

# Research on Competitive Strategy of Kazakhstan Copper Co., Ltd.

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**Abstract** — The research study the current situation of Kazakh Copper Company and provide an overview of its competitive strategy regarding nonferrous metallurgy in Kazakhstan. It focuses on the theoretical research of copper market and discuss its influences on future development by review the company's strategy.

**Index Terms** — Kazakhstan, Market, Natural resources, Copper Industry, Competitive Strategy.



## 1 RESEARCH BACKGROUND AND QUESTIONS RAISED

### 1.1 RESEARCH BACKGROUND

Kazakhstan is one of the countries with the richest natural resources in the world, and by the quality many of mineral resources are the best among the world. The mineral resources sector in Kazakhstan has always been the most attractive area for domestic and foreign investment. Approximately, it is estimated that Kazakhstan has a copper deposit up to 100 million tons. In the past 10 years, Kazakhstan has invested 7 billion U.S. dollars in the development and utilization of copper, including 161 million U.S. dollars for the geological exploration of copper mines. In 2013, Kazakhstan invested 975 million U.S. dollars in copper exploration and development, of which 13.7 million U.S. dollars were used for geological exploration. The non-ferrous metallurgy industry represented by copper is a key area of Kazakhstan's processing industry. The product is also an important export processing product in Kazakhstan. It is widely used in mechanical engineering, electrical engineering, construction, and radio fields. Moreover, it also carries a lot of work place for local population. During the period from 2010 to 2013, when Kazakhstan implemented the national plan for accelerating the development of industrial innovation, a total of 23 projects were completed in the non-ferrous metallurgy industry, with a total investment of 366.7 billion tenge and 8,200 jobs has been created. Under the framework of the National Outline for Accelerating Industrial Innovation, the output value of the non-ferrous metal industry accounted for 23.7% of the output value of Kazakhstan in 2008 from 19.5% in 2008, and 19.2% in 2013. In 2011, Kazakhstan's foreign trade totaled nearly US\$126.2 billion, an increase of 40% over the previous year, of which exports were US\$88.1 billion, up 48% year-on-year; exports were still dominated by energy and minerals, and exports were US\$68.6 billion, in total exports. The proportion has increased from 75% last year to 78%; the export value of metal and its products is about 11.7 billion U.S. dollars, an increase of 49% over the previous year, and it accounts for 13% of the total exports, which remains unchanged. In addition to alumina, the export volume of most non-ferrous metals and ferrous metals increased. Non-ferrous metal and alloy exports rose by 30% and 87%, respectively, of which copper and zinc rose the most, and precious metal exports reached 1.7 billion US dollars, up 37% year-on-year. From 2008 to 2012, the output value of the non-ferrous metallurgical industry increased by 70%. In 2013, the output value reached 1131.4 billion tenge, an increase of 57.8% compared with 2008. Non-ferrous metallurgical products are mainly used for export. From 2008 to 2012,

exports increased by 1.6%. In 2013, exports reached US\$4.2 billion. In 2008-2012, the proportion of products produced for export were: unprocessed aluminum - 70.5%, unprocessed zinc - 88.2%, unprocessed lead - 87.8%, refined copper - 89.3%, copper wire - 61.4% and so on. Compared with 2008, imports of non-ferrous metallurgical products fell by 15.9% in 2012. In 2013, Kazakhstan imported 426.3 million U.S. dollars, and the imported products are mainly semi-finished copper and copper alloys that Kazakhstan cannot produce.

KAZ Minerals PLC is a large natural resources group with major assets in Kazakhstan. It is a fully integrated copper mining, processing, smelting, refining and sale of copper and copper products (including cathode copper and copper rods) manufacturer. At present, the shares of Kazakh Copper Co., Ltd. have been listed on the stock exchanges in London, Kazakhstan and Hong Kong. Kazakhstan Copper Industry Co., Ltd. is the largest copper producer in Kazakhstan and a world-renowned non-ferrous metal producer. It is mainly engaged in the mining and processing of mineral resources, and participates in the production of copper, gold, zinc, silver, electricity and petroleum in Kazakhstan. Kazakhstan has 17 mining sites, 10 concentrators, and 2 smelters, forming a complete production chain from mining and smelting to copper finished products. The main products are electrolytic copper and copper wire rods, and its production accounts for 90% of Kazakhstan's total production. In addition, it also produces zinc, silver and gold. Power generation is the second largest business, mainly supplying power for its beneficiation and copper smelting plants; Transport is the third major business and also serves as its main business. In addition, Kazakhstan Copper also produces electricity. The company has 20 underground mines, 10 concentrators, 1 zinc mine, 2 copper complexes, 4 power stations and 3 open pit mines. At present, the company has more than 67,000 employees. In 2013, Kazakh Copper Mining Company extracted 47 million tons of copper ore, produced 300,000 tons of copper and 120,000 tons of zinc. By 2018, Kazakhstan Copper intends to increase the output of cathode copper to 450,000 tons/year, an increase of 50% over 2013. However, in recent years, Kazakhstan Copper Industry Co., Ltd. has not obtained good economic benefits. Instead, it has suffered huge losses year after year. In 2012, the net loss was 2.27 billion U.S. dollars, and the net loss in 2013 was 2.032 billion U.S. dollars. The main reason for the loss of Kazakhstan Copper is the sharp drop in the prices of copper, gold and silver in the

world market. To add, the production cost of Kazakhstan Copper has been rising in recent years. The major copper mines currently controlled by Kazakh Copper Co., Ltd. still have potential for a certain period of time, and the financing channels and international markets are all ideal. However, in the long run, the most outstanding problems are: 1) the content of copper ore is to be developed in low level, with only 0.35%. The average copper content of copper ore currently being mined is 1.01%, which means that more than twice the amount of ore must be mined to maintain current production, while increased production will increase costs (e.g., man-hours, electricity consumption, and traffic), and cost increase will naturally squeeze profit margins; 2) the mines currently being mined in Kazakhstan. It was mostly proved in the Soviet era that the entire mining industry was in urgent need of a new round of systematic geological exploration projects. This strategic task cannot be completed by relying on investors alone, because the investment in the early stage of the mining industry is huge and there is no proven reserves. The former purpose of profit-making is not to blindly throw money into it, and this mining weakness has long been the consensus of the industry.

## 1.2 Problems

The main goal of Kazakhstan's mining and metallurgical industry policy will be to maximize the processing of raw materials in the country, to produce basic metals and to secure end products such as machinery manufacturing and building materials industry development. However, in 2013, Kazakhstan imported 426.3 million U.S. dollars of non-ferrous metallurgical products, and the imported products were mainly semi-finished copper and copper alloys that Kazakhstan could not produce. The copper industry in Kazakhstan has experienced many years of development, and the scale and technology have changed with each passing day. Kazakhstan Copper Industry Co., Ltd. also marches toward the direction of grouping, scale, and resource. Under the background of economic globalization, competition among enterprises is not just a price competition, but also a competitive strategy. To this day, copper has played an increasingly important role in Kazakhstan's national economic construction. The industry of copper as a national economy and people's livelihood has also received increasing attention and benefit. However, the status quo of Kazakhstan's copper industry is not optimistic. The copper content of copper ore to be developed in Kazakhstan is low, and the cost of mining has increased rapidly, which has squeezed profit margins. From the corporate perspective, Kazakhstan Copper Corporation lacks strategic planning for future development and competition, which has seriously affected the long-term development of the company. Ltd. Kazakhstan's copper smelting companies are faced with the problem of re-adjusting, adjusting and positioning development strategies. The focus of this study is to answer to the question how Kazakhstan Copper Co., Ltd. better seizes development opportunities, explores and

seeks competitive strategies that suit its own corporate development to ensure long-term development in market competition.

This article takes Kazakhstan Copper Co., Ltd. as the research object, and analyzes the development of the largest copper company in Kazakhstan and the current situation it facing with. Based on the theory and practice, this paper studies how Kazakhstan's copper smelting enterprises can choose suitable strategy for their own development in the new situation of competitive world. The strategy is effectively implemented to obtain and maintain a long-term competitive advantage.

## 2 Theoretical Basis and Literature Review

### 2.1 Theoretical basis

The "competitive strategy" is the "Competitive Strategy" published by Michael E. Porter, an American scholar who is regarded as the "father of the competitive strategy" by the world's first strategic authority today. ") The book proposes that it belongs to a type of corporate strategy. It refers to the long-term behavior of an enterprise to take offense or defense on the same value of use. Porter pointed out in the "Competing Strategy" that "There are two core points for enterprises to obtain a competitive advantage. One of them is the issue of industrial selection, that is, to understand the attractiveness of various industries from the factors of long-term profitability and ability to determine profitability. The second is the question of competitive status, which is, obtaining a competitive advantage in a selected industry." Porter's strategy emphasizes that the competitive advantage of an enterprise derives from the external factors of the enterprise, namely, the market structure or market opportunities and the status of the industry where the enterprise is located and closely related. Porter provides three effective competitive strategies. They are total cost leadership strategies, differentiation strategies, and specialization strategies. Porter also conducted a detailed analysis of the requirements for the implementation of the three generic strategies in the "Competitive Strategy" and listed them. Porter believes that these three strategies must be clear for each company, because the companies in the process are in a very bad strategic position. Such companies have lack market share and lack capital investment, which weakens the capital for "low-cost cards."

### Literature review

The competitive strategy is very complex. The impact of a competitive strategy depends not only on the measures it initially adopted, but also on the reactions of competitors, customers, and other players in the competitive environment to this competitive strategy. In their "Dynamic Competition Strategy," Dey and Rebstein of the United States pointed out that "no one company can tolerate its opponents gaining long-term and obvious leadership." Therefore, a related competitive

strategy was formulated to defeat the opponents in the market competition, to seize more market share. Some scholars in the theoretical circle believe that the competitive strategy is a regular system of activities to create strategic advantages relative to competitors under the direction of the overall business strategy of the company. Among them, Cao Zhong, a Chinese scholar, pointed out in his "Research on Cost Strategies in Market Competition" (2009) that "competitive strategy is a corporate goal that is determined by enterprises for their own survival and development in order to maintain and develop their strength in market competition. The combination of the various policies adopted to achieve this goal."

In the early 1960s, the publication of the book "Strategy and Structure: Research on the History of Industrial Enterprises" by Chandler, the famous American management theorist, was the first who discussed the issue of corporate strategy. In his book, Chandler analyzes the relationship between the environment, strategy, and organization, and puts forward the "structural follow-up strategy" argument. He believes that business strategy should adapt to the environment - to meet market demand, and the organizational structure must adapt to corporate strategy, with the changes in the strategy changes. Therefore, he is recognized as the first corporate strategy expert on environmental-strategic-organization theory. Igor Ansoff first proposed the concept of "corporate strategy" in the book "Corporate Strategy" published in 1965, and defined the strategy as "how an organization intends to achieve its goals and mission, including various programs. Drafting, evaluation and the program that eventually will be implemented." As a master of strategic management, Igor Ansoff first explained the concept of company strategy, the concept of strategic management, the systematic theory of strategic planning, the concept of corporate competitive advantage, and the theory of contingency that links strategic management with a chaotic environment. In the early 1980s, the competitive strategy theory represented by Michael Porter of Harvard Business School achieved the mainstream of strategic management theory. Porter believes that the core of corporate strategy is to gain competitive advantage, and there are two factors that affect competitive advantage: First, the profitability of the industry in which the company is located, that is, the attractiveness of the industry; (2) Determine your competitive advantage in your chosen industry. In an industry, no matter how attractive it is or how profitable opportunities are provided, companies that are in a competitive advantage have greater profitability than inferior companies. In order to correctly select attractive industries and position themselves for competitive advantages, we must analyze one or more industrial structure conditions and competitive environment that will enter.

To sum up, the basic logic of Porter's competitive strategy theory is: (1) the industrial structure is the key factor in determining the profitability of the company; (2) the company can influence the five kinds of forces in the industry by selecting and implementing a basic strategy (Industrial structure) to improve and strengthen the relative competitive position of enterprises and gain market competitive advantages (low cost or differentiation); (3) Value chain activities are the source of

competitive advantages, and enterprises can pass the relationship between activities and value chains (Include adjustments between activities within a value chain and between two or more value chains to implement its basic strategy. The industry competition structure analysis theory put forward by Michael Porter has been widely recognized by the enterprise strategic management academic community in the past 20 years, and has become the most important and widely used model for conducting external environmental analysis and inspiring strategic choices. In recent years, rapid development of information technology has led to an increasingly complex competitive environment. Enterprises have to look from the external market environment to the internal environment, pay attention to their own unique resources and knowledge (technology) accumulation, in order to form the company's unique competitiveness (Core Competence). In 1990, American scholars Prahalad and Hammer published "Corporate Core Competence" in Harvard Business Review. Since then, the upsurge of research on core competencies has begun to emerge, and the "core competence school" has formed in strategic theory. The theoretical hypothesis of the theory is as follows: Suppose a company has different resources including knowledge and technology, and forms a unique ability. Resources cannot flow freely among enterprises. For a company's unique resources, other enterprises cannot obtain or copy, and enterprises use it. The unique way of these resources is the basis for the company to form a competitive advantage. The theory of corporate strategic management before the 1990s was mostly based on competition, and both focused on discussing competition and competitive advantages. From the 1990s, the emergence of strategic alliance theory led people to focus on the various forms of cooperation among enterprises. This theory emphasizes competition and cooperation and believes that competitive advantage is based on the combination of its own advantages and other people's competitive advantages. However, the inherent flaws in the alliance itself and the cooperation based on competition have left much to be desired in this theory. Companies are still seeking a reasonable form of arrangement that better reflects many advantages. In the mid-1990s, with the increasingly dynamic industrial environment, the acceleration of technological innovation, the globalization of competition, and the increasingly diversified customer needs, companies have gradually realized that if they want to develop, whether they are enhancing their capabilities or expanding new markets must work with other companies to create new values that consumers are interested in. Companies must foster a development-oriented, collaborative economy. In this context, surpassing competition through innovation and creation has become a new focus of corporate strategic management research.

### 3 Research purpose and research significance

#### 3.1 Purpose

The main research purpose of this paper is to analyze and research the competitive strategy of Kazakhstan Copper Co.

Ltd., analyze the existing problems in the development status, competitive strategy and combine theory with practice to study Kazakhstan's copper smelting "How does the company choose a competitive strategy that suits its own development in the new situation and implement it effectively so as to obtain and maintain a long-term competitive advantage?" This not only provides a good guiding role for the development of Kazakhstan Copper Co. Ltd., but also provides a good reference for other companies in the Kazakhstan non-ferrous metallurgical industry.

## 3.2 Research Significance

The competitive strategy is a combination of the enterprise's goals and the various policies adopted to achieve this goal by the company's survival and development in order to maintain and develop its strength in the market competition. The competitive strategy is considered to be part of the company's strategy. It is under the control of the company's overall strategy to guide and manage the plans and actions of specific strategic business units. The company's competitive strategy is based on the company's future market value as its basic point, and plans to arrange and deploy key activities in the strategic period to win the firm's lasting competitive advantage. The core problem to be solved by the enterprise's competitive strategy is how to establish the specific position of the company's products in the market and maintain this status by determining the relationship among the customer demand, the competitors' products, and the company's products. Today, the global market competition is no longer mainly based on the competition of technology and quality, but the competition of wisdom and management. The result of this competition is that the winner can occupy a larger market and gain more opportunities for development. Strategic advantage is the core of competitive strategy. For enterprises, this kind of competition is a contest between life and death. Therefore, what kind of competitive strategy a company adopts can be undefeated and has strategic advantages. It is a problem worthy of serious study.

With the continuous development and utilization of Kazakhstan's copper and other resources, as the largest copper smelting company in Kazakhstan, Kazakhstan Copper Co. Ltd. has made use of its limited resource advantages to make articles and how to stand firm in the fierce competition among international giants, continuous development and so on. Through detailed analysis of the domestic and international environment in which Kazakhstan Copper Co. Ltd. is located, this article studies how Kazakhstan's copper smelting enterprises can choose a competitive strategy that suits their own development in a new situation and effectively implement and obtain long-term competitive advantage. Kazakhstan Copper Industry Co. wants to establish a long-term foundation and achieve rapid development, we must establish a competitive advantage strategy.

## 4 Research content and innovation

### 4.1 Research content

Based on the analysis of the status quo of the development of the copper industry in Kazakhstan, the internal and external environment in which Kazakhstan Copper Co. is located, this article studied the competitive strategy choice and put forward the implementation of the competitive strategy of Kazakhstan Copper Co., Ltd. The problems and challenges that may be encountered in the process, and the protection measures for the implementation of the competitive strategy of Kazakhstan Copper Co., Ltd. are presented in response to the problems and challenges. This article is divided into six chapters. The first chapter mainly introduces the research background and problems, research literature review, research purpose and research significance, research content and innovation points as well as the paper's logical structure and research technology route; Chapter II theory overview, competitive strategy basic theory and competition Strategic Analysis Tool; Chapter 3, Analysis of Strategic Environment of Kazakhstan Copper Industry Co., Ltd.; Chapter IV, Competitive Strategy Choice of Kazakhstan Copper Co., Ltd.; Chapter 5, 5. Safeguard Measures for Implementation of Competitive Strategy of Kazakhstan Copper Co., Ltd. Chapter 6 concludes and prospects. The final conclusion and improvement of the paper's structure make the overall structure of the paper complete and reasonable.

### 4.2 Major issues to be solved and innovations

#### 4.2.1 The main problem to be solved

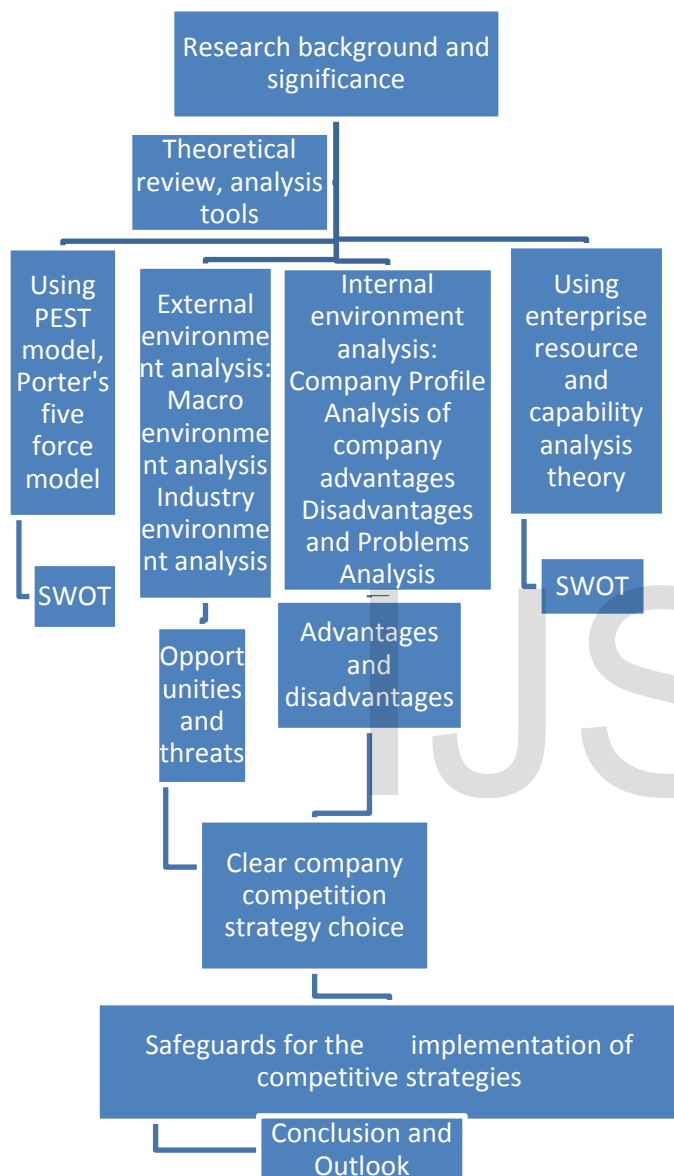
The main issue to be solved in this article is how Kazakhstan's copper smelting companies can choose a competitive strategy that suits their own development in a new situation and implement it effectively so as to obtain and maintain a long-term competitive advantage.

#### 4.2.2 Innovation

The innovation of this paper lies in the innovation of the topic research. The non-ferrous metallurgy industry represented by copper is a key area of Kazakhstan's processing industry. The product is also an important export processing product in Kazakhstan. It is widely used in mechanical engineering, electrical engineering, construction, and radio fields, it also carries jobs. The problems encountered by Kazakhstan Copper Co., Ltd. in the development process are common. Therefore, this article selected Kazakhstan Copper Co., Ltd., the largest copper smelting company in Kazakhstan, as the research object, which has strong representativeness and practical significance. Research Tehnology Route see below (Table 1).



TABLE 1  
VARIATION OF COEFFICIENT FOR THE COVERED PERIOD



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