

- 3 *Focused differentiation strategy* oriented towards company which aim at both making their products environmentally efficient and informing the public on it, too.
- 4 *Overall cost leadership strategy* focuses on cost reduction through the identification and elimination of cost drivers.

Standard alone are no longer the only requirement for a company seeking to enhance its performance compared to its competitors. If a corporation seeks to assess the value of the environmental system, ISO 14001 will suffice, but if it wants to check the efficiency of its environmental system, it needs to analyse stakeholder viewpoints, too. It is vital that the environmental strategy of a company is clear, that it motivates consumers to buy its product and that the consumers believe in the advantages of the product. Using its sustainable environmental policy, a company shows that it really is one of the green ones (Porter et al., 1995).

### Digital transformation strategy

For companies, in order to grow and develop in the modern environment, it is of utmost importance to radically direct business towards digital technologies. A different view of business means that it is inevitable to change the strategic orientation of the company, that is, to carry out a digital transformation. Competitive advantage in turbulent business conditions is in fact based on the so-called digital platform, which represents the concept of transfer, integration and improvement of digital technologies in modern companies.

The pace of digital transformation depends on industry and area. Companies in the field of information and communication technologies,

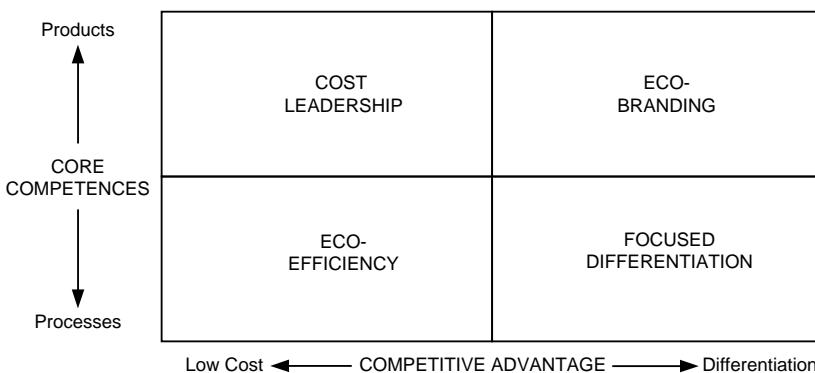


Figure 7.4 Porter's modified matrix of generic strategies for achieving competitive advantage.

Source: Tatić (2011:168).

consulting and PR services are “digitising” the fastest. Due to the complexity of production and the nature of business, digitisation is only carried out in certain segments in the oil and pharmaceutical industry.

The decision on digital transformation should be supported by the top management of the company (Porfirio et al., 2021). It is of utmost importance that decision-makers are aware that digitisation represents a new phase in the life cycle of a company. Digital transformation as a construct has the character of change depending on whether it refers to a business segment or the company as a whole. The transformation is carried out using digital technologies and its purpose may be viewed as something that ought to fully replace certain processes in the organisation, improve the functionality of the processes and in the end ensure an entirely new way in which these processes function (Pihir et al., 2019).

Digital technologies can be considered through three directions in which they operate (Lanzolla et al., 2020; Kitsios and Kamariotou, 2021):

- Increasing the functionality and efficiency of business processes through cloud computing (edge computing, serverless computing, creative algorithms and language modelling, kubernetes and blockchain, secure access service edge and cloud-based disaster recovery), distributed cloud;
- Intensification of connections and trust between people and objects – everything as a service (XaaS), 5G network, data democratisation, customer data platform (CDP), Internet of Things (IoT);
- Increasing automation for business processes and decision-making – augmented reality cloud (AR Cloud), robotic process automation (RPA), low-code platforms, total experience (TE).

Digital technologies are gaining more and more ground in all business segments. Therefore, it is of prime importance to timely recognise that it is possible to select and apply digital technologies in business. We are no longer talking about the digitisation of certain processes in the company, but rather about a change that will alter the vision, mission and strategic framework. Issues of the business area, i.e. business, service and product range, customers, ways of marketing services and products, marketing are raised. The environmental external analysis illustrates that market changes force companies to permanently change the concept of the offer, which indicates that digitisation most often starts from this business segment. Changes in the offer initiate changes in the supporting activities in the value chain, which leads to the reengineering of the business model of the company as a whole.

The competitive environment today consists of companies that are connected with each other, that is, clustered together. This means that it is unlikely that one company will be the main competitor. Multiple companies connected by the same or similar markets, suppliers and digital

technologies constitute the modern competitive environment. Therefore, it is necessary to develop additional mechanisms, which will serve the purpose of scanning the environment and identifying competitors, their power and predicting market movements.

Digital transformation is sublimated through a digital transformation strategy. The essence of this strategy is to include and connect all current strategies, to give them homogeneity in the context of adapting to an environment that is constantly and radically changing. The outcome of the digital transformation strategy is the improvement of the performance through an increase in productivity, quality in business processes, sales and customer loyalty.

Porter's competitive strengths represent a strategic framework in which room for manoeuvre is created for the company's long-term operations. It is possible to determine with more precision the extent to which the industry is profitable, based on the analysis of rivalry among existing competitors, the threat of new entrants and substitution, as well as the bargaining power of suppliers and buyers. The emphasis is placed on detailed analyses of price trends, costs and investment returns.

It is important to determine the entry barriers before new competitors enter the market. The number of competitors is limited by setting up high barriers. If it is difficult to transfer digital technology (due to high costs, licenses, limited number of software companies, etc.), it means that high market entry costs are in place. Many countries around the world use incentives to subsidise the transfer of digital technologies, and thus affect the increase in the competitiveness of companies.

In practice, there are companies that have been advanced in terms of digital technology from the moment they were founded, and which have not underwent any transformation whatsoever, since they were digitised from the start. In this way, an environment is created where digital technologies provide the basis of competitive advantage, which can affect the formation of high entry barriers, especially for the entrants who want to join the market with the help of digital transformation.

Digital transformation tends to give an even greater advantage to the economy of scale because it is easier to establish quality control mechanisms (especially in production processes) and standardisation of business as a whole. Established relations with customers through facilitated or digitised communication can additionally influence the increase in the loyalty rate and thus create an even stronger barrier to new entrants (e.g. online payment services and getting a loan from a bank). In the product distribution segment, a company can have an existing distribution system (if the company is new to the market) or rely on an existing one (if it is a business with a long tradition). Starting a distribution system initiates significant investments, which can threaten the "core" of the company's business to a certain extent.

The threat of substitution in modern business conditions is present in every industry. Depending on the market and technological power of the

company, the capacity to notice trends and notice changes of varying intensity depends on the industry to which the company belongs. Digital technologies indicate that the threat of substitution is ubiquitous and “lurks” around every corner. Furthermore, digital technologies can completely alter the business model of a company in a short period of time (e.g. food delivery companies during the COVID-19 pandemic).

The appearance of substitution on the market means that the product and service have better performance and shape a better user experience. Defense against substitutes is almost impossible if the digitisation of business has not been implemented. Digitisation accelerates processes while increasing quality in production, distribution and sales processes. It is crucial for the buyer to know that the substitute will have a better price-quality ratio and almost minimal or no switching costs.

Suppliers can play a significant role in the fight against substitutes. By connecting with suppliers (i.e. by forming alliances, strategic cooperation and in a certain number of cases by purchasing suppliers), the resources needed for production and service provision processes are redefined.

The bargaining power of buyers come to the fore during the COVID-19 pandemic (restricted movement, instability related to job preservation, etc.) and the subsequent economic crisis (the war conflict in Ukraine, the energy crisis). The customer is the main focus of interest of the manufacturer and numerous researches are conducted in order to determine the customer's behaviour as accurately as possible. The customer as the end consumer and consumer of the service and the customer as an intermediary between the producer and the end consumer are at an advantage in the so-called negotiation position. By getting closer to customers in these circumstances, a higher quality of products and services is definitely achieved (user experience), while lowering price is questionable (higher energy costs, inflationary effects).

Digital transformation enables companies to revise the existing business model and approach the customer as an entity in a completely different way. The goal is to establish interaction with customers through digital technologies, which will influence the creation of a completely new user experience. For example, in its research and development department, the Porsche company has obtained detailed information on who makes up the car buyers of this brand. Based on the application of CRM, every interaction (activity) with the customer is recorded and documented, thereby increasing brand loyalty.

Based on their negotiation position, suppliers can significantly influence the competitiveness and performance of companies (McIntyre and Đoković, 2021). If a company is more dependent on suppliers, it means that suppliers are in a better negotiating position. Supplier competitiveness is evaluated on the basis of the following: prices, quality and timely delivery.

The supplier, which has undergone digital transformation, will offer the company it cooperates with a “smart” solution in processes related to