinear. The specific economic theory used by Michael Porter is now well known: *The SCP* paradigm. However, when *Competitive Strategy* and *Competitive Advantage* were published, the relation between economic theory – any economic theory – and strategic management research and practice was yet to be thoroughly taken into account. This paradigm was initially created to help governments identify divisions without developed aspects of, for example, maximised social welfare and perfect competition dynamics. The two books have turned this theory upside down and identified in detail the fields needed for corporations to achieve above the average profitability (Huggins 2012).

The company is treated, in the model, as a passive object transforming the characteristics of the market structure (perfect competition, oligopoly and monopoly) into certain achieved profitability. It is no surprise that the subjects of *industrial organisation* and *microeconomic analysis* are found at the very core. Due to that fact, critics are constantly pointing out that the subject of industrial organisation is not the company, but the industry.

Considering the said, a logical question is placed: *How to explain the fact that microeconomic analysis recognises only two ways in which individual participants play the strategic game at industry level?*

The answer to this question can be found in the assumption of microeconomic analysis that *balanced price* is formed at the cross section of *the offer curve and demand curve*. Winning aspirations of company within industries are conducted via a strategic game functioning as a set of market-related ideas. Based on such an approach, Philip Kotler (2012) defines market as a set of existing and potential buyers of particular products. Initially, the term

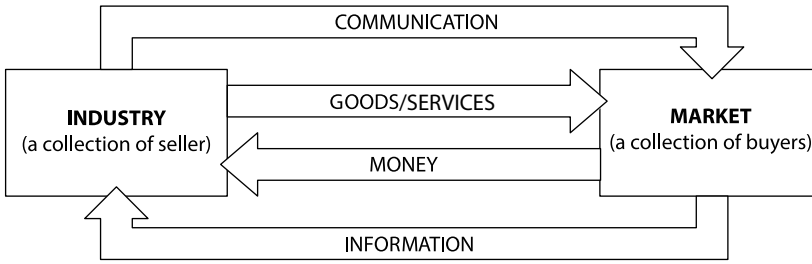

Figure 2.1 Simple relationship: industry-market.

Source: Adapted from Kotler (2000:43).

market referred to the location where buyers and sellers would meet to exchange goods. In microeconomic analysis, the seller represents the industry, whereas the buyers represent the market. Figure 2.1 illustrates the relation between the industry and the market.

Figure 2.1 shows that industry and market are bonded by four processes. The industry sends products and establishes communication with the market, whereas the market sends money and provides the industry with information. The inner lines display the exchange of money and products, whereas the outer lines display the exchange of information and communication. Market size depends on the number of buyers interested in a certain product. Hence, we have the following (Kotler et al., 1999):

a Potential market;
b Available market;
c Qualified market.

Potential market is a group of buyers interested (displaying a certain amount of interest) in buying a certain product. The sole interest of buyers is not sufficient enough to define a market. *Available market* is a group of buyers with an interest, income and availability for buying a particular product. The company or country can limit product sales to particular buyers in certain markets. Limiting the sales implies that the potential buyer has to be qualified. *Qualified market* is a group of buyers with interest, income, availability and qualifications for buying a particular product (Kotler, 2000).

The company can focus on the entire market or a particular segment. The *aimed (or covered) market* is the part of the market which the company plans to conquer. *Penetrated (or conquered) market* is the part of market already conquered by the company.

Figure 2.2 displays previously analysed definitions together with certain suggested numbers. The left part of the figure represents the percentage of potential market compared with the overall number of population, which is 10% in our case. The right side of the figure represents the percentage of available market compared with the potential market, which is 40% in our

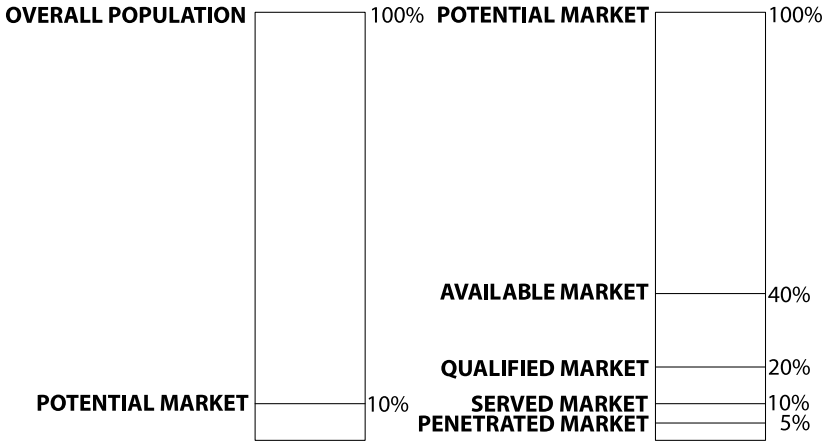

Figure 2.2 Market definition levels.

Source: Kotler et al. (1999).

case, qualified accessible market compared with potential market, which is 20% in our case, served market, which is 10% in our case compared with potential market and penetrated market, which is 5% in our case compared with potential market.

Typical market-related strategic choices include the following (Đuričin et al., 2015):

1 The growth of *core* business with a special focus on key products, market segments and geographical areas;
2 Achieving the leading position in *non-core* businesses with above the average structural attractiveness;
3 Constant preoccupation with the tendency of entering and expanding markets with above the average demographic growth.

Demand and supply operate within a market. Demand is the scale of customer determination to buy a product presented by the offer. Market selection depends on competition aspirations. It is far more important for a company to acquire competitive advantage on a market other than the one where it is positioned as a leader. However, it sometimes simply impossible not to have a clash with competition and achieve victory when the competition displays weaknesses (Đuričin et al., 2015).

Each *individual customer* has his/her *demand curve* as a *function of price* and *quantity*, and every individual company has its *supply curve* as a function of *price* and *quantity*. All mutual relations are displayed in Figure 2.3.

The curve of industry demand is a cumulate of individual customer demand curves as shown in Figure 2.3. The curve of industry demand, created in such a manner, is characterised by a negative slope. The function

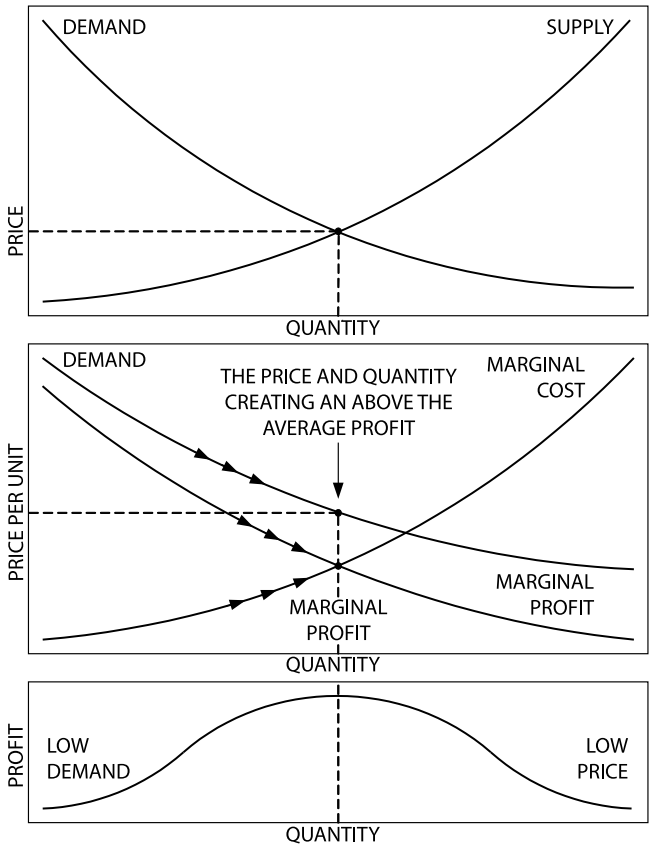

Figure 2.3 Supply, demand and balanced price in the function of profit.
Source: Adapted from Hagedoorn (1993:236).

of demand depicts the legality of buying a lesser amount of products at higher prices and vice versa by the customer. The curve of industry supply is the cumulate of individual company offers as displayed in Figure 2.3.

Looking from the aspect of *relative cost position*, higher or lower product prices *do not affect* the increase or fall of the demand for the product; hence, the *relative cost position* is the fundamental determinant of competitiveness and profitability. The price fluctuates over time, *but not as a consequence* of individual company actions. Looking from the aspect of *uniqueness*, when a balanced price is formed *as a cross-section of marginal cost and marginal income* on industry level, each company achieves different profitability (above or under its marginal cost) depending on its *uniqueness*, as shown in Figure 2.3. A microeconomic analysis results in a *slanted curve of demand* (the demand curve is less slanted than marginal income curve). Looking from the aspect of *uniqueness*, high or low product prices affect the growth or fall of product