THE USE OF THE MULTI-FACTORIAL GRID IN THE SELECTION OF THE ENTRY STRATEGIES OF OMV AG IN THE ROMANIAN MARKET

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The foreign market entry is a strategic choice of any company. The firms use a practical approach in order to select and utilize the most appropriate market entry strategies and modes. This paper aims at showing how the multi-factorial grid can check up the assessments OMV AG has made at the entry in the Romanian oil market. This supplementary analysis has brought a research tool in a particular case of foreign market entry practices. The assessment the multi-factorial grid allows and its results in the case of OMV confirm the practical approach of the Austrian company.

Key Words: target-market, entry strategies and modes, multi-factorial grid, competition capability of the company, market attractiveness.

JEL code: F23

Introduction

The foreign market entry is part of the external expansion strategy of a company. In a broad interpretation of the Ansoff Matrix, this strategy could be considered as a geographical expansion strategy with a regional character, which provides for the new market access [V. Danciu, 2009, p.181]. As many authors think, there is no ideal entry strategy and many companies often combine strategies to enter particular foreign markets [V. Danciu, 2009; Gillespie, Jeannet, Hennessey, 2007; Muhlbacher, Leihs, Dahringer, 2006; Hollensen, 2004].

There are many points of view on entry strategies classification in the international literature [V. Danciu, 2004, p.220], but they could be found within a three broad grouping based on different degrees of control, risk and flexibility associated with each of the different market entry strategies:

- Export strategies: low control, low risk, high flexibility;
- Intermediate strategies (associated or contractual modes): shared control and risk, split ownership;
- Hierarchical strategies (investment strategies): high control, high risk, low flexibility.

There are many internal and external factors which impact on the choice of the most appropriate entry strategy or mode and the company may use more than one of the strategies and modes at the same time.

OMV Company has used such “a many strategies approach” when entering the Romanian oil market. The initial entry strategy was a green field investment mode. This strategy has been followed by successive acquisitions of stock packages in Rompetrol and Petrom. In the year 2004, OMV has purchased the majority stock package of Petrom SA which was the local market leader at that time.

By purchasing a firm in a market to enter, the buyer eliminates the need to build manufacturing and distribution capabilities from scratch. Buying an established brand gives the entering firm immediate market presence, existing customer base and market share. Along with the firm itself, the buyer also acquires its experience and its network of relationship with customers, intermediaries and other important stakeholders.

One of the most important and frequent used motivation of favoring acquisition to other market strategies and modes is the help it provides for establishing a strong position in a new country or regional market. This strong reason has influenced the entry strategy of OMV in the Romanian oil market, along with the attractiveness of the local market.

The Experience and Strategic Goals of OMV

Osterreichische Mineralverwartung Aktiengeselschaft (OMV AG) has been since 2004 one of the most important companies activating in the oil industry of the Central and Eastern Europe and the biggest company listed in the Austrian Stock Exchange. OMV was established in 1956 and has been involved in exploration, production, processing and marketing activities in seventeen countries from Europe, Middle East, Asia and South America. Osterreichische Industrieholding AG (with 34% of the shares) and International Petroleum Investment Company - IPIC (19.6%) are the main shareholders of OMV. The Group has about 1.4 billion barrels oil equivalent of natural gas and some oil reserves, an yearly production of 45.9 billion oil barrels and about 2400 distribution stations in thirteen countries.

OMV has an important stock package in companies such as Boreals A/S (35%), AMI Agrolinz International Gmbh, Hungarian MOL (10%), Bayernoil Raffineriegesellschaft Gmbh (45%) and Ecdias Gmbh (50%).

Prior entering Romania, OMV’s strategy envisaged the extension of the exploitation areas, the diversification of the crude oil resource, the extension of the compressed gas network and the active participation in the Nabucco project.

Romania as an OMV Target-Market

Even since 1990 OMV paid attention to the Romanian market, but various events, mostly political ones, delayed the investment decision of the company until 1999.

In 2003, Romania delivered about 63% of Eastern and Central European oil production and 35% of the natural gas production. S.N.P. Petrom S.A. was the strongest company in Romania, having a turnover of USD 1.85 billion in 2001 and USD 1.5 billion in 2002. At the same time, the company has been restructured and needed investments. Hungary was the other country in the ECE region with a significant oil production. The national MOL Company was a competitor of OMV, the last one constantly trying to take MOL over.

Romania has large processing capacities with a yearly volume of 34 million tones, much more than the necessities of the country. The capacity distribution of the oil products was significant too. The distribution sector has over 170 storehouses and more than 1600 petrol stations, out of which the majority, that is 695, were owned by Petrom. Distribution was supported by transportation by means of oil pipelines, rail and auto tanks, by organizational structures like Romcontrol, by oil terminals in Constanta, Galati, Giurgiu and by custom-houses officers.

Another motivation was the potential of the market development. This potential has been estimated in accordance with the car park and implied an increase from 130 liters per capita to 300 liters per capita of fuel consumption; the average consumption in Central and Eastern Europe.

Romania became a target due to the fact that OMV had no other development opportunities but Eastern Europe. Because in Western Europe competition was intense, costs were high and profit margins were low, Romania became an interesting market. Romania's imminent EU joining also stimulated the Austrian companies entering Romania, especially after the year 2000.

The efforts of OMV were materialized in investments in industries like oil processing, bier, sugar, furniture and services like banking, insurance, trade and real estate.

OMV's Entry Strategy and Position Consolidation on the Romanian Market

OMV has entered in Romania in 1999. During 1999-2004 period of time, the Austrian company has had some strategies for the Romanian market and position consolidation.

- The direct investment in the form of Greenfield investment was the first entry strategy. OMV has begun the construction of fuel stations in 1999. During the following five years, the Austrian company has begun to explore and analyze the Romanian market, aiming to get a 10% market share of the sold fuel. The fuel stations were placed at the proximity of big cities, like Bucharest and in the North-West and South-East counties, having a higher population density, a more intense traffic and higher revenues at the national level.
- The prices at the fuel stations of OMV were just over the list prices of SNP Petrom. The stations have been supplied by Petrobrazi, Arpechim (Petrom) and Petromidia (Rompetrol) oil distilleries and the Austrian gas OMV 100 which has a high, ecological octane number. Fuel stations have constantly increased from 4 in 1999 to 17 in 2000, 34 in 2001, 46 in 2002 and to 60 in 2003.

In 2002, OMV owned 25.1% of stock of Rompetrol and this move has allowed its access to the oil distilleries of the Romanian company and to Oil Terminal Constanta.

On the 23rd of July 2004, OMV has purchased 51% of the social capital of SNP Petrom for Euro 1.5 billion, which represent the majority stock package. At that time, SNP Petrom was the local market leader, having a 6 million tons of oil production and about 6 million m^3 of natural gas per year. All these activities performed by OMV in Romania were multiple reasons for acquiring Petrom.

- The first motivation was the consolidation of the position of OMV in the Romanian market as a result of obtaining the dominant position in Europe. Romania has a particular geo-strategic position which allows it to play as an interface between the European Union, the Balkans and the Black Sea region.
- The exploitation of the competitive advantages is another important reason. The Romanian company has numerous integrated activities in the field of exploration, production and distribution, a national commercial network and a pronounced volume of investment.
- The strong position OMV has in Romania is a strategic support for the present expansion to the international market. This expansion could be accomplished as OMV has taken over the branches and offices of Petrom had in Kazakhstan, India, Hungary, Serbia, Iran and Moldova. By acting this way the Austrian company will consolidate the corridor Vienna via Balkans – Dardanele Strait – East Asia.
- The OMV association with Petrom S.A. has evident and multiple advantages. The most important are the access to Petrom assets, risk division and investment cost sharing and diminishing of management and cultural risk. To all these advantages one can add the expansion on the international market as a result of foreign organizational structures of Petrom.

The Mc Kinsey Multi-factorial Grid as a Tool for the Most Appropriate Entry Strategy Selection

The multi-factorial grid is a portfolio method which operates with two vactors or criteria, the market attractiveness and the capacity of the company [Danciu V., 2009, pp. 373-376). In the present case, the vectors are the attractiveness of Romania as an oil and natural gas producer and consumer, and the capability OMV AG has for entering and resisting on the Romanian market.

The Romanian oil market attractiveness. The "Oil Market Attractiveness" vector is an aggregate one obtained as a result of the assessment of Romania's strategic position, Romania's oil reserves, favorable legislation for foreign investment, convenient economic environment, favorable political climate, good technological standard for oil extraction and processing, relatively low competition and ecological requirements.

Romania's geo strategic position was the main attraction point, since the country is placed on the course of Nabucco gas pipeline and Constanta – Trieste pipeline. Both pipelines have to convey in transit the Romania's territory.

The proved oil reserves were an important attraction factor. Romania has over 200 million tons with a production of 6 million tons a year for about the next 33 years.

These reserves could increase if new oil and gas fields are detected. Romania is the only country in Eastern and Central Europe region which is an oil producer and dominates the area, due to its ten out of the eleven oil distilleries of the region.

The favorable legislation for foreign investment was another reason for Romania's attractiveness. The no 322/2001 Government Ordinance, as modified, stipulates that the Romanian state guarantees the freedom of legal status and investors, equal treatment for Romanian and foreign investors, protection against nationalization, expropriation or other measures having equivalent consequences [Monitorul Oficial nr. 356, 7.07.2001].

The convenient economic environment was a major motivation for OMV. In the year 2004, Romania had a 8.3% growth, a decrease in the inflation rate to 11.9% and in the unemployment rate (6.2%).

The favorable political climate had a strong impact on the choice of Romania. The Romanian business environment became relatively stable. Romania has entered NATO and the negotiations for joining EU began.

The good technological standard for oil extraction and processing had a significant contribution to OMV's choice. Romania has a rich history in the oil industry. The country is the first one having a record industrial oil production. Romania occupied the second place in the world as an exporter for oil drilling and extraction equipment. The Romanian specialists have designed and built many of the world's distilleries. Today, Romania has a totally integrated oil industry. This means that the extracted oil is processed in the local oil distilleries and the resulted products are distributed through the existing infrastructure.

The relatively low competition was a stimulus for OMV entering the Romanian market too. Already present in the market were Petrom, Rompetrol, MOL, Lukoil, Agip. Only MOL and Lukoil were important rivals having a regional vocation but no one had an important or regional amplitude [www.rompetrol.ro , www.lukkoil.ro , www.molromania.ro].

Romania's ecological requirements were low by the time OMV has decided to enter the Romanian market. The no. 1570//2002 Government Ordinance concerning the approval of the mechanism for financial aid from the state budget allowance through the program for industrial products competitiveness increase was a modest beginning for the environmental standards adoption. OMV had to take into account that Romania should take over the EU standards, but the company was ready in 2007 [OMV in Dialogue – Corporate Social Responsibility Performance Report, 2007].

OMV's competition capability in the Romanian oil market. In the year 2004, OMV AG had the following strengths in the competition battle in the Romanian market:

The size of the company was the result of the financial strength, the number of the international subsidiaries, the position in the regional market with an 18% of the Danube market segment and the access to resources and the processing capacity.

The significant experience OMV had gained following many years of activity in the oil industry, supported by a big capacity for the integration of the complex extraction, processing and distribution operations in various countries. The strength of the experience was the result of the good performance in project developing in difficult political environments.

The important negotiation power of OMV was gained by the capitalization of its capacity to get the support of the Austrian and local authorities, the position OMV had in the Eastern and Central Europe, the accumulated experience and expertise in the capitalization of the competitive advantages.

The good international brand image has been gained by OMV as a result of its high quality products. This image has facilitated a favorable association of the company with its products.

The strategic distribution in Eastern and Central Europe and the ability for the quick creation of its own distribution capacity in the market OMV has entered has also been a support for entering the Romanian market. The Austrian company received one third of the gas exports of Gazprom (Russia) to Western Europe and a 200 km pipeline network.

The performing management of OMV has solved many projects and difficult situations and has had a complete expertise, also including the management of the complex integrated operations.

OMV has a high technological standard, since the company has used last generation technologies and has been aware of the latest production and distribution technologies.

The ecological solutions represent a constant objective for OMV. The European Directives have forced the companies to have and use systems for environmental risk monitoring and find green technical solutions for product processing. OMV has anticipated Romania's EU entry and has taken early ecological actions.

The Drawing up of the Multi-factorial Grid

The Quantitative Attractiveness of the Romanian Market. The eight factors of the Romanian market attractiveness analyzed before are now being used for elaborating the aggregate vector. Each factor has received a weight for its importance and a mark on a 1 to 5 scale showing its contribution to the market attractiveness. The synthesis of the Romanian oil market attractiveness is shown in Table 1.

Table 1: The Romanian market attractiveness

Factor	Weight	Mark	Score
Natural resources	0.20	5	1.00
Strategic opportunities of the market	0.20	4	0.80
Political climate	0.15	3	0.45
Competition	0.10	4	0.40
Legislation	0.10	4	0.40
Technological standard	0,10	3	0.30
Economic environment	0.10	4	0.40
Ecological requirements	0.05	3	0.15
Total score	**1.00**	**-**	**3.90**

The total score, 3.90 points out of 5, has indicated that Romania's market attractiveness is over the average, especially due to its natural resources, strategic opportunities and low competition.

OMV's Capability in the Romanian market. The factors describing OMV's competition capability analyzed before have been used for elaborating the quantitative aggregate vector. The outcome is presented in Table 2.

OMV's competition capability has a very good total score, 4.10 out of 5, showing a big competition capability in the Romanian market. The experience, the negotiation power and management performances have had the most important contributions to OMV's capability of entering the Romanian Market.

Table 2: OMV's competition capability

Factor	Weight	Mark	Score
Experience	0.25	4	1.00
Negotiation power	0.15	4	0.60
Brand	0.10	4	0.44
Size	0.05	3	0.15
Distribution	0.10	4	0.40
Management	0,15	5	0.75
Technological standards	0.10	4	0.40
Ecological solutions	0.10	4	0.40
Total score	**1.00**	**-**	**4.10**

OMV's negotiation power has been improved as a result of the strong support of the Austrian authorities, by means of the diplomatic channels in the process of the privatization of Petrom. OMV's important experience of more than 40 years in the international market, the high technological standards and the strong support from the Austrian authorities have had a major contribution to OMV's competitive capability in the Eastern and Central European region, Romania included. This strong support has given OMV a competitive advantage over the other rivals.

The Multi-factorial grid for Entering Romania by OMV

The total score for the market attractiveness (3.90) and the competition capability (4.10) have been used for elaborating the multi-factorial matrix which has indicated the proper entry strategy OMV could use, as shown in Fig. 1:

OMV's Competition Capability

		5 **4.10**	3.66	2.33 1
	3.90 3.66	Direct Invest ment **OMV ROM**	Direct Investment	Partnership and Association
Romanian Market Attractiveness	2.33	Direct Investment	Partnership and Association	Export Strategies
	1	Partnership and Association	Export Strategies	Export Strategies

Figure 1: The Multi-factorial grid for OMV's entry in the Romanian market

OMV's positioning in the S_1 matrix field at the intersection of the competitive capability of the company with the market attractiveness score where direct investment is recommended as entry strategy confirms that buying the majority stock package was the right strategy approach for OMV. The subsequent excellent financial and market results show once again that the decision has been right. The assessment made after four years has indicated a three time increase market value of Petrom, up to Euro 3 Billion. At the end of the year 2007, the Romanian oil market was dominated by OMV/Petrom which had 750 gas stations and two brands, with a 30-35% market share, ahead of Rompetrol (18-20%), Lukoil, MOL and Agip.

Conclusions

OMV has paid attention to the Romanian oil market even since 1990, but has entered it later on when the conditions have allowed this to happen. The company has had different alternatives of direct investment as entry strategy. At the beginning, OMV has built gas stations then it has bought about a quarter of the stock package of Rompetrol and in July 2004 it has acquired 51% of the social capital of Petrom SA.

In order to assess if OMV has been right about the entry and position consolidation strategy, an analysis based on the multi-factorial grid utilization has been carried on.

The oil market attractiveness assessment has showed that Romania has many advantageous factors such as natural resources, strategic position, strategic opportunities and low competition. These factors have given the "market attractiveness" vector a value (3.90 points out of 5) which has explained the reasons why OMV has preferred Romania as a new market expansion.

OMV's competitive capability has been based mainly on the experience, negotiation power and management performances. The whole synergetic effect of all OMV's factors has placed the Austrian company close to the maximum capability in the Romanian market (4.10 points out of 5).

Both the good result of the assessment of the Romanian oil market and OMV's competitive capability have shown that the direct investment entry strategy used by OMV has been appropriate. Subsequently, favorable results registered by OMV/Petrom have also supported the idea that the chosen entry strategy has been adequate.

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