The Strategic Alternatives for Emerging Markets Entry Strategies of Multinational Companies and Their Main Investments in Romania

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Abstract

The article presents the strategic alternatives which are considered by a multinational company before deciding to enter on an emerging market. The decision is based on the long term opportunity of the selling market in the analyzed country, on the cultural and institutional differences between the multinational native and local environment, resources and business partners' availability, as well as on the market share it can acquire since the entrance. Romania is considered one of the emerging markets in Central and Eastern Europe. During the past two decades, certain industries like telecommunications, FMCG, oil and energy, construction, finance and banks, pharma and IT represented the main targets regarding market entrance and development for the big international players.

107 companies were investigated. For seven of them we had to repeat investigation because of inconsistencies in responses. There were no refusals of questionnaires.

Keywords*:* *strategies for entering on a new market, emerging markets, Romania, multinational company*

JEL classification*:* O100, O110

Introduction

The enhancement of the globalization process opened new markets and new opportunities for an increased operational efficiency of the multinational companies. Thus, it was created an international development of the business on the emerging areas, especially during the past decades. The opening of these markets towards decentralized economy generated new consumer categories and also a new challenge for the big corporations, confronted with an important effort (underestimated initially) of learning the operating and serving manner of these markets, with high territorial and cultural fragmentation, financial and educational potential etc (Popa, Dobrin and Popescu, 2012). The need to establish long term sustainable business centers lead to the intensification of the knowledge process and to the development of many strategical alternatives aimed to ensure a

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successful approach of the emerging markets, according to each area's particularities (Antoine, 2008; Ciocoiu, 2011). Under these circumstances the strategic leadership represents one of the fields with the highest impact over the functionality and performances of an organization (Nastase, 2010).

Romania is one of the most important emerging markets within Central and Eastern Europe. During the past decades, it represented a new territory for many multinational companies within various domains, which choose to enter Romania in order to address new clients, to open a regional operational center and/or to establish operational units aiming to cover the demand on large geographical areas into the emerging and developed markets.

1. The strategical alternatives of entering into the emerging markets for the multinationals

From the point of view of the strategies needed to be taken, we mention the work of Klaus Meyer, professor of Strategy and International Affairs within the Bath University's Management School, entitled "Strategies of the emerging markets", published in March 2008. Thus, Meyer (2008) states that the investors are searching fast growing markets, able to offer new growth opportunities, such as:

- the emerging middle class are looking for quality and luxury products which can support a similar living standards with the developed markets;
- a large number of the individuals situated at the basis of the pyramid become potential customers, especially for those business concepts which respond to their needs, resources and aspirations;
- the local enterprises, some entering on the global stage, are searching for special goods and components, industries which represent the traditional power of non-european enterprises.

In order to benefit from these opportunities, the multinational companies need business strategies to penetrate and develop onto a certain market. The strategy must create value for local consumers and profit for the multinationals. Thus, the investors are aiming market positions which ensure long time viability, preferably as market leaders.

Therefore, the initial market entrance must ensure not only a support point, but a perspective for developing a leading position. The entering strategy should embed the needs and resources of the multinational companies with the opportunities and constraints of the local environment. The entering strategies need perfect adaptation to the local specific of the market demand and institutional framework, commonly named the "game rules". The endowment degree varies within the host industries and countries.

The model of an entrance strategy represents a creative process of integrating many interacting elements (Meyer, 2008): logistics, location, marketing, HRM, timing, ownership, greenfield or aquisition. More scenarios can be explored in order to decide regarding various problems which may arise.

In its paper, Meyer (2008) offers the answer at some questions regarding the business strategies development when a company enters and develops on an emerging market. The strategical alternatives will be described in the following passages.

1.1 The alternative to sole entering on a market or through an alliance with a local partner

For a foreign company, the first question that usually appears when entering on a new market refers to which entry way should be considered (alone or together with someone), especially when it comes to the JV (Joint Venture) problem. Though, the entry way are various from many perspectives. Not only the property stake is crucial, but also how the newly entered company manages to locally develop its own resources: organic or by absorption.

The enterprises usually prefer to own the control regarding their operations. This facilitates the efficient knowledge management, avoids dependence on external partners and allows flexible reactions to new market opportunities. If an operator owns (or have access to) all resources needed for a new operations and there are no legal regulations regarding local property, then the foreign investors would prefer, naturally, to build a local branch in order to hold total control over their business.

Despite the attraction for total control, many foreign investors prefer the joint-venture (JV) as an alternative to enter on the emerging markets. A JV creates a new entity formed by two or more partner companies, which contribute with their own resources and share the control.

1.2 The alternative to acquire a local company or to create a new Greenfield entity

The other dimension regarding entering on an emerging market, besides a full purchase, refers to the decision of choosing between a Greenfield operation and a partial acquirement of an existent company. This decision is mainly determined by the investor's need to exploit the local resources. An acquisition offers local resources organizational integrated, such as human capital and local authorities' relationship. Therefore, the acquisitions are being preferred by the ones who need local complementary resources or wish to settle on a strong market position, based on the market share of the local company, on its brands and distribution networks.

A Greenfield operation allows the investors to create a new operation starting from zero, according to their own requirements, thus reproducing the procedures and practices used in another location. The Greenfield option is preferred by the investors who base their competitive advantage on the company's organizational structure and culture and do not wish to change them through adapting at a local existent company.

1.3 The strategic alternative to localize in the economic center of a country or in marginal areas which can offer specific resources or where local institutions offer attractive subsidies

The location designates both the country in which the investment will be done as well the selecting of a certain location. The investors which are in a search of a new market are primarily interested by the access to the distribution channels and to the potential customers from the targeted market (Khanna, Palepu, Sinha, 2005). They would invest in a central location for sales, marketing and logistics, while the distribution network should cover the entire country.

In some industries, the place in which the actual manufacturing will be done should be situated closer to the client or to the demand point, especially in tourism and manufactured goods which imply high transport costs. Thus, the investors which are looking for a market will be localized on big and growing markets and especially there where the road infrastructure allows easy access for consumers.

For the investment projects aiming export markets, the primary focus is represented by the production costs. Therefore, the key indicators regarding placing decision are represented by the local resources quality and costs. These include the specific inputs needed for operations, such as labor and natural resources costs, as well as “the created actives” like intermediary goods, human capital and infrastructure. Such actives have a tremendous importance in the emerging economies and are seldom provided by other enterprises. Thus, the newly entered market investors are investing where there is a strong business community already.

1.4 The alternative to seek the advantages of the first arrival or to wait the market’s development

The foreign investors who are in search of a new market are usually aiming to occupy the first or second market position in their industry or market segment, especially in the oligopoly economies. The investors can pursuit the position of market leader by entering that market before any other major competitor, seeking the first arrived advantages.

The first entered can build consumer’s education and loyalty and can establish powerful relations with the key-suppliers and the consumers. They have the possibility to block in a relationship the business partners and thus to raise entering barriers for potential competitors. Moreover, they can build the commercial background with local authorities, can have unique local resources, such as distribution channels, local brands and raw materials sources.

In some industries, the first entered must commit to serious investments in order to acquire a leading position from which to confront the ones entered later on the market, this being valuable also for trademark goods, capital size in the industry, oil exploitation. Thus, the first entered on the market can adopt a “strategy platform” which allows them to establish a support point, in order to observe the local industry and react in a flexible manner at the business opportunities, if and when they appear.

On another hand, the followers can benefit from a less unsure business environment and, by observing the first entered, they can anticipate the behavior of the clients and local authorities. Especially the second entered on the market can learn from the experience and mistakes of the first entered, challenging their competitors even before market stabilization.

1.5 The strategical alternative of positioning on a premium market, on a mass market or on both

In the emerging economies, the markets gave the tendency to be very fragmented, both at regional and income level. Therefore, the differences between the margins of the global brand and the integrating local brands tend to be important. The premium segment is the prerogative of the middle and superior classes, which many times aspire to the "western standards" of lifestyle and are less sensitive to price. Moreover, the premium brands are important status symbols for this consumer segment.

The foreign investors are able to reach these consumers through these products, worldwide, through brands and marketing strategies. The advantages of such a strategy include scale economies in developing products, manufacturing and commercialization savings. The global standardization is most suitable for the multinational companies, with base competencies which support the premium brands and products, within the industries in which are used intensive technologies and which are confronting with a reduced variation of consumer's preferences, as well in urban location, having a cosmopolitan perspective.

The mass markets within the emerging economies have a huge potential, but the margins are usually small. The consumers have strict budgets and therefore are very sensitive to price variations, while the local business can offer price competitive products. The goods and services for the ones situated at the basis of the market pyramid should be adapted to the local needs and purchase power, e.g. through simpler but more viable products. The marketing strategies can be intensively oriented towards individuals – taking advantage of reduced labor cost – and can use dealers within informal sector in order to reach the clients.

The newly entered investors on the market can create or acquire local brands, offering a local perspective and being distinctive of the global brands. Such a localization is important when is seeking a market where the small unitary margins and high volume strategies are more suitable, but also when is involving cultural sensitive products, like food for example. In order to succeed on such markets, the companies need operational capacities in order to perform profitable manufacturing and distributions operations, with a low cost for production margin.

Some multinationals are aiming both premium and mass markets, using leveled strategies. This approach allows synergies, e.g. in distribution channels usage, but need that the multinational should own both strong global brands and a deep understanding of the operating conditions within the emerging economies.

1.6 The managerial alternatives of cooperating with the expats and local personnel

The market entrance of a foreign investor depends on the qualified and motivated individuals which should apply the strategy. Thus, together with a new branch settling the expats managers should be selected and trained for the news tasks. The expats have an essential role within this process; without the right managers responsible for the local operations, even the most well planned strategies have a great failure probability.

The local personnel should be recruited and formed. For the newly arrived, it can be difficult to identify those persons which are the most suitable, especially for the managing positions. Many times the top and middle management is searched in other foreign investment companies. The technical competencies can seldom be available immediately, but the leader quality is rare and those searched in order to occupy such positions come with a big advantage regarding salary negotiation.

The human resources management must create the bilateral mechanisms needed for the knowledge transfer within the organization: in order to transmit the key technologies and organizational practices for a new operation, to inform the decision factors within the central headquarter regarding the local business.

1.7 The alternatives regarding worldwide transportation

An important aspect of a foreign investor entry strategy, less analyzed in the specialty literature, but very important for the managerial practices is the one referring to the logistics. The lower cost of the labor force is valuated only if the products can be transported to the client on time, with acceptable cost. The modern transport infrastructure and the IT systems are conceived in order to allow the integration of the internal operations and the supplier's relationship within any multinational.

The specialized mediators offer services which may include not only storage operations, but also the sea transport and "door to door" delivery, as well as customers order processing and supplier localization.

The market entrance of foreign investors generates changes within the systems, especially if this implies relocating production. When a market entry is planned, the multinationals must establish long distance managing of the processes, suppliers and consumers interactions and the manner of transporting the products all around the world.

The strategic approach regarding entering onto an emerging and developing market needs a vision regarding market development and the company's position within that market. The initial entry strategy is establishing the basis for a branch which creates value both for local customers and for the global company.

Establishing a strategy within the emerging industries must face the specific uncertainties and risks. The rules of a competitive game are largely undefined, the industry's structure is not settled and is probably still changing, while the competitors are hard to diagnose. Nevertheless, all these factors have also another side – the emerging phase is probably the hardest period within an industry development, in which the strategical freedom levels are the highest and the lever of the right strategic alternatives is the highest in acquiring the performance.

The choice of entering an emerging industry depends of the result of a prediction exercise for those described above. An emerging industry is appealing if its final (not initial) structure is a consistent one, withe above the average profits, and if the company can consolidate and defend long term domination. This will depend on its resources compared to the changing barriers. Often, the companies enter emerging markets due to their rapid growth, as the opportunities are currently very profitable and risky or because the final industry dimension promise to be a big one. These can be reasons which determine the decision of entering a market, but it should finally depend on a structural analysis.

2. Romania qualification as emerging market and the main investments from multinational companies

According to the definitions of many specialists to the term of emerging market, Romania can be included into this category, although it isn't situated in the top, at least from the economic growth view.

Compared to the criteria which can be considered in Romania's classification as emerging market, summed up below, our country complies to the emerging market definition as mentioned by Standard and Poor's, International Finance Corporation (IFC), Emerging Markets Commerce Association, J Mark Mobius.

Table 1. Romania as emerging market

Category	Criteria	Romania
Poverty	Country with medium and low income Medium or low life standards Lack of industrialization	*In Romania, the high incomes are specific only to a small segment of population, which determines medium and low living standards for most of the population, whilst the industrialization level plunged after 1990, few industrial sectors still being active.*
Capital markets	Low market capitalization compared to GDP Modest earnings on the capital markets and few stock market listings	*In Romania, the capital investments market, although small according to the regional standards, suffered a significant expansion within the past years. This investment type counted 220 million euros in 2007, more than double than in 2006, according to South East European Private Equity and Venture Capital Association*.

	Low debt ratings	*The companies of private equity tend to concentrate on the financial services, pharmaceutical sector, retail sector and telecommunications.*
Growth potential	Liberalized economies. Openness towards foreign investments. Recent economic growth.	*Regarding the growth potential, although it has a market economy, this cannot be considered to be functional in all the cases. The openness for foreign investments is materialized more into fiscal favors for the investments into disadvantaged areas or by the allowance to invest in strategical domains like oil.* *Regarding the economic growth, Romania registered in the recent years (2005-2007) a significant growth rate, with a GDP increase of 5.8% in 2007. The state is still offering significant opportunities for the investors with long term objectives.*

Source*:* adapted from Standard and Poor's; International Finance Corporation (IFC); Emerging Markets Commerce Association; Mobius (1996)

According to a study published in 2008 by the Hot News Agency (*http://economie. hotnews.ro /stiri - companii-3606814)*, Romania occupies the second place, after Poland, in top most attractive emerging states within Europe for the risk capital investment funds, as mentioned by a report of Mergermarket, conducted together with KPMG, Unicredit and law house Baker&McKenzie. Poland and Romania were identified with 60%, respectively 61%, from the respondents of a survey taken within 100 private equity specialists from inside or outside the "Emerging Europe". *Emerging Europe* is defined as Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Serbia, Montenegro and Turkey.

The economic and politic environment from the Center and Eastern Europe suffered few major changes within the past 20 years. Nowadays, the market attracts private equity companies from Western Europe and North America, due to the companies' growth perspectives and relative lower competition. For example, between 2005 and 2006 in Romania, when many of the investments started in the 1990's were retreating, the growth rate was four to six time higher than the initial investment value. Also, the private capital transactions within Central and Eastern Europe were based less on debts than the other markets, meaning that they were less affected by credit limitations than the Western Europe states and Nord America.

The infrastructure has a high investment potential, amid the fact that there are only 300 km of highway. Also, the financial sector is attractive, as Romania has one of the lowest penetration rates of these services within this segment in the EU. Despite the development compared to the private equity market of the last years, the transactions value in Poland and Romania is generally reduced. For example, the biggest private investment in Romania reached 185 million euro.

In 2007 the investments focused also on the construction and housing sector, reflecting the boom that took place on the housing market in the last years prior to the economic crisis. Though, the labor cost in Romania grew at a fast pace amid low unemployment and increased mobility, especially at EU level. Additionally, although exists a sole income tax of 16%, there are other high taxes and a bureaucratic fiscal system, with frequent changes regarding regulations.

Starting the centralized economy of the 1990, in which the developed segments were mainly the ones of the heavy industries, mining, agriculture, following the privatizations which took place during more than 10 years, the economic structure changed. Thus, if the services sector was almost inexistent, this knew a significant development, especially regarding the mobile phoning and IT segments, but also regarding the financial services.

It should be emphasized that, compared to other emerging states with a strong developing economy, such as China or India, which had also local player onto the market, in Romania the landscape is filled by multinational companies which either opened independent business, either acquired local companies following the privatizations. In 2009, the first six sectors of our economy were dominated by multinationals (see Table 2.).

The most powerful sectors within the Romanian economy benefited of massive multinational investments. On the market were made significant acquisitions:

Table 2 Dominant sectors within Romanian economy

Nr. crt.	Domain	Company	Entering way
1	Oil and gas extraction	OMV Petrom S.A.	Acquired Petrom SA
2	Manufacturing of coke coal products and refined petroleum products	Rompetrol Rafinare S.A.	Acquired Rafinăria Petromidia
3	Manufacturing of motor vehicles for road transportation, Fabricarea autovehiculelor de transport rutier, trailers and semitrailers	Automobile Dacia S.A.	Acquired by Renault
4	Steel industry	Arcelormittal Galati S.A.	Acquired Steel Manufacturing Site from Galați
5	Retail commerce, excepting motor vehicles and bikes	Rompetrol downstream S.R.L.	Acquired Rafinăria Petromidia
6	Manufacturing of coke coal products and refined petroleum products	Petrotel Lukoil S.A.	Acquired Rafinăria Brazi

7	Telecommunications	Orange România S.A.	Acquired Mobilrom
8	Retail commerce, excepting motor vehicles and bikes	Lukoil România S.R.L.	Acquired Rafinăria Brazi
9	Telecommunications	Vodafone România S.A.	Acquired Mobifon
10	Retail commerce, excepting motor vehicles and bikes	Carrefour România S.A.	Independent market entrance

It can be observed a strong domination of the primary natural resources sector (oil), due to the investment pace before crisis, when the housing sector was the most actively developing one. Also, the cars and mobile phoning services are completing this top of the first 10 domains, even if not on the first places, but sustaining a growth rate in the services sector (Vodafone).

Table 3 The most important companies in Romania, by economic sectors, 2009

Telecom http://www.listafirme.ro/top_profit_România.asp	**FMCG** http://www.listafirme.ro/top_profit_România.asp	**Banks** http://www.zf.ro/banci-si-asigurari/	**Constructions** http://www.listafirme.ro/top_profit_România.asp	**Pharma** http://scacuncristina.blogspot.com	**IT** http://www.wall-street.ro/top/IT-C-Tehnologie
1. Orange România S.A. 2. Vodafone România S.A. 3. Alcatel Lucent România S.R.L. 4. Romtelecom S.A. 5. RCS & RDS S.A. 6.Cosmote 7. UPC 8. Telemobil	1. British Amercian Tobacco Trading S.R.L. 2. Coca-Cola HBC România S.R.L. 3. Selgros cash & carry S.R.L 4. Quadrant Amroq Beverages S.R.L. 5. Metaltrade international S.R.L. 6. Bricostore România S.A. 7. Carrefour România S.A. 8. România Hypermarche S.A.	1. BCR 2. BRD Groupe Societe Generale 3. Volksbank 4. Alpha Bank 5. CEC Bank 6. UniCredit Tiriac Bank 7. Raiffeisen Bank 8. Banca Transilvania 9. Bancpost 10. ING Bank	1. Lafarge Ciment S.A. 2. Carpatcement Holding S.A. 3. Holcim S.A. 4. SCM Prefabricate Pentru Constructii S.A..	1. Hoffmann la Roche 2. Sanofi-Aventis 3. Glaxosmithkline 4. Novartis 5. Pfizer 6. Servier 7. Ranbaxy 8. Zentiva 9. AstraZeneca 10. Schering Plough 11. Antibiotice 12. Bayer 13. Eli Lilly 14. Menarini 15. Krka 16. Merck&Co 17. Actavis 18. Johnson& Johnson 19.Gedeon Richter 20. Abbott	1. Team International S.A. 2. AROBS Transilvania Software S.R.L. 3. LASTING Software S.R.L. 4. THE RED POINT S.A. 5. Advantage software factory S.R.L. 6. Românian Soft Company S.R.L.

It can be observed the fact that on the first positions, excepting the IT domain, the multinationals are dominating and developed usually by acquiring (including own actives) and developing local companies and brands. The conclusion is that the local companies' resistance versus the multinational force, if ever existed, it wasn't victorious in the end.

Nowadays, on the main sectors the competition evolved from the phase multinationals vs. local companies to a phase which includes only multinationals. The beneficiary of this new phase is the final consumer, which can choose between more varied products, with an improved report quality-price.

Conclusions

For a multinational corporation, the strategy of entering on a market is completely analyzed according to its specific. The development level of the local business environment enhances the extension of these corporations as it can fulfill better the resources needs, offers a functional institutional framework and longtime business partners.

Romania, together with Poland and Hungary, were the Central and Eastern Europe emerging markets which attracted multinational companies' investments for long term commercial and operational development.

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