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IMPACTS OF SELECTING COMPETITOR ON RISK AND POLICY RECOMMENDATION IN VIET NAM COMMERCIAL ELECTRIC INDUSTRY

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ABSTRACT

Choosing competitor is one of basic marketing techniques to understand your competitors in order to overcome your competitor, and firms understand that selecting competitor will affect your business risk. Commercial electric and Electronic engineering is the field of study and application of issues related to electricity, electronics and many other small specialties such as electronics, energy, signal processing, energy, telecommunications, etc. Electric is one of vital industries that support and push other industries to grow more. Hence, This study measured the risk dispersion level in case the competitor size kept as current or slightly smaller (equity beta var of 0,626 and 0,628). This risk is minimized.

Next, if we change and double competitor size, equity beta min value goes up from 0,039 to 0,063.

In general, this paper also proposes some recommendations for selecting competitor in marketing strategy to reduce risk of firms in the above industry.

KEYWORDS: Marketing Strategy, Competitor Risk, Risk Measure, Competitor, Beta, Commercial Electric Sector
JEL CLASSIFICATION: G3, G30

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INTRODUCTION

At the moment, demand of electricity products in Vietnam still has been growing much more than supply amount and for incoming years. Reason is economic growth and construction growth and real estate projects and infrastructure projects still increasing.

There will be more competitors in electric market in Vietnam, in which they will compete and create what we called competitor risk and risk in competitor selection strategy.

Competitor selection strategy will affect market risk or business risk of electric firms.

The aim of this study is find out impacts of competitor selection strategy on market risk of Vietnam listed electric firms.

In below sections, we will present research goals, scopes, main findings and discussion and conclusion.

Original Article

RESEARCH ISSUES

We will explore the scope of this paper as follows: to what extent the risk level and risk dispersion of commercial electric industry firms under the various scenarios of the size of competitor. We also test the hypothesis that there will be more risk dispersion during crisis time.

LITERATURE REVIEW

First, Rhee et al. (1984) pointed there have been limited efforts to utilize an empirical test design that is more consistent with the definition of beta in the framework of the capital asset pricing model.

Next, Alaghi (2011) found out financial leverage has effect on the systematic risk of listed companies in Tehran Stock Exchange.

And Baker et al. (2019) stated that leverage is inversely related to asset beta, including upside asset beta, which is hard to explain by the traditional leverage tradeoff with financial distress that emphasizes downside risk.

Then, Thuy Vi, H. (2020) presented the results of determining financial leverage of businesses in the research sample are at an average level of 0.546 and have a positive impact on the probability of enterprises' credit risk. In addition, the research results show that the operating time of the business and the internal credit rating of the business have a negative impact on the credit risk of the City Development Joint Stock Commercial Bank. Ho Chi Minh City - Can Tho Branch.

Beside, Quan, V.D.H (2020) mentioned more and more research is showing a direct link between firm size and risk. According to these studies, the more limited the business size, the higher the risk of the business and vice versa; however, the beta coefficient in the CAPM model did not fully demonstrate that association. Technical research by Barad (2001) shows preliminary results that for small firms, the risk portion that the CAPM model does not represent is about 2.62%. Therefore, it is necessary to consider the adjustment taking into account the size of the business in determining the level of risk as well as in-depth studies of the adjustment taking into account the size premium factor. for businesses of different sizes. Only when the size factor is properly taken into account and taken into account that the beta can really be competent in measuring corporate risk.

DATA

We use data form Vietnam stock exchange (HOSE and HNX) with real data of stock price of listed firms in electric sector.

Corporate tax rate (or CIT) applied at the time in survey 25%.

We can refer to other financial data from commercial banks or Bureau statistics such as inflation, market interest rates, etc.

METHODOLOGY SUMMARY

We aim to derive macro policies from this study with the use of various qualitative, sysnthesis and statistics analysis method. Analytical method combined with scenario and philosophical methods are used.

GENERAL DATA ANALYSIS

Through data analysis and statistics analysis of 18 companies on stock exchange in electric sector, we find out results of risk, beta and risk dispersion, beta var.

Then we find out in various cases of competitor size changing from small to double and current size, asset beta mean values measured at 0,327, 0,344 and 0,319 , correspondingly: so, having positively correlation with size.

EMPIRICAL RESEARCH FINDINGS AND DISCUSSION

As shown in the below table1 1, we are going to use different sizes of competitors to measure fluctuation of market risk or beta CAPM.

Beta CAPM will include: 1) equity beta; and 2) asset beta.

Table 1: Beta CAPM under Three (3) Scenarios (Made by Author)

Current Leverage
Case 1: Current size competitor Case 2: Smaller size Case 3: Double size

Case 1: Leverage as Current and Competitor Size as Current

Beta CAPM of 18 listed companies as below:

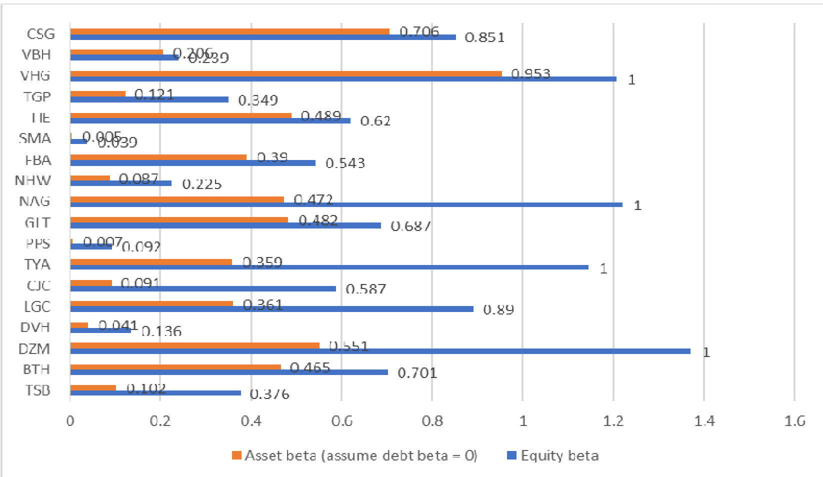

Chart 1: Beta CAPM of Listed Electric Firms in Vietnam.

Case 2: Doubling Competitor Size

We can measure Beta CAPM, of 18 electric firms in Vietnam market as below:

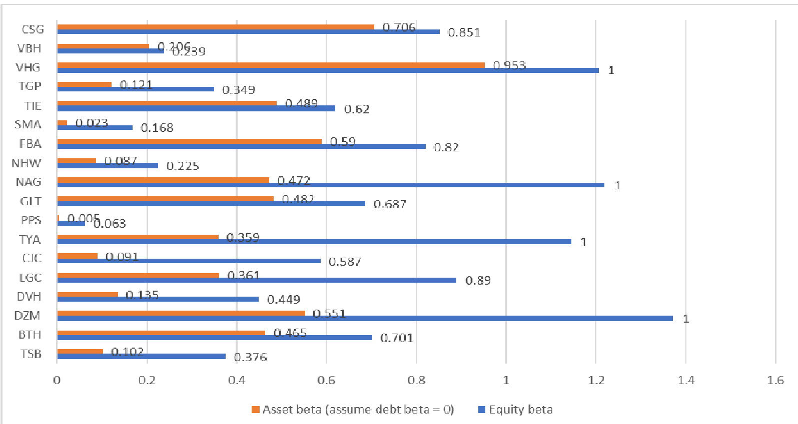

Chart 2: Beta CAPM of 18 Listed Companies.

Case 3: Smaller Competitor Size

Beta CAPM, measured for 18 electric firms in Vietnam market as below:

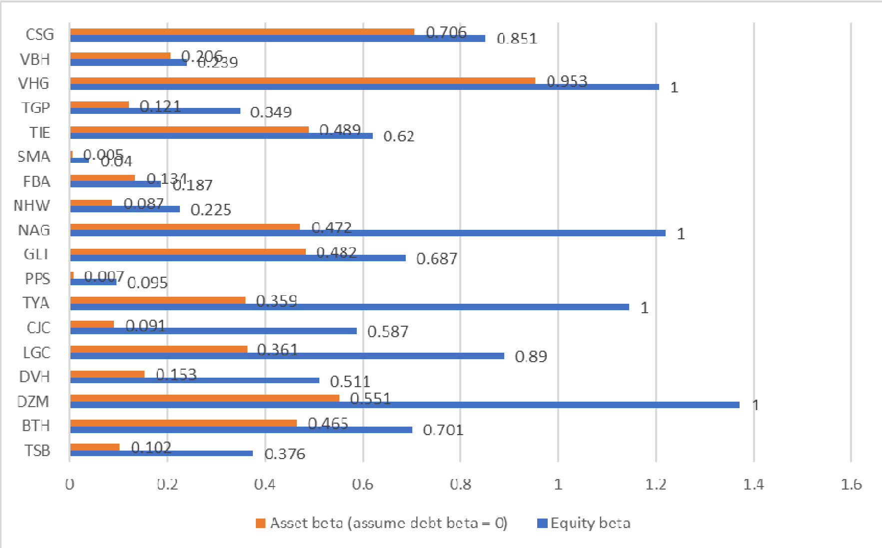

Chart 3: Beta CAPM of 18 Electric Companies.

We discovered that Beta CAPM and its variation in the three cases of changing competitor size show certain variation.

COMPARING STATISTICAL RESULTS IN 3 SCENARIOS OF CHANGING LEVERAGE

Table 2: Compare Statistic Results in 3 Cases

	Case 1	Case 2	Case 3
Max of Equity Beta	1.372	1.372	1.372
Max of Asset Beta	0.953	0.953	0.953
Mean of Equity Beta	0.626	0.665	0.628
Mean of Asset Beta	0.327	0.344	0.319
Var of Equity Beta	0.174	0.156	0.172
Var of Asset Beta	0.07	0.07	0.068

Based on above results, we find out:

Equity beta mean values in all 3 scenarios are acceptable (<0,7) and asset beta mean values are much smaller (< 0,4). In In case 2 and 3, beta dispersion is smaller than (<) that in case 1.

Beside, beta fluctuation is higher than in case 3, compared to case 2.

The below chart 1 shows us: when competitor doubling size, beta mean (equity) Is the highest.

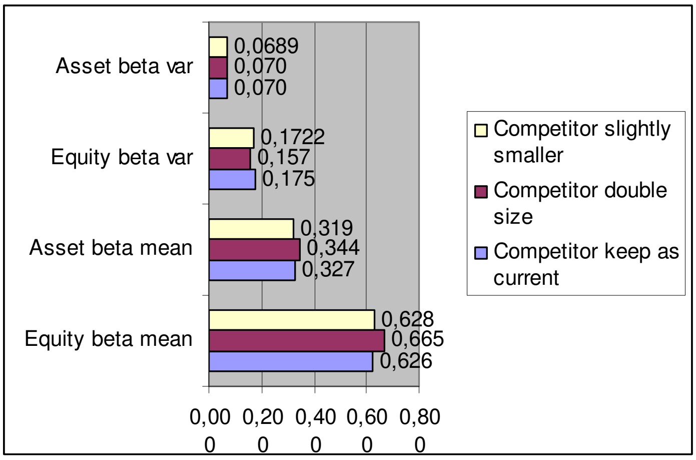

Chart 4: Beta CAPM Comparision.

CONCLUSIONS AND POLICY IMPLICATIONS

In short, the government will need to enhance the legal framework, rules and macro policies toward developing sustainable electric and its supply chain market.

Then, as we noted that risk might be higher in case double size competitors, we recommend that electric firms need to pay attention to their marketing strategy in selecting right competitors to perform. If size of competitors increase, the riskier their strategy. In reality, they need to choose nearly size (approximate size) of their competitors, then they can have better marketing strategy, less riskier and better performance.

For further researches, we can move forward to business and marketing strategies in details for each case of listed firm.

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EXHIBIT

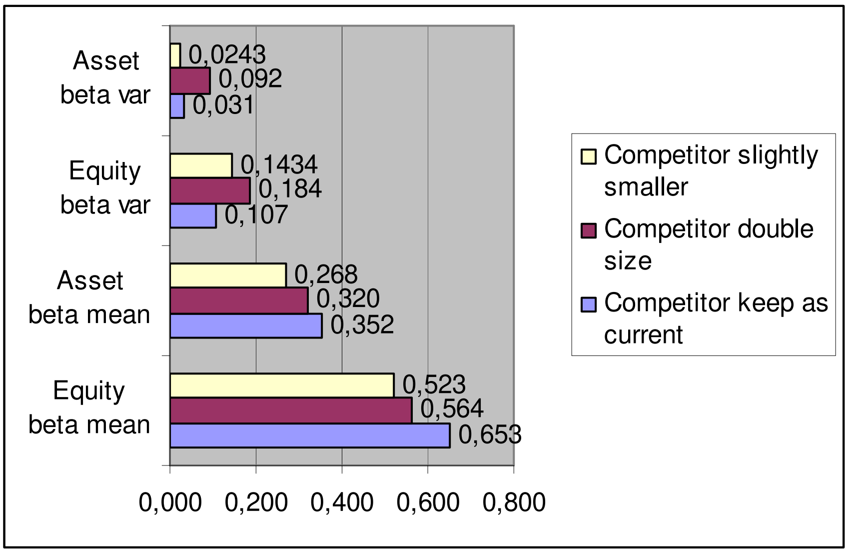

Exhibit 1: Comparing Statistical Results of Equity Beta Var and Mean in Three (3) Scenarios of Changing Competitor Size in Wholesale and Retail Industry
(Source: VN Stock Exchange 2012).