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CONCEPTUAL APPROACHES OF COMPANY DEVELOPMENT STRATEGY CONSIDERING THE PHASE OF INDUSTRY CONSOLIDATION AND INTEGRATION PROCESSES

Abstract. *Increasing competition in the domestic and foreign markets require domestic companies to form and develop competitive advantages through the use of strategic management and planning, development and introduction of effective strategic behaviour.*

Effective development of enterprises in the unstable economic environment due to the concentration of resources can be provided by introducing a strategy of integration and creating integrated structures, which are a form of cooperation between enterprises, establishments, research organizations and financial institutions.

The aim of this study is to determine the conceptual approaches of companies' development strategy considering the stages of industry consolidation and integration processes.

Resources and methods. *The research is based on application of methods of abstract and logical, and systematic analysis, analytical and logical generalizations. Monographs and reference books, scholarly works of local and foreign scientists, materials of periodicals were used in work.*

Results. *In order to provide the efficient functioning of enterprises in the competitive environment the main directions of strategic development are based on a systematic study of functioning of the environment, industry features, market characteristics, consumer behaviour, product awards and analysis of the internal environment etc.*

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This study reviews the main stages of industry consolidation and theoretical approaches to strategy development for businesses, depending on the stage of development of the industry and determines the features of integration development of industry.

Conclusion. The obtained results made it possible to reach the following conclusions: all industries are consolidated and developed in a similar manner, activity in the field of mergers and acquisitions can be predicted, every strategic event in the economy should be evaluated considering its impact on the level of consolidation. Thus, the formation and development of companies is impossible without the development of appropriate integration strategy based on the current situation in the industry as a whole.

Keywords: *strategic development, consolidation, integration, concentration.*

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КОНЦЕПТУАЛЬНІ ПІДХОДИ ДО ФОРМУВАННЯ СТРАТЕГІЇ РОЗВИТКУ КОМПАНІЙ З УРАХУВАННЯМ СТАДІЇ КОНСОЛІДАЦІЇ ГАЛУЗІ ТА ІНТЕГРАЦІЙНИХ ПРОЦЕСІВ

Анотація. *Посилення конкуренції на внутрішніх та зовнішніх ринках вимагають від вітчизняних підприємств формування та розвитку конкурентних переваг на основі використання методів стратегічного управління і планування, розробки та впровадження ефективної стратегічної поведінки.*

В умовах нестабільного економічного середовища забезпечити ефективний розвиток підприємств за рахунок концентрації ресурсів можливо шляхом впровадження стратегії інтеграції та створення інтегрованих структур, які є формою взаємодії між підприємствами, установами, науково-дослідними організаціями, фінансовими структурами.

Метою даної роботи є визначення концептуальних підходів до формування стратегії розвитку компаній з урахуванням особливостей стадій консолідації галузі та інтеграційних процесів.

Матеріали і методи. Виконані дослідження базуються на застосуванні методів абстрактно-логічного і системного аналізу, аналітичних та логічних узагальнень. У роботі використовувалась монографічна і довідкова література, наукові праці вітчизняних та зарубіжних вчених, матеріали періодичних видань.

Результати. З метою забезпечення ефективної діяльності підприємств в умовах конкурентного середовища основні напрями стратегічного розвитку визначають на основі системного вивчення зовнішнього середовища функціонування, галузевих особливостей, властивостей ринку, поведінки споживачів, відзнак продукції, аналізу внутрішнього середовища тощо.

В роботі розглянуто основні стадії консолідації галузі та теоретичні підходи до формування стратегій розвитку суб'єктів господарювання в залежності від стадії розвитку галузі, визначено особливості розвитку інтеграційних відносин у галузі.

Висновки. Отримані результати досліджень дали змогу дійти таких висновків: усі галузі консолідуються та розвиваються схожим чином; активність у сфері злиттів та поглинань може бути прогнозована; кожен стратегічну подію в економіці слід оцінювати з урахуванням її впливу на ступінь консолідації. Таким чином, формування та розвиток компаній неможливі без розробки відповідної інтеграційної стратегії з урахуванням ситуації, що склалася в галузі у цілому.

Ключові слова: стратегічний розвиток; консолідація; інтеграція; концентрація.

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КОНЦЕПТУАЛЬНЫЕ ПОДХОДЫ К ФОРМИРОВАНИЮ СТРАТЕГИИ РАЗВИТИЯ КОМПАНИЙ С УЧЕТОМ СТАДИИ КОНСОЛИДАЦИИ ОТРАСЛИ И ИНТЕГРАЦИОННЫХ ПРОЦЕССОВ

Аннотация. Усиление конкуренции на внутренних и внешних рынках требуют от отечественных предприятий формирования и развития конкурентных преимуществ на основе использования методов стратегического управления и планирования, разработки и внедрения эффективного стратегического поведения.

В условиях нестабильной экономической среды обеспечить эффективное развитие предприятий за счет концентрации ресурсов возможно путем внедрения стратегии интеграции и создания интегрированных структур, которые являются формой взаимодействия между предприятиями, учреждениями, научно-исследовательскими организациями, финансовыми структурами. Целью данной работы является определение концептуальных подходов к формированию стратегии развития компаний с учетом особенностей стадий консолидации отрасли и интеграционных процессов.

Материалы и методы. Выполненные исследования базируются на применении методов абстрактно-логического и системного анализа, аналитических и логических обобщений. В работе использовалась монографическая и справочная литература, научные труды отечественных и зарубежных ученых, материалы периодических изданий.

Результаты. С целью обеспечения эффективной деятельности предприятий в условиях конкурентной среды основные направления стратегического развития определяют на основе системного изучения внешней среды функционирования, отраслевых особенностей, свойств рынка, поведения потребителей, отличия продукции, анализа внутренней среды и т.п.

В работе рассмотрены основные стадии консолидации отрасли и теоретические подходы к формированию стратегий развития субъектов хозяйствования в зависимости от стадии развития отрасли, определены особенности развития интеграционных отношений в отрасли.

Выводы. Полученные результаты исследований позволили сделать следующие выводы: все отрасли консолидируются и развиваются сходным образом; активность в сфере слияний и поглощений может быть прогнозируемая; каждую стратегическую

событие в экономике следует оценивать с учетом ее влияния на степень консолидации. Таким образом, формирование и развитие компаний невозможно без разработки соответствующей интеграционной стратегии с учетом сложившейся ситуации в области в целом.

Ключевые слова: стратегическое развитие; консолидация; интеграция; концентрация.

Introduction. The modern economy is characterized by high-quality structural transformations caused by globalization, integration and increasing competition, which acquires global features. Tough competition in the domestic and foreign markets require domestic companies to form and develop competitive advantages through the use of strategic management and planning, development and introduction of effective strategic behaviour.

Modern scientific literature provides significant number of directions of development strategies and types of strategic behaviour.

The basic development strategies include strategies of: concentric (intensive) growth, integrative growth, diversified growth, targeted reduction [1].

Arthur A. Thompson and Alonzo J. Strickland [2] distinguish four levels in hierarchical structure of strategy: corporate - business - functional - operating. The authors note that choosing a strategy is associated with achieving required results according to the state of the company, its strategic potential and development perspectives.

A significant number of authors [1, 3-7] pay much attention to the integrative development strategies that vary by types of integration (horizontal, vertical, combined, diagonal, conglomerate), direction (forward and backward) and the nature of integrative connections (production, marketing, finance and credit, education and consulting, complex).

In our opinion however effective development of enterprises in the unstable economic environment due to the concentration of resources can be provided by introducing a strategy of integration and creating integrated structures, which are a form of cooperation between enterprises, establishments, research organizations and financial institutions. Integrated formations are focused on combination of high-tech manufacturing capabilities and concentration of financial capital in order to provide stable conditions for functioning, gaining competitive advantages and increasing the level of company competitiveness, and creating necessary investment potential for innovation.

The aim of this study is to determine the conceptual approaches of companies' development strategy considering the stages of industry consolidation and integration processes.

Results and discussions. In order to provide the efficient functioning of enterprises in the competitive environment the main directions of strategic development are based on a systematic study of functioning of the environment, industry features, market characteristics, consumer behaviour, product awards and analysis of the internal environment etc.

The main features of domestic enterprises functioning in the external environment are multi-orientation and high pace of economic changes, volatility and dynamism, a significant level of risk and uncertainty. Under such conditions, businesses need time to detect changes in the environment, to identify trends in their development, to use favourable conditions and to develop and implement a system of measures to eliminate or reduce negative effects.

Current economic conditions cause significant differences in strategic management, namely, reducing the period for making strategic managerial decisions, expanding enterprise relations with other market players, variability of opportunities and threats of the external environment of an enterprise and the increasing role of reliable information in decision-making etc.

Under such conditions, an accurate forecast and consideration of changes in factors of external macro- and microenvironment allow the enterprise to achieve long-term competitive advantages. It will contribute to the development of a successful strategy. The type of strategy should confirm the features of the external environment and opportunities of a company.

The means of achieving such conformity is a strategic behaviour as a form of enterprise development, which is characterized by rapid response and flexible adjustment of internal business opportunities to future changes of external environment.

Moreover, considering the strategic behaviour as a form of enterprise development we must take into account the stage of industry development. Studies of scientists G. Dynza, F. Kruger and S. Zayzel show, that the intensity and level of concentration, expediency and effectiveness of integration strategies first of all depend on the stage of industry development. [3]The process of consolidation of branches of industry can be represented graphically as an S-shaped curve (Fig. 1). The periods of life cycle stages of the industry are on the abscissa. The industry concentration (CR3) is presented as the total share of three largest companies of the industry on the market and is shown on the ordinate.

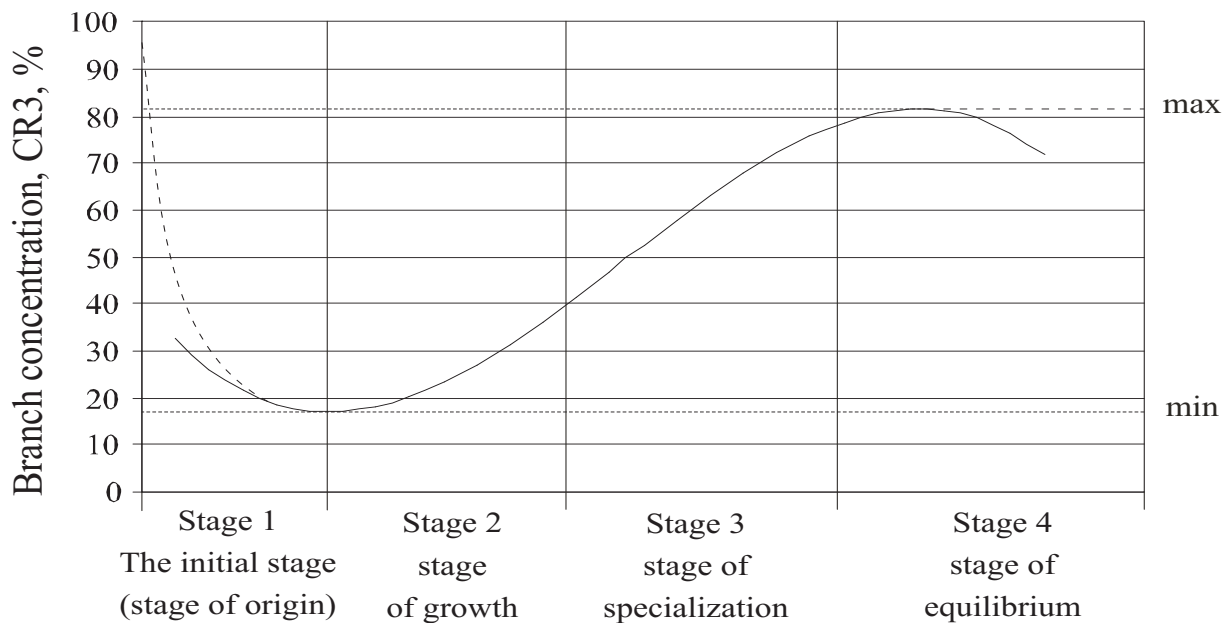


Fig.1. The consolidation curve

The authors distinguish four stages of the consolidation process in industry [3]: the initial stage (infancy), the stage of growth and the stage of specialization and equilibrium stage (creation of alliances).

Each development stage of any industry can be characterized by specific features.

The initial stage (infancy) is characterized by a low level or absence of market concentration. Business activity begins with the creation of new companies in new sectors of economy (such as biotechnology, organic products manufacturing), sub-sectors that have been separated as a result of the consolidation of industries (convenience food and pastry manufacturing) or sectors where deregulation process has just occurred (antitrust action) or privatization (electricity, water, telecommunications, etc.). At this stage enterprises endeavour to increase their income and market share rapidly. At the same time they are trying to create entry barriers for potential competitors (e.g. in the form of patents). The process of consolidation and the initiators of integration appear at the stage of infancy.

The feature of the initial stage is an absence or a weak level of competition within the industry in comparison to the next stage. At the same time the level of competition with branch-substitutes is high. It is obvious, that before a new branch of industry or structurally changed one appears on the market its position on the market is occupied by others. So the new branch replaces them with its own product. This process becomes a precondition of inter-industry competition. The stronger consolidation of the new branch is, the weaker the inter-industry competition becomes. At

the same time the number of companies in the industry grows and each market player gets a smaller relative share of assets.

At the first stage of the industry the coefficient of concentration CR3 is characterized by declining tendency, which indicates of deconsolidation.

The dashed line illustrates a situation in the new industry when the new technology appeared (see Fig. 1). Firstly the company which has implemented this technology in practice, was a monopolist (CR3 = 100%) and after its monopoly is destroyed by followers which enter this industry.

After the separation of some sub-industries "traditional" industries enter a new development cycle which is characterized by the lack of the short-term monopoly stage and deconsolidation with initial CR3 = 30-40% decreasing to CR3 = 10-15% at the end of the initial stage.

This point on the curve can be compared with the state of perfect market where supply is counterbalanced to demand. Until the marginal deconsolidation companies operate in the non-competitive environment and can attract new customers because the rising demand exceeds the stable supply.

However, F. Ragin [9] notes, that after passing a minimum (CR3 = 10-15%) unsatisfied demand remains in the market. There are consumers who didn't get the product of the industry yet. Nevertheless, it is not profitable for companies to incorporate them into their client base, because the price of involvement of these consumers will be higher than marketing costs. The aim of marketing department is to gain customers who are already loyal to competitors. The main reasons for existing unreached segments in the market of the competitive industry are: territorial remoteness of potential customers, inability to meet the needs of elite consumers, consumer purchasing insolvency, and lack of consumption culture of innovative products.

Should be noted, at this stage it is very difficult or even impossible to identify the strongest company and evaluate its strategic (long-term) capacity.

From the above mentioned one can conclude that entering the industry at the initial stage of its development is more rational by creating a new business, rather than purchasing already existing companies in this industry. The correlation of risk and profitability by setting up your own business in the perspective and non-competitive industry is preferred, because there is no need to solve the problems of a right choice of candidates for the purchase (the target company), adequate evaluation and organizational reforming. A less acceptable strategy for entering the industry at this stage is creating an alliance (e.g., joint venture) or purchasing the leader without its functional integration into corporate management system.

Industry at the infancy stage ensures all its companies almost equal chances on leadership, giving enough time to solve the dilemma of "growth or abandonment of growth". However, the further strategic development is possible in two ways: a niche localization (non-competitive environment of the industry allows companies to avoid price confrontation and have a bigger margin than in the competitive environment) or continuing expansion and growth.

The stage of growth is characterized by a moderate consolidation in the range of CR3 = 15-40%. Increasing of the coefficient of consolidation leads to enhancing competition within the industry. The number of structures of the industry is reducing steadily. Companies enlarge their size through the purchase (mergers, acquisitions) of competitors with their market shares. The size of the company becomes a decisive characteristic, and the ability of the company to use advantages of economies of scale and the effect of experience accumulation becomes a source of competitive advantages. Some associations that appear become the initiators of consolidation and integration. The level of concentration in certain industry sectors may reach 45%. Companies with larger market share get an opportunity to implement its expansion through licensing their business model or technology earlier than others (e.g., through a sale of franchises to growing companies). Such companies have higher pace of industry assets concentration and the price paid by them for expansions lower than competitors'.

The research [9] shows there is a clear division into three strategic groups at the second stage of industry consolidation of the company. The leaders of growth are in the first group, the

second one is for companies which have chosen growth, but still are lagging behind the leaders in the pace of growth of the customer base as well as in profitability, the third group consists of small companies (industry "newbie's" that claim to increase), and niche companies that specialize in narrow consumer segments.

Identification of the leader at the second stage of industry consolidation is easier, but it does not mean the purchase of the leader is the best strategy for external player to enter the market. The stage of "growth" has a specific feature: industry leading companies consolidate the market with greater speed and efficiency by their own than being a part of diversified corporations. The reason is that at the second stage of the industry leading companies are able to finance their growth without losing their strategic autonomy: as recipients of investment or as clients of bank crediting. These companies are able to maximize all types of accounts payable (e.g., by increasing deferment of payments to suppliers) and try to minimize accounts receivable (e.g., by requiring customers for prepay). In other words, there are enough resources for the growth, the closed non-public form of company doesn't interfere with its development yet, and the owners and managers are protected from loss of power in favour of the new owners. It is reasonable to point out that the owners have no rational motivation for selling business which is increasing in price.

However, arising problems of financing the growth force companies of the first (leading) group to transform into open joint-stock companies that earlier than others. It simplifies purchasing them by other corporations operating in similar or related industries on other territory (e.g., abroad). However, buying the leader at the second stage of industry consolidation, enforcing him on another management model, getting rid of some functions with further transfer them "up" to the corporate management centre inevitably occurs in diversified structures and can destroy its leadership potential. Such strategy of penetration into the industry may turn into failure at the first as well as second stage of consolidation. There are several options to compensate the negative effect of being included to diversified structure: a significant infusion of resources in purchased company (which is unlikely after corporate centre expenditures for its purchase), realization of unrelated diversified model of integration (e.g., the financial holding company), and a joint venture. In addition, there is a possibility to enter the industry through the creation of a new structure inside it.

At the *stage of specialization* the industry development is characterized by intensification of specialization and continuation of aggressive consolidation ($CR3 = 40-65\%$). To maintain growth rates achieved by leading companies of the industry in previous years more resources and effort are needed. During this period, successful companies concentrate their effort on the most profitable sector, capturing increasingly larger market share and eliminate inefficient or secondary departments and not perspective activity directions. The growth of associations occurs mainly due to mergers with other companies and concentration can reach $CR3 = 70\%$.

In addition, the leaders' expansion of the industry client base owing to growing businesses requires too high costs. In a result no disloyal customers and suppliers remain in the industry. Marketing wars, product and management innovations do not provide a significant advantage, and lead to lower profitability of the industry in general. Under these conditions, the most logical and acceptable strategy in correlation of "risk-profitability" is the integration strategy. It allows to get rid of competitors through mergers and/or acquisition with simultaneous occupying their market share and making their customers and suppliers loyal to you.

Agreeing with the opinion of F.Ragin [9] about further winning through involving a swallowed rival to corporate governance, we consider it appropriate to note that in this case a high centralization is not only possible, but necessary, as it guarantees synergy.

Thus, there is centralization of existing holdings and industry leaders begin to implement integration strategies aimed to swallow growing companies. Leaders get resources needed for such strategy not only in the market of industry capital, but also outside the industry, getting rid of their assets in non-priority industries. Companies choose more narrow specialization to reduce the extent of their diversification in favour of the industry, which level of development corresponds to the third stage of consolidation, where they are planning to keep leading positions.

At the third stage of consolidation companies of the industry continue dividing into three groups: the leaders of growth, the company followers (challengers), and the companies that have a small market share and niche companies.

The number of businesses claiming to growth, but lagging behind the leaders in the pace of growth of the client base as well as in profitability is declining in the second group. Their resources are insufficient to meet integration in one or another form, and their market share is significant that it promotes leading companies to use integration strategies.

It follows that the position of companies with a small market share and niche companies is more stable in the industry, than the position of companies-followers because of its small size and low profitability (for small companies) and the loyalty of the target segment (for niche companies).

Entrance in the industry through the creation of a new company is possible at the stage of specialization, but only in case when the goal is to create a niche company that is firmly positioned in the market.

Among the alternative strategies of industry penetration companies choose selling franchises to companies of the second group and/or purchasing the leading player.

So the third stage of consolidation is characterized by the integration of second-tier companies by industry leaders to their corporate structures not only through direct swallowing, but also through the sale of rights to use their business models and technologies.

The most perspective entry strategy is purchasing the industry leader in terms of being ready to maximize resource costs and counteract power structures. As a rational strategy for the entrance to the industry it is appropriate to consider an alliance with one of the leaders who leaves a strategic initiative for further development of new cooperation.

For the fourth stage of industry development (stage of equilibrium and creation of alliances) is characterized by the increase of industry concentration to the maximum ($CR_3 = 80-90\%$), and then gradual reduction of concentration level. According to scientists G.Dynza, F.Kruger and S.Zayzelya this is the time of industry giants [3, p. 22], due to the relatively stable state of the industry, which has a small number of companies. In addition to leading companies there are only small and niche players, which cannot grow due to lacking internal resources, and acquisition possibilities are limited significantly. Companies' consolidation on parity terms (creation of alliances) becomes inherent for the industry, as well as at the second stage.

At the stage of equilibrium market share increasing becomes more complicated, state antitrust regulation is growing. Companies choose separation strategy of main growing businesses from their main structures with an attempt to create new sectors of economy.

Value of the concentration coefficient indicates that 80% of industry belong to three or four leaders, and the other 20% is the business of numerous small companies operating in the upper and lower segments of the market by purchasing power.

Redistribution of loyal customers is complicated by significant costs of marketing communications and the inefficient attempts to create a new competitive advantage for the buyer and the impact of the antitrust agencies. This corrects a strategic perspective of the industry leaders and encourages appealing to new areas of growth located in other industries. That becomes the ground for beginning the deconsolidation process in the primary industry.

At the same time, according to experts [9], if the basic technology of industry does not change radically, the new cycle of consolidation will take place with less amplitude. The coefficient of consolidation CR_3 of the first stage doesn't fall till 10%, but will be kept within 40-50%. So we can note a kind of return of the industry to the third consolidation stage with all inherent characteristics. However, if industry technology is replaced by innovation (which is possible at any stage industry of development), begins full-scale consolidation cycle.

Government interventions in the industry, which is at the fourth stage of development (e.g., through the purchase of shares of strategically important companies) may slow the fall of CR_3 , i.e. delay the deconsolidation and a new cycle of industry development. This will lead to the industry withdrawal of a market economy, and the model becomes irrelevant (see Fig. 1, IV Stage, dashed line).

Entering the industry at the stage of equilibrium can take place through the creation of her new small companies (without claims for growth and leadership) or through the well-timed acquisition of niche business that is positioned in the lower segments of the market. Expansion in higher market segments of lower ones requires considerable time and resources expenditures. At the same time, technological and brand depreciation occurs when trying to expansion in the lower segments of the upper and leads to the loss of former positions and does not provide getting new.

Deepening relationships with customers and suppliers of a perspective niche company may be a prerequisite for further growth at the beginning of deconsolidation and the actual withdrawal of industry of its former leaders.

Industry leaders are still interested in a merger, but are in no hurry of making a decision due to possible negative synergies (according to research [9] share price of the integrated company in more than 60% of cases is lower than the sum of share prices of the two companies before their merge). The relevance of the integration strategy and creating association by industry leaders is explained with the ability to demonstrate revenue and profitability growth to the shareholders. It also provides business expansion, especially on the new territory.

Making strategic decisions on entering the target industry, increasing of the customer base within this industry, and entering or changing the priority areas of growth involves the calculation of two key parameters: the current position of the industry on the curve and speed of consolidation with maintaining the current system of economic factors [3; 9].

For more accurate calculation the industry should be limited by defining it as a group of direct competitors which operate in the area of similar economic factors

The position of the field on the curve is determined by calculating the concentration coefficient CR3 in the present moment and confirmed by measuring CR3 retrospectively to determine the direction of development of the industry δ . According to F.Ragin [9] a period of 3-4 years is enough for retrospective measurement of CR3 for most industries. However, in large or slowly developing industries for retrospective analysis we need a longer term, and in small and quickly developed ones the term can be smaller, which is also typical for industry analysis on the IV stage of consolidation.

The coefficient of concentration CR3, which reflects the total share of sales of three major companies of the industry, calculated by formula [3, c. 179; 9]

$$CR3_t = s_{1t} + s_{2t} + s_{3t} , \quad (1)$$

where $CR3_t$ is the industry concentration coefficient at the present moment;

s_{1t}, s_{2t}, s_{3t} are market shares of three leading companies in the industry at the moment.

Retrospective analysis is carried out by calculating the coefficient of concentration $CR3_{t-n}$ [3; 9]:

$$CR3_{t-n} = s_{1t-n} + s_{2t-n} + s_{3t-n} , \quad (2)$$

where $CR3_{t-n}$ is the industry concentration coefficient n years ago;

$s_{1t-n}, s_{2t-n}, s_{3t-n}$ are market shares of three leading companies in the industry n years ago.

The direction of industry development reflects the vector of industry development δ , calculated by formula [3; 9]:

$$\delta = RS3_t - RS3_{t-n} \quad (3)$$

where δ is the vector of industry development.

The direction of industry development and the prevailing processes of consolidation or deconsolidation describe the vector of industry development ($\delta > 0$ - consolidation; $\delta < 0$ - deconsolidation).

While maintaining the current system of economic factors the rate (speed) of consolidation is measured in percents per year and is calculated as a share of the module value of the vector of industry development δ and retrospective n [3; 9]:

$$T = \frac{|\delta|}{n} \cdot 100\% , \quad (4)$$

where T is consolidation speed (%).

Based on the values of consolidation speed it is possible to determine needed time for the industry to reach the next level of development. However, changes in the system of significant to industry economic factors can accelerate or slow down the pace of consolidation. Thus, increasing the tax load will negatively affect the rate of return and investment attractiveness of industrial companies. As a result consolidation slows down. On the contrary the formation of consumer culture, i.e. popularity on an industry product or service, is able to accelerate the consolidation.

Thus, when deciding on the establishment of an integrated union, merging with another company within the industry or getting access to another market, it is necessary to take into account the stage of industry consolidation and direction of industry development and the pace (speed) of consolidation. Such steps are the most successful at the first and second stages. As G. Dynz, F. Kruger and S. Zayzel say [3], about 50% of transactions on acquisitions are unsuccessful when the consolidation occurs at the stage of specialization (third stage). At the stage of equilibrium and alliances (fourth stage) wreck will occur almost in 70% of such transactions. In particular, this is because of the influence of antitrust law and objective decreasing of profitability of the industry.

The obtained results made it possible to make the following conclusions: all branches of industry are consolidated and developed in the similar way; activity in sphere of mergers and acquisitions can be predicted; each strategic event in the economy should be estimated taking into account its impact on the degree of consolidation. Thus, the formation and development of companies are impossible without the development of appropriate integration strategy based on the current situation in the industry in general.

The combination of stages of the industry development on the curve of consolidation and periods of the life cycle of the industry (or product) in the conventional interpretation allows to determine the features of development of the integrative relations in the industry (see Table 1).

Thus accurate estimate of retrospective processes in the system of economic factors, the availability of reliable information on the current status of the external and internal environment, and forecasting the expected changes will serve as the background for creation and implementation of the development strategy for business entities. Risks of the leading companies are not limited by their priority (basic) industry because they also arise beyond it in related and unrelated industries. To gain an overwhelming share in priority industry leading companies need a rational strategy of “over” industrial level [9] which allows to operate, develop, and improve the corporate portfolio of business units depending on events that occur in the basic industry.

We agree with the opinion of F.Ragin [9] that the optimal strategy for the leader of the basic industry should look like this: expansion by creating their own business units in the first half of the *growth* phase ($CR3 \approx 25\%$); start of parallel franchises selling with the gradual replacement of diversification with this method on their own from the second stage of *growth* to the fourth stage of *consolidation of equilibrium* ($CR3 = 65\%$); merge of competitors of the industry when the basic industry is passing *specialization* stage ($CR3 = 40-65\%$); reacquisition of franchises in extremely consolidated industry at the fourth stage of *equilibrium* ($CR3 = 65-80\%$).

Providing such a strategy with financial resources requires, on the one hand, timely changes in the structure and the legal form of the company, and on the other hand, attracting assets from related industries.

Table 1

Parameters		Features of development of integration relations in the industry					The periods of the life cycle of the industry based on market share of present companies	
		Infancy		Growth		Specialization		Equilibrium
		The periods of the life cycle of the industry (or product) in common interpretation						
R&D		Development and introduction	Initial growth	Accelerated growth	Sales growth		Maturity	
1		2	3	4	5	6	7	
The features of the period		Comparative lack of competition within the industry and simultaneously high level of competition with substitute industries	The number of companies within the industry is steadily decreasing. The ability to use economies of scale and experience accumulation becomes the source of the competitive advantage	There are three types of companies: 1) market leaders; 2) leaders' competitors who fall behind growth rate; 3) small companies and "newbies" of the industry which have narrow specialization	Maintaining growth rates achieved by the leading companies in the industry in previous periods requires additional resources and efforts that can cause the need for integration into another industry			
Presented types of enterprises		Companies, which are leaders in development and manufacturing of innovative products or companies with adequate financial support (own funds or borrowed from other branches of the industry)			Distribution of companies in the industry into three groups is saved. The number of second group is reducing because of acquisition process by market leaders	Only market leaders ($\approx 80\%$) and niche companies ($\approx 20\%$) remain. The position of niche businesses is stable. Leaders begin diversifying		
Identification and integration behaviour of the industry leader		It is unable to identify the strongest company and evaluate its strategic potential. The only criterion is the rate of production increasing	Formation of a network of dealers and distributors, industrial organizations with the appropriate certification.	There is easier identification of the leader, but it does not mean effectiveness of integration with it. Leaders are able to finance growth without strategic cooperation and integration by themselves	Leaders implement integration strategies aimed at acquisition of growing companies	Integration as the way of the leader from the industry to new territories. Alliances between the equal companies		
Management and organizational forms of integrated structures and individual businesses		Formation of participants in contractual relationship (pools).	Formation of a network of dealers and distributors, industrial organizations with the appropriate certification.	Creating a managing company. Formation of corporate clusters, creating bases for corporate integration.	Expansion of the corporate structure. Active use of outsourcing and acquisition of competitors.	Becoming a public company. Expanding the dealer network. Expansion of integrated structures based on outsourcing and of the main group of owners	Public multinational company with developed dealer network. Clusters through outsourcing. Multi-level management.	

Cont. table 1

	1	2	3	4	5	6	7
present in the selected resource niche	Dynamics of the concentration ratio CR3	The base for developers' network	Development of the background of the corporate network	Establishment of legal forms of integrated structures. Branding	Creating corporate culture, corporate brand development		Secondary securities market. Sale of assets
		The developer of technology is the monopolist with CR3 = 100%	Monopoly is being destroyed with emergence of competitors. Industry begins a new cycle of consolidation with CR3 = 30-40%	Fits the range of CR3 = 15 ... 40%. Along with increase of the concentration coefficient competition is being enhanced within the industry (by reducing the number of companies that produce products or act as counterparties)		Reducing the volume of M&A through achieving a given level of consolidation. The dominance of leaders is limited by law, CR3 = 40...65%	Concentration coefficient, is increasing and reaches a peak (CR3 = 80%) and then decreases. Comparative stability of the industry
Entering the industry		Deconsolidation is up to CR3 = 10-15%		Leading companies are consolidating their own market with greater profitability than as a part of connected diversified corporations, which can incorporate them into their business portfolio. Leaders have no motivation for selling growing in price business. Entering is possible through the creation of new business or through integration with the leading company		Strategies: acquisition of the leader (possible interference from resource spending to authorities counteract), an alliance with one of the leaders (strategic initiative does not belong to the company that strives to enter the industry), franchising	Entrance through the creation of a new small company (excluding claims for growth and leadership) or through timely acquisition of niche business (at early deconsolidation and industry leaders retreat)
Cooperation with customers		Non-competitiveness of environment allows attracting customers without much effort. Attracting of remaining customers is less profitable than fighting with competitors		For companies saving earlier reached growth rate of the client base is only possible by rivals. Marketing wars and strategy struggle for objects of attention. The institutionalization of relations		Widening of loyalty programs. Integration marketing. Acquisitions of competitors in order to get their client base	The growth of customer base of leaders actually stops. Loss of strategic perspective and integration into new areas of growth

Cont. table 1

1	2	3	4	5	6	7
Background of integration-disintegration processes	Active integration occurs at the early and final stages of the industry development. Quite difficult to choose a partner for full integration to specialize in manufacturing one new product	Integration processes are held by using all possible tools, including M&A to support the tactics of advanced development	Integration with marketing organizations is expedient before achieving maturity stage of the product. Participation in integrations (unions, associations) facilitates searching customers and can reduce transaction costs, which is often a condition for survival	Denial of own sales systems and service in favour of independent agents. Disintegration through allocation or sales of non-core assets	Involvement of merged rival or growing companies of the second group into corporate governance. Purchase/sale of franchises. Reduction of diversification	Alliances with domestic and foreign competitors for geographical expansion of markets. Changing of distribution system through cooperation with other agents
Integration tools	Strategic alliances and scientific and technical cooperation	Integration processes are held by using all possible tools, including M&A to support the tactics of advanced development	The ability to implement expansion by licensing its business model or technology (e.g., through selling franchises to growing companies of second-tier). Such companies have higher concentration rate of industry assets and the price that they pay for expansion is lower than for competitors	Acquisition of industry competitors	Buyout of franchises because of strong industry consolidation	Unrelated diversification or integration into foreign markets
Strategy in the basic industry	Expansion by creating their own business units till the period when CR3 \approx 25%	Integration into the related branches of industry is possible under the condition of occurrence of synergy or as a part of resource support	Start of parallel selling of franchises with the gradual replacement of diversification with this method	Acquisition of competitors	Sale of noncore assets. Widening of outsourcing. Assets exchange	
Strategy beyond the basic industry	Integration into the related branches of industry is possible under the condition of occurrence of synergy or as a part of resource support	Acquisition of competitors. Synchronizing operations in related branches of industry with consolidation processes in the basic ones				

Source: based on [1, c. 65-69; 2, c. 93-96; 3; 5, c. 101-104; 9]

The logic of providing expansion with funds suggests that at the beginning the company finances its growth from its own profits, then begins to add long-term loans from financial institutions, attracts resources through suppliers and consumers, gives bond issues, and finally places the shares on the stock market. Up to the last step corporation may stay private, but to enter the financial market transformation into an open joint stock company (public company) is required. Practice shows that the private companies eventually lose the leadership in the industry because of the lack of financial resources.

Thus, processes of consolidation in the industry have objective character. The decision to integrate with another business entity should be based on a comparison of all advantages and disadvantages, and determining compliance of the expected results with the aim of merger or acquisition.

Conclusions and recommendations for further research in this direction. Thus, a necessary precondition for effective strategic adaptation of businesses in today's environment is the right choice of strategic objectives and directions of strategic development which should be consistent with the needs of society, the nature of the external environment and internal capabilities of the company. In other words, the optimal strategic behaviour of enterprises should focus on providing protection against external threats, using of market opportunities taking into account the features of industry development, and providing a set of activities that help to protect competitive positions of the company and its long-term profitability.

To evaluate the state of the Ukrainian industries, which are at various stages of development, to forecast their development and identify perspective growth ways it is necessary to build and research the consolidation curve, to analyze consolidation degree and growth rates of industries, and to determine positions of the domestic industries on the consolidation curve.

Further researches in this direction provide the definition of the industry state and place of economic units in it: potential members of association. Namely, it is necessary: to evaluate the stage of the life cycle of the industry and the intensity of competition, investment attractiveness of the industry (profit margins, ease of entry and exit from the industry, availability of substitutes, perspectives for further development), features of state regulation of the industry, market capacity and share of participants; to determine the largest competitor, the range of consumers of goods (services), availability of distribution network and technological relations between the participants, expenditures for research and development, introduction of new products (services) etc. This will serve as basis for determining the optimal direction of integration interaction and implementation of effective strategy of creation and development of integrated joints.

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