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## **A Microeconomic Approach of a Company's in a Competitive Environment\***

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***Abstract:***

*The strategic analysis is the process of identifying an organization's middle and long run position in relation to the external environment, its internal resources, the shareholders' skills, desires and influences. The essence of the competitive strategy consists in choosing a chain of activities different, mainly in structure, as qualitative features, from that of the competitors. If the same set of activities had been sufficient for producing all the products/services of the field of activity, meeting all the needs and solving all the problems regarding client accessibility, the operational efficiency would have been the factor that determined the company's profitability and/or a different execution from that chosen by the competitors for the same value chain. Market research provides the firm with information regarding the markets as a whole, or market segments with the best prospects, the price levels accepted by the market, the ways of distributing the products on the market, promotional actions, etc. Equally important for grounding the strategy are the macroeconomic forecasts, the field projections and the policies of the bodies regulating and supervising insurances. The overall organizational strategy would reflect the requirements of the national economic strategy, the strategy for Romania's integration into the European Union, in this case. This provides the guidance of the organization's development in accordance with the main macroeconomic developments foreshadowed for the following period. The analysis focuses on Petrom S.A., the largest company in Southeast Europe, whose market penetration force and market sustainability are largely due to the European management implemented by OMV, as Petrom S.A. is part of the OMV European structure.*

***Key Words:*** *competition, market economy, profitability, distribution, financial analysis, environmental challenges.*

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## 1. The Competitive Environment

Being aware of the fact that competition plays a decisive role in marketing planning, the European corporative entity Petrom S.A. needs to constantly compare its products, prices, distribution channels and promotion actions with those of the competitors. This way the company will be able to identify its advantages and disadvantages when fighting competition and, thus, will be able to launch more accurate attacks on the competition and to have a better defense over its attacks.

We may distinguish two main forms of competition:

1. Direct competition<sup>2</sup> (from the producer's point of view): it occurs when the firm addresses the same needs, with similar (or identical) products

- Brand competition (inter- or intra--) in which the firm considers the other companies providing similar products to the same category of consumers, at similar prices, to be its competitors. Differentiation is achieved through brand image, which each strives to provide for its own products, using appropriate tools and techniques (for inter-brand competition, most usual example is that between Coca Cola and Pepsi Cola and intra-brand competition, goods of the same firm sold in different type of stores)<sup>3</sup>.
- Industry competition - the firm considers all the companies providing the same product or product class to be its competitors. Competition is carried through the qualitative differentiation of the products; such products are fungible products.

In this situation, the behavior is influenced by the creation, pricing and communication strategy of the product; it influences the outcomes, which are achieved, at this level, through efficiency, the technological progress, profitability and the level of employment.

2. Indirect competition<sup>4</sup> (from the market's point of view): it occurs when companies address the same or different needs by offering different products; it is viewed from the market's point of view.

- Formal competition – the firm considers all the companies providing products that are designed to meet the same needs to be its competitors.
- Generic competition – the firm considers all the companies fighting for the same consumers' incomes to be its competitors.

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<sup>2</sup> [www.businessdictionary.com](http://www.businessdictionary.com)

<sup>3</sup> Institute of Competition Law-[www.concurrences.com](http://www.concurrences.com)

<sup>4</sup> The same source as 1.

In the market economy, competition is an objective necessity, being part of the market "game rules". Its action stimulates the concerns for growing, diversifying and qualitatively improving the supply of goods and for adapting it to the dynamic of the requirements. At the same time, the competition mechanism ensures placing the prices at their actual quotes, favoring cost rationalization as a means of increasing profit.

The force of competition and its implications for the market mechanism depend on the number and positions of the confronting participants.

This study deals with a majority part of German management, characterized by as a management results based on, stimulating and efficient. And, due to the fact that managers are oriented to obtain maximum of results, within corporative companies with such a management it is developed a sound sub-function of evaluation, correction and improvement of the entire system represented by that corporation (company, big firm).

## **2. Petrom S.A.-Study Case for the Analysis**

Petrom S.A. is the largest Romanian oil and gas company, which activates in the following sectors: Pitting & Production, Refining & Petrochemicals, Natural Gas and Marketing. Petrom mines estimated oil and gas reserves of 1 billion barrels of oil equivalent (boe), has an annual refining capacity of 8 million tons and 593 filling stations in Romania. The company also owns an international network of 211 filling stations located in Moldova, Bulgaria and Serbia.

Petrom, a member of Austrian Transnational OMV Group, is the largest oil and gas producer in Southeast Europe. Petrom's business segments are Pitting & Production, Gas & Energy and Refining & Marketing.

The main achievements regarding the Pitting & Production segment in 2011 were:

- Average annual output of over 173,700 boe/day achieved in Romania
- Reserve replacement rate in Romania maintained at 70% for the fourth consecutive year
- Production costs in Romania fell 1% in USD and 5% in ROL compared to 2010.

Below, we present some statistics regarding the main microeconomic indicators of Petrom Company. The figures of 2011 which, in majority cases, are in the same trend in 2012, show an outstanding financial and economic position on the Romanian market and, by extension, in the South-East of Europe. The figures will show the situation of this company exactly in the period of economic recession.

**Table 1: Microeconomic Indicators of Petrom Company**

	2010	2011	Δ (%)
Sales revenues	18,616	22,614	21
EBIT (Earnings before interest and tax)	2,986	4,936	65
Net profit	2,190	3,759	72
Net profit attributable to the shareholders of the mother company	2,201	3,757	71
Mining activity cash flows	4,630	6,442	39
Investment	4,863	4,803	↓
Number of employees at the end of the period	24,662	22,912	↓

**Table 2: Various Indicators of Petrom Company**

	2009	2010	2011
Total production of hydrocarbons (billion boe)	68.29	67.08	67.77
Refinery capacity utilization (%)	65	49	79
Total sales of refined products (billion tones)	6.18	5.47	5.23
Number of distribution stations	814	801	793
Number of employees at the end of the period	28,984	24,662	22,912

**Table 3: Financials of Petrom Company**

Indicators	2009	2010	2011
Net profit, billion lei	1,368	1,799	3,686
Net turnover, billion lei	12,842	13,953	16,565
Operating result, billion lei	1,197	3,202	5,034
Operational expenditures, mil lei	12,009	11,428	11,998
Liquidity (cash and cash equivalent), billion lei	280	1,416	567

**Source:** Petrom S.A. Annual Report 2011

**Table 4: Productive Sector Analysis**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>➤ The entire oil production of the country is extracted and processed by Petrom;</li> <li>➤ The existence of a large production, refinery and storage capacity for oil and oil products;</li> <li>➤ A powerful petrochemical district, integrated with the refinery;</li> <li>➤ Direct pipeline connections between the two major refineries (Petrobrazi and Arpechim, but the last one in bankruptcy) ;</li> <li>➤ Flexibility in processing various types of oil (indigenous and imported);</li> <li>➤ Quality products, which are in accordance with high standards;</li> </ul>	<ul style="list-style-type: none"> <li>➤ The reduction of oil production during the last four years</li> <li>➤ Large refinery costs;</li> <li>➤ The existence of outdated production capacities;</li> <li>➤ Outdated transportation capacity (pipelines).</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>➤ The only company that has discovered oil reserves;</li> <li>➤ The modernization and introducing of new technologies of the refineries, which reduces the production costs;</li> <li>➤ It has a well developed infrastructure compared to many companies in Central and Eastern Europe</li> </ul>	<ul style="list-style-type: none"> <li>➤ Lack of the necessary funds to invest in modern technologies;</li> <li>➤ Lack of liquidity in the economy;</li> <li>➤ Increased imports of oil.</li> </ul>

**Source:** Petrom S.A. Annual Report 2011

A SWOT analysis is indispensable for every sound and reliable corporate overview, in order to underline the vectors of development and sustainability on the specific market. And, because we are talking about different aspects (domains) of the complex activity of Petrom S.A., it's compulsory to include SWOT analysis of those domains. Even investments decreased in 2011, the trend starting from 2012 is to grow, in such a manner that in 2015, due to the management and high-productive investments, Petrom S.A. to become the company no. 1 in this domain in the SE of Europe.

Another aspect is the permanent reducing of personnel. This one is the way to improve the activity and to increase the profit.

**Table 5: Commercial Sector Analysis**

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> <li>➤ An effective marketing department;</li> <li>➤ Petrom is well known both internally and internationally;</li> <li>➤ Leader on the oil products market;</li> <li>➤ Launches or improves its products every year.</li> </ul>	<ul style="list-style-type: none"> <li>➤ High production costs;</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>➤ Of reinforcing the company-customer relationship;</li> <li>➤ Of increasing market share;</li> <li>➤ Of penetrating new foreign distribution markets (SE of Europe)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Rapid development of other operators.</li> </ul>

**Table 6: Financial Analysis**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>➤ Economically favorable evolution, especially during recent years because of the reorganizations that took place;</li> <li>➤ The existence of self-financing capacities;</li> <li>➤ The existence of debt carrying capacities;</li> <li>➤ Has the liquidity needed to cover short term debt.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Stock assessment indicators are less favorable compared to other oil companies in the region.</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>➤ Investment opportunities;</li> <li>➤ Development of external activities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Low purchasing power;</li> <li>➤ High taxation.</li> </ul>

### **3. Some necessary remarks**

1. Petrom S.A. has been banned in 2012 with a huge sum for a corporative agreement with other competitors on the market, as Lukoil, Rompetrol, Mol, Eni, consisting in the withdrawal from the market of the Eco Premium assortment and its replacement with a more expensive one (the total amount of penalty was approximately 205 mil. EUR, but the largest part of it was supported by Petrom).
2. Secondly, the company shares 37 % of the fuels retail market in Romania.
3. Thirdly, in 2012, Petrom gained the highest level of profit from the entire Romanian history of companies' activities: **3,946 billion lei** (5 % higher than 2011)<sup>5</sup>.
4. Overall speaking, the positive aspects in every respect of our analysis overwhelming the negative ones (represented by weaknesses, threats).

### **4. Conclusion**

Petrom S.A. is the largest integrated operator in the oil (fuel) sector in Romania and South Eastern Europe; it performs mining activities, on land and sea, as well as oil and gas production activities, refining and petrochemical activities, and commercializes fuels and complementary products. Its experience in the field, accumulated during 150 years of Romanian oil drilling, turns Petrom into a leader of the Romanian economy, by combining the tradition of the oil industry with the modern organization of an integrated company.

Being part of the OMV group, Petrom benefits from the transfer of know-how from the Austrian company which leads, among other things, to an increased quality of the products and services provided and, therefore, of the way it is perceived by the consumers.

Regarding fuel distribution, Petrom has the advantage of the largest network of gas stations; the new system is used to increase efficiency per each distribution unit, while increasing the quality of the services provided to consumers.

The increased fuel sales are also due to the competitive advantages that Petrom has against the Romanian competitors. Of these, the following may be mentioned:

- The membership of OMV, a very-well positioned and functioning company in EU.
- Improved marketing department;

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<sup>5</sup> All these figures and information are obtained from the following Romanian sites: [www.b365.ro](http://www.b365.ro), [www.realitatea.net](http://www.realitatea.net), [www.economie.hotnews.ro](http://www.economie.hotnews.ro).

- The fact that Petrom is well-known both at national and international level;
- The fact that Petrom launches and improves its products every year, at better prices, if it's possible, than its competitors.

Petrom's reputation contributes to the perception of quality, as it is considered to be a standard of quality. And, last but not least, the company image has increased market share. Even when the competing offers were similar, buyers reacted differently thanks to Petrom's image (in fact, a home company), which represents the guarantee of an offer which is customer oriented.

With increasing competition, company reputation and market share can be maintained or improved only by permanently adapting to the new conditions and by accepting the challenges that arise, that means the commitment to becoming more and more performing and to achieving excellence in business.

In order to improve its image, it would be useful for Petrom to support the ecological activities of the national economy, which can create for the Romanian customers the image of a company that is concerned about the environment.

Considering the general context of scarce natural resources, a medium and long term strategy needs to be developed regarding Petrom's capacity to face the energy challenges caused by the incumbent oil crisis, which will affect all the oil companies in the world. In this respect, it is necessary to create departments for the research and development of new technologies and products and to use the oil and gas resources in a rational manner, as well as to gradually replace them.

In order to have access to cheap and quality fuels, the company must consider the modernization of its refineries and the use of the most effective methods of reducing emissions in the natural environment.

In order to provide for the sale of its finished goods, the company must provide best quality services to final customers through both its distribution stations and its deposits (wholesale sales). Consumers' satisfaction is reflected by the increased oil product sales incomes, particularly fuel sales incomes. Moreover, the diversification of the range of oil products, according to the European quality standards, while increasing the concern for promoting quality fuels through the distribution stations, increases consumer satisfaction and the positive perception of the company.

The income of the distribution stations should be optimized by adding to the income from the fuel sales the income resulting from the sale of complementary products, as a result of modernizing the distribution network and diversifying the range of products. Each distribution branch needs to be allocated a minimum level of income that has to be earned from the sale of complementary products.



Improving the quality / price ratio should be a constant concern of Petrom, as it leads to customer loyalty and helps gaining the customers of other companies.

Petrom has reached positive financial results during the recent years, which will help achieve the company's strategic objectives. Thanks to the capital infusion, Petrom S.A. is ready for corporate development. The investment program for 2011, whose total value amounts to over 3 billion euros, supports the achievement of the development objectives assumed for each segment of activity.

The improved performance and improved cost position in all business segments of activity will ensure the sustainable profitability of the company; the process of modernization initiated in 2005, the new technologies, the expertise and know-how of OMV (company headquarter and main management) and the necessary capital for investments, all these form Petrom's way towards success. The goal is to become, in 2015, the company ranked no. 1 in this field in the South-Eastern Europe.

*BUT, we think that this development, the no. 1 place on Romanian oil market and possible in the South-East of Europe and huge influence upon prices and customers, is due to the material base, consisting in important natural resources, refineries, pipelines, in a word the functional infrastructure.* The competition companies, with few exceptions, process the raw material from import.

Petrom S.A. is well-known all over the world by its customers, competitors, investors and the public, due to the inclusion in transnational company OMV. It has become a dynamic, successful, responsible European company and the slogan "the essence of movement" is the company's guarantee to act to the benefit of the society and of its clients.

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