ACROSS
Journal of Interdisciplinary Cross-Border Studies
Vol. 9, No. 7, 2025
Economics, Trading and Management

Analysis Models of the Competitive Environment of Companies

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Received on 1 August 2025
Accepted on 30 August 2025

Abstract
This article provides an overview of the definition of a company's competitive environment and the factors that influence the company and its activities within it. It also examines the managerial and marketing tools used to analyse companies' competitive environments, as well as the increasing intensity of competition. In this research, four models that companies can use to analyse their competitive environment will be investigated: SWOT Analysis, PEST Analysis, Porter's Model (5 Forces), and Strategic Group Analysis.
Key words: SWOT Analysis, PEST Analysis, Porter's Model or the 5 Forces, Strategic Group Analysis.

Introduction
Companies operate within a well-regulated framework that reflects their business environment and includes external factors and forces that influence their operations. The business environment of companies comprises a network of exogenous variables that can maintain or develop the company's relationships in the markets in which it operates. The environment in which companies operate is a market system in which companies compete for customers, sales, suppliers, market share, and recognition; therefore, they operate in a competitive environment.

The competitive environment in economics and marketing is a dynamic system in a defined market in which different businesses compete. This system has its own rules and parameters and is affected by numerous factors, such as the number and type of competitors, barriers to entry, and others.

In any market, several companies offer similar products and/or services and compete with each other to secure and maintain a commercial foothold; therefore, they operate within certain conditions, factors, and economic relationships characteristic of the competitive environment.

The competitive environment in which firms operate brings together ***three components****: on the one hand,* ***market participants****: firms, consumers, suppliers and distributors, the second component is* **regulations***: competition legislation, government policies and trade rules,* and *the third component* is represented by **economic factors***: prices, supply and demand, technological innovation, and consumer dynamics.*

The existence of a dynamic and healthy competitive environment plays an essential role in the development and success of companies, influencing their strategies, performance and sustainability, so among the areas of influence we mention:

- *Stimulating innovation and creativity* - companies are motivated to innovate and bring more attractive products and services to the market to differentiate themselves from the competition.
- *Improving operational efficiency* - competition forces companies to optimise resources and processes to reduce costs and remain competitive;
- *Customer orientation* - companies become more focused on satisfying consumer needs, offering superior experience through quality, price and additional services;
- *Creating and diversifying offers* - competition encourages companies to diversify products and services to attract different market segments;
- *Regulating markets and preventing monopolies* - competition discourages anti-competitive practices and abuse of dominant position, protecting the interests of consumers and smaller companies;
- *Promoting investment and economic growth* - an attractive competitive environment stimulates domestic and foreign investment. Economic growth is supported by job creation and infrastructure development.
- *Flexibility and adaptability to changes* - companies are prepared to react quickly to changes in the market, whether related to consumer preferences or new technologies.

Methodology

The present work is based on theoretical research and quantitative empirical research. Analysis, synthesis, description and comparison were used as research methodology. The national and international literature on competition and competitive environment was reviewed. The objective of this work is to identify the main models that can be used in the analysis of the competitive environment of modern firms, in order to develop a profile of the likely successful strategy that would lead to changes that each competitor could make, would constitute a response to the range of feasible strategic moves that other firms could make consciously or under the influence of broader environmental changes that could occur [1, p.47].

Results and Discussion

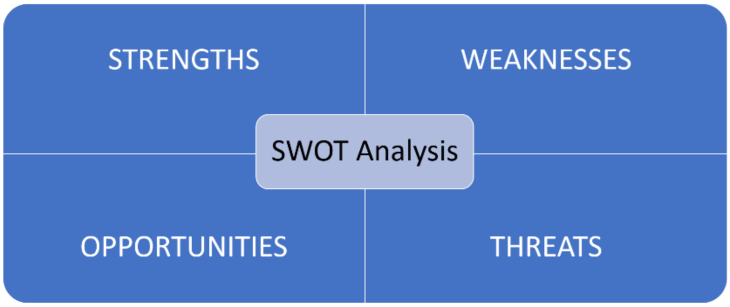
The competitive environment is an essential component that covers a significant part of the marketing environment and the company's strategic universe, encompassing business and commercial partners, upstream and downstream competitors, and their assortment. The analysis of the company's competitive context involves examining how companies respond to external constraints, making the necessary efforts to adapt to structural environmental changes, and positioning themselves appropriately relative to the competition. Thus, the behaviour can be one of attack or defence on the part of some companies in their competitive context, highlighting an increasingly prevalent tendency to go beyond simple adaptation to environmental changes, through actions that instead aim to transform and remould it in line with their own strategic objectives.

So, the analysis of the competitive environment can currently be carried out using various tools, among which the most important are:

- **SWOT analysis.** SWOT analysis is a managerial tool that helps companies evaluate their performance, competitors and the risks they pose, and the company's current and future potential.

The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats (fig.1). In itself, this tool is nothing more than a table with four quadrants/cells in which are listed the Strengths, Weaknesses, which represent the internal environment of the company, environment/variables that can be controlled and influenced by the company; and the Threats and Opportunities that companies may encounter/encounter, these components represent the external or competitive environment of companies that cannot be controlled and influenced, but on the contrary has direct influences on the evolution and behavior of companies on a market.

This tool will allow companies to identify the level of business growth or the level/period of decline or stagnation they are experiencing. Also, this technique offers the opportunity to review, formulate, update, and implement a marketing strategy, helping launch a new product or enter a new market. However, how can it be used?



To perform a qualitative analysis, we first identify the company's direct competitors. Direct competitors are companies with the same field of activity and that place products identical to the company's on the market. However, in the same market, indirect competitors can also be found: companies that offer products substitutable for classic products. For an objective and relevant analysis, 4-5 competitors will be selected, with similar market activity to the company's.

Figure 1. SWOT Analysis (Source: prepared by the author)

After the documentation has been done with reference to the leading competitors on the market, the SWOT analysis will be carried out for each competitor separately, where the strengths will include aspects such as: brand position/brand recognition, loyal customer base, superior product features, innovative marketing strategies, unique/innovative technology; the weaknesses will include aspects/problems related to customers, poorly qualified personnel, outdated equipment, etc., so that the identified vulnerabilities are transformed into advantages for the company. The opportunities will analyse potential increases in competition, from the perspective of marketing trends, new customer segments, and how competitors can exploit them. And for threats, external factors that can mitigate the competitor's success, both in the short and long term, must be evaluated, such as inflation, legislation, crises, etc. After performing the SWOT analysis for each competitor, the data/results obtained must be analysed in such a way that the weaknesses of the competitors can be exploited for the benefit of the company and how the threats at the company level can be mitigated, as well as the formulation of strategies in order to consolidate the position on a certain market. A thorough analysis of the competitive environment would enable companies to make timely decisions at each stage of development.

- **PEST analysis**. PEST analysis is a managerial and marketing tool used to identify the political, economic, social, and technological variables in the external environment that shape opportunities and influence the activities of companies. PEST analysis (fig. 2) is based on four factors, each named after the first letter of the following words: P – political, E – economic, S – social, and T – technological. It helps companies identify market trends and develop plans to address potential challenges.

The *Political* variable is researched because it regulates power, which in turn defines the company's environment and the provision of production factors for its activity. The second variable – *Economic - is analysed* from the perspective of creating an image of the distribution of resources at the state level, which is an indispensable condition for the activity of an enterprise. With the third variable - *Social* - the needs and preferences of consumers are researched and analysed. The fourth variable - *Technological* - is researched to identify the latest technological innovations that lead to change and growth or to stagnation and decline in production, quantity, and market share.

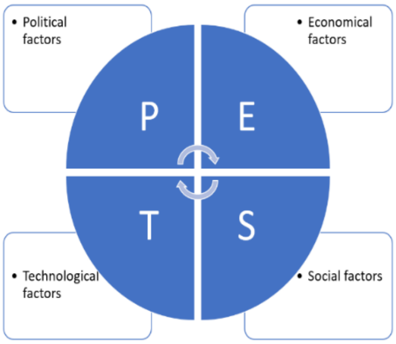


Figure 2. PEST Analysis (Source: developed by the author)

Currently, the specialised literature also offers several extended variants of the classic PEST variant: PESTLE - in this variant, two variables are added: law and environment; SLEPT - this variant assumes a single factor: law; STEEPLE - this analysis includes factors such as: technology, economy, environment, socio-demographic, political, legal and ethical.

- **Strategic group analysis.** Strategic group analysis is a management tool that enables companies to analyse industry-level competitiveness and characterise the strategies of the main competitors. This tool allows companies to identify competitors' market positions and the factors that drive profitability; it also enables the identification of key organisational success factors and the company's position relative to competitors.

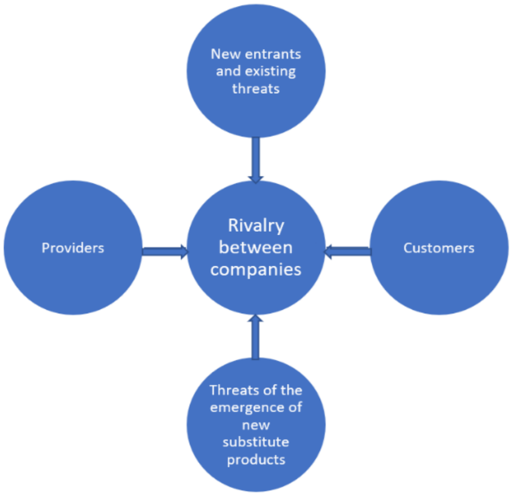
This model of competitive analysis was developed by Michael Porter, who observed that an industry's market is dominated by strategic groups that segment organisations into groups that share/use similar strategies, enabling a more complex and accurate analysis. Companies with identical business models, similar customer bases, and market approaches constitute distinct groups in a market, and analysing them enables identification of direct competitors and barriers to entry, as well as assessing the degree of rivalry within each segment.

A strategic group is a group of firms in an industry pursuing the same or similar strategies along a strategic direction [1, p. 129]. Often, these strategic groups face comparable competitive pressures and dynamics, making separate analysis essential.

The first step in performing structural strategic analysis within industries is to characterise the strategies of the most important competitors, in terms of customer segment, product/service types, etc. This activity then allows the industry to be mapped into strategic groups. An industry may be characterised by only one strategic group, a small number of strategic groups, or by each firm being a different strategic group. By grouping organisations with similar strategic characteristics, strategic group analysis provides organisations with a nuanced view of their competitive landscape and an assessment of competitive dynamics. A final step in the analysis is to identify untapped opportunities and threats arising from group dynamics.

- **Porter's model or the 5 forces**. Michael Porter in the early 1980s proposed a model for analyzing the competitive context, based on the analysis of five forces that govern through their action the concertation of the business environment of companies[1, p.4-7; 2, p.308-310]: new entrants to a market and their threats; customers and their bargaining power, suppliers and their bargaining power, threats of the emergence of new substitute products, competitive intensity or existing rivalry between companies. (fig.3.)

Rivalry at the company level can manifest in advertising, pricing, quality, new product launches, service diversification, etc. Rivalry arises when companies seek to improve their market position and status, but there is a risk of retaliation/influence from competitors, leading to reactions that may or may not allow them to achieve their initial objectives.



New entrants to the market bring new production and service capabilities, as well as a desire to stand out and gain a larger market position. This behaviour represents a threat directly proportional to the importance of the new competitors in terms of their ability to satisfy offers and to respond to competitors.

Figure 3. M. Porter's 5 Forces (Source: developed by the author)

A significant danger for companies in a sector is competing firms that manufacture substitute products. These conditions affect the development of companies and impose various limits on prices and quantities, leading to a decrease in profits.

Negotiations between customers and suppliers are a major factor influencing companies in the sector. On the one hand, customers seek consistent benefits from sellers, while sellers have significant bargaining power over the benefits they offer.

Competitive forces reflect the fact that competition in an industry goes far beyond established players: customers, suppliers, substitutes, and potential entrants are all "competitors." All five competitive forces together determine industry intensity, competition, and profitability, and the most potent force or forces govern and become crucial for strategy formulation [1, p. 6]. This analysis model allows exploration of competitive market forces in an industry and helps define its strengths and weaknesses.

Conclusion

Competitive analysis is the foundation of strategic positioning in any industry. It assesses competitors' market strategies, product and service offerings, and provides insights into how they can respond effectively. Competitive analysis reveals how competitors structure their offerings, target different customer segments, and adapt to varying regulatory requirements. This comprehensive view is crucial as companies grapple with rapidly changing customer expectations and dynamic markets.

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