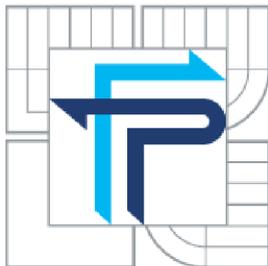




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ÚSTAV**

FACULTY OF BUSINESS AND MANAGEMENT
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MARKET ENTRY STRATEGY OF BENZINA, S.R.O (UNIPETROL, A.S.) TO THE FOREIGN MARKET

STRATEGIE VSTUPU BENZINY S.R.O. (UNIPETROL, A.S.) NA ZAHRANIČNÝ TRH

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Abstract

The main aim of diploma thesis is suggestion of proper market entry strategy of firm Benzina, s.r.o. (Unipetrol, a.s.) to foreign market. Work contains analysis of current situation in domestic market in the Czech Republic and analysis of industry in Ukrainian market. The basic analytical methods were introduced and consequently applied. On the basis of conducted analysis was recommended market entry strategy to the Ukraine.

Abstrakt

Cieľ diplomovej práce je navrhnutie vhodnej stratégie vstupu firmy Benzina, s.r.o. (Unipetrol, a.s.) na zahraničný trh. Práca obsahuje analýzu súčasnej situácie na domácom trhu v Českej republike a analýzu priemyslu v Ukrajine. Boli predstavené základné analytické metódy, ktoré boli následne vyhodnotené. Na základe uskutočnených analýz bola navrhnutá stratégia vstupu na Ukrajinu.

Key words

Market entry strategy to foreign market, Porter's five forces, SLEPT, competitors

Klíčová slova

Stratégia vstupu na zahraničný trh, Portových 5 síl, SLEPT, konkurencia

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Statutory declaration

I declare that submitted master's thesis is authentic and worked up independently. I also declare that citations are complete and copyrights are not violated (pursuant to Act. No. 121/2000 Coll, on copyright and on laws related to copyright Act.).

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Ing. Lukáš Masár

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Introduction

Petroleum industry as a particular part of energetic sector of the economy belongs to the main subject of intensive interest of every state and private capital. Present times are characterised by high requirements on energy and their limited resources. This put strategic interest every country to keep control of energetic sector. One of the main factors which influence the development in this area is the effort to ensure that adequate resources of energy come from multiple sources in order to minimize the risks of dependence on one supplier of energy resources (1).

Entering foreign market or markets is a very important decision that a company in oil industry must make if they want to sustain rapid growth. It is very important to consider carefully all aspects of this big step. Each of the markets has its own specific characteristics and trends that in many cases differ a lot from each other. In order to choose the right market in the fitting time, there is a need to analyse these markets and then create a proper strategy to enter market successfully (2).

The master's thesis analyses internal and external environment; the literature review used for creation sustainable market entry strategy into the Ukrainian market. The chosen company, Benzina (Unipetrol), is a major market player in fuel retailers in the Czech Republic. The majority of Unipetrol is owned by the PKN Orlen, a Polish oil company (3). The petroleum market is very profitable when the price of crude oil according to Brent is slightly over 100 dollars per barrel (4); but companies still have to look for new possibilities to expand in order to maintain the growth. The biggest producer of oil in the world is the Russian Federation with the production of 10.36 million of barrels per day before the United Arab Emirates with the production of 9.85 million of barrels per day (5).

Executive Summary

The purpose of this master's thesis is to analyse the foreign market entry strategy of Benzina s.r.o. (Unipetrol), a Czech retail oil company with widespread network of filling station in the Czech Republic. The main topic of the report is focused on market entry strategy used in the Ukrainian market and its operation in this market. Appropriate analysis of external and internal environment and following evaluation, conclusions and recommendations were done.

Structure of this paper is as follows. The first part focuses on theoretical background of literature which is related to international strategy, triggers for market entry, and frameworks uses for analysis of foreign environment and choice of mode of entry. The second part is dedicated to analyse the current situation of Benzina and its activities. In this part are showed several analysis include introduction of Benzina, PEST, Porter's Five forces and SWOT frameworks used for external and internal analysis of the company and Ukrainian market. The company's foreign market entry strategy based on related literature and business analysis is covered in the third part. The fourth part the master's thesis contains conclusions and recommendations related to chosen issue.

Targets and Methods

The aim of the master's thesis is to analyse the current situation of Benzina (Unipetrol) and to propose a proper strategy to enter the Ukrainian market. The analysis is based on the selection of sustainable methods and its results are evaluated. Ukraine is described from macroeconomic perspective, where conclusion is drawn according investigated analyses.

Main targets of the thesis are:

- Review the literature
- Describe the investigated company
- Analyse the current situation and oil industry in Ukraine
- Evaluate the results
- Propose steps for the application of the proper strategy how to enter into the Ukrainian market
- Draw conclusions

General theoretical methods are applied as well as another selected method. In order to understand characteristics, history and philosophy of the company, various newspaper articles, websites, radio and TV interview transcripts and company annual reports were searched, read and used as secondary sources of data to describe the company.

1 Theoretical Basis of the Work

This part of master's thesis is aimed at the theoretical background of market entry strategy. The market entry strategy is important decision which has to be supported by relevant analyses. It is necessary when a company wants to succeed and keep competitive advantage. Tools which were used in the thesis to analyse the environment, such as Porter's Five Forces, PESTEL, SWOT analyses, etc. are more discussed and explained in this part. Moreover, the analyses showed in some cases that the market entry is not recommended due to poor capabilities of the company, not acceptable products or services for foreign market, or even the unfavourable environment.

1.1 The Term of Strategy

The word *strategy* can be used in many ways. People are using this word when they talk about a strategy for a business, a strategy for a football match, a strategy for a military campaign or a strategy to revise for a set of exams. Multiplicity of using this term leads Henry Mintzberg at the McGill University in Montreal (6) to propose his "five Ps" of strategy (7):

1.1.1 A plan

A Plan is the most common way for using the word *strategy*. It is a progress monitored from the start to a predetermined end. Some business strategies follow this model when they produce internal documents that describe in detail what a company will do for a period of time in the future. It might include a schedule for new product launchers, acquisitions, financing, human resource changes, etc.

1.1.2 A ploy

A ploy is generally taken as a short-term strategy and it will operate for as long as something unexpected happens. In business, ploy strategies are considered as threats. They may threaten to decrease the price of their products simply to destabilize their competitors.

1.1.3 A pattern of behaviour

A pattern is one in which progress is made by adopting a consistent form of behaviour. Unlike plans and ploys, patterns “just happen” as a result of consistent behaviour.

1.1.4 A position in respect to others

A position strategy is appropriate when the most important thing for an organization is how it relates to, or is positioned with respect to, its competitors or its markets. In other words, the organisation wishes to achieve or defend a certain position. In business, companies tend to seek such things as market share, profitability, superior research, reputation, etc.

1.1.5 A perspective

The perspective is about changing the culture of a certain group of people, usually the members of the organisation itself. For example, an effort to make all employees to think and act continuously, professionally or helpfully. Success is achieved when all members think in the same way – they all believe in the core doctrine and apply it in their lives through good work (7).

1.2 Triggers for Market Entry

According to Hollensen (2004) there are different triggers for internationalization which can be separate into two major groups – proactive and reactive motives.

Generally, *proactive motives* are related to the growth and they are represented by the effort to change company’s strategy by exploiting market opportunities and capabilities. Motives are described below (8).

1.2.1 Proactive Modes

Profit and growth goals – the motive of growth and in particularly, profit is important for internationalisation. Companies usually want to enlarge profit by entering foreign market; nevertheless, the future expansion is influenced by previous experience. Main differences between expected and real profit are common due to this; therefore, the companies have to be careful and conduct proper analysis of the project.

Managerial urge – managers of companies are very often influenced by trends on the market and among competitors. These factors force them in internationalisation; nevertheless, the conditions and the environment do not seem very favourable.

Technology competence/unique product – unique products and services which are not present on international market are also motives for internationalisation. The company can benefit from technology competence or quality. It is crucial to analyse if products or services are really unique on international market or if it is the perception of the company's management only.

Foreign market opportunities/market information – fast growth of foreign market is also stimulus for internationalisation. Sufficient capability for further expansion and managerial search for opportunities which are similar to the opportunities on domestic market are very important. The extra knowledge of the foreign market and customers gives advantage for the company compared to the competitors.

Economic of scale – expansion on foreign markets allows the company to reach the economy of scale. Better usage of capabilities and cost-effectiveness when producing more are very often important factors of internationalisation.

Tax benefit – in some countries the export is supported by tax reductions; and therefore, companies use this advantage and enter new markets.

In contrast, *reactive motives* are usually external triggers pushing the company into internationalization. The company has to react on different pressures and threats in domestic (or foreign) market. Reactive motives include mainly the following (8):

1.2.2 Reactive modes

Competitive pressures – the major reactive motive is competitive pressure on domestic market. The level of competition forces the company to export; for example other companies benefit from economy of scale when exporting abroad.

Domestic market is small and saturated – the small potential of domestic market can be another reactive impetus. Also when a product's life is at declining stage, the company can simply offer it abroad, instead of investing in the prolongation of life cycle.

Overproduction/excess capacity – similarly to small potential of domestic market, overproduction is when sales do not achieve the results as it was expected in the production plan. Excess in inventory brings high storage costs and company can solve this problem by expansion to other markets.

Unsolicited foreign orders – the promotion on the worldwide basis, for example on exhibition or journals, can result in foreign orders. If the amount of orders is significant, a company can react by going international.

Extend sales of seasonal products – a lot of products have some kind of seasonality on a specific market. The reduction of fluctuation in demand can be reduced by entering another market where the cycle is different from domestic market.

Proximity to international customers/psychological distance – the distance from foreign market is sometimes also factor influencing the decision of new market entry. When the company is very close to the border of another country, it does not perceive the entry as internationalisation.

1.3 Market Entry Mode Selection

The selection of proper market entry mode is a critical decision in the process of internationalisation. According to Hollensen (2004), there are three basic modes of entry to foreign market (8).

1.3.1 Hierarchical modes

Complete control and ownership of market entry mode are the main advantages of hierarchical modes. Despite of those advantages, companies also face high risk and low flexibility. There are different levels of hierarchical modes according to functions passed to foreign market. The risk and control factors increase with more function department abroad (8).

1.3.2 Intermediate modes

In the middle, between hierarchical and export, are intermediate modes. The difference is in balanced risk, control and flexibility. Generally, there are five main types of intermediate modes:

Contract manufacturing – this entry mode allows a company to have manufacturing directly in the country. Transportation costs are lower, products can be better customized to specific customers and sometimes there is a preference of national suppliers in certain countries.

Licensing – this is another mode with local production. The difference is that the contract is usually long-term and foreign manufacturer is more responsible because more functions are passed from domestic company.

Franchising – franchising mode is chosen very often when a company cooperates with higher number of small companies without higher experience in the field. The whole package of know-how together with the rights to use brand and to sell the products are sold to foreign companies.

Joint venture/strategic alliances – this mode is a partnership of two or more organisations cooperating together. They can share experience, know-how, technology or management skills and benefit from new opportunities. International form of joint ventures and strategic alliances is sometimes necessary for companies entering countries where national companies have to be involved in the business as well.

Management contracting – the management know-how is at present time very important and new form of partnership has been created. In this form of cooperation, one company usually supplies managerial know-how and other capital (8).

1.3.3 Export modes

There are two types of export modes – one is indirect, the other is direct:

Indirect export – is when a company uses the services of the organisation from domestic market. Companies do not operate on international market because the products are sold on domestic market and then exported by another company abroad. The main advantage is lower investment; less commitment is required and the risk is very low. Moreover, a company does not need experience with export; on the contrary, the control of *market mix* is low except the product and the company does not have direct contract with market.

Direct export – a company sells products to an importer from foreign country. The company can benefit from experience and contracts with customers because of better

market-environment knowledge. The shorter distribution chain is another advantage. On the other hand, the control is still not very high and investment into sales organisation is required. Transaction costs can occur as well because of different culture and problems with communication (8).

1.4 Competitive Advantage

Business strategy is concerned with establishing competitive advantage. Theory of competitive advantage was first published in 1985. To compete in any industry, companies must perform a wide range of discrete activities such as processing orders, calling on customers, assembling products, and training employees. Activities, as traditional functions such as marketing or R&D are what generate cost value for buyers (9). By analysing customer needs and preferences and the way in which companies compete to serve customers, we identify general sources of competitive advantage in an industry – the key success factors (10).

When a company thinks about a strategy, the company needs to know what can be its competitive advantage, due to the fact that competitive advantage makes the difference in the success between companies. Mitzberg and Lampel and Quinn and Ghosal (2003) mentioned not only competitive advantage itself but also sustainable competitive advantage, which is not easily imitated. As an example, company's skill which is rooted in coordinated behaviour of many people. Competitive advantage may lie in skills (i.e. collaboration of individual specialists) which are enhanced by their use (11).

Another type of competitive advantage is resources (i.e. patents, trademark rights, relationships with suppliers and distribution channels). Mintzberg and Lampel and Quinn and Ghoshal (2003) wrote also about the first mover advantage which allows to build exclusive distribution channels and to gain attention of customers as the first provider (11).

Companies use their strengths in the competition to gain a competitive advantage and according to Porter there are two ways in which it is possible: *cost leadership* and *differentiation* (12).

Cost leadership is a situation when a company follows the target of the lowest cost resulting in the lowest prices for customers. This strategy is very effective in the process

of selling standardized products. On the contrary, *differentiation* is more difficult strategy to be applied, which requires a continuous effort and diligence, not only of management but also of the whole company structure (12).

Kotler defined four possible roles in the market play by companies. *Market leader* is a company with the largest market share and often forces to price changes, introduction new products, etc. *Market challenger* is a company with increasing market share and it mostly has the power and motivation to be the market leader. *Market follower* becomes a company which protects its market share without risk of losing it. *Market nicher* is a company which is focused on looking for small niche in market.

1.5 Macro Environment Analysis

PEST analysis can be used for a proper description of macro environment. These factors affect a company from outside and in market entry they relate to the environment in foreign market, particularly in a chosen industry. Kotler divided influential forces into political, economic, cultural, technological, natural and demographic (see **Diagram 1**). Information gained from this analysis can play an important role in future management decisions. Tax changes, new laws, trade barriers, demographic change and government policy changes present just some examples of macro change (13).

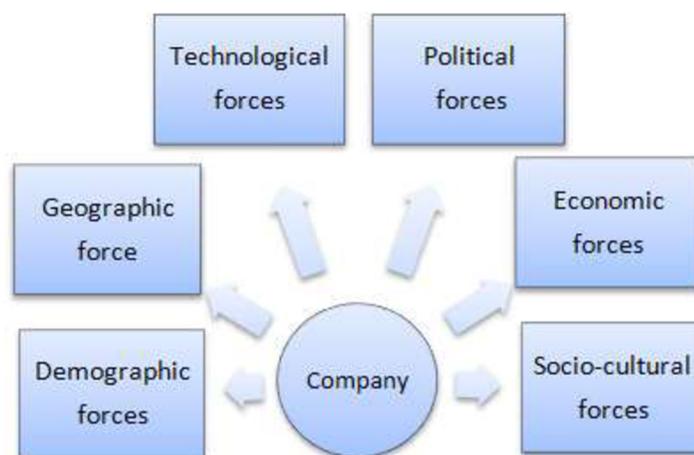


Diagram 1: Influential forces in industry according to Kotler¹

¹ Made by author according to Kotler

1.5.1 PEST Analysis

1.5.1.1 Political Factors

These refer to government policy such as the degree of intervention in the economy. What type of goods or services does a government want to provide, affect of extension for subsidizing firms, priorities in terms of business support. These decisions can impact many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure (road and railway system).

1.5.1.2 Economic Factors

These include interest rates, taxation changes, economic growth, inflation and exchange rates. These factors have a major impact on a company's behaviour when higher interest rates may deter investment because it costs more to borrow; strong currency makes exporting more difficult because it raises the price in terms of foreign currency. Inflation can provoke higher wage demands from employees and raise costs; higher national income growth may boost demand for a company's products (13).

1.5.1.3 Social Factors

Changes in social factors can impact the demand for a company's products and the availability and willingness of individuals to work. Ageing population has an impact on demand for sheltered accommodation and medicine has increased, whereas demand for toys is decreasing (13).

1.5.1.4 Technological Factors

New technologies create new products and new processes. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organization providing the products. Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology; in contrast MP3 players, computer games, high definition TVs, etc. are all new markets created by technological advances (13).

1.6 Industry Analysis

The particular industry segment, which was described in PEST analysis, needs deeper research.

1.6.1 Porters' five forces

Porter's five forces is a framework used to evaluate the industry in which a company has decided to operate. According to Porter (2008), five forces analysis can help understand managers the structure of the industry, to find position which is more profitable and not so vulnerable to attack (14). The job of the strategist is to understand and cope with competition. Managers often define competition too narrow, what occurs only among today's direct competitor; but the competition for profit goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants and substitute products. Extended rivalry that results from all five forces defines an industry's structure and shapes the nature of competitive interaction within an industry.



Diagram 2: the Porter's Five Forces² (14)

1.6.1.1 Rivalry among existing competitors

Competition among rivals is stimulated when one or more companies feel competitive pressure or when they identify an opportunity to improve their market position (15).

² Made by author

This situation creates an enormous pressure on price makers and services and highly limits the profitability of industry (14). Reasons for price competition include:

- Balanced competitors cause rivalry, what can be explained as a higher number of incumbents as a result of higher rivalry
- Slower industry growth limits the resources for an expansion of companies
- High fixed cost pressure stays on market and pushes companies to sell products under purchase price just because stimulate cash flow
- Diverse competitors have another activities which are difficult to estimate (16)
- Exit barriers keep companies in the market even when their earnings are low or negative returns

1.6.1.2 Threat of new entrants

When a market is offering high *return on investment* (ROE) attract more firms, what results more firms and less profitability (15). When the threat is high, incumbents must hold their prices low or boost investment to deter new competitors; on the other hand , when entry of new competitors is low, what means high limitation by barriers, which are advantages that incumbents have in relation to new entrants (14). Seven major barriers according to Porter are:

1. Supply-side economies of scale. New entrants face a cost disadvantage when existing competitors benefit from economies of scale.
2. Demand-side benefit of scale. Customers rather buy from existing suppliers than from newcomers. Reducing prices the newcomers can build up new base of customers.
3. Customer switching costs. The stronger relationship of the customers with existing suppliers the higher switching cost for newcomers. Newcomers must offer their product for lower price or highly differentiated product.
4. Capital requirements.
5. Incumbency advantage independent on size when advantage knows the local market.
6. Restrictive government policy.
7. Unequal access to distributed channels (14).

1.6.1.3 Bargaining power of suppliers

Powerful suppliers capture more value for themselves by charging higher prices and transforming the costs to the customers (buyers). This does not leave the space for higher margin for dealers. The power of suppliers is raised by following factors:

- The concentration of suppliers is higher than the one of buyers. This situation can occur if there is one central supplier who penetrated the market with his own distribution channels.
- The costs of switching suppliers are high. Standardized product offered the power of suppliers is lower; on the other hand, more sophisticated product gives more space for suppliers to negotiate better condition for them.
- When the offer of suppliers is highly differentiated, suppliers have enormous power on market and customers demand their products without considering other alternatives (16).

1.6.1.4 Bargaining power of buyers

While firms tend to maximize the return on investment, buyers prefer to buy at the lowest possible price. High bargaining power of buyers is very common in highly competitive industries with standardized products or in case when there are a low number of buyers on the market who have the power to purchase large quantities on their own. The following aspects increase the power of buyers:

1. Low number of buyers who are able to purchase a large proportion of industry's output
2. Little or no costs to switch to another supplier
3. High number of alternative products(15) (16)

1.6.1.5 The threat of substitutes

A substitute product which is capable of satisfying similar customer needs can play a significant role in customer decision making (16). Substitutes can be from the same field, or sometimes substitutes seem to be different but they satisfy the same needs. The threat of substitute increases high profit in industry only in case where substitutes improve trend of price/performance ratio.

1.7 Internal Analysis of the Company

It is necessary for good management decision of a company to know its strengths and weaknesses. To find out information, internal analysis of several areas will be examined.

1.7.1 Market position

Market position is a ranking of a brand, product, or company, in terms of its sales volume in relation to sales volume of its competitors in the same market or industry (17).

1.7.2 Products

Are defined as a “think produces by labour or effort” or the result of an act or a process. In marketing, a product is anything that can be offered to a market that might satisfy a want or need (18).

1.7.3 Company culture

A company culture is shared values and practices of the company’s employees. Company culture is very important because it can make or break company where company with an adaptive culture that is aligned to their business goals routinely outperforms their competitors (19).

1.7.4 Human resources

Human resources are a set of individuals who make up the workforce of an organization, business sector or an economy. In many European companies, the management neglects this factor and underestimates it. CEO of Toyota has a different approach – when being asked a question “if Toyota will substitute their employees by robots one day” – CEO answered that employees are their main assets.

1.7.5 Ownership

Ownership of property may be private, collective or common and the subject of property may include objects, land/real estate or intellectual property. Ownership in law is determined by owning certain rights and duties over the property. These rights and duties, sometimes called a 'bundle of rights', can be separated and held by different parties (20).

1.7.6 Financial situation of company

Using the statements show financial health of company as assets and liabilities. These indicators show us the wealth of the company and they can predict the future of the company.

1.7.7 Company vision and goals

Business must continually adapt to its competitive environment and there are certain core ideals which are steady and provide guidance in the process of making decisions.

- *Core values*

Core values are independent on the current industry environment and management fads. These values will not change if the industry in which the company operates change. For instance, values chosen to be advantageous are excellent customer service, pioneering technology, creativity, integrity and social responsibility.

- *Core purpose*

Purpose of a company sets the company apart from other companies in its industry and sets the direction in which the company will proceed. While a company exists to earn profit, it is important to know “*how*” the firm will earn its profit.

- *Business goals*

Business goals are the reasons in which company believes and prepares plans for reaching them. An example of a company goal can be the desire to become a leader in selling its product when the company prepares a plan how to reach this goal (21).

1.7.8 SWOT Analysis

The overall evaluation of a company’s strengths, weaknesses, opportunities and threats is called SWOT analysis and it involves monitoring of the internal and external environment (22).

1.7.8.1 Internal environment analysis

It is one thing to find attractive opportunities and another to be able to take advantage of them.

Strengths: Internal capabilities that may help a company to reach its objectives

A company's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. For instance:

- Patents
- Strong brand names
- Good reputation among customers
- Cost advantage from proprietary know-how
- Exclusive access to high grade natural resources
- Favourable access to distribution channels

The business does not have to correct all its weaknesses, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it possesses the required strengths or whether it should consider opportunities that mean it might have to acquire or develop certain strengths.

Weaknesses: Internal limitations that may interfere with a company's ability to achieve its objectives (22)

The absence of certain strengths may be viewed as weakness.

- Lack of patent protection
- A weak brand name
- Poor reputation among customers
- High cost structure
- Lack of access to the best natural resources
- Lack of access to key distribution channels

1.7.8.2 External environment analysis

A major purpose of environmental scanning is to discern new opportunities. In many ways, good marketing is the art of finding, developing and profiting from opportunities.

Opportunity: factor which gives ability to the company to exploit their advantage

- An unfulfilled customer needs
- Arrival of new technologies

- Loosening of regulations
- Removal of international trade barriers

On the other hand, some developments in external environment represent threats, what is a challenge posed by an unfavourable trend or development that would lead, in the absence of defensive actions, to lower sales or profit (22).

Threat: emerging external factor that can challenge the company's performance.

- Shifts customer taste away from the firm's products
- Emergence of substitute products
- New regulations
- Increased trade barriers



Diagram 3: SWOT Analysis³

³ Made by author

2 Problem Analysis and Current Situation

This part is focused on analytical evaluation of Unipetrol a.s. (Benzina) and its performance. Firstly, history and philosophy of Unipetrol (Benzina) will be introduced. For an analysis of external and internal environment, frameworks mentioned in previous chapter will be used. According to this chapter we would find out and identify the opportunities in the Ukrainian market, and the situation and its possibilities in broader context.

2.1 Company Unipetrol, a.s.

2.1.1 History

Unipetrol was established by the privatisation of the Czech petrochemical industry in 1994 and joined the selected Czech petrochemical companies into the conglomerate that would be able to compete with strong international groups. In 1995, Kaučuk, Chemopetrol, Benzina, Paramo, Koramo, Česká rafinérská, Unipetrol Trade, Spolana and Unipetrol Rafinérie were integrated into Unipetrol (23). (See **Appendix 1**)

Unipetrol is a leading refinery and petrochemical group in the Czech Republic and one of the major player in Central and Eastern Europe. Since 2005 Unipetrol is the part of the largest refining and petrochemical group PKN Orlen with shares hold by 62.99 percent (24). Unipetrol does not operate only in the Czech Republic; **Appendix 2** shows European countries where PKN Orlen operates.

2.1.2 Mission of Unipetrol (25)

- Processing of crude oil and wholesale of refinery products
- Petrochemical production and sales
- Retail distribution of motor fuels
- Energy independence

2.1.3 Strategy of Unipetrol

- Optimize and cost reduction
- Improve the price policy

- Continuously searching new customers in the Czech Republic and abroad
- Invest 3 billion of the Czech Crowns (61 percent into petrochemical industry, 26 percent into refinery and 9 percent into retailing services)

2.1.4 Unipetrol operates

- 3 refineries with a total annual capacity of 5.5 million tones and integrated petrochemical plant
- 3 polyolephyne units with a total annual capacity of 593 thousand tones
- Ethylene unit with a total annual capacity of 544 thousand tones
- More than 330 filling stations
- Logistic services (25)

Revenue and operating profit of Unipetrol

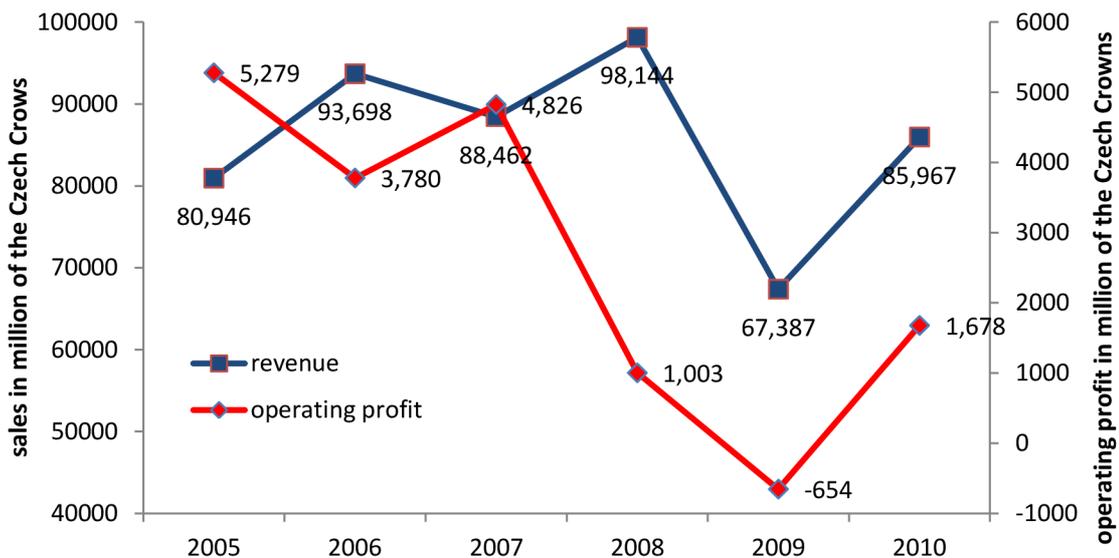


Chart 1: Revenue and operating profit in million CZK,⁴

This chart shows the volume of sales and operating profit of Unipetrol since 2005, when the company became the part of PKN Orlen. Chart shows huge decrease in sales and negative operating profit in 2009, what was caused by the Financial Crisis. Next volume of sales increased.

⁴ source: made by author, data from annual reports 2010, 2009, 2008, 2007 and 2006

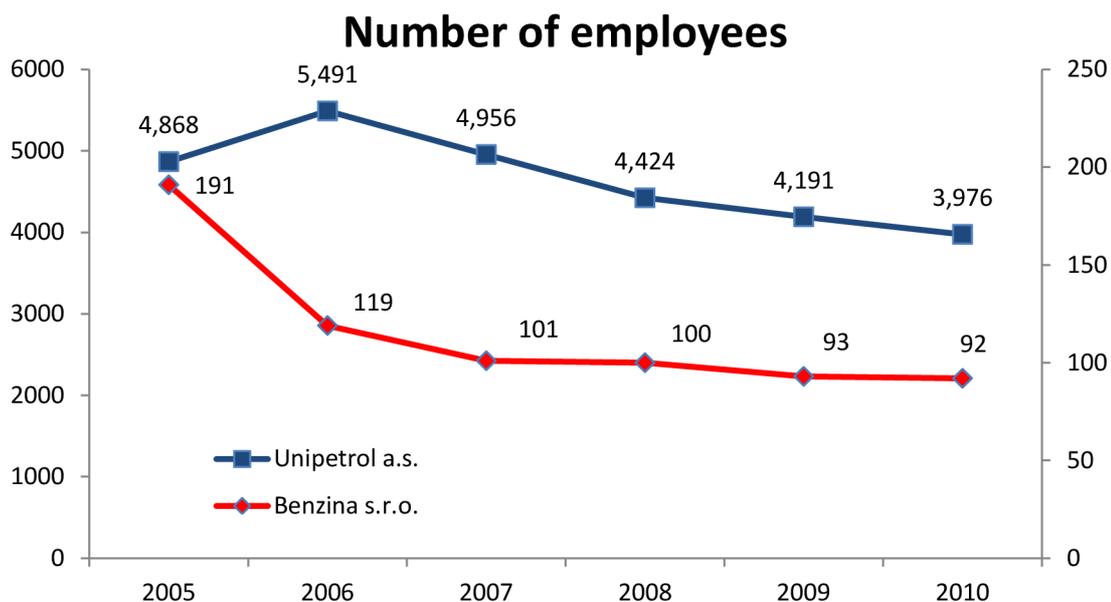


Chart 2: Number of employees in Unipetrol and Benzina⁵

The Chart 2 shows the number of employees in Unipetrol where is decreasing tendency what follows the strategy of the company, when company is trying continuously to optimize and reduce costs.

2.2 Benzina, s.r.o.

Benzina provides retailing of petrol products and has the largest nationwide network of filling stations in the Czech Republic with the number of station 337 in 2010 (see **Appendix 3**). Nowadays, the number of filling stations of Benzina is stable and company mainly invests into the renovation of older stations. Benzina offers special additive motor fuels and premium fuel under brand mark Verva and other goods and services. Benzina in the Czech market operates under two brand names – one is Benzina which is typical and older filling stations (offer typical fuels exclude premium), and Benzina Plus which is a modern filling stations offering all types of fuel including premium additive fuels Verva.

Benzina has been operating on the market more than 50 years and in 2010 increased market share in sales of motor fuels to 14.2 percent (see **Appendix 3** and **Chart 4**). This success is considered due to the fact of total number of petrol stations on market is

⁵ source: made by author, data from annual reports 2010, 2009, 2008, 2007, and 2006

steadily growing and the market share of petrol stations at hypermarkets is increasing (25) (26).

Motor fuels at filling stations offered:

Diesel fuels:

- Diesel TOP Q
- VERVA Diesel – premium additive diesel
- Bio diesel – mixed fuel with 30 % of RME

Automotive gasoline:

- BA 95 Natural
- VERVA 100 – premium high octane gasoline
- VERVA 95 – premium additive gasoline (26)

2.3 Internal Analysis of Benzina

2.3.1 Market position

Benzina is the market leader with a widespread network of filling stations in the Czech Republic. The number of filling station was 337 in 2011 and the market share was 14.2 per cent in the same year. The Czech Republic has the most widespread network of filling stations within the Central Europe; only in Austria the number of filling stations is comparable. The number of filling stations is 3.5 to 10 000 citizens in Austria, 3.4 in Slovakia and Hungary 1.5 and in Poland 1.8 (41).

According to spokeswoman of Benzina there is a limited space for building new filling stations, which is shown in **Appendix 3**, where the number of filling stations of Benzina is not rapidly growing. Benzina is more focused on improving services and modernisation of filling stations. On the market, the mayor players are Benzina (337), OMV (220 filling stations), EuroOil (192), Shell (172), PapOil (128) and Agip (124) (42).

2.3.2 Products

Benzina offers a wide range of motor fuels, oils and other services. In order to attract new customers, it produces high quality motor fuels and offers improved services on

their premium filling stations called Benzina Plus. Services offered to customers are fast food, washing line, air compressor, and shop with goods for refreshment of drivers. Premium motor fuels are sold under the name VERVA, what are high additive fuels saving engine and boosting the efficiency of the car (43).

2.3.3 Company culture

Unipetrol (Benzina) uses experience and best practices and adapts to different tradition and cultures of countries in which it operates. It uses the same main logo, colour and united image of the company where it operates. It is built on more than 50-year-old tradition and high quality home products. Unipetrol and Benzina uses company KPMG for financial auditing (3), (43).

2.3.4 Human resources

Unipetrol in the Czech Republic employs almost 5 000 people, while Benzina has 92 stable employees.

2.3.5 Ownership

Benzina as a company focused on retailing motor fuels of Unipetrol belongs 100 percent under Unipetrol. Since 2005, Unipetrol belongs under international polish conglomerate PKN Orlen with share 62.99 per cent as was already mentioned in the previous chapters.

2.3.6 Strategy of Benzina

Benzina has been exceeding its offers for high demand of premium motor fuels. Following the strategy from 2006, Benzina has been increasing market share to maintain financial stability of company. Key points of strategy are:

- Expansion of filling stations Benzina plus with focusing on new premium products
- Improving awareness of the brand Benzina (wide range of goods, fast-food and other services)
- Customer orientation – to fulfil their needs
- Expansion and improvement of services in all areas
- Effective targets focused on marketing activities (26)

According to the strategy of the whole concern Unipetrol and Benzina, the Ukrainian market will be analysed specially focusing on the optimization and costs reduction and search of new customers abroad and suitable strategy will be implemented to penetrate this market.

2.3.7 Financial situation of Benzina

The charts of financial situation of the company were made from the financial statements of Benzina which are available on the Czech portal www.justice.cz. Revenue of company has had a growing tendency, except for 2009, which was caused by the global financial crisis affecting the economies of the countries in the world. In 2011, Benzina almost reached the revenue as in 2008; in contrast, the operating profit has been declining since 2008 when it reached the top, and it still has not reached the position as in 2008. Nevertheless, the company Benzina is considered to be wealthy with good perspective for the future.

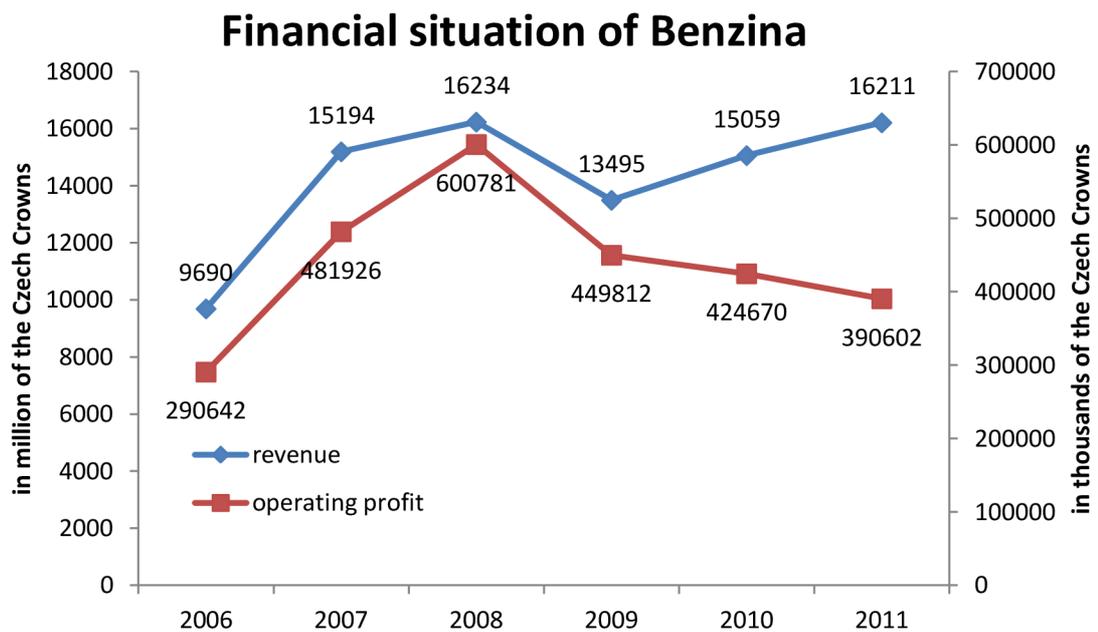


Chart 7: Some financial indicators of the company Benzina since 2006⁶

⁶ source: made by author, data from annual reports

2.3.8 Cultural gap

According to Geert Hofstede, the Chart 8 shows differences between the Czech Republic and Ukraine. The biggest differences consist mainly in power distance. Individualism versus collectivism and masculinity versus femininity and uncertainty avoidance are quite similar. In Ukraine, less powerful members of society expect and accept that power is unequally distributed much more than in the Czech Republic. People in the Czech Republic feel more uncomfortable with uncertainty and ambiguity. Ukraine shows little more relaxed attitude (44).

PDI: Power distance indicator indicates the inequality in the society and shows how the power is accepted among people. A high PDI indicates that the society accepts an unequal distribution of power and people understand their place; on the contrary, low PDI means shared and well dispersed power and people view themselves as equals.

IND: Individualism refers to the strengths of the ties people have with others within the community. A high IND indicates loose connection with people, lack of interpersonal relationships and little sharing responsibility. On the other hand, low IND indicates strong group cohesion, loyalty and respect within members of a group.

MA: Masculinity shows how much a society sticks with values, traditions and male and female roles. High MA means that men are expected to be tough, strong, to be providers and assertive. Low MA means that the roles are blurred. Men and women are working together equally across many professions and women can work hard to achieve success.

UAI: Uncertainty avoidance shows how members in the society deal with unknown or uncertain situations. With high UAI, nations try to avoid uncertainty whenever possible. In low UAI, nations enjoy novel events and values differences (45).

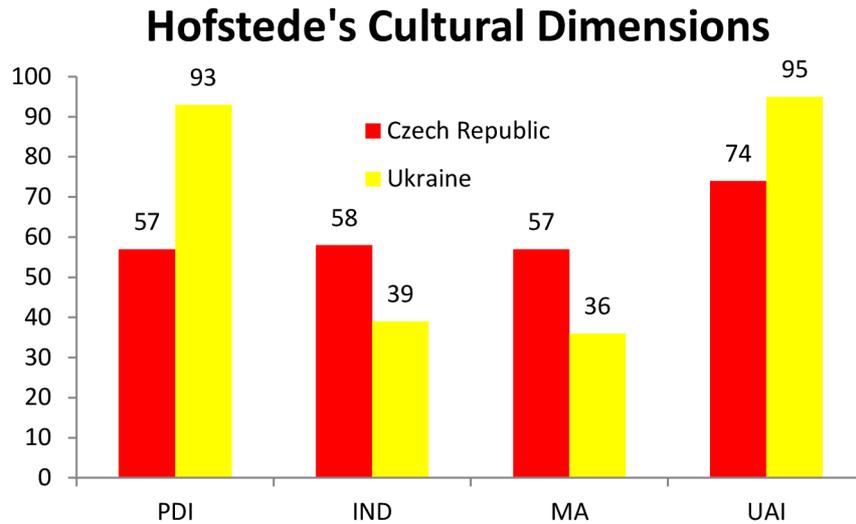


Chart 8: Comparison of the Czech Republic and Ukraine, main differences in Uncertainty avoidances indicator

2.4 PEST Analysis

Ukraine is located in the heart of Eastern Europe and occupies the land area of 603 700 sq km. Ukraine is the second largest country in Europe after Russia. It is bordered by Poland, Slovakia, Hungary, Moldova and Romania to the west, Russia to the East, Belarus to the north and the Black Sea to the south.

Ukraine achieved the final independence in 1991 with the dissolution of the USSR what was followed by the election of President Leonid Kravchuk (27). Ukrainians belong to the Slavic nations as Czechs, Slovaks and Polishes, but there are some specifications related to the country as far as the language and mentality of its citizens is concerned, what was caused by its participation in the USSR. For deeper understanding differences in the country was conducted the following SLEPT analysis.

2.4.1 Political factors

Ukraine is a republic ruled in accordance with the constitution adopted in 1996, with the capital city of Kyiv where are situated all fundamental governmental organisations. The head of the state is the President who shares the power with the Parliament. Prime Minister is appointed by the President on the recommendation of the party or parties holding the majority in Parliament. The Parliament approves the Prime Minister and

appoints the cabinet of ministers. In Ukraine the President holds the right to appoint the defence and foreign ministers (27).

The current President is Viktor Yanukovych elected in February 2010 and the head of the government is Prime Minister Mykola Azarov. His First Deputy Ministers are Valeriy Khoroshkovskyy, Borys Kolesnikov and Serhiy Tihipko and Rayisa Bohatyryova.

2.4.1.1 Foreign relations

Ukraine maintains peaceful and constructive relations with all its neighbours, where special relations are between Poland and Russia. Relations with Russia are complicated as a result of conflicted foreign policy as in energy dependence and payments, etc. Ukraine has signed the European Union's Partnership and is negotiating a free trade agreement. In January 2008, Ukraine requested a NATO Membership Action Plan. Ukraine is a member of the EBRD (European Bank for Reconstruction and Development), IMF (International Monetary Fund), World Bank and since 2008 World Trade Organisation (28). Visas are not required from entering country for less than 90 days from the most EU countries, including Russia and Belarus. Visas are required in purpose of permanent residency, study or work or if you are going to stay in Ukraine more than 90 days.

2.4.1.2 Trade partners and agreements

Ukraine has a strategic partnership with Russia, Belarus and Kazakhstan; although, agreement has not been completely implemented. Cooperation with the EU can be described as Partnership and Cooperation Agreement (PCA), but expected Free Trade Agreement would change the situation completely. Major export partners in 2008 were the EU – 28 per cent and Russia – 29 per cent and major import partners are the EU – 37 per cent and Russia 28 per cent (29).

2.4.1.3 Taxation in Ukraine

In Ukraine investors considerate some reduction of corporate tax rate, which has been reduced to 21 percent in 2012 and will be reduced to 19 percent in 2013 and to 16 percent in 2014. Government is focused on qualifying small companies which may opt to use a simplified tax system with very favourable conditions. The tax code in Ukraine

provides for a number of tax “holidays” and incentives. Some businesses are entitled to benefit from them:

- The publishing industry
- Investment funds
- The light industry
- Ship and aircraft-building industry
- Producers of machinery for agriculture
- Cinematography
- Oil and gas industry

These exemptions are up to 50 percent of profits. Ukrainian government also offers generous depreciation rates for most fixed assets as property plant and equipment (30).

2.4.1.4 Labour conditions in Ukraine

Ukrainian labour law still contains many socialistic concepts, which are based on strong employee’s right to work and restrictive conditions on employment. The government announced new Labour Code that shall be made in line with Western principals in June 2012.

In general, the working time is restricted to 40 hours per week with five days working week. It is allowed to work overtime in exceptional cases and the legislation requires overtime to be paid at double rates. Working week is limited to 36 working hours for employees working under harmful condition and while night shift as the day before the national holiday.

Minimal annual holiday is 24 calendar days and 31 calendar days for employees under the age of 18. Retirement age is 55 for women (it is planned to increase it to 60 within next 5 years) and 60 years for men (30).

2.4.2 Economic factors

Ukraine is granted a market economy status by the EU and USA. In 90s, the economy of Ukraine was declined as a result of deteriorating living standards and widespread poverty. The macroeconomic characteristics are considered as stable; and the currency hryvnia has remained relatively stable since 1996. The country has a wide potential in

industry and well developed scientific basis. Ukraine produces mainly heavy machinery, light and cargo vehicles, agrarian techniques, diesel locomotives, turbines, aviation and oil refinery equipment (31).

2.4.2.1 Economic growth

The unstable political situation in Ukraine hardly influences its economic development. GDP has been growing steadily since 2005 with an average growth rate 7 percent, but the growth was stopped during the global economic crisis in 2009 when the growth rapidly decreased -15 percent. In 2011, the GDP has been growing and reached 5.2 percent and with forecast 3 percent (32).



Chart 3: GDP growth in Ukraine since 1999⁷

The per capita GDP, at Purchasing Power Parity, in 2010 amounted USD 6700 which is 6 per cent increase compared to 2009 (33). The GDP is divided in the following composition by sectors – Industry 34.4 percent, Agriculture 9.4 percent and Services 56.2 percent (34).

⁷ Source: *index Mundi*

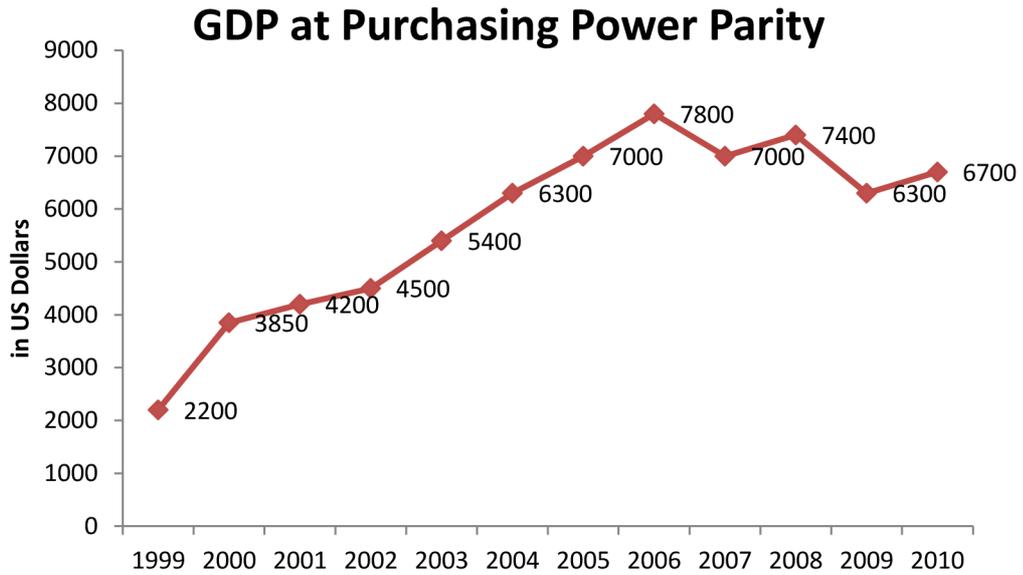


Chart 4: GDP (PPP) shows trend within the last ten years⁸

2.4.2.2 Inflation

Inflation is a major threat for the development of the Ukrainian economy. The inflation in Ukraine is very high; in 2008 it reached 25 per cent, while the forecast for year 2012 is 4.5 per cent.



Chart 5: Inflation in Ukraine is still considered to be very high, there is a declining tendency since 2008 when the inflation was over 25 per cent.

⁸ Source: index Mundi

2.4.2.3 Interest rate

The interest rate in Ukraine was last reported at 7.50 percent. Historically, from 1992 until 2012, Ukraine Interest rate averaged 47.09 per cent reaching all time the height of 300.00 percent in October in 1994 and record low of 7.00 percent in December 2002. Decision about interest rates is taken by National Bank of Ukraine (35).

2.4.2.4 FDI

Ukraine ranks 10th in Central and Eastern Europe (2006-2010) for the number of FDI projects (178) and number of created jobs (7 487) (see **Appendix 5**). In 2010, Ukraine attracted 31 projects and created 1150 jobs. Ukraine is the 3rd largest recipient for FDI in financial services in CEE. Industry sector grew by 11.5 percent in 2010, but Ukraine attracted only 3 percent of all industrial FDI into CEE. Major investors in Ukraine are the USA, the EU countries and Russia. For gaining FDI, investors expect improving infrastructure, increasing stability and transparency and investment in talent and innovations (36).

2.4.2.5 Economic rating

On March 15th 2012, S&P rating services revised Ukraine's long-term foreign currency rating from stable to negative "B+/B". The negative outlook reflects view of increased risks regarding Ukraine's significant fiscal and external refinancing needs, what is as result of unwillingness of government to make further structural improvements to the public finances (37).

2.4.3 Social factors

Ukraine population was estimated at 45.8 million people in the end of 2010, what is 6 percent lower than the population recorded in 2001 census. Five cities have a population close to or exceed one million people, including the capital Kyiv with 2.7 million people.

In Ukraine, dual citizenship is not allowed and Ukrainian nationals make up 78 percent of population, while Russian nationals 17 percent. More than two-thirds of the population live in urban areas. Females constitute 54 percent of the population.

2.4.3.1 Religion

The majority of population are members of one of the Orthodox Church, while 8 percent are Catholic, 4 percent are Muslims. The official language is Ukrainian, but the majority of people are bilingual and speak Russian and Ukrainian fluently. In business English is used.

2.4.3.2 Living standards

Income per capita has been rising, but average wages remain still low. Official monthly salary for employees in Ukraine was UAH 2 239 (USD 282) in 2010; while in Kyiv salaries are above 50 per cent higher compared to the rest of the country. Minimum rents in Kyiv are between USD 300-400 per month. Ukraine has been one of the fastest growing passenger car markets in Europe through the last half of 2000's.

2.4.3.3 Unemployment rate

In January 2011, the official unemployment rate was about 8 percent. Last three years it has been declining after the top achieved in 2009 caused by the global economic crisis.

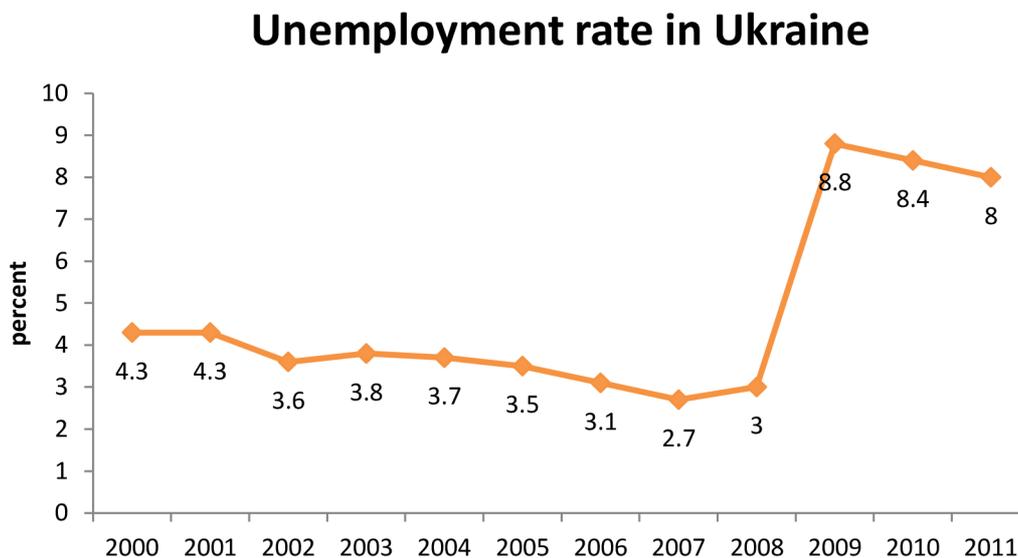


Chart 6: Unemployment rate in Ukraine since 2000

2.4.4 Technological factors

Technological factor is determined by the development of technologies as the Internet usage in the country has increased dramatically during the last years. In 2010, almost 44.59 percent of population used the Internet in Ukraine (38).

2.4.4.1 Higher education

The number of people with higher and general education is growing (28.9 million people, which are 17.6 percent more than at the time of 1989 census). The level of education is considered as one of the best in the Central Europe. Only in Baltic States and Hungary there is a higher number of students among 15 to 18-year-old. The number of college graduates has risen at 26 per cent, which is a positive sign for the future (39).

2.4.4.2 Research and Development

Companies in Ukraine have an advantage in R&D, which is developed not only in scientific research but also in software development. Over 14 percent of all enterprises in Ukraine were engaged in innovative activity according Ukrainian Statistic Institute. Ukrainian government divided 0.86 percent of GDP in research and development in 2009 (40).

Scientists in Ukraine have achieved world-class results in space science, new materials, engineering, biology, mathematics and physics and other. The science is built on the branches of Ukrainian economy: telecommunication, bio-technologies, nuclear physics, missile and tank engineering, shipbuilding and aircraft industry (31).

2.5 Porter's Five Forces

The following analysis is focused on examination of the Ukrainian market and its five forces: competition, customers, suppliers, environment and substitutes.

2.5.1 Threat of new entrants

2.5.1.1 Supply-side economies of scale

One of the main advantages is an existing and reliable structure of suppliers in the Czech Republic and other countries in which PKN Orlen (Benzina) operates, what can

bring economy of scale. Unipetrol has a strong power of negotiations margins from suppliers against competitors as a result of position of Unipetrol in the Czech market. This gives an opportunity to supply product to the Ukrainian market under very competitive conditions which are not able to get from suppliers in Ukraine.

2.5.1.2 Demand-side benefits of scale

In Ukraine has an existing customer base, and economy is growing what gives more space for new entrants and also Ukrainian market have been the most in growing in car selling segment in Eastern Europe. In Ukraine, customers appreciate a high quality products and quality services. Price is in many ways not so important, because in some ways customers think that what is cheap has a low quality.

2.5.1.3 Capital requirements

To set up good network in Ukraine of filling stations would be very expensive and capital needed for setting up its is in hundred million Euros. It would be necessary firstly to negotiate conditions with government and ask about donation from them. There are two ways how to enter the market; one is completely build up a new network of filling stations, what would be very costly; or the other option is to look for an underestimated smaller retailer of motor oils with quite good network of filling stations and buy them. Nevertheless, settled up retailer have same disadvantages, such as rebuild all filling stations, many cannot fulfil norms, etc.

2.5.1.4 Incumbency

The incumbent competition benefit from knowing the customers and their brand is in their unconscious. Entering the market in Ukraine has to be focused on building on good brand name, history more than 50 years and high quality and premium motor oils with perfect services. Market in Ukraine is huge as a country; so first, there is the need to focus on situating filling stations on the most frequent roads and highways and in big cities.

2.5.1.5 Unequal access to distribution channels

Benzina would not compare with the biggest retail companies offering motor fuels as Russian Lukoil. These companies have very dense network and good name on the

Ukrainian market. Benzina has to deal with this disadvantage and to use suppliers from the Czech Republic or from Poland to penetrate and build up competitive network of distributing channels.

2.5.1.6 Restrictive government policy

Ukraine is not a member of the EU. Regulation and policy and same legal points were drawn in PEST analysis.

2.5.2 Power of suppliers

Benzina is the part of PKN Orlen group when their products are mainly the companies from group, which are particularly specialised on production their main products as motor fuels. Suppliers for Benzina in this case are companies which would like to offer their products on filling stations. For example, Benzina Plus offers mainly premium fuels which belong to them and motor oils which are produced by PKN Orlen or Unipetrol and these companies have their own distributing channels. Power of suppliers in the Czech Republic is quite low, because Benzina one of the main players on the market and its market share allows them to negotiate prices which are convenient for them.

2.5.3 Power of buyers

Buyers of Benzina are drivers and various transportation and bus companies. Relationship among them is different and also their power to negotiate the prices. Small drivers do not have power to fight for better prices, unlike big transportation companies have. Small drivers can use only some filling cards where they collect points and these points can change for some discounts. While big transportation companies can negotiate better prices of fuels. Benzina has years of experiences on the segment and can easily identify the needs of customers, but there is one threat joint with Ukrainians when their behaviour can be different. Considerable number of studies has been conducted. One of these is the Hostede study in which differences among nations are shown, as well as define cultural dimension in society. Main differences between Czechs and Ukrainians were discussed in previous chapter.

2.5.4 Threat of substitute

Substitutes for oil industry in general include alternative fuels such as coal, gas, solar power, hybrid engines. But we cannot forget that oil is for more than running of vehicle and is used for materials from which are constructed cars. Most importantly a direct substitute for fuels does not exist at all. There are some experiments with hybrid cars which use electricity for running and save fuel and also hydrogenous engines, but still fuel is not fully substituted.

2.6 SWOT Analysis

Main purpose of this analysis is to identify strengths and weaknesses of Benzina and opportunities and threats on the market. If a company wants to be successful, it has to find out ways how to eliminate weaknesses and promote strengths.

2.6.1 Strengths

- Benzina is the part of Unipetrol, as strength is considered well-skilled management, who follow the vision and goals of Unipetrol
- Since 2005 Unipetrol (Benzina) is under the charge of polish refinery company PKN Orlen, this gives them higher power in region of Eastern Europe
- Focus on high quality products (premium additive motor fuels are sold under the name VERVA) and perfect services offer a widespread network of filling stations in the Czech Republic and other countries
- More than 50 years of experiences on domestic market
- Well established relationships with retailers and manufactures within Unipetrol
- Benzina has been growing last 5 years in market share; in 2010 it reached 14.2 percent market share in the Czech Republic

2.6.2 Weaknesses

- No previous experiences in Eastern Europe in fuel retailing
- Brand name well-known only in the Czech Republic and Slovakia
- Number of modern filling station across the Czech Republic is still not so high
- Management is from Unipetrol or from PKN Orlen, where they cannot so flexibly react to changes

- High prices of premium quality motor fuels can be considered also as weaknesses, because of lower purchasing power of citizens

2.6.3 Opportunities

- To get to the second largest European country after Russia
- Good growth and relatively low wages and growing purchasing power of people
- Extension of geographic diversification
- Prices of product are lower in Ukraine than in the Czech Republic, also taxes on motor fuels, what is better for customers
- Ukrainian government can support creating new job positions by tax reduction etc.
- To gain bigger income by expansion of activities in growing market
- Satisfy customers needs more efficiently if a subsidiary would be set up in Ukraine

2.6.4 Threats

- The currency hryvnia can be problem and changing exchange rate
- Different language and culture is not issue, but these aspects have to be taken into consideration
- Ukrainian market contains many threats which can grow slowly and can be uncomfortable for companies, and small companies cannot deal with them
- Slow judicial system and enforcement of law can be threat for international companies, what can lead to expenses joined with it
- Relatively high percentage of corruption
- Strong competition in this segment of retailing especially Russian Lukoil and Ukrainian retailers selling motor fuels
- Ukraine has a long-term problem with higher inflation rate, what can push on prices of products

2.7 Competitors in Ukraine

The presence of competition on market of retail fuel companies in Ukraine is significant factor in decision making of market entry. Enter Ukraine means to face the competition,

which have good name and wide network of filling station in Ukraine. Benzina has a strong and good name in the Czech market, what does not exactly mean a big advantage in Ukraine because customers are not familiar with this brand.

2.7.1 TNK-BP

Is one of the major Russian oil companies with 50 percent owned by BP. Company has a network of approximately 1400 filling stations in Russia and Ukraine. In Ukraine, over 600 filling stations operate under the brand name TNK-BP. The company in 2010 acquires chain of retail gas station in Ukraine Vik Oil for USD 313 Million. Vik Oil owned 118 fuel stations, 8 oil depots, 49 petrol tankers and 122 land plots in various stages of development (46). Nowadays TNK-BP has the most widespread network of filling stations in Ukraine. Market share of TNK-BP in Ukraine is 30 percent (47).

2.7.2 UkrNafta

The company owns and operates one of the largest chains of filling stations in Ukraine, number of 563 stations across most regions of the country consist 9 percent of total number of filling stations in Ukraine in end of year 2010 (48). According number of filling stations UkrNafta is the second biggest retail company in Ukraine.

2.7.3 Alliance (Shell)

Among main retail operators in Ukraine is Dutch huge conglomerate, which has total number of filling stations among Ukraine 460. The company owns 49 percent stake of Russian Alliance group and planning increase market share of filling station to 15 percent in next recent year (49).

2.7.4 WOG

WOG is one of the national companies which operate on Ukrainian market. This company offer special filling cards for customers and have 400 filling stations all over Ukraine. In 2011 and 2010 was a winner in nomination as “Petrol station network” and “Choice of the year” (50). Pride program offered by WOG means for customers in every purchase at WOG you collect point and these can exchange for everything you need in stores WOG (51).

2.7.5 Others

OKKO belong under concern Galnaftogaz a leading company with focus on retail of fuel and customers and services. Total number of filling stations is 330 in all main regions in Ukraine and in Crimea (52).

Alfa-NAfta large trader with about 300 filling stations were minority is owned by UkrNafta.

Lukoil is Russian giant and the 3rd largest non-state publicity trade oil company worldwide which operates especially in countries CEE and the USA (53). In Ukraine operates with 280 filling stations (54).

Russian giant Gazprom is not mentioned in table, because its strategy is to be major player in Ukraine with a network of 1200 filling stations in 2020. In May 2012 opened first two filling stations in Ukraine and planning increase the number of franchising filling station to 100. As we can see the strategy of Gazprom is very clear what shows how Ukrainian market is still very attractive for newcomers and there is huge potential for the future growth (55).

Table 1: Main fuel retail companies and their number of filling stations in Ukraine

Name of the company	Number of filling stations
TKN-BP	Over 600
UkrNafta	563
Alliance (Shell)	460
WOG	400
OKKO	330
Alfa-Nafta	300
Lukoil	280

2.8 Competitive Advantage

In this particular sector of industry the retail seller of fuels does not have as much possibilities from competitors as in other industries. How was mentioned in theoretical part, to keep competitive advantage company should focus on cost leadership or on differentiation. In retail of fuels Benzina would choice both ways to apply on existing market, as is in the Czech Republic where Benzina has a strong position in market. Benzina is market leader in the Czech Republic with higher market share 14.2 percent.

In Ukrainian market Benzina would compete with lower prices than competitors and with strong competition of huge conglomerates as Russian (Lukoil, Gazprom, TKN) and British (BP) and Dutch (Shell). In this market would be very difficult choose the way of cost leadership. For Benzina would be more efficient present itself as luxury fuels with high quality services and customers care. Company can build up on knowing of western policy of Shell who is present also in the Czech Republic. And present itself as Central Europe Company with closer sense of feeling to the needs of Ukrainians.

3 Proposals and Contributions of Suggested Solution

In this part of master's thesis will be evaluated the suitable mode of entry according analytical and theoretical part of work. Suitable strategy will be recommended for market entry of Benzina to Ukraine.

Triggers for market entry

Decision about go internationally is started by some triggers which start process of thinking, evaluating and implementing suitable strategy to entry foreign market. Proactive trigger which should started Benzina about go internationally is huge potential and market opportunities in Ukraine. Because Ukraine is second largest European country and huge emerging market which after disintegration of the USSR have great opportunities for Benzina how to use fast growth and growing wealth of citizens.

Another stimuli which would Benzina go internationally can be corporate tax which would be 16 percent in 2013 and Benzina would be benefit from it. How was mentioned in previous chapter Ukrainian government offers very favourable tax "holiday" for companies do business in some particular brands of industries as oil and gas industry.

Mode of market entry

According to Hollensen we know three basic modes of entry to foreign market, this step in decision making are very important and management have to select a proper mode of market entry. Intermediate mode has a company an advantage in balanced risk and controlled and flexibility.

For Benzina would be suitable thinking about joint venturing when Benzina would cooperate with one or two smaller retail fuel companies in Ukraine when they can share experiences, know-how, technology and management skills. This would be very beneficial for Benzina, when can choose smaller retail fuel company use their name and after some time rename whole network for Benzina. These joint venturing alliances are very common in Ukrainian market. Example is TNK-BP, what is alliance of Russian company and British company and also Alliance is joint venturing of Alliance Company with Dutch Shell. From this company as Benzina can benefit, because customers in

Ukraine are familiar with this domestic company. This alliance can decrease risk of refusing the new brand on Ukrainian market and can profit from experiences of domestic company.

Benzina belongs under Polish PKN Orlen and in the Czech market was made a project to observe the reaction of domestic customers to rename Benzina brand to PKN Orlen. After some one year experiment Unipetrol realized that Benzina has a strong name and history of filling stations and rename them to PKN Orlen would be bad decision. Czech customers are no familiar with polish brand name PKN Orlen and prefer competitive filling stations instead of PKN Orlen. Benzina as a small percentage of the Czech companies has a strong position and good brand name and drivers believe of the quality of fuels and use these filling stations (56).

Macro environment analysis

These factors affect from outside of the Benzina and in Ukrainian market put pressure on management in future management decisions. According to political factors current situation in Ukraine is very friendly and country maintains peaceful and constructive relations with all its neighbours especially with Russia and Poland. Ukraine is also member of important international organizations as IMF, WTO, and requested NATO Membership Action Plan etc. Ukraine is also strategic partner with Russia, Belorussia, Kazakhstan although agreement has not been implemented yet. Taxation in Ukraine very competitive and Benzina can request for some exceptions and tax holidays. These political factors can affect future forwarding of Benzina, but there is also high pressure for government from Western countries to decrease corruption and creating competitive conditions for entrepreneurs and investors.

Economy of Ukraine is still growing and considered as emerging country with relatively high growth 5.2 percent in 2011 and 3 percent in 2012 what gives positive stimuli for foreign companies. Growing GDP and wealth of citizens in purchasing power parity is since 1999 when had reached USD 2200 in contrast in 2010 reached USD 6700, what is over 300 percent more in 12 years. This factor shows how Ukraine is still growing and people can afford more goods and services, what is very positive for Benzina ant other companies The long-term problem of Ukraine is high inflation rate, which reached 8 percent in 2011 and 4.5 percent in 2012. Economic rating is went from stable to negative according S&P what is result of unwillingness of government to make further

structural improvements to the fiscal public finances. These negative factors can have a result of ranked 10th place in foreign direct investment in Ukraine among CEE countries in 2006-2010.

Social factors which can affect of decision making of company in entering the market can be living standards, which are relatively low in Ukraine USD 282 in 2010. For Benzina interesting fact is that Ukraine has been one of the fastest growing passenger car markets in Europe in last half of 2000's. Unemployment rate in Ukraine was about 8 percent what was due to the global economic crisis in 2009. Technological factors can be usage of the Internet when 44.59 percent of population use it in 2010. In Ukraine is relatively high number of people with higher education and still is growing. The number of graduates has risen 26 percent what is positive for the future. R&D in Ukraine is big advantage, when Ukraine is considered as developed in scientific research but also in software development. Ukrainian government divide 0.86 percent of GDP on research and development in 2009 and still there are pressures for increase percentage.

Internal analysis of Benzina

Internal analysis showed that Benzina has a strong position in the Czech Republic, good brand name, and history. Benzina operates in the Czech market with network of 337 filling stations and market share 14.2 percent what is number one in the Czech Republic. Main competitors in the Czech Republic are OMV (220) and EuroOil (192) and Shell (172) number of filling stations.

Benzina in the Czech market provides Benzina and Benzina Plus filling stations which are known with high quality motor fuels and services. Premium motor fuels are sold under name VERVA, which save your engine and boost efficiency of cars.

Benzina how was mentioned belongs under the Czech Unipetrol which is owned by polish PKN Orlen. Benzina profits from experiences in adaption to the different countries where this conglomerate operates. Strategy of Benzina is increase market share for maintain financial stability. Between key points of strategy are expansion of filling stations of Benzina Plus, continual improving awareness of brand Benzina with orientation on customers, and successful fulfilling their needs.

Financial condition of company Benzina is very good when revenue of company in 2011 was 16.2 billion of the Czech Crowns and operating profit 390 million of the Czech Crown, what gives space for whole company to Expand to foreign market.

According Geert Hostede who described differences between nations, where main difference between Czech and Ukrainians are in how people power distance, what indicates about inequality in society and how is power accepted among people. In Ukraine is higher this indicator what resulted that powerful people accept the less powerful, where people understand their place in society.

As a result of SWOT analysis the main strengths of Benzina are history over 50 years and experiences in domestic market and part of Unipetrol where company can profit from skilled management and PKN Orlen. Offers premium quality motor fuels and perfect services offered on widespread network of filling stations. As main weaknesses of Benzina are lack of experiences with Eastern part of Europe and higher prices of premium fuels can be for lower wealth of Ukrainians considered as weakness. Not experiences language differences and currency of hryvnia, and exchange rate. Between main opportunities which offers Ukrainian market are the second largest European country after Russia, what can be also considered as threat, because of distance. Emerging Ukrainian market with low wages and growing purchasing power of people. Ukrainian government offers tax holidays and decreasing corporate tax with favourable conditions for employing people. Threat of Ukrainian market is relatively high inflation rate, unexpected policy situation and problem with corruption. Very strong position in Ukraine of Russian companies as Lukoil and Gazprom.

Analysis of industry

For analysis of industry was used Porter's five forces framework. Threat of new entrants is medium. This brand of industry is very attractive for potential entrants. In the Czech Republic operates many private retail fuel companies, which sell fuels under their own brand. There is also risk about quality of sold motor fuels. Unipetrol has a strong position in the Czech market, and power of negotiations is relatively high. Also very good connection between Poland and Ukraine can give good opportunity for entering market in Ukraine and get better conditions. Ukraine is still emerging market with many opportunities and in this field of interest Benzina has open doors. Compared the population and size of country there is still many opportunities to entry market. In

Ukraine is growing segment of cars and customers appreciate for good quality of products and services. This should be priority of Benzina how to succeed in Ukraine. To eliminate pressures from customers would be the best solution for Benzina cooperates with some incumbency. Company would benefit from this cooperation and use suppliers not only from the Czech Republic or Poland but also some Ukrainian suppliers.

Power of suppliers for Benzina is relatively low, because main fuels are produced under Unipetrol or PKN Orlen, what is one big conglomerate. Main suppliers for Benzina are products which are common to get in filling stations (news, cleaning sprays, and equipment to the cars, oils, beverages and fresh food).

Power of buyers is also relatively low, because customers cannot negotiate prices of fuels or any products offer on filling stations. Some better prices can negotiate huge transportation companies which can get some agreement with Benzina.

Threat of substitute is low; these fuels cannot be substitute for other products. When you once have engine for diesel it is impossible to fuel it gasoline. To the future there is possibility and trends shows the pressure of EU to automotive companies produce new engines which are more efficient and consumption is also lower or use alternative environment friendly fuels as electricity or hydrogenous.

Competitors

Main competitors of Benzina in Ukraine would be TNK-BN, Russian-British retail Fuel Company with the highest number of filling stations over 600 and market share has reached 30 percent. The second biggest is UkrNafra with number of filling stations 563 what represents 9 percent of total number of filling stations in Ukraine. Alliance (Shell) is the third biggest retail fuel company in Ukraine with number of filling stations 460 and many others.

Important is mention how the foreign companies try to penetrate the Ukrainian market. Dutch Shell and British BP create alliance with domestic retailer or Russian and perform under double name. It shows careful step foreign companies afraid of unexpected behaviour of Ukrainians. Customers in Eastern part of Europe behave differently compared others (especially customers from the USSR). In case to decrease a risk of failure companies create strategic alliances with domestic company.

Companies sell products under double name of domestic and foreign brand-name for example TNK-BP (strategic alliance between Russian TNK and British Petrol) and Alliance Shell (Ukrainian company with Dutch Shell).

This should be also the best way for Benzina how to effectively eliminate potential failure of the new brand in Ukrainian market. Domestic company has widespread portfolio of clients and client are familiar with quality what gives foreign company advantage.

Risks and recommendation joined with entering to Ukraine

Entering the foreign market is very serious decision and put extremely pressure on management of the company. This decision firstly need conduct research and in many cases companies finally afraid to go internationally. Threat, fear and finally failure should stop the companies go internationally. To avoid the risk is necessary to know risks in foreign market to be better prepared for unforeseen circumstances.

How was mentioned in previous chapters and in analytical part of this work, Ukraine is emerging market what is very attractive for investors and companies but must be very careful in doing research to avoid failure in the future.

Main problems which cannot be forgotten by investors are currently not stable political situation what resulted in arrest ex Prime Minister Yulia Tymoshenko what can be taken from two perspectives. One is taken as a good signal for investors that Ukraine has a power to fight with corruption in higher structures. Ukraine and Island are two countries in which were politicians judged wrong decision and unfavourable contracts.

Another problem is fiscal policy when government does not have so much power to fight with debt what resulted in decreased raking by Standard & Poor's. Ukraine faces with higher inflation rate.

These economical factors should not be taken lightly and investors have to count with them. Benzina cannot affect political situation in Ukraine but positive is power of the government to change situation and attitude of foreigners and doing business in Ukraine very unpleasant.

Another risk which appeared in Ukraine should be problem with finding suitable partner for Benzina. In Ukrainian market act western companies which signed strategic alliance

with domestic fuel retail company to decrease risk of failure and protection of invested money . Strategic alliance how was mentioned should decrease risk of failing of new brand name in the market due to specific needs of Ukrainians. How was mentioned Ukrainians are specific customers which hold to domestic brands and goods.

To avoid mentioned risks is necessary to deeply understand Ukrainian customers and know the market and possible threats which can appear at any moment. Benzina should also count with competitors and follow trends in this industry.

4 Conclusions

Benzina has been using entering foreign market mainly for searching new places and exceeding sales. Good market which is suitable for entering is Ukrainian market, which offers favourable condition for setting up business. Also entering Ukraine has a future opportunity to expand to neighbours markets as Russia, Belorussia, etc.

Pre-step of Benzina should be conducted analysis to evaluate strategic decision about Benzina expanding to Ukraine.

PESTE analysis provided important information about external situation in the Ukrainian market. The situation forming political and economic point of view shows opportunities of Ukrainian market and some threats which would change the strategy of Benzina. Political factor shows Ukraine as a country which has many ills from socialistic ages, but what is important is the power of government to move forward and work efficiently to eliminate these ills, for better point of view new entrants. Economic aspect as the growth of GDP is good, but there is a concern about higher inflation rate and lower rating according Standards & Poor's which was due to the unwillingness of the government to control fiscal policy. According to social factors, the country has one of the higher percentage of people with higher education. The technologic factors were observed and Ukraine is obtained development in IT as well as software companies.

The competitors in Ukraine have a strong brand name and considerable market share. The main competitors are Russian-British alliance named TNK-BP and Alliance with Shell. These and others have strong position on the market and customers are familiar with the brand and services offered on their filling stations. For western companies, the Ukrainian market is very attractive, but they are very careful in entering this emerging market. To eliminate the failure of rejection of the new brand on the market, western companies cooperate with some domestic or Russian companies.

According to the previous chapter, we would recommend Benzina to enter the Ukrainian market, which is very perspective and conditions are favourable. And the best strategy for entering is strategic alliance with some domestic retail fuel company and promote as a partner who would offer premium fuels (Verva) when other fuels would be offered from domestic retail Fuel Company and high quality services. This method of

entry would eliminate unpredictable behaviour of Ukrainian customers. It means that in order to reduce risk Benzina should start with small investment and not try to build up the widespread network of filling stations, but focus on building up the good brand name with a lower number of filling stations, and only later invest into building up larger network of petrol stations.

5 List of Shortcuts

CEE	Central Eastern Europe
EBRD	European Bank for Research and Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KPMG	One of Big 4 Auditory Company
NATO	North Atlantic Treaty Organisation
PCA	Partnership Cooperation Agency
ROE	Return on Equity
UAH	Ukrainian hryvnia
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation

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7 Appendixes

7.1 Appendix 1

7.1.1 The structure of Unipetrol

On the scheme is shown structure of Unipetrol in the Czech Republic. In work we would focus on Benzina s.r.o. with 100 per cent owned by Unipetrol.

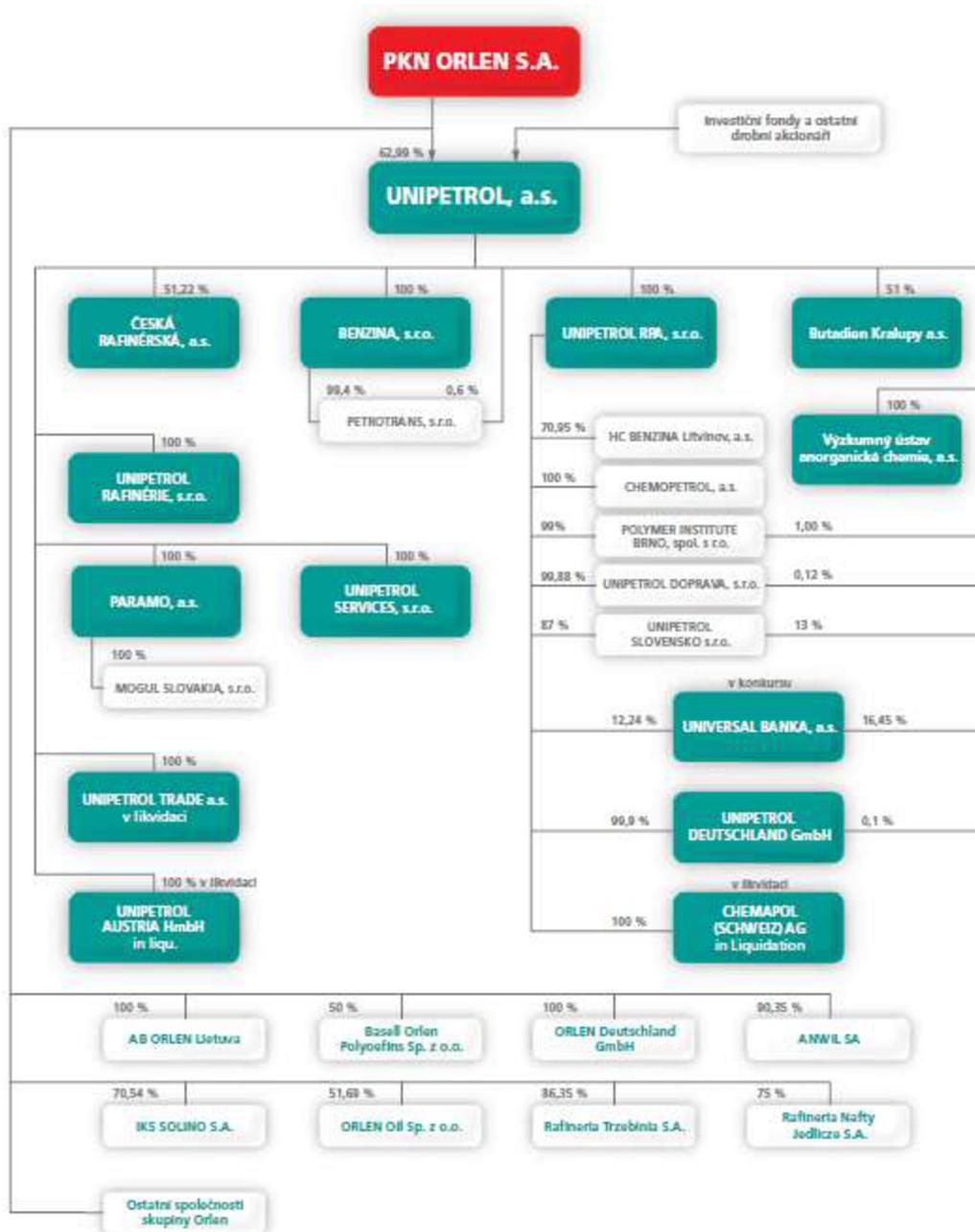


Figure 1: Company asset structure⁹ source: download from annual report 2010 (25) (26)

7.2 Appendix 2

7.2.1 Countries of group PKN Orlen

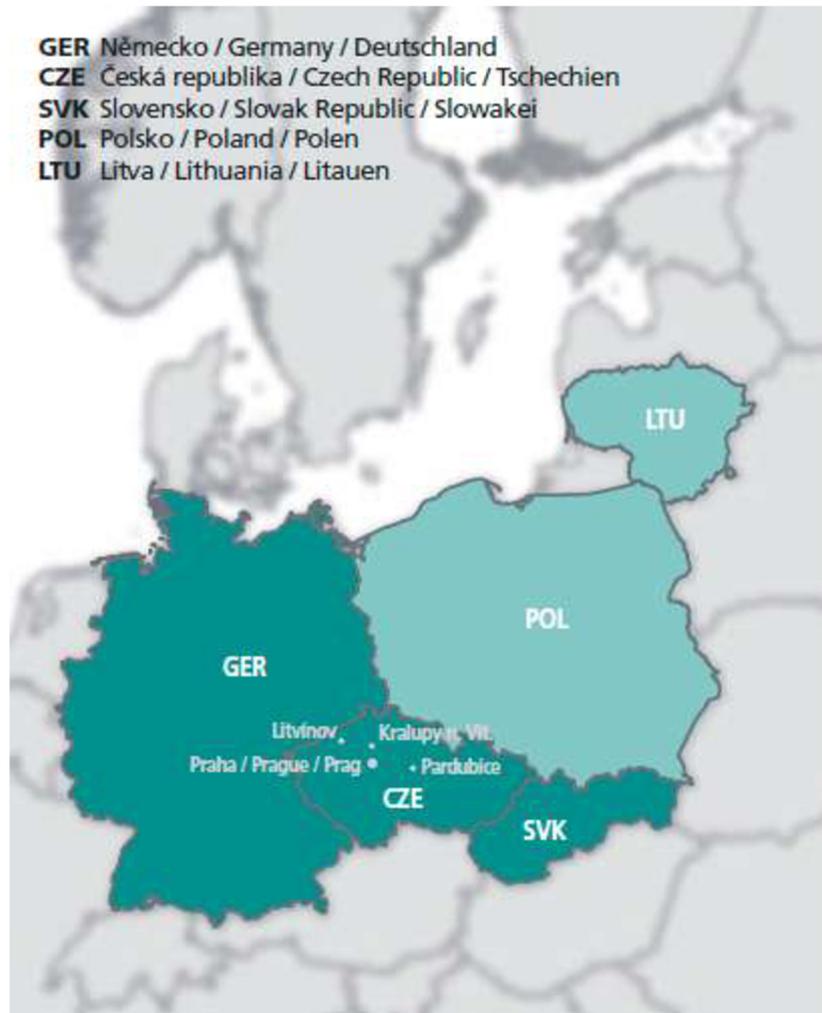


Figure 2: Map of EU countries of Unipetrol¹⁰

⁹ source: download from Unipetrol Group Profile (24)

¹⁰ source: download from Unipetrol Group Profile (24)

7.3 Appendix 3

7.3.1 The map of Benzina



Figure 3: Map of Benzina filling stations in the Czech Republic (25)

7.3.2 Numbers of filling stations in the Czech Republic

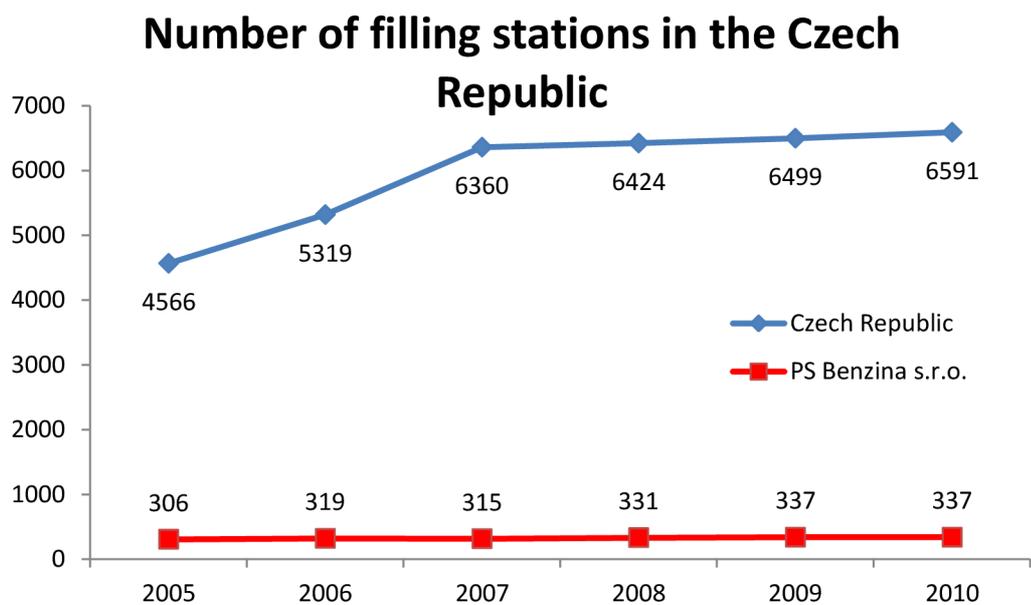


Chart 3: Amount of filing station in the Czech Republic and Benzina petrol stations (26)

7.3.3 Market share of Benzina

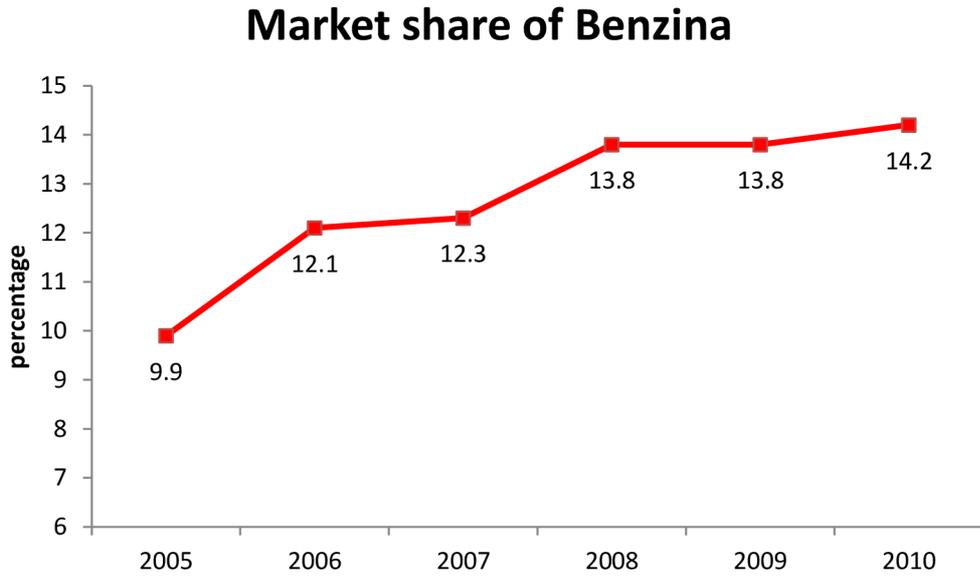


Chart 4: Market share of Benzina in retailing of motor fuels in last several years. (26)

Chart shows continuing increasing market share in selling motor fuels of Benzina s.r.o.

7.4 Appendix 4

7.4.1 Public debt in Ukraine (% of GDP)

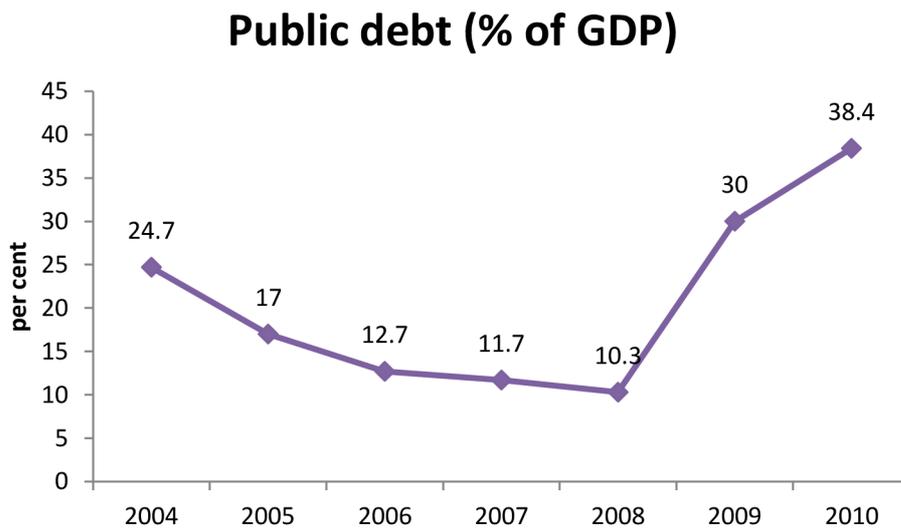


Chart 5: Public debt of Ukraine reached the bottom in 2008 and in 2009 increased more than 200% per cent annually what was affected by negative GDP (-15 per cent) and the Economic Crisis

7.4.2 FDI in CEE in 2006—2010

Rank	Country	FDI projects 2006-2010	Share of total	Jobs created
1	Russia	740	16%	55,768
2	Poland	719	16%	85,003
3	Romania	572	12%	49,409
4	Hungary	495	11%	49,873
5	Czech Republic	416	9%	47,055
6	Bulgaria	247	5%	18,167
7	Slovakia	243	5%	37,179
8	Turkey	231	5%	20,532
9	Serbia	200	4%	25,636
10	Ukraine	178	4%	7,487
	Other	580	13%	25,504
	Total	4,621	100%	421,631

Ukraine is ranked 10th place in number of project in 2006-2010. Total number of project was 178 and jobs created almost 7 500.