

REVISTA STUDENȚILOR ECONOMIȘTI SIBIENI

Paper presented on the 24th International Economic Conference – IECS 2017

"60's Rise Of Modern Europe"

ISSN: 1584-4366

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All the papers of the present volume were peer reviewed by two independent reviewers of The Scientific Committee of the IECS 2017 Conference. Acceptance was granted when both reviewers' recommendations were positive. All papers were presented at the IECS 2017 Student section. The papers of this volume are full responsibility of the authors.

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Web: <http://economice.ulbsibiu.ro/revista.studentilor>

Language: English

ISSN: 1584-4366

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THE EVOLUTION OF TECHNOLOGY AND HOW THIS AFFECTED RETAIL

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Abstract

The aim of this paper is to present technology's development, in recent years, and its impact on retail. Technology is constantly evolving, impacting our lives. Our children learn very fast to use a mobile phone, a laptop and the Internet. In this context, we need to know the evolution and we need to learn how we can control our lives in social media because the internet is not a safe place.

Keywords: retail trends, evolution, technology, Internet, digital-commerce

1. Introduction

Technology has always influenced the economy because, as humans we have to communicate in our day-to-day activities. Thus, technology enables us to communicate easily and efficient in any field. In this context, retailers are forced to keep up with recent changes, as the digital commerce continues to evolve.

“Retail as the third space” is one of JWT’s 10 trends for 2011 and is rapidly accelerating as e- and now m-commerce become habit for consumers. Digital commerce is forcing retailers to rethink the entire shopping experience they provide customers, focusing on unique environments and customer service, in order to give shoppers new reasons to spend time in these spaces.

Transactions are not simply moving beyond physical stores to the digital space-rather, brands are getting increasingly creative in where and how they sale their goods now that almost anything can be a retail channel, thanks largely to mobile technology. (JWT Retail Rebooted 2013)

“As data analysis becomes more cost efficient, the science gets more sophisticated and consumers generate more measurable data that ever, retailers will increasingly be able to predict customer behavior, needs or wants. The race is now on to master the art of tailoring offers and communications very precisely” (JWT, 2013, p.3).

2. Retail as the third space

Retail is growing fast, and as a consequence of the digital commerce evolution, it begins to focus on:

- Redesigning spaces to be more visually appealing and comfortable
- Providing amenities like free Wi-Fi or charging stations
- Creating reasons to settle in for a while
- Making customer service more personalized or specialized
- Offering an array of special events and free classes
- Creating stores that are attraction in themselves in order to attract shoppers.

Consumers got used to research and order goods on the web because it's easy, quickly and accessible. Thus they don't really need to leave their homes, which puts a lot of pressure on the traditional (brick-and-mortar) retailers.

For example, buying books is now easier than ever thanks to the existing technology (e-books). Because consumers can download them on their preferred devices (laptop, e-book reader, even mobile), they don't

need to visit a traditional bookstore. Thus, this type of store begun to think of new reasons for customers to visit them: customers can read the books within the bookstore, not having to buy them; most of them include a café and/or children's reading/playing areas or host community events.

For retailers who focus on kids, physical space is more important for forging memorable experiences than showcasing their products. Thus, more retailers have rebranded their stores. For example, Disney has rebranded its stores as Imagination Parks where visitors can customize purchases, play in a child-size-castle, and select and view clips. Also, Barbie stores have a beauty salon for girls, fitting rooms where girls can play dress-up and a photo studio that lets them capture their look.

Even financial institutions are being forced to rethink their space because more customers use mobile or internet banking. In this context, the financial institutions organize seminars and workshops on financial topics, offer coffee and free Wi-Fi, even discounts for students.

3. What it means

“Shoppers prefer the store because it's a place for exploration and dreaming. Consumers often feel overwhelmed by the abundance offered online and want retailers to curate and create unique spaces infused with fun and novelty, a place where new lifestyles can be explored and there's always something to learn. The store is the best place for brands to create a completely immersive, holistic, and fun experience for consumers.” (Stephen Jay, managing director, North America, in JWT, 2013, p.10)

Retailers need to grow the interaction between the client and the physical product, offering A-plus service and experiences—education, entertainment, sensory stimulation, a place to relax. They need to create a unique „experience”, like exploring a unique environment, talking about or testing a product, connecting with costumers or staff with shared interests, or receiving a service of some kind. Thus, for many retailers, the aim will no longer be simply talling as many transactions as possible. Instead the physical store is a crucial complement to their online offering. Some retailers transformed the physical space in showrooms.

4. Predictive personalization

The Internet and the social media help retailers collect information about customers: what they search for , their expectations, etc. This knowledge enables them to make personalized recommendations, for example those suggested by Netflix or Amazon.

With data now abundant, as well as cheaper and easier to collect, share and analyze, data-based decision-making is becoming more common across business functions. Leading-edge companies— from tech giants like Amazon and Facebook to retailers like Target and Walmart—are using data in their decision-making process, allowing for faster and better-informed actions and reactions. (JWT 2013, p.14).

Some retailers have started using loyalty cards for costumers, offering customers discounts or coupons (for example: when using a Sensiblu loyalty card, for buying medicine, customers accumulate points which can be used for paying).

At the same time, retailers that interact and create bonds with consumers in online, by contests and offers, will have more sales. Also, some retailers use „Beacon technology”, small transmitters than interact with mobile devices and update passing shoppers via gadgets carrying their app on promotions and products.

5. Consumers

Most consumer prefer to be treated as individuals, not just in terms of the demographic segment, age, sex, especially the youngest who already consider personalization the norm.

According to JWT's survey of American and British consumers from 2012, 56% w of the surveyed customers would feel creeped out if a retailer began sending offers tied to an impending milestone such as

graduation, marriage, work promotion, etc. Around two-thirds of the respondents said the idea of customized offerings gleaned through data collection feels like Big Brother is watching, and that the idea of companies predicting their needs or customizing offers based on personal habits and preferences is anxiety-provoking. (JWT, 2013, p.19)

In this context, Transparency will become increasingly important for companies that leverage consumer data. They will need to explain what digital data they collect and why, then assure consumers they're to be trusted with the information.

6. What are the most innovative developments in technology?

- Shoppable walls, boards and screens → for example: Homeplus (the name of the Tesco store in South Korea) has created a shop on the walls of a metro station. In order to shop, consumers scan QR-coded items and pay with their smartphones, the purchased items being delivered to their door. Another example is the “virtual pop-up toy store” created by Mattel and Walmart Canada in Toronto underground walkway. The store, comprising two walls of 3D images featuring QR codes, aims to revolutionize what it means to window shop;
- Buying shopping with interactive showcases (touchscreen + QR codes);
- Making social media shopping (Facebook and Twitter commerce);
- Making purchases using magazine advertisements or an outfit on the street (with applications such as Inspo, ASAP54);
- Making purchases while viewing certain videos (shoppable ads);
- Shoppable magazines or shoppable windows, where one can take a picture with items and then their prices are shown on screen;
- 3D Printing Reaches Retail, customers could design items and have them created in store or get replacement parts printed. For example: Amazon, Maplin Electronics and Staples.

7. Conclusions

- As regards the openness to purchase, in the UK, about 40% of the British adults would use touch-screen displays in public, about 30% would use their phones to scan codes on images of items displayed on billboards that they pass by, 34% would click a button on their TV remotes to instantly buy the goods they see on TV programs or commercials, 35% would click links on an online video to instantly buy the goods they see, and 32% would use their phones to scan images in a magazine in order to instantly buy the goods they see in articles or ads (JWT, figure 3D-3E).
- Men have more confidence in using phone applications than women, because men are more skeptical about the security of this applications.
- Nowadays technology is very important because it is constantly developing.
- Everything will be digitized; the checkout will not exist anymore.
- From cars and houses that respond to any demand from the owners, to devices that think about them, everything will be digital. “Imagine the day the entire African continent will be digitally connected” (www.mediafax.ro).

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ADDING VALUE IN GLOBAL B2B SALES. STRATEGIC DIRECTIONS AND THE HUGE ROLE OF THE INTERNET AS A DRIVER OF COMPETITIVE ADVANTAGE FOR THE B2B INDUSTRY.

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Abstract

The following article is focused on strategic directions and the role of the Internet for the B2B sector in the global industry. In this context, I analyzed the development and implementation of new solutions and their effects on the competitive environment.

The main objective of this study is to investigate the effects of selling strategies on the sales performance of companies from the global B2B sector. The findings emphasize the role of developing effective selling strategies in order to add value and to improve sales performance. Moreover, the “fit” concept was applied to the relationship between B2B e-commerce sales integration and performance.

The results showed that integrating the activities conducted on the internet, led to performance improvement, satisfying the need for B2B companies to actively manage demand uncertainty. Thus, recognizing these elements and the rate of their influence will enable the top managers of businesses to use suitable and effective strategies for preserving and retaining customers.

Keywords: B2B, E-commerce, Performance, Strategies, Value, Internet

1. Introduction

Growing up, maybe all children heard of the story of Christopher Columbus: *“In fourteen hundred ninety-two, Columbus sailed the ocean blue. He had three ships and left from Spain; He sailed through sunshine, rain and wind...”* Beside this story, and more important, his infamous thinking regarding the fact that the world is flat is the most notable. Of course, he was not right when it came to the physical shape of the world, but his theory does have value if we think in terms of global competition that occurs in business. The huge global competition has allowed businesses to buy and sell their services internationally. This opens the door to increased profits, and also flattens the playing field in business.

Furthermore, the result of successfully activating in the global market has its benefits, but it is not without its challenges. Companies are seeing that what works domestically, does not always work internationally. Thus, business owners should take into consideration and to analyze selling strategies that positions their company’s brand, product or service to gain a competitive advantage.

Nowadays, the world is shrinking, the rhythm of change is quickening, funding is decreasing and you are under continuously pressure to achieve more stated goals with less, and at the same time to deliver improved quality. That situation can be also noticed in the B2B market.

We can define business to business, or B to B (B2B), as being a type of transaction that occurs between businesses (for example a transaction involving a wholesaler and a retailer). Moreover, B2B refers to activities that are conducted between companies/ organizations, rather than between a business and individual consumer.

Successful selling strategies help the sales force from B2B market to focus on the target market customers and to communicate with them in meaningful and relevant ways. Therefore, sales representatives have to know exactly how their products or services could solve customer problems or could fit their needs.

Drawing upon contingency theory “fit” research in the IT and sales strategies literature, I applied the “fit” concept to the relationship between B2B e-commerce sales integration and performance. The results demonstrated that integrating the activities conducted on the internet, led to performance improvement, satisfying the need for firms to actively manage demand uncertainty.

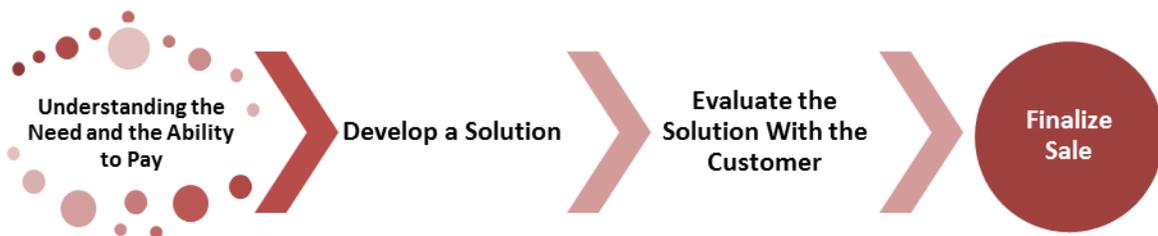
2. The B2B Sales Process

Using simple terms, we can describe a sales process as a systematic approach that involves a series of steps, enabling sales force representatives to close more deals, increase margins and sell more.

The “series of steps” should be customer-centric (in our case: businesses) and help the sales force of a company attract potential customers, retain existing clients and increase sales volume as well as revenues. The involved steps are systematic and also not haphazard. The random acts could produce random and uncertain results. Regarding sales, the random acts can be used sometimes, but a systematic and well-defined best practices approach can provide predictable results.

The process for selling to companies implies some differences compared with the traditional consumer sales. In order to understand the process, we have to analyze the steps involved in a business-to-business (B2B) selling process (figure 1).

Figure 1. The B2B Sales Process



Source: Personal Sketching

2.1 Understanding the Need and the Ability to Pay

In the past decade, some research on business solutions in the field of business-to-business marketing has expanded notably, reflecting the significant shifts in business development and marketing practices across industries. As competition increases and customer needs become more complex, product companies seek to differentiate themselves by providing customer solutions rather than stand-alone goods or services.^{1,2}

¹ Davies, A.; Brady, T.; Hodbay, M. (2006), *Charting a path toward integrated solutions*, MIT Sloan Management Review, 47(3), pp. 39–48

² Nordin, F.; Kowalkowski, C. (2010), *Solutions offerings: A critical review and reconceptualisation*, Journal of Service Management, 21(4), pp. 441–459

Any business owner should understand the problem that the prospective customer is trying to solve, or the customer needs and wants. Of course, the second important aspect that should be analyzed is represented by the client ability to pay for the product or service demanded.

Demand represents the economic principle that describes a consumer's desire, willingness and its ability to pay an amount of money for a specific good or service. Thus, a company in the market economy survives by producing goods that are in demand by customers. Consequently, ascertaining customers demand represents a vital element for a company's future viability.

In these days, businesses have a customer focus. Taking into consideration this approach, consumer needs and wants could be the drivers of all strategic marketing decisions. Therefore, no strategy is realized until it passes the test of consumer research. Every aspect of a market offering, including the nature of the product itself, is driven by the needs and wants of potential consumers, more exactly the demand of the targeted market.³

2.2 Develop a Solution and Evaluate it with the Customer

According to Sawhney, the solution development process starts with the analysis of a customer problem — defining customer outcomes and mapping customer activities — and ends with the identification of products and services needed to solve the entire problem, before moving on to the integration/implementation stage.⁴

Once the company understands the prospects' needs and financial means, the business owners need to evaluate the various products and/or services they have to offer and develop a personalized solution for their clients that fits both their needs and budget.

Actually, selling is about solving customers' problems, and satisfying their needs or wants, whether those represent problems customers are currently facing, or problems they will face as their marketplace evolves and their needs change. In recent formulations, customer solutions represent goods and service components integrated together into personalized combinations, which in turn are embedded in longitudinal, relational processes between the business customer and supplier.⁵

The customized solution should be shared with the potential customer, generally in a meeting where the solution is presented and all customer questions can be addressed. Furthermore, the solution could be modified with customer input prior to finalizing.

2.3 Finalize Sale

Once the terms are agreed on, a contract, or a purchase agreement, is signed to finalize the agreement. The responsible person sends the final proposal over to the client (the other company), along with a contract they should sign and return to begin the process. Once the signed contract is received, the sale is complete and the implementation process can begin.

³ *Customer Wants and Needs*, 18.10.2016. Available at: <https://www.boundless.com/marketing/textbooks/boundless-marketing-textbook/introduction-to-marketing-1/introduction-to-marketing-18/customer-wants-and-needs-107-4453/>

⁴ Sawhney, M.; Wolcott, R.C.; Arroniz, I. (2006), *The 12 different ways for companies to innovate*, Sloan Management Review, 47(3), pp. 75–81

⁵ Tuli, K.R.; Kohli, A.K.; Bharadwaj, S.G. (2007), *Rethinking customer solutions: From product bundles to relational processes*, Journal of Marketing, 71 (July), pp. 1–17

Of course, for a seller, exploring the possibility of up selling and repeat business represents other two important aspects. The seller has to analyze if he/she could implement a repeated activity through adequate customer satisfaction and proper follow up. According to recent research, it could cost five to eight times more to gain a new customer than selling to an existing one.

3. B2B Selling Strategies

As we already know, the past decade has been a challenging one for B2B marketers in North America and Europe. Because of the worldwide financial crisis, the cheap Asian competition and the rise of online marketing and commerce, most markets became more competitive than ever, putting huge pressure on margins. Moreover, in many companies the response to these challenges has been one of resignation – they accepted that prices have to be lower, margins squeezed and businesses less profitable. The way companies sell to and buy from each other is changing. Whereas some trends were emerging before the recession, the downturn has accelerated the adoption to create a truly different B2B sales environment.

Successful B2B organizations measure, test and act based on a constant flow of data. But we have to take into consideration that there is a subtle difference between data and information. Therefore, data represents the details or facts from which information is derived. Moreover, individual parts of data are rarely useful alone. Thus, in order to transform data into information, data needs to be put into context.

B2B sales data result from a great CRM process, internal surveys, sales automation and marketing tech, customer feedback and, last but not least, from the bottom line financials. All these data should be carefully managed in order to obtain meaningful information.

According to Michael Porter from Harvard Business School, *“strategy is the creation of a unique and valuable position. Strategy involves making trade-offs. The essence of strategy is to choose what not to do. Strategy is (also) about combining activities. Competitive advantage grows out of the entire system of activities”*.⁶

3.1 Focus on Market-Driven Strategy

“At the core is the identification of the existing and potential customer base, an understanding of underlying heterogeneity and the evolving needs and wants of target segments. Next is the response to segmentation, namely guidelines for the development of products and services, and their associated positioning to meet the evolving needs of the target segments. Finally, the product positioning provides the foundation for the rest of the marketing strategy and the processes, resource allocation decisions and other activities of the firm”.⁷ B2B marketers clearly understand that segmentation is all about combining different propositions against groups of customers with different needs. Therefore, segmentation facilitates customer choice.

Customers are more demanding, they expect more complex and more personalized solutions on the one hand, but cheap, quick and simple transactions on the other. What this means for companies from the B2B sector is that they increasingly need to develop a multichannel model.

3.2 Selling Outcomes Instead of Products

Consumer researchers have long recognized that selling outcomes, instead of selling products and their features represents the key to obtain higher margins. Nowadays, perfume companies sell romance, or elegance, or both; companies that used to sell sports clothes, provide dreams of success; and so on. Actually,

⁶ Porter, M.E., Harvard Business School

⁷ Wind, Y.J.; Bell, D.R. in Baker, M.J.; Hart, S. (eds.) (2008), *The Marketing Book*, 6th Edition, Chapter 11: Market Segmentation, p. 222

these kinds of outcomes are valued far more by customers than the actual products that achieve these outcomes.

Business-to-Business customers are similarly looking for outcomes: for example, a buyer of IT application might need greater business efficiency. Hence, product features may be used to underlie the outcome that is being sold, but should not be part of the message per se. Furthermore, rather than assaulting the customers with a simplistic price-quality message, B2B businesses must take on the role of storytelling, clearly communicating complex propositions to complex decision-making units.

3.3 Upsells Creation

After a B2B company introduce a prospect to a product, it is important to sell a complementary service that will help the clients extract more value from the purchase. In this context, I will show you a list of upsells sales reps that can be used:

- **Full-service solutions:** helps clients overcome the barriers they could face in adopting a new service or product;
- **Consulting:** some customers need assistance in applying the product or service to their unique business;
- **Results acceleration:** of course, everyone wants to get results quickly;
- **Product or service personalization:** rarely a single product works perfectly for every client. Thus, a company should be flexible and offer their clients the option to customize their purchases for a premium.

3.4 An Online Presence is Critical

Even to those with a basic knowledge of contemporary business management, it is acknowledged the fact that a visible online presence is more than important for achieving sustainable success. B2B clients are searching online for the needed products or services before they take a decision. That is the main reason why a B2B company must have an effective online presence.

As a BDC survey showed, people making a B2B buying decision have “*completed 57% of the purchase decision-making process before contacting a sales representative*”.⁸ This means that customers are doing their research in advance. If a company does not have an effective online presence, they are likely at a competitive disadvantage before the phone even rings, or worst case they can lose a lot of sales.

4. The Role of the Internet as a Driver of Competitive Advantage for the B2B Industry

At the beginning, when the Internet appeared, few companies realized that the new medium was on its way to changing the manner in which consumers and companies buy and sell products in a global environment, and also set the prices in these transactions. With the growth of the Internet in the past several years, companies and organizations have rapidly become aware of its eventual impact and the need to adjust their entire strategies to take advantage of this potential.

Some businesses have adjusted their strategies to the global marketplace of the Internet by reengineering the way they do business. Extranets, intranets and business Website were being developed in order to help companies cope with the expanding marketplace. Therefore, the information technology and knowledge management have become the mainstream of business processes in order to help facilitate the communications effort necessary nowadays. The development of complex software that allows businesses

⁸ *Business to Business Marketing: BDC VIEWPOINTS STUDY* – September 2013, Research and Market Intelligence at BDC. Available at: https://www.bdc.ca/en/documents/analysis_research/business_to_business_marketing.pdf

to sell and buy on the Internet under secure conditions has led to new strategies and techniques suited to this medium, and thus the emergence of new business models.

A new way to buy and sell has appeared, web auction, which had surpassed expectations for efficiently carrying out intermediate transactions in Business-to-Business markets. Web auctions are activities realized using online tools, by connecting buyers and sellers together in ways that were previously not possible. Hence, companies can communicate their needs to a wide, global audience in real time, and also cut transaction costs normally involved by the process. Furthermore, companies can develop new relationships with suppliers who were previously inaccessible and relationships that are no longer useful may be eliminated. Last but not least, another important aspect is the fact that web auctions can substantially cut costs by increasing competition.

4.1 The e-commerce Concept and the Drivers of B2B e-commerce

E-commerce (electronic commerce) represents the process of buying and selling of goods and services, or the transmitting of data or funds, over an electronic network, primarily the Internet. Actually, these business transactions may occur either as Business-to-Business, Business-to-Consumer, Consumer-to-Business or Consumer-to-Consumer.

For managers, maybe the most important question is how to strategize in the era of the Internet. With a continuous and rapid growth in global use of Internet technologies, increasing sales in B2B markets, and the potential for huge cost savings, many companies see the Internet as a source of revenue and profit growth.

The e-commerce concept appeared in 1960, when businesses started using Electronic Data Interchange (EDI) in order to share some business documents with other companies. Nowadays, consumers can buy a wide range of items online, because the world is moving more and more into the digital area each and every day. Moreover, research and advisory firm Frost & Sullivan showed that B2B and retail e-commerce will hit approximately \$12 trillion worldwide by 2020.

“The main drivers for migration to B2B is the pressure from industry leaders to move to online platforms”, said Archana Vidyasekar, senior research analyst in Frost & Sullivan’s Visionary Research Group. Moreover, she added: *“an expectation among a growing number of companies to conduct buying and selling online; a shift from some companies to conduct procurement transactions through the Internet instead of through electronic data interchange, or EDI; the growing interest of companies in placing orders through mobile commerce devices; and the increasing popularity of e-marketplaces such as Alibaba.com and AmazonSupply.com”*.⁹

Thus, the most important drivers responsible for the popularity of B2B e-commerce are the following:

Lower Transaction Cost

Running an e-commerce business significantly reduces the cost per transaction due to the fact that it takes lesser manpower to complete an online transaction. Once a company creates its website, the customer places the order online, which eliminates the need for a salesperson. The client payment goes through the online payment processing software or system, eliminating the need for a store employee. Then, someone has to download the order and ship it, which is probably the owner or a specialized person, but an e-commerce transaction makes each transaction more cost effective than it can be in an offline business.

⁹ Vidyasekar, A., senior research analyst in Frost & Sullivan’s Visionary Research Group

Eliminates the Geographic Boundaries

A business that uses an e-commerce platform can reach customers in the four corners of the Earth, which is very important when we talk about B2B industry, more exactly at a global level. As long as someone has an Internet connection, the company will be able to reach and sell its products or services to those persons who visit the business website. Furthermore, according to AMR Research more than \$1.3 trillion of goods and services will flow through the B2B marketplaces.

Optimized Procurement

If a company is electronically connected to its suppliers, it can:

- decrease the inventories;
- obtain the best prices;
- reconcile accounts in real time.

For instance, the system used could constantly monitor the level of inventory of raw material as well as the inventory level of the company's supplier. The system should also automatically trigger an order to the best supplier. This alone is such a great benefit that it justifies investing in B2B e-commerce infrastructure.

The Management of Sales Partners Channel

Using agents, distributors, affiliates or other channel partners to help in the selling process could be a real nightmare. Thanks to the online B2B transactions, the entire process was streamlined. By integrating an accounting system with that of the channel partners, a company from B2B sector can make sure that there will not be any large-scale reconciling process later. In addition, the sales and inventory levels can be monitored in real time to make appropriate channel decisions.

4.2 The Main Benefits of B2B e-Commerce Solutions

Selling online could clearly help a company to reach new markets and increase its sales and revenues. Due to the fact that we are talking about selling to other businesses, the Internet can be used to find sales leads, announce calls for offer and provide products for sale either through a website or through an e-marketplace website.

Many companies can run pilot e-commerce websites without significant investment. However, creating a fully automated online shop tailored to meet the company's precise requirements could be expensive. Whatever form of e-commerce platform is used, there are some competitive advantages that clearly exist (figure 2):

Direct purchasing of materials: These are materials that go into the manufacturing or production of products. It can be established a relationship with a vendor and purchasing online can help reduce costs.

Selling to new vendors: Running an online e-commerce platform opens up more opportunities to extend a business reach and gather new vendors beyond the bricks and mortar offerings.

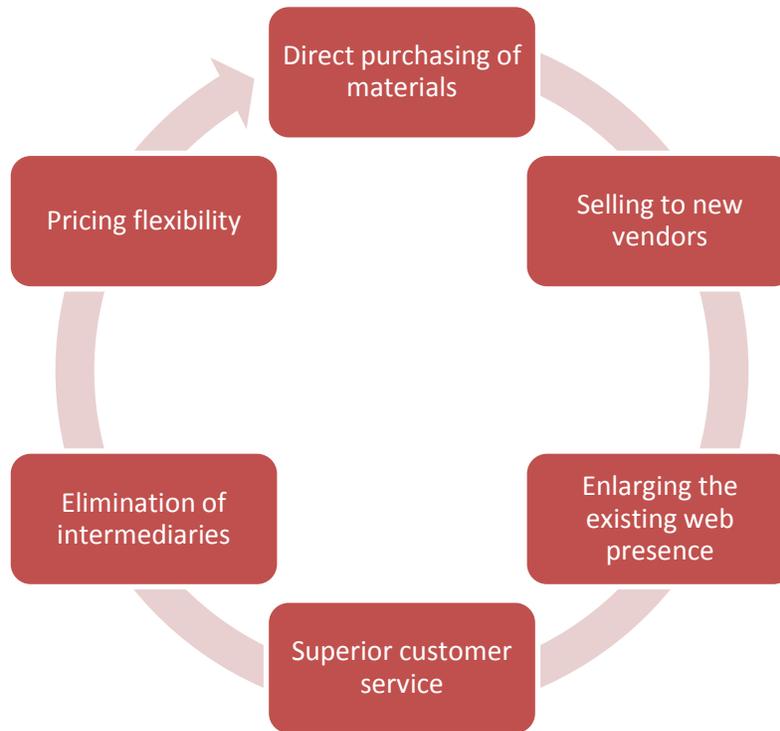
Enlarging the existing web presence: If a company already has B2C activities and operations, it can extend them to business clientele – perhaps by providing some private areas for special pricing, delivery options, etc. However, this supplementary functionality is not insignificant and could require rebuilding the existing online store at a significant cost. On the other hand, if a business has just a presentation website it can easily transform it into an e-commerce platform, whether is activating in B2B sector or is a B2C company.

Superior customer service: This represents maybe one of the most important aspects of B2B e-commerce solutions: businesses can transact directly with their customers 24/7.

Elimination of intermediaries: Businesses, especially manufacturers, could offer lower and more affordable goods to clients by selling products directly, eliminating retailers and distributors that add to the cost of the products.

Pricing flexibility: Price tags can be easily adjusted, benefiting both the businesses and the customers. The businesses also have the ability to strategically cross-sell, and provide coupons and other discounts.

Figure 2. The Main Benefits of B2B e-Commerce Solutions



Source: Personal Sketching

5. Conclusions

Following this research, I can affirm that Information Technology (IT) has transformed the way companies conduct business, by allowing these to automate manual operations and process information much faster. Usually, business technology is used through personal computers, servers' storage and/or point-of-sale or cash register systems, but another major technological advancement that should be taken into consideration is the Internet, which has provided new communication tools and other business methods that businesses use when processing business and financial information.

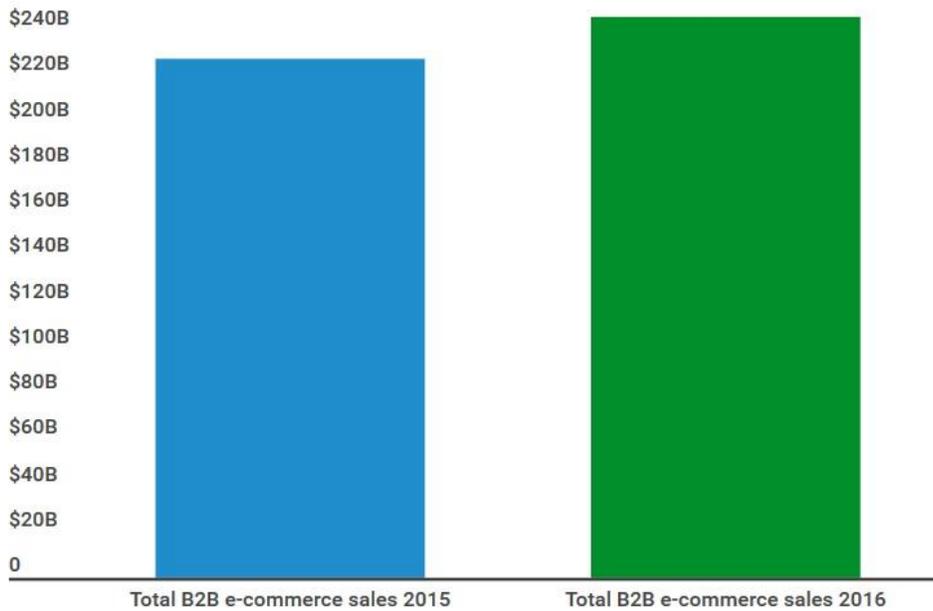
According to Stephen Diorio, President, IMT Strategies, in a one-on-one interview with SearchCRM.com, *“over the next ten years, rapidly changing technology will impact most aspects of sales and marketing*

strategy and management" and "in particular, the rush to deploy e-business, Web marketing and CRM solutions will transform the role of the sales and marketing professional".¹⁰

As Marshall et al. said, "the rise in technology usage over the past decade has had a significant impact on the buyer/seller relationship".¹¹ The value of extant and emerging technologies, particularly in business-to-business sector, exist within the user's capacity to exploit its benefits to deliver value.

As reported by a recent research, B2B e-Commerce 300 (figure 3), the top 58 companies in the B2B industrial sector, including aerospace companies, and those in the machinery, energy and materials industries, are on pace to grow sales by 8.2% this year to approximately \$246.45 billion. Therefore, we can deduce that more and more companies are moving from offline to online, which means that without a strong web presence a company could not exist. Furthermore, if a business does not take into consideration the advantage of the Internet, the sales and profits could drastically decrease due to the fact that consumers cannot find them.

Figure 3. The B2B Industrial Sector



The number of companies represented = 58
 Total growth rate = 8.2%

Source: 2017 B2B e-Commerce 300

Finally, in an economic environment where the pressure of change is huge, market players from the B2B sector are forced to continuously search for ways to achieve the stated goals with less, while delivering better quality. In order to compete at a global level, companies have to provide new facilities abroad and

¹⁰ Diorio, S., President, IMT Strategies

¹¹ Marshall, G.W.; Moncrief, W.C.; Rudd, J.M.; Lee N. (2012), *Revolution in Sales: The Impact of Social Media and Related Technology on the Selling Environment*, Journal of Personal Selling and Sales Management, 32(3), pp. 349-363

not only. Hence, the Internet has an important role serving as a driver of competitive advantage for the B2B industry, and should be used by any company from the B2B sector.

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SULINA, HEADQUARTER OF CED

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Abstract

Aspects like nature, economy, history, tourism, tradition and ethnical influences, they all in one contributed at the time to the development and expansion of an almost forgotten place. Located at the end of the amazing river Danube, Sulina is a unique town where traces of a glorious past are to be found. They were created by the European Commission of Danube in the 19th century, considered as a real engine of progress for the entire area and one of the best examples of successful collaboration between European countries. The CED created a free pass for the trade on the Danube and in the Black Sea, offering in those days a tenacious alternative for the economical development.

Keywords: Sulina, CED, Danube, cooperation, tourism

The Danube Delta is one of the largest wetlands of the world – a unique habitat of canals, reed beds, lakes and ponds. It is rich in biodiversity and is an important breeding site for several rare and threatened waterbirds, including the dalmatian pelican, great white pelican, white-tailed and greater spotted eagle and pygmy cormorant. To protect these species and the wetlands, many worldwide known organisations support the cross-boundary reserve between Ukraine and Romania, and through its restoration projects are committed to saving the biodiversity and ecological value of the Danube Delta. This beautiful area lies within political boundaries of Moldova, Romania and Ukraine. Man made constructions are numerous as well (flood protection dams, rice fields, ponds, polders, sluices, irrigation systems and other hydraulic constructions). The Danube Delta has been recognised internationally for its valuable and unique characteristics: Designated a RAMSAR wetland of international importance in 1991, added to the UNESCO world heritage list in 1991 and recognised as a biosphere reserve under UNESCO's Man and the Biosphere Programm in 1992.

In 1847 a harmful drought and an invasion with Colorado bugs affected the United Kingdom and Ireland. Because of that, the food supply began to come to an end. As a consequence, the protectionist law called "Corn Law" was abolished, opening up the possibility of importing grain from Europe. The Danubian Principalities had important grain stocks, but the access to the Black Sea was controlled by the Ottoman and the Russian Empire. The main continental route that would have allowed the transport of large quantities of grain was the Danube River. Since the reign of Barbu Știrbei (1851), intentions have been launched to build a railroad linking the Danube to the Black Sea ports and eventually building a railway bridge over the river. One of the options involved the construction of a bridge in Giurgiu, which would have secured the connection with the Varna port. After the Crimean War, Moldova, and then, after 1859, the United Principalities obtained the Black Sea exit through southern Basarabia, avoiding crossing the Ottoman territories. Thus, one of the projects of Prince Alexandru Ioan Cuza was the construction of a railway and a bridge over the Danube that would link the Galati port to the given back territories and a future harbor to the Black Sea, "Gibran". Moreover, it has been proposed to build a waterway linking the Chilia branch to the Black Sea. The very high costs of the project, although approved by the Romanian Parliament in 1868, made Prince Carol I not promulgate the decision. This project, however, had the consequence of providing large amounts of money from the Great Western Powers and ensuring the success of the European Commission of the Danube.

Sulina is the only city on the territory of the Danube Delta Biosphere Reservation and has its own specific attractions, being more and more known as a tourist destination. The city of Sulina has been included in the 'Save destination', a program created by the European Union. It is in fact a competition and Sulina won in

2012, the gold medal for the communion between people and the environment, as well as for an unpolluted area.

The city represents the most extreme eastern point of Romania, a place where the Danubian fortress loses its water and its name in the depths of the Black Sea. It's situated at the lowest altitude in our country, only 4 m above the sea level and it offers opportunities for practicing various forms of tourism, such as knowledge tourism, helio-nautical and leisure, sporting and eco-tourism.

The knowledge tourism - the main form of tourism in the area, is practiced individually and has the main weight in the tourist flow, visitors seeking to know, in a relatively short time, the city, the historical monuments and its traditions. Tourists also want to sail by boat to the Letea Forest and to the very unique place where the Danube leaks in the Black Sea.

A proof of the age and importance that Sulina had at that time is the Palace of the former European Danube Commission. The Commission was founded as a consequence of the Peace Treaty after the Crimean War - when the freedom of navigation on the Danube was established - and it functioned between 1856 and 1938, having its seat at the CED Palace, whose architecture reminds of an neoclassical style. The European Commission included: England, France, Germany, Italy (the great powers of the mid-nineteenth century and the financial "engine" of the current European Union), the three empires (Russia, Turkey and Austria) and, after the War of Independence, Romania.

Sulina becomes a free port (porto franco) and has a fast economic development provided by the status of neutrality in peace and war, conferred by the CED. In Sulina at that time, the concept of an United Europe manifested through the spirit of tolerance and multiethnic coexistence, developed for the first time.

At the end of the 19th century, out of a population of 4889 inhabitants, the census indicated 2056 Greeks, 803 Romanians, 546 Russians, 444 Armenians, 268 Turks, 211 Austro-Hungarians, 173 Jews, 117 Albanians, 49 Germans, 45 Italians, 35 Bulgarians, 24 English, 22 Tartars, 22 Montenegrins, 21 Serbs, 17 Polish, 11 French, 7 Lipovan, 6 Danish, 4 Indians and 3 Egyptians. In the city were 1200 houses, 154 villas, 3 mills, 70 small businesses, a water factory (donation of the Queen of the Netherlands after she visited Sulina), an electric factory, a telephone line from Tulcea to Galati, a modern road with a length of 5 miles, two hospitals and a 300-seat theater. Between the two world wars, the population of the city oscillated between 7 and 15 thousand, depending on the national wheat production that was transported and stored in Sulina and which attracted a heterogeneous population from all over Europe. The educational process was provided by the schools in the city: two Greek, two Romanians, a German and a Jewish one, a gymnasium and a professional school for girls but also an English navy institute.

Unfortunately, Sulina becomes a strategic military point, bombed by the Allies on August 25th 1944, when over 60% of the city's buildings were destroyed. After the war, the town gets under the influence of the Soviet Union, which unsuccessfully tried to remove any trace of the history of the 82 years of the European Commission of the Danube existence.

Since its establishment in 1856 and its eradication in 1938, the European Commission of the Danube was for the city of Sulina like a family. It helped a lot for the building and maintaining of churches, no matter what its religion it belonged to. Also it contributed to the building and fixing of their infrastructure, it stood for the existence of a driveway between Sulina and the Letea Forest. Last but not least, the Commission financed the building of the Casino and the arrangement of the beach.

The CED, in the beginning of its existence was a corporation of most European powers against Russia (who has just lost the Crimean war) which operated in the context of a Delta, and Dobrogea, that was nominally Turkish, had for all practical purposes been Russian for half a century, and threatened to become an unstable lawless noman's-land. Especially the English were keen to prevent this, for geo-political reasons, but also

to keep the grain flowing to England. Russia had been trying to cut off the Danube, to direct trade to its young metropolis, Odessa, while a little later, the new Romanian state did not appreciate the control of the CED over Sulina and some lower Danube cities. It, in return decided to divert trade to another new port, Constanța, a modern city in the neighborhood of old Greek and Roman colonies.

Romania, however, with all the frictions with the CED, and the grumbling over sovereignty, preferred an international organisation over Russian domination, all the more since the CED actually did something – they embarked on a sustained campaign of what has been called ‘benevolent imperialism’. Sulina, already multicultural in the days of sandbars and occasional piracy, became even more mixed, because of the stability, the tariffs, and the connections offered by CED governance. More Greeks came, Jewish people, Armenians, more Lipovans, Romanians, Italians and a number of western Europeans. The CED promoted the development of each community, the building of churches, schools, cultural organizations. Many people spoke several languages, with French and English as the common languages within the CED.

While the organization lingered on until the late thirties, its influence shrank considerably after the first world war, even in Sulina, at that time the headquarters. While in the beginning, the CED acquired more and more power, despite the pressure of individual member states (in other words, it led its own life), towards the end, international politics proved too strong, and pulled it apart again. The end of WWI was, in reality, the end of Old Europe, and the dismemberment of both Ottoman and Habsburg empires, as well as the rise of the Soviet Union, altered the political and economic landscape to such an extent, that an organization like the CED could not play a significant role anymore. Sulina, with that, lost its unique position at the center of the CED network.

The second world war was brutal in Sulina; once more, the Danube Delta became a contested frontier. Many groups had good reasons to dislike each other after the fighting was over, one more reason why what was left of old Sulina, of its cosmopolitan microcosm, became even more fragile. Memories of cruelty, of vengeance real and wished for, are not erased yet.

Under communism, officially insensitive to nationalism, Sulina became decidedly more Romanian. The city was forcefully re-developed, dotted with apartment buildings, and rapidly industrialized – most workers coming from other regions in Romania. Even without international trade, Sulina and the Delta were regarded as valuable economic assets, and fish, reed, silica needed to be harvested and processed.

Under communism, with all its restrictions, with its reinvention of certain traditions and forgetting of others, Sulina was still a place that remembered, even a now officially rejected imperialist past. Sulina proved to be a place people want to identify with; the people moving in from the villages, even from other regions, learned stories about the town, became engrossed in them, and made part of their own identity. Some Greeks were let go. To the small country that was now called ‘Greece’, while others preferred to stay, or had to stay.

After communism, economic opportunities were few and far between locally, and hit- and run- strategies or migration often proved the only way to survive. While things have improved since the nineties, times are still tough. Other than tourism, not much is going on, and, consequently, the hopes for tourism are high. Many people hoping for more tourism, and many people active in tourism are aware of the past grandeur of Sulina, its prosperity, its rich cultural life, its international newspapers, its name and fame all over Europe. This being said, very few people had any recollection of the CED era, of that cosmopolitan place. Not much research has been carried out on the CED – some archives being burnt, others scattered across Europe – and not much on Sulina itself.

We believed, and still believe, that Sulina’s heritage is crucial for its future, since it is exactly that heritage that can draw people to a remote location, making that same remoteness part of a fascinating story. One can not blame a community for changing, or people for moving. And, despite the simplification of memory in

the daily storytelling about the old days, at least people shared a story about Sulina and the CED, and were proud of it. Sulina, even if forgotten by many, remains today a symbol and an example of a successful economical cooperation between European people. Hosting for almost a century an European organism that can be referred to as an ancestor of the European Union is a reason of pride and joy for our country.

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STEADY GROWTH OF BUSINESS WITHIN ELECTRICA GROUP ROMANIA

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Abstract

Today's world is one in which production, mobility, communication, energy and other systems are changing with unprecedented speed and scope, disrupting everything from employment patterns to social relationships and geopolitical stability. Where energy companies once defined themselves by their physical assets, they increasingly see themselves as being in the business of providing specific services such as heating and lighting.

A report conducted by The World Economic Forum underlines the idea that a failure or a shortfall of critical infrastructure and a severe energy price shock are two of the most important global economic risks for the ongoing year. This means that the failure to adequately invest in, upgrade and secure the energy infrastructure networks can lead to a pressure or even a breakdown with system-wide implications. Also, the significant energy price volatility places further economic pressures on highly energy-dependent industries and on consumers, as well.

This paper presents a thorough analysis on the growth of Electrica Group SA, the leading electricity provider in Romania. Both the external and internal analyses bring constructive insights on the current background of the industry and the potential market niche growth.

Keywords: electricity industry, regulated market, investment risk

1. Highlights

Electrica Group is a key player in the field of distribution, supply and other electricity-connected services in Romania, both in terms of areas covered and number of users served. 120 years of experience on the market and good economic results strengthen the company's position on the market, putting Electrica into a leading position.

Price per share



Source: Bucharest Stock Exchange



Source: Bucharest Stock Exchange

Significant growth potential for the electricity market in Romania

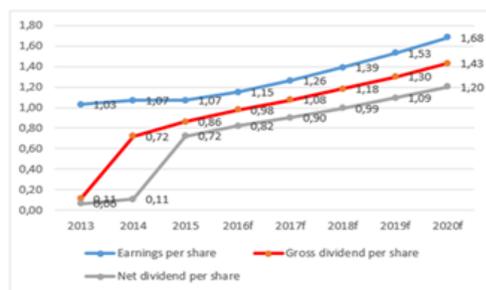
According to the European Commission – Towards an European Energy Union Romania performs well in terms of both Internal Energy Market and Energy Efficiency. Considering the full liberalization of electricity prices for non-households in 2014, and the OPCOM market (the energy market administrator),

there are premises for a competitive energy market development, with

competitive tariffs. In terms of Energy Efficiency, Romania has implemented the PNAEE (Energy Efficiency National Action Plan for 2014-2020) in order to reduce CEP (primary energy consumption). In 2015 the economy of energy was 4060 TEP, this meaning that Romania is keeping the pace with its 2020 target. The estimation of Romania's GDP growth rate (made by IMF or NRB), the high level of attractiveness for potential investors and the fully liberalization of the electricity market starting with 2018 generated a significant growth potential for this particular market.

Expected growth in earnings following large investment in the past years

Earnings per share



Source: Company Data, Team estimates

With almost 2,000 million RON invested in fixed assets (CAPEX) during the last five years, Electrica Group has renewed 20% of their electric lines emphasizing the strategic role of complements in order to increase profitability and to ensure long-term sustainable growth. Revenues and operating costs are expected to increase slowly in the next five years, but with higher rates of return.

After the successful IPO transaction, earnings per share increased to a maximum level of net dividend per share of 0.722 RON in 2015. Electrica Group has a huge investment potential which drives the net dividend per share to a higher level of 1.20 RON in 2020, according to our forecast.

Investment Risk

Electrica Group has to comply with regulatory requirements given by the Romanian Energy Regulatory Authority (ANRE) and has to keep in place regulated approvals, being exposed to significant liabilities in case of non-compliance.

2. Business description

Major Distributor and Supplier in Romania

Electrica S.A. is a key player in the field of distribution, supply and other electricity-connected services in Romania, both in terms of areas covered and number of users served. 120 years of experience on the market and good economic results strengthen the company's position on the market, putting Electrica into a leading position.

Over the years, Electrica S.A. obtained financial results that led to the possibility of admission to trading on the Stock Exchange. In 2014, Electrica's shares were admitted to trade on both the BSE and LSE following a successful IPO through capital increase. The structure of the transaction and the clear equity story of Electrica attracted great demand from both local and international institutional investors.

Electrica maintains its leader position, despite the organizational changes that occurred in the last years, all its activities having a national coverage – three regions are covered for electricity distribution and supply, through its subsidiaries: Transilvania Nord, Transilvania Sud, and Muntenia Nord.

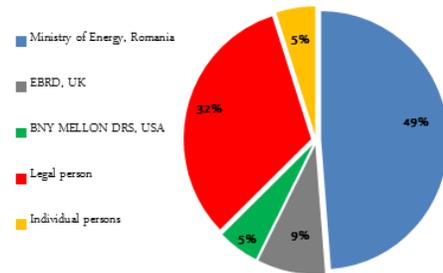
After privatizing these three regions, Electrica remains a distributor in Transilvania and Muntenia Nord – areas experiencing visible and continuous development, providing opportunities for enlarging customer portfolio (both companies and individuals).

Main Shareholders

According to Central Depository, Electrica's Shareholders are: the Ministry of Energy, Romania 168,751,185 shares (48,78%); European Bank for Reconstruction and Development, Great Britain 29,944,090 shares (8.66%); BNY MELLON DRS, USA 18,086,928 shares (5.23%); Legal persons 112,002,040 shares (32.38%) and Individual persons 17,155,686 shares (4.96%).

Electrica S.A. is the main shareholder (78%) in Electrica Furnizare S.A.¹², Electrica Distributie Transilvania Nord S.A.¹³, Electrica Distributie Transilvania Sud S.A.¹⁴ and Electrica Distributie Muntenia Nord S.A.¹⁵.

Electrica's Shareholders



Source: Company Data

Electrica Services

Electrica Serv., a wholly-owned subsidiary of Electrica, provides equipment maintenance, repair and other ancillary services to EDMN, EDTN and EDTS.

Electrica Distribution

At the moment, there are eight licensed electricity distribution companies that control electricity distribution in Romania. Each company is responsible for the exclusive distribution of electricity within its licensed region, based on a concession agreement with the Romanian State acting through the Ministry of Energy. Electrica and Enel own three distribution companies each, while CEZ and E.ON own the other two.

Electrica distributes three voltage levels of electricity (high, medium and low) most of which is distributed to household customers at regulated and competitive tariffs.

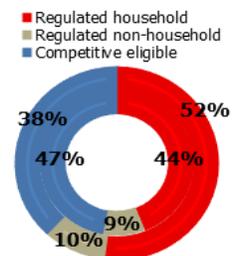
- **Low voltage** electricity has the highest share of all, representing 44.87% or 7.66 TW/h.
- **Medium voltage** electricity represents 36.15% which means an effective value of 6.17 TW/h
- **High voltage** electricity represents 18.98% of the total distribution, a value of 3.24 TW/h

Electrica Supply

To ensure the electric power supply of all clients included in its portfolio, Electrica Supply is supporting the following activities: acquisition of electric power from centralized markets; signing contracts with the network operators; electric power sale to end-users.

The supply market consists of Regulated and Competitive segments: 5 companies compete on the regulated market, integrated within the same group as the corresponding distribution operators; there were 108 players in the competitive segment in 2016. Electrica is the largest supplier on both regulated and competitive segments, with a 39% C1, and 16% C1 respectively at the end of September 2016 according to ANRE Report.

Revenues per users



Source: Company Data

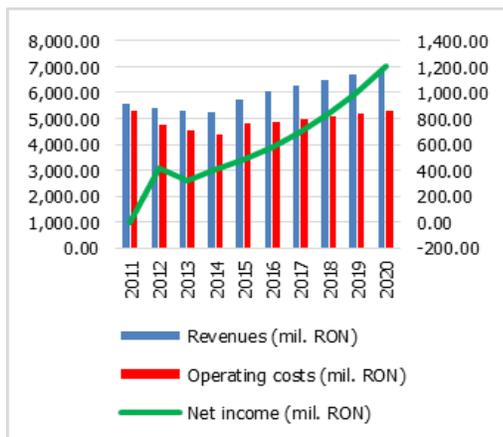
¹² Electrica Furnizare

¹³ EDTN

¹⁴ EDTS

¹⁵ EDMN

Electrica's Growth Potential

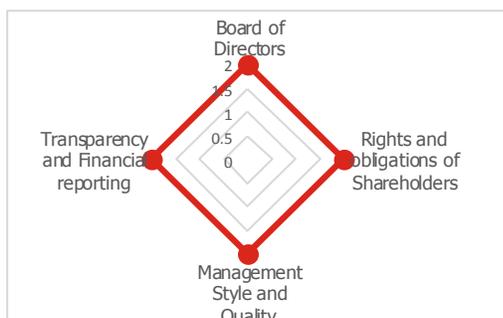


Source: Company Data and team calculations

From 2011 to 2015 Electrica registered revenues between 5.000-6.000 mil. RON, in order to cover all expenses (less 2011); purchasing electricity covered 60% of their expenses. Further, net profit margin for this period varied between 5.94% and 8.44% in 2015. According to our estimations, Electrica Group has a great growth potential in terms of revenue, net income, dividends, quantity distributed and customers. Supposing that the cost level will increase only with 2% yoy, net income will increase in the same ways as revenues.

In 2015, 44% of the quantity distributed to regulated household consumers generated 52% of revenues, while 47% of quantity distributed to competitive eligible consumers generated only 38% of revenues. After fully liberalizing the market, Electrica has to open an eye to electricity consumers in order to maintain or to increase their number.

3. Management and governance



Source: Team assumptions

Electrica has a Corporate Governance Code which includes the main work methods, roles and responsibilities of the managing and supervision company structures, and of the committees established to provide support for these structures in fulfilling their responsibilities. On December 14th, 2015, Electrica's Ordinary General Meeting of Shareholders elected the new Board made up of seven members, four of whom are independent and non-executive. According to their Code, Electrica's governance is based on the following pillars: (a) flexible, efficient and effective management; (b) responsibility and accountability; (c) vision and strategy; (d) delivering growth in shareholder value over the longer term.

On December 14th, 2015, Electrica's Ordinary General Meeting of Shareholders elected the new Board made up of seven members, four of whom are independent and non-executive.

We analyzed the strength of Electrica's corporate governance, using the OECD Principles of Corporate Governance as guidance. According to the rating methodology detailed in Appendix 3.1, the company presents a low threat to shareholders:

Board or Directors are very well structured; rights and obligations of shareholders are clearly described and respected; management style and quality are driven by Electrica's Code of Corporate Governance and Code of Ethics sustained by corporate vision, mission and values; financial reporting made quarterly is transparent.

4. Industry overview and competitive position

Global and EU Electricity Market

Industrial retail electricity prices showed signs of gradual convergence across the EU, especially in the case of consumers with high annual electricity consumption, compared to the case of households which show low signs of convergence. In 2015, electricity consumption in the EU increased by 1.5% compared to the prior year.

Comparison of wholesale electricity prices on the global level will depict the competitiveness of the EU economy. In the energy intensive industries, energy production costs occupy a significant place in the EU economy. Energy intensive industries are normally large energy consumers and the wholesale market price is a good proxy for the price these industries purchase their electricity needs. In the first quarter of 2016 wholesale electricity prices remained practically stable (around 20 €/MWh) in US, while in the EU it fell to as low as 30 €/MWh. In Japan the price fell below 60 €/MWh for the first time since 2010, and in Australia the price of electricity increased in the past few months, reaching a higher point than the US or the EU.

Macro environment

For the last three years, economic growth has been strong drivers switching gradually from net exports to domestic demand; the labor market is tightening on the back of robust economic growth. Romania's economic growth is among the highest in the EU and is forecasted to remain above potential in 2016 and 2017. Real GDP is estimated to have increased by 3.6 % in 2015 on account of surging consumption and recovering investment. On the bright side, Romania has experienced high household disposable income, decreasing unemployment rates, boosted private consumption, wage growth, and negative inflation.

The 2014 reduction of the social security contribution has helped contain unit labor costs so far but they may outpace labor productivity in the future as the labor market tightens.

Romania's Electricity Industry

Electricity and gas prices for non-households have been fully liberalized since 2014, and 2015 respectively. The liberalization of household markets is scheduled to be concluded by 2018.

In 2015, the electricity sources produced consisted of coal (27%), hydro (27%), nuclear (18%), oil & gas (14%), wind (11%), solar (2%) and others (1%). Regarding Energy Security, among the EU member states Romania has lower levels of energy dependence compared to the EU average notably due to owned gas, oil and coal reserves.

Further efforts for energy security are needed, such as the completion of gas interconnection and reverse flow projects, including physically linking the Romanian gas system with the transit pipelines. In addition, further electricity interconnection is needed to exploit the country's large generation capacity.

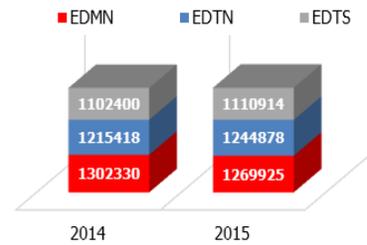
Competitive Positioning

Electricity distribution in Romania is currently controlled by eight licensed electricity distribution companies. Between 2005 and 2014 the company which held all eight regions gradually allowed competitors acquire five of these regions, the reason being the lack of profitability from maintaining and administering them. Time proved it was a wise decision since recently many of them started liquidation proceedings or went bankrupt.

Distribution

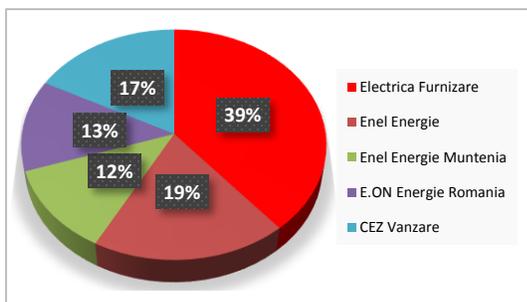
Electrica distributes electricity in the part of the country which registers the greatest development progress (North-West, Centre, South-East and South-Muntenia), having high potential for new costumers, especially new or developing industrial customers. For further details refer to Appendix 4.1.

The total number of user has been growing in the past two years, in 2015 the number of users exceeding 9.1 million with Electrica holding the leading position with a total of 3.63 million users.



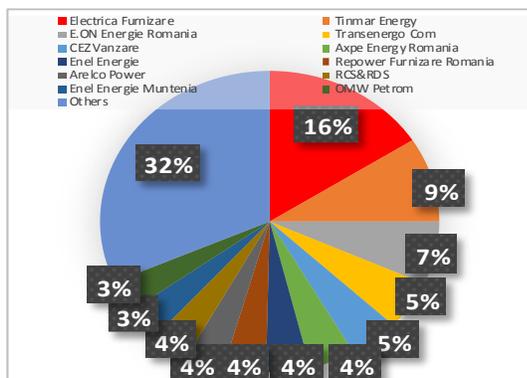
Source: Company Data

Variations from 2014 to 2015 are relatively low; the only area that registered a decrease is EDMN, while EDTN experienced a great increase, now serving over 1.2 million customers.



Supply

Electrica enjoys the leader position on the national electricity market being the largest supplier overall, on both regulated and competitive segments. In 2016 Electrica Furnizare held a 39% share of regulated market, followed by Enel with 36%, CEZ 13% and E.ON 12%. The competitive market consists of 108 players, Electrica Furnizare being again in the leader position with a market share of 16% followed by Tinmar Energy 9% and Tinmar Energy 9% and E.ON 7%.

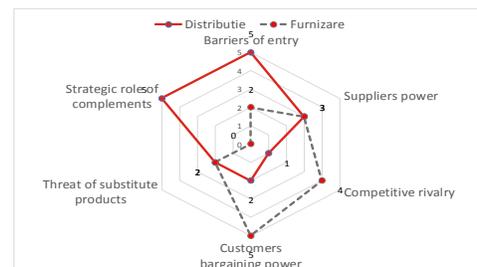


Source for both figures above: Company Data

Calculating the Herfindahl-Hirschman (HHI) for the electricity market offered an insight on market concentration. We calculated the HHI for both the regulated and the competitive supply segments. For the regulated segment, where five players compete, the HHI score is 2489 which depicts moderate to high market concentration. The first three competitors on the market own over 70% of the market. On the other hand, the situation of the competitive segment contrastingly changes. There is total of 108 suppliers competing on the market, the first three players owning only 32% of the total market share. The HHI score was 574 resulting in a low concentrated market and a competitive playground.

Porter's Six Forces

We considered that Electrica has what Warren Buffett calls moat: "ability to maintain competitive advantages over its competitors in order to protect its long-term profit and market share from competing firms". Electrica is a company with solid economic moats but relatively low share price. The electricity distribution activity is experiencing no competition, high entry barriers, rare substitute products (e.g. solar panels), and a high dependence on complements.



Source: Team assumptions

The supplying activity situation is similar in matters of suppliers and substitutes, while the other key areas are slightly different. Please refer to appendix 4.2 for a detailed Porter's analysis of both supplying and distribution of Electrica. The internal and external environment of Electrica Group are analysed through the SWOT analysis (Appendix 4.3.).

Influence of the External Environment

Keeping an eye to the overall external environment is vital nowadays. The electricity market is either favorably or adversely influenced by several political, economic, social, technological, legal and environmental factors. The PESTLE analysis encased in this report (Appendix 4.4) depicts the variation and evolution of the external factors that have affected and will affect the market that Electrica operates in. Several specific factors influencing the electricity market are:

POLITICAL FACTORS <ul style="list-style-type: none"> · transition from communism to democracy · slippery political environment and corruption 	ECONOMIC FACTORS <ul style="list-style-type: none"> · Economic and financial crisis · GDP will fluctuate around 3.7% · Eurozone dependency (exports) 	SOCIAL FACTORS <ul style="list-style-type: none"> · Decline in population · Population living in the rural areas · GDP per capita forecasted to grow
TECHNOLOGICAL FACTORS <ul style="list-style-type: none"> · Innovative solutions for production and electricity storage, and electricity distribution costs · Cybernetic attacks 	LEGAL FACTORS <ul style="list-style-type: none"> · Market liberalization · Strategies for renewable energy 	ENVIRONMENTAL FACTORS <ul style="list-style-type: none"> · Targets of the EU 20-20-20 · Reducing greenhouse effects, share renewable energy and energy savings

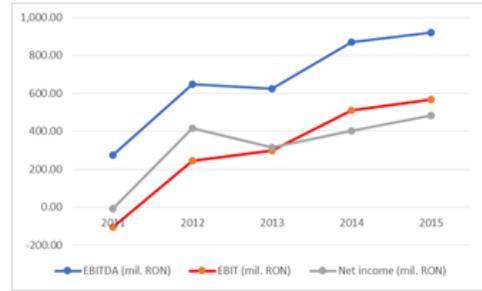
5. Financial analysis

The Financial Analysis is based on data published in the Electrica's consolidated financial statements, from 2011 until 2015, and also on the estimates of the team for the next 5 years. For full financial projections, see appendix 1 Financial Statements.

Income statement	2011	2012	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
Revenues (mil. RON)	5.584,85	5.377,19	5.289,56	5.220,24	5.713,96	6.033,91	6.255,85	6.474,71	6.699,09	6.937,14
Operating costs (mil. RON)	5.310,16	4.729,70	4.540,68	4.364,78	4.792,14	4.887,98	4.985,74	5.085,45	5.187,16	5.290,90
EBITDA (mil. RON)	274,70	647,49	624,00	869,00	921,82	1.145,94	1.270,11	1.389,26	1.511,93	1.646,24
Depreciation (mil. RON)	378,78	401,85	410,76	358,51	353,18	388,70	456,97	511,55	562,71	618,98
EBIT (mil. RON)	-104,08	243,00	298,00	511,00	568,64	757,23	813,15	877,71	949,22	1.027,26
Net income (mil. RON)	-79,70	415,79	314,34	401,41	482,16	530,38	583,41	641,75	705,93	776,52
Balance Sheet										
Fixed Assets (mil. RON)	7587,21	8052,12	6078,16	4382,41	4548,17	5099,17	5747,01	6508,62	7361,21	8299,06
Current assets (mil. RON)	1904,22	1840,27	4121,56	3765,25	3843,12	3458,80	3112,92	2801,63	2521,47	2269,32
Total Assets (mil. RON)	9491,42	9892,39	10199,72	8147,67	8391,29	8557,97	8859,93	9310,25	9882,68	10568,38
Debt (mil. RON)	3545,06	3520,58	3540,35	1830,53	1948,70	2050,96	2287,85	2672,44	3178,49	3797,15
Shareholders equity (mil. RON)	5946,36	6371,82	6659,37	6317,14	6442,59	6507,02	6572,09	6637,81	6704,18	6771,23
TSEL (mil. RON)	9491,42	9892,39	10199,72	8147,67	8391,29	8557,97	8859,93	9310,25	9882,68	10568,38
Validation (TA-TSEL)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
ROS (Net Profit Margin) %	-1,43	7,73	5,94	7,69	8,44	8,79	9,33	9,91	10,54	11,19
TAT (Total Assets Turnover)	0,59	0,54	0,52	0,64	0,68	0,71	0,71	0,70	0,68	0,66
ROA (Return on Assets %)	-0,84	4,20	3,08	4,93	5,75	6,20	6,58	6,89	7,14	7,35
EM (Financial leverage)	1,60	1,55	1,53	1,29	1,30	1,32	1,35	1,40	1,47	1,56
ROE (Return on Equity) %	-1,34	6,53	4,72	6,35	7,48	8,15	8,88	9,67	10,53	11,47
Debt as % of Assets	37,35	35,59	34,71	22,47	23,22	23,97	25,82	28,70	32,16	35,93
Equity as % of Capital	62,65	64,41	65,29	77,53	76,78	76,03	74,18	71,30	67,84	64,07
Debt to Equity	0,60	0,55	0,53	0,29	0,30	0,32	0,35	0,40	0,47	0,56

Revenues, EBIT and Net Income

After conducting the analysis, we can ascertain that the revenues resulted from the activity carried on by the company registered a significant growth in 2015, although, apparently, they seemed to fall off gradually between 2011 and 2014. In 2012 and 2013 the level of EBIT was below Net income which reflects low level of assets usage. Therewith, the net income of the entire Group recorded a favorable boost in the last three years, arising from a more efficient usage of the assets, achieving its maximum value of 482.16 million RON in 2015.



Source: Company Data

Capital Structure

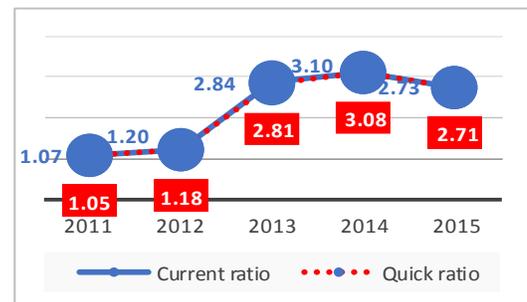
Debt-to-Equity Ratio diminished to almost a half in the last two years, comparing with the period 2011-2013 when it registered a progressive rise, reaching in 2015 the value of 0,30. As for the Shareholders Equity, its value increased in 2015 in regard to 2014 and represents 77% of TSEL while debt represent 23%.



Source: Team calculations

Cash and Cash Equivalents

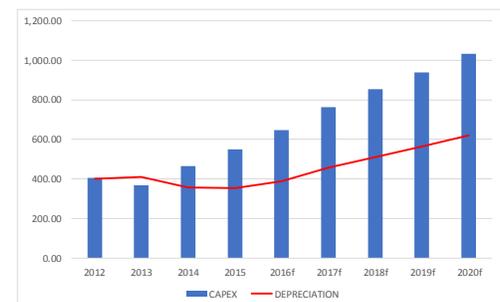
Financial results from the last two years put Electrica Group on the map of the most attractive investments both for common shares and for speculative. Even if they have a strong liquidity (not necessarily with a positive impact for shareholders) given the amount of cash from IPO (about 444 million Euro) and invested into government bonds (with a lower return than cost of equity), Electrica Group managed to raise the level of net dividend from 0.11 Ron per share in 2014 to 0.72 Ron per share in 2015 (with an increase of 554%). Still, Electrica has a high level of liquidity ratios both current and quick.



Source: Team calculations

CAPEX

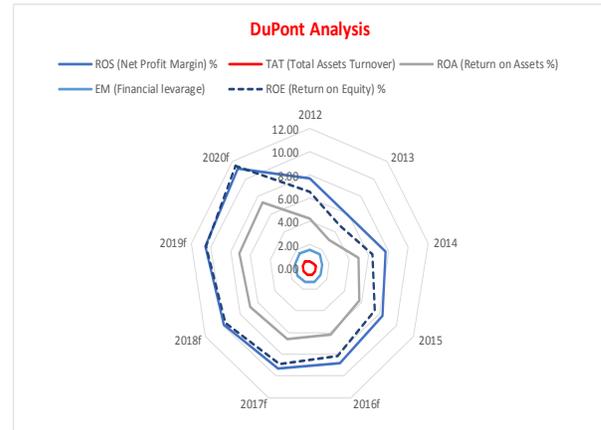
The Capital Expenditure registered a small decline in 2013, followed in the next years by an up going trend, which denotes the fact that the investments in fixed assets rose until 2015. Along with this growth, also the depreciation increased, leading to a narrowing in the taxable income and, at the same time, larger cash flows. It is expected an ascending evolution until 2020. Analyzing Electrica's CAPEX Structure from 2015, we can notice that 30% of the investments were conducted for the energy efficiency and other 5% for the quality of the electricity, in order to reduce the OTC (Own Technological Consumption).



Source: Team estimations

DuPont Analysis

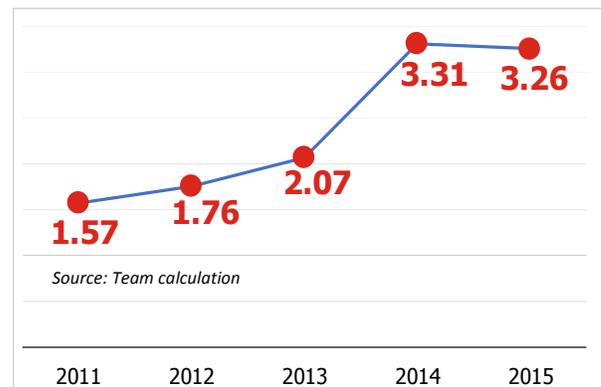
Electrica reached in 2015 a 7.48% return on equity, with 1.13% greater than in 2014, sustained by the higher level of net profit margin (ROS). Our analysis indicates a positive evolution of ROE for the forthcoming years (2016-2020), mainly driven by the return on assets, which is predicted to grow, on average, with 5.06%, while the financial leverage will be modified, on average, only with +3.7%. Given the fact that total assets will increase with a higher degree than the revenues, because of the increase in Electrica's investments, together with the significant growing CAPEX, we expect a drop in the turnover of the total assets (TAT). All these factors lead to the conclusion that the rise in the return of assets (ROA) is sustained mainly by ROS.



Source: Team estimations

Altman Score

Referring to Electrica's risk of bankruptcy, through Altman Z-Score analysis, we found out that between 2011-2012 the company was beyond the admissible score, namely 1.8, and, therefore, the degree of risk associated with bankruptcy was high. Subsequently, due to an increase in the reinvested earnings, net earnings, but also an increase in the revenues, the Group succeed in redressing, obtaining in 2013 a score of 2.07. A decrease in debts and an efficient usage of the assets, generated a higher turn-over of the shareholders' investment, thereby the company's performance improved, exceeding the barrier of 3, in 2014 and 2015.



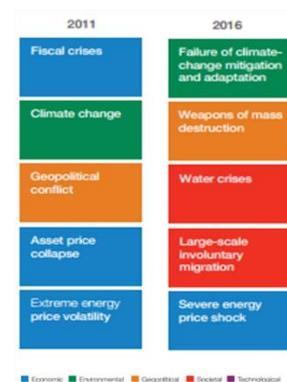
Source: Team calculation

6. Investment risks

Macroeconomic Risks

An insight report titled The Global Risks Report 2017 – 12th Edition, conducted by The World Economic Forum underlines the idea that a failure or a shortfall of critical infrastructure and a severe energy price shock are two of the most important global economic risks for the ongoing year.

This means that the failure to adequately invest in, upgrade and secure the energy infrastructure networks can lead to a pressure or even a breakdown with system-wide implications. Also, the significant energy price volatility places further economic pressures on highly energy-dependent industries and on consumers, as well.



Source: The Global Risks Report 2017, 12th Edition

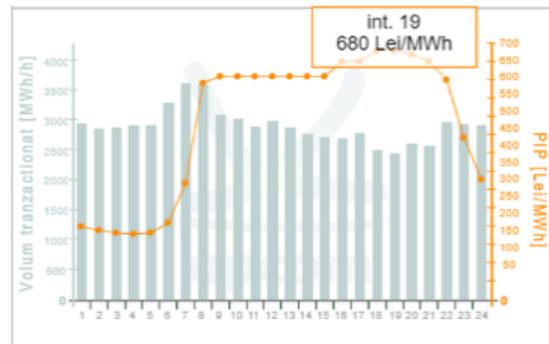
Regulatory Risks (Rr)

Electrica Group has to comply with regulatory requirements given by the Romanian Energy Regulatory Authority (ANRE) and has to keep in place regulated approvals, being exposed to significant liabilities in case of non-compliance. The regulation risk generated by the frequent changes of the methodology during the regulatory period and the lack of predictability and stability of the regulatory environment may have a negative impact on the electricity prices. Also, the changing tariffs on the regulated market can negatively influence the group’s financial performance (for instance, the average regulated tariff for low voltage in 2015 was 191.04 RON/Mwh, decreasing in 2016 to 110.25 RON/Mwh, and then to 103.27 ROM/Mwh in 2017).

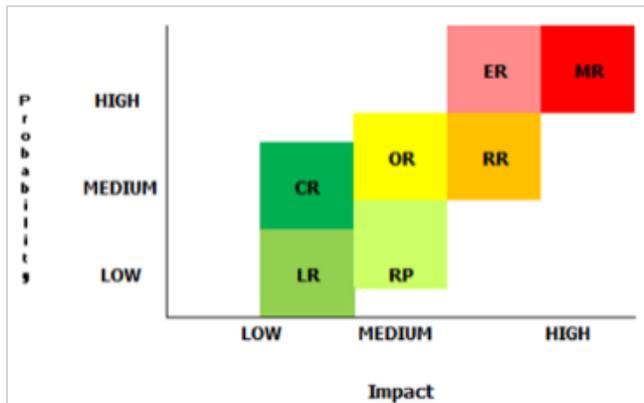
Market Risk (Mkr)

Recently, the Romanian energy market faced a turbulent stage, resulting in a compelling increase, not only in the consumption, but also in the market prices, both reaching historical highs.

The entire group is also exposed to currency risk because of the mismatch between the currencies in which sales and purchases are denominated (RON/EUR) and the functional currency of the group (RON). Electrica Group also has deposits and bank accounts denominated in foreign currency – EUR.



Source: OPCOM



Environmental Risks (Er)

Natural disasters or any other unauthorized human intervention may damage the distribution subsidiaries’ activity and the group’s assets. According to ANRE, during 2015, no crisis situations occurred in the electricity market.

Reputational Risk (Rr)

The Group’s reputation, future prospects or the results from operations may be materially affected by claims or litigation.

Operational Risks (Or)

The fact that components of the group’s distribution network are subject to deterioration over time can lead to failure in executing the management business strategy. This could have as a result lower revenues and cost savings as predicted. Other operational risks to be taken into consideration are those regarding the outdated IT systems (as stated in Electrica Annual Report from 2015) and also the fact that group’s supply segment may face an increasing competition, especially because of the market liberalization.

Credit Risk (Cr)

The credit risk resides in the failure of some customers or counterparty to a financial instrument to meet the contractual obligations, which leads to a financial loss for the group. This risk arises mainly from the receivables from customers, cash and cash equivalents, bank deposits and treasury bills and government

bonds. Recently, with Transenergo (one of Electrica's clients) filing for its insolvency, group's management expects low recoverability of the total exposure of 36.3 mil. RON, about.

Liquidity Risk (Lr)

When it comes to liquidity management, Electrica's approach is to ensure the sufficient amount of liquidity in order to meet its liabilities when they are due, under normal or stressed conditions. The entire group aims to maintain the cash and cash equivalents at a level which should exceed the forecasted cash outflows for the payment of the financial liabilities.

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APPENDICES

APPENDIX 1: FINANCIAL STATEMENTS

INCOME STATEMENT (mil. RON)	31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015
Revenues	5368.422	5252.948	5156.633	5043.728	5502.795
Other income	216.430	124.246	132.929	176.509	211.161
TOTAL REVENUES	5584.852	5377.194	5289.562	5220.237	5713.956
Electricity purchased	3649.897	3089.061	2845.179	2349.200	2718.682
Green certificates	90.943	301.665	413.847	272.265	346.754
GROSS PROFIT	1844.012	1986.468	2030.536	2598.772	2648.520
Construction costs related to concession agreements				440.337	490.023
Employee benefits	793.148	754.728	765.932	738.606	662.963
Repairs, maintenance and materials	208.721	161.346	103.179	84.866	59.015
Depreciation and amortization	371.975	397.684	397.540	325.698	350.813
Impairment of property, plant and equipment, net	6.803	4.161	13.222	32.814	2.368
Impairment of trade and other receivables, net	147.775	52.554	20.770	4.632	4.400
Impairment of inventories	13.833	17.657	1.058		
Other operating expenses	405.838	457.801	434.375	474.878	455.319
Change in provisions, net					54.979
TOTAL OPERATING COSTS	5688.933	5131.549	4951.446	4723.296	5145.316
Operating profit	-104.081	245.645	338.116	496.941	568.640
Finance income	35.210	22.023	23.515	36.404	37.851
Finance costs	52.545	46.090	35.068	23.149	17.368
Net finance income	-17.335	-24.067	-11.553	13.255	20.483
Share of profit or loss of equity-accounted investees, net of tax	74.677	246.778	62.959		
Profit before tax	-46.739	468.356	389.522	510.196	589.123
Income tax expense	32.960	52.563	75.178	108.791	106.963
NET INCOME	-79.699	415.793	314.344	401.405	482160
Profit for the year attributable to:					
owners of the Company	-113.307	355.949	243.395	287.837	362.675
non-controlling interests	33.608	59.844	70.949	113.568	119.485

Profit for the year	-79.699	415.793	314.344	401.405	482.160
Earnings per share					
Basic and diluted earnings per share (RON)	-0.55	1.73	1.18	1.03	1.07

BALANCE SHEET (mil. RON)	31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015
ASSETS					
Property, plant and equipment	5590.096	5717.592	5932.771	804.823	779.264
Intangible assets	46.136	42.143	58.913		
Intangible assets related to concession arrangements				3501.184	3700.211
Other intangible assets				8.812	14.295
Investments accounted for using the equity method	1601.648	1042.153			
Other investments	224.089	1138.326			
Deferred tax assets	120.933	106.105	85.361	59.625	50.597
Other non-current assets	4.303	5.804	1.118	7.970	3.802
TOTAL NON-CURRENT ASSETS	7587.205	8052.123	6078.163	4382.414	4548.169
Trade receivables	1192.168	1010.909	1087.545	780.821	837.782
Other receivables	134.369	94.824	62.987	24.611	36.804
Total receivables	1326.537	1105.733	1150.532	805.432	874.586
Cash and cash equivalents	499.348	641.811	650.835	1629.508	893.492
Deposits, treasury bills and government bonds				1220.521	1987.881
Inventories	33.290	34.999	33.809	24.305	23.258
Prepayments	36.555	40.306	6.378	8.644	9.460
Green certificates				53.708	31.304
Income tax receivable	8.488	17.420	36.510	23.135	23.135
Assets held for distribution	0		2243.494		
Another current assets	45.043	57.726	2286.382	85.487	63.899
Total current assets	1904.218	1840.269	4121.558	3765.253	3843.116
Total assets	9491.423	9892.392	10199.721	8147.667	8391.285
Share capital	2493.305	2493.305	2509.413	3814.242	3814.242
Share premium				103.049	103.049
Treasury shares reserve				-75.372	-75.372
Pre-paid capital contributions in kind from shareholders	52.863	54.645	47.657	3.273	-2.862
Revaluation reserve	1163.521	1132.815	1080.704	156.018	140.358
Other reserves	579.185	599.226	612.490	236.597	273.899
Retained earnings	947.667	1326.572	1597.810	1268.811	1354.595
Total equity attributable to the owners of the Company	5236.541	5606.563	5848.074	5506.618	5613.633
Non-controlling interests	709.821	765.253	811.296	810.520	828.957
Total equity	5946.362	6371.816	6659.370	6317.138	6442.590
Long term bank borrowings	10.271				
Finance lease	4.877	0.788	0.290		

Financing for network construction related to concession agreements	117.237	195.508	129.827	151.486	122.065
Deferred income	1130.760	1233.706	1421.596		
Deferred tax liabilities	276.157	262.754	255.968	189.168	181.253
Employee benefits	188.694	217.147	213.187	220.382	193.915
Other payables	38.821	77.112	66.376	53.181	43.068
Total non-current liabilities	1766.817	1987.015	2087.244	614.217	540.301
Short term bank borrowings	30.393	9.292			59.821
Bank overdrafts	281.463	167.467	79.684	48.132	65.963
Finance lease	26.375	26.677	0.498	0.294	
Financing for network construction related to concession agreements	104.368	113.700	142.584	99.064	99.576
Trade payables	930.313	745.938	627.619	555.256	656.410
Other payables	165.090	182.262	261.390	276.961	249.306
Current income tax liability	4.349	10.628	15.183	14.270	10.845
Deferred revenue	83.166	77.992	89.223	2.987	4.235
Employee benefits	99.902	119.654	152.191	146.714	134.625
Provisions	52.825	79.951	84.735	72.634	127.613
Total current liabilities	1778.244	1533.561	1453.107	1216.312	1408.394
Total liabilities	3545.061	3520.576	3540.351	1830.529	1948.695

CASH FLOW STATEMENT (mil. RON)	31.12. 2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015
Net cash from operating activities	317.762	996.040	914.708	981.309	743.246
Net cash used in investing activities	(504.810)	(549.495)	(634.649)	(1406.452)	(1105.377)
Net cash from/(used in) financing activities	(170.564)	(194.401)	(184.952)	1435.368	(391.716)
Cash and cash equivalents at 31 Dec.	217.885	474.344	571.151	1581.376	827.529
Net (decrease)/increase in cash and cash equivalents	(357.612)	252.144	95.107	1010.225	(753.847)
Cash and cash equivalents at 1 Jan.	574.045	217.885	474.344	571.151	1581.376

APPENDICES PART 3: MANAGEMENT AND GOVERNANCE

Appendix 3.1.

To analyze the strength of Electrica's corporate governance, we used as guidance the OECD Principles of Corporate Governance. The rating on corporate governance used is detailed below:

KEY:

1. Insignificant threat to Shareholders
2. Low threat to Shareholders
3. Moderate threat to Shareholders
4. Significant threat to Shareholders
5. High threat to Shareholders

Management and Corporate Governance		Score
Board of directors	The Board of Directors is entrusted with fulfilling all the necessary and useful acts for performing Electrica's business object (save for the ones assigned to the GMS), as well as for supervising the managers' activity. In order to increase the effectiveness of its work, the Board of Directors has established the following committees: (a) Nomination and Remuneration Committee; (b) Audit Committee; and (c) Strategy, Restructuring and Corporate Governance Committee. The Board of Directors delegates Electrica's management to one or more managers, appointing one of them general manager.	2
Rights and Obligations of Shareholders	Electrica currently requires presence of 75% of shareholders vote in order to be able to take decisions. Decisions are taken with a simple majority vote of shareholders present in the meeting (at least 50%+1). All the owners of financial instruments of the same type and class issued by Electrica are entitled to equal treatment. With a view towards an effective, active and transparent communication with its shareholders, Electrica shall set up an investor relations department within Electrica and shall set up processes to ensure effective and transparent communication with the investors with the observance of its legal obligations.	2
Management Style and Quality	The vision and mission assumed by Electrica Group conducted to the following corporate value, which are integrated into the management style: professional and proficient approach; team spirit; dynamism and flexibility; commitment towards labor safety; robust growth while demonstrating environmental and corporate social responsibility; commitment and focus towards customers. Electrica has implemented sound ethics and principles in line with best practices to ensure integrity of its business relations as laid down in Electrica's Code of Ethics and Professional Conduct. Electrica shall establish and implement a nomination and remuneration policy in line with best practices for the nomination and remuneration of its directors, managers and, as the case may be, other members of its personnel.	2
Transparency of financial reporting	Reporting as a listed company, Electrica must comply with certain specific reporting and transparency rules. Electrica prepares and publishes periodical and continuous information on all the important events, including the company's financial situation, performance, assets and management. Electrica shall make available to investors the list of its transparency and reporting obligations. For the purpose of maintaining sound internal control systems Electrica shall adopt and implement an internal control policy in accordance with best practices.	2
Overall score		2

Electrica's management represents low threats for its shareholders.

APPENDICES PART 4: INDUSTRY ANALYSIS AND COMPETITIVE POSITION

Appendix 4.1. Romania's development areas

Areas	Regional GDP		GDP/Per capita	
	Year 2016	Year 2016	Year 2016	Year 2016
	(bil. RON)	% from national GDP	(euro)	% from national average
North-West Area	85,49	11,38%	7478	87,50%
Central Area	84,35	11,22%	809	94,60%
North-East Area	76,7	10,21%	5305	62,00%
South-East Area	84,17	11,20%	7655	89,50%
Bucharest-Ilfov Area	202,34	26,92%	19926	233,10%
South Muntenia Area	89,55	11,92%	6646	77,70%
South-West Oltenia Area	56,57	7,53%	6377	74,60%
West Area	71,76	9,55%	8951	104,70%
Extra Areas	0,57	0,08%	NA	NA
National Total	751,5	100,00%	8550	100,00%

Appendix 4.2. Porter's Six Forces Analysis

Electrica distribution

In matters of competitive context, the electricity distribution activity is experiencing no competition, due to the natural monopoly that regulates the market. Each market player has its own distribution network and geographical areas. Entering on the electricity distribution market can be costly and laborious; therefore, barriers of entry are high, making it almost impossible for new competitors to enter the market. Suppliers' bargaining power is relatively low, because of the reduced number of players on the market and the limited alternatives palette for other international markets. Buyers have a low negotiating power, as they cannot change the distribution company on the regulated market. In matters of substitute products, an insignificant threat would be the auto-generating sources of electricity (for example, wind turbine), which is limited as high investments are needed. Another area in the Porter's analysis is the strategic role of complements, for which we gave a high score due to their importance – electricity cannot be distributed without the complement products (e.g. transformation stations, transmission wires).

Electrica supplying activity

In matters of competitive context, the electricity supplying market includes both regulated and competitive market, making the competition a serious threat given the high number of suppliers. The entry barriers are

Forces	Distribution Score	Supply Score
Barriers to entry	5	2
Supplier power	3	3
Competitive rivalry	1	4
Customers power	2	5
Threats of substitute products	2	2
Strategic role of complements	5	N/A

relatively low thus the big number of market players is justified. Suppliers' bargaining power is moderate because there are many producers, so that prices need to be competitive, and many players even though only a few of them have significant market share and because of the growing liberalization process. Buyers' power is high for the industrial customers and for those who already exercised their eligibility right and is expected to increase for most of household consumers starting with the total liberalization coming in 2018. Similar to distribution, substitute products for supply activity

already exists (wind turbine, solar panels) but their proportion is low and the expected growth rate for future is reduced.

Appendix 4.3. SWOT Analysis

STRENGTHS

Electrica is the market leader in both electricity distribution and supply segments, giving them a powerful position in the energy prices negotiations with their suppliers

The Group has exclusive distribution licenses for three of the eight regions, with a regulated rate of return of 7.7%. Reorganization of the company and implementation of better corporate governance practices.

OPPORTUNITIES

Considering the full liberalization of the household supply market, Electrica should be able to offer packages of tariffs and competitive and innovating services in order to attract new customers and retain the current ones.

Electrica Group holds the most prosperous regions of the country which increases the chance of businesses start-ups or expanding their current activities.

Prospects of electric vehicle, fueled by auto industry investing billions to meet strong pollution standards globally (see recent association with OMW)

WEAKNESSES

Network losses, that are decreasing energy efficiency
Operational risk given by the outdated IT system they possess.

Credit risk generated by the failure of some customers to meet their contractual obligations which concluded with a financial loss for the group

Bad administration and investment policy of the funds raised from the IPO

THREATS

The complete liberalization of the market will increase the competition in the supply segment and threaten group's leader position of supplier of last resort.

Renewable energy, especially customers who generate their own electricity.

Financial performance of the distribution subsidiaries may be negatively influenced by changing of tariffs and regulatory requirements, as well as changes in taxation system that can cause interpretation of tax legislation.

Inefficient government bureaucracy, together with the tax regulations, corruption and government instability can cause troubles to businesses.

Appendix 4.4. PESTLE Analysis

Political

Following the transition from communism to democracy in the last two decades, Romania has met remarkable progress. Thus it had a tough start during the first few years (1990s), Romania is approaching the EU's political level. Despite the fact that efforts are made on all fronts, corruption and slippery political environment represent hurdles for an even more accelerated development.

Thus Romania had the highest economic growth rate amongst the EU countries, the final country risk score given by Moody's was Baa3, while S&P rated our country with BBB-.

Economical

Romania's economy was affected by the last global economic and financial crisis, effects being experienced later than in other countries. The Global Domestic Product (GDP) had contracted in 2009, but starting with 2010 started its ascending trend and furthermore, according to the EU, during 2015 to 2019, Romania's growth rate will fluctuate around 3.7%. Our economy is heavily dependent on the Eurozone, due to the fact that as an EU member, most of Romania's exports are operated within the union's member states. Considering the positive perspective for the Eurozone, if our country will follow the same pattern, we should find ourselves in a favorable position in matters of economic evolution.

Social

The population of Romania suffered a decline during the last decades, the trend being forecasted to prevail during the following years; this decrease in population brings a negative influence in demand for electricity.

Another problem is that a big part of the Romanian population still lives in rural areas lacks the resources to sustain a relatively high consumption of electricity. On the other hand, the GDP per capita is expected to grow in the following years, as well as the urbanization rate – this might compensate the negative effects mentioned above.

Technological

It is estimated that technological changes will continue during the next years; the electricity industry will encounter positive effects, due to innovative solutions implemented in production and electricity storage, and due to cheaper electricity distribution. Simultaneously, there are new threats for the industry's players, one example being the cybernetic attacks which started to be more and more frequent.

Legal

Over the past few years, the legal environment suffered several changes including: market liberalization, division of distribution activities from supplying activities and strategies for renewable energy. In 2015, the Regulated Rate of Return (RRR) was lowered from 8.52% to 7.7%. All these measures are meant to support the convergence of Romanian legislation with EU's legislation.

Environmental

Romania agreed with the targets of the EU's 20-20-20 climate and renewable energy which aim to reduce its greenhouse gas emissions by at least 20%, increase the share of renewable energy to at least 20% of consumption, and achieve energy savings of 20% or more. All EU countries must achieve a 10% share of renewable energy in their transport sector, as well.

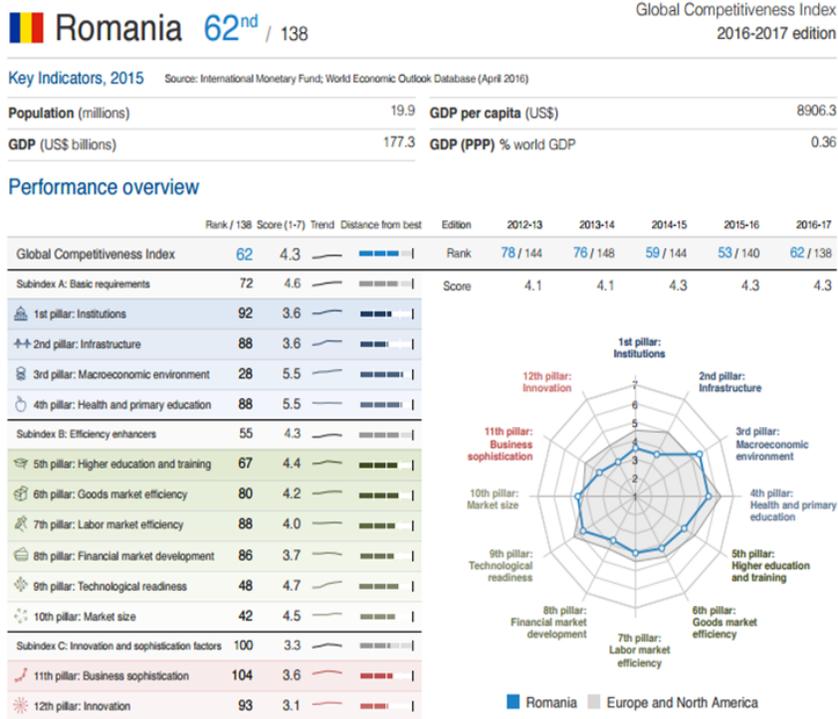
APPENDICES PART 6: INVESTMENT RISK

Appendix 6.1.

Macroeconomic Risk

Romania's competitive position

Romania has lost 9 positions into Global Competitiveness Rank from previous year especially due to poor innovation and sophistication factors.



Source: World Economic Forum, Global Competitiveness Report, 2016-2017

CULTURE AND NATIONAL COMPETITIVENESS RESEARCH ON U.S. AND MEXICO

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Abstract

The current economic environment is particularly difficult since more countries try different approaches in order to deal with diversity and national particularities. In this context, the link between national competitiveness and culture is a frequent argument. This article aims to present the cultural particularities of two countries, USA and Mexico, taking into account their competitiveness performance and the possible links between the two aspects.

Keywords: cultural dimensions, national competitiveness, innovation

1. Introduction

This study starts from the hypothesis that the cultural dimensions defined by Professor Geert Hofstede have an impact for the national competitiveness. In the following paragraphs, the notions of culture and competitiveness will be presented for a better understanding of the subject. This article aims to present the cultural particularities of two countries, USA and Mexico, taking into account their competitiveness performance and the possible links between the two aspects.

1.1. Culture

Every human being has a unique personality, history and interest. Since we live in groups, we interact with each other using language and empathy. We practice collaboration and inter-group competition. The way we do this differs from one group to another. This specific way of the group members in doing things is what we call “culture”.

Geert Hofstede has defined culture as “the collective programming of the mind that distinguishes the members of one group or category of people from others”. He identified six largely independent dimensions: Power Distance (large versus small), Uncertainty Avoidance (strong versus weak), Individualism versus Collectivism, Masculinity versus Femininity, Long Term versus Short Term Orientation and Indulgence versus Restraint.

The **Power Distance** index expresses “how a society handles inequalities among people”. A country with a high Power Distance score, accepts a hierarchical order in which people need no justification for the place they have in the system. If the Power Distance score is low, that means people need justifications for inequalities of power, desiring to equalise its distribution.

Individualism has to do with the measurable amount of interdependence maintained by the members of a society. Simply put, the degree of individualism present is shown in whether people’s image is self-defined in terms of “I” or “we”.

Masculinity indicates when a society has a preference for competition, achievement, heroism, and success. On the other side, a feminine society is driven by cooperation, caring for the weak and quality of life.

The **Uncertainty Avoidance** dimension expresses the degree to which population feel uncomfortable with uncertain and ambiguous situations. In other words, it is how the society deals with an unknown future: trying to control it, or just let things happen.

Long Term Orientation has to do with the way every society prioritises the challenges of the future while maintaining some links with the past. A normative society would rather prefer to maintain traditions instead of being open for changes. Societies who score high on this dimension encourage modern education and other strategies to prepare for the future.

Indulgence is the amount of gratification of human drives towards entertainment and generally having fun allowed by the society. The opposite of indulgence is restraint, standing for the suppression of the same needs, regulating them by social norms.

1.2. The Global Competitiveness

The GCI includes statistical data from organizations such as the IMF, World Bank, International Telecommunication Union, UNESCO, and the World Health Organization. It also includes indicators from the World Economic Forum’s Executive Opinion Survey.

In The Global Competitiveness Report 2016-2017, competitiveness is defined as “the set of institutions, policies, and factors that determine the level of prosperity that the country can achieve.”

Because innovation depends on how all components of the ecosystem fit, this analysis should help businesses, policymakers, and civil society to prioritise interventions and identify bottlenecks.

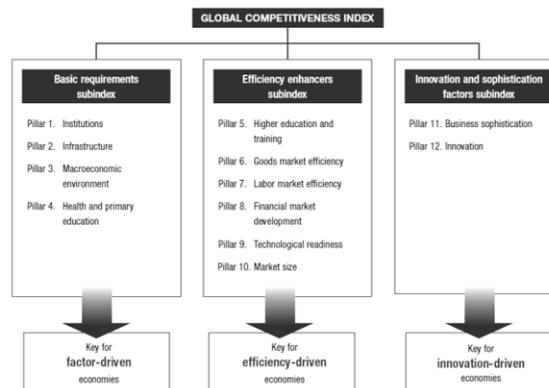
The GCI combines 114 indicators which are grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. The pillars above will matter for all economies, but they will affect every country in different ways.

In the 1st stage, the GCI assumes that a country compete based on its factor endowments, such as primarily unskilled labor and natural resources. In other words, the economy is *factor-driven*.

As productivity increases and wages rise with advacing development, the country becomes more competitive and will move into the 2nd stage, where the economy is considered *efficiency-driven*. In this stage, businesses must develop more-efficient production processes and increase product quality because they cannot increase prices as the wages rise.

As the countries move into the 3rd stage of development, having an *innovation-driven* economy, businesses are able to compete based on sophisticated production processes and by innovating new ones.

Figure 1. Global competitiveness index



Source: The Global Competitiveness Report 2016-2017, page 5

2. Case Study

“Although the three countries that make up North America are physically close, Mexico is simply a different country than her northern neighbours. Mexico has a different history and thus a different culture and ways of doing and looking at things” (E. Kraus, 1997).

2.1. United States

a. National Competitiveness

With a population of 321.6 million people and a GDP of 17947 US\$ billions, the U.S. maintains the 3rd position, improving in areas such as macroeconomic stability.

Table 1. Performance overview in the U.S. (last years)

Edition	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Rank	7/144	5/148	3/144	3/140	3/138
Score	5.5	5.5	5.5	5.6	5.7

Source: The Global Competitiveness Report 2016-2017, page 357

Figure 2. Performance overview in the U.S.

	Rank / 138	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	3	5.7		
Subindex A: Basic requirements	27	5.4		
1st pillar: Institutions	27	5.0		
2nd pillar: Infrastructure	11	5.9		
3rd pillar: Macroeconomic environment	71	4.6		
4th pillar: Health and primary education	39	6.2		
Subindex B: Efficiency enhancers	1	5.8		
5th pillar: Higher education and training	8	5.9		
6th pillar: Goods market efficiency	14	5.2		
7th pillar: Labor market efficiency	4	5.5		
8th pillar: Financial market development	3	5.6		
9th pillar: Technological readiness	14	6.0		
10th pillar: Market size	2	6.9		
Subindex C: Innovation and sophistication factors	2	5.6		
11th pillar: Business sophistication	4	5.6		
12th pillar: Innovation	4	5.6		

Source: The Global Competitiveness Report 2016-2017, page 357

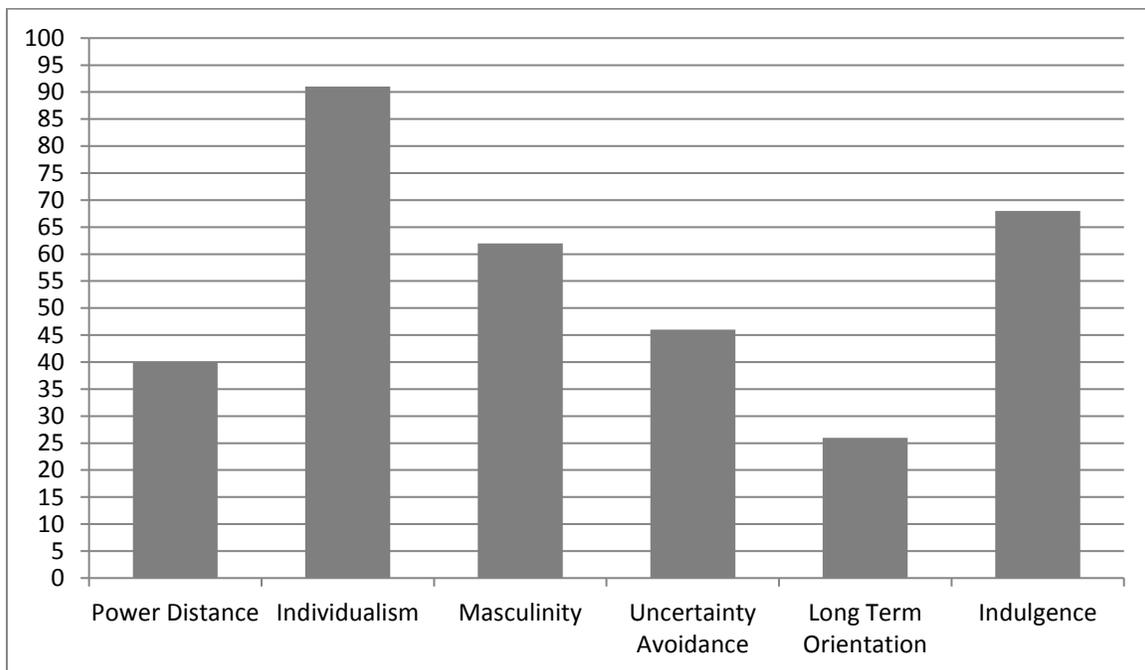
The U. S. is in the top 10 best-ranked economies, but not in any of the basic requirements pillars (institutions, infrastructure, macroeconomic environment, health and primary education), nor on goods market efficiency or technological adoption. This fact can affect stability on the long run, its position being driven by innovation, market size, financial market development, labor market efficiency, business sophistication, and higher education and training.

The World Economic Forum Executive Opinion Survey 2016 reveals the most problematic factors for doing business in the U.S.. In the top of the list we have tax rates. U.S.'s rank at this indicator is 92/138.

b. Culture

This 6-dimensions model (Figure 3) shows us the driving factors of American culture relative to the rest of the world.

Figure 3. The cultural dimensions of the United States



Source: <https://geert-hofstede.com/united-states.html>

One of the most Individualist cultures in the world in combination with the low score on Power Distance reflects itself in some aspects. First, in the U.S. organisations, hierarchy is established for convenience and superiors are accessible for employees. Having an informal and participative communication, information is frequently shared and both employees and managers expect to be consulted. Also, it is known that Americans are the best joiners in the world, being accustomed to doing business with people they don't know well.

Adding the high Masculinity level, we can see the typical American behavioral patterns. People should "strive to be the best they can be". Many American systems are based on targets, so employees can show what a good job they did. Most Americans believe there is always a possibility for doing things in a better way. Typically, they "live to work".

The relatively low score on the Uncertainty Avoidance dimension is reflected in the acceptance for new ideas and innovative products.

The low score at the 5th dimension shows that people strive for quick results at the work place, as businesses measure their performance on a short-term basis.

2.2. Mexico

a. National Competitiveness

With a population of 127 million people and a GDP of 1144.3 US\$ billions, Mexico improves six positions to 51st place, mainly driven by gains in market efficiency.

Table 2. Performance overview in Mexico (last years)

Edition	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Rank	53/144	55/148	61/144	57/140	51/138
Score	4.4	4.3	4.3	4.3	4.4

Source: The Global Competitiveness Report 2016-2017, page 260

Figure 4. Performance overview in Mexico

	Rank / 138	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	51	4.4		
Subindex A: Basic requirements	71	4.6		
1st pillar: Institutions	116	3.3		
2nd pillar: Infrastructure	57	4.3		
3rd pillar: Macroeconomic environment	51	5.0		
4th pillar: Health and primary education	74	5.7		
Subindex B: Efficiency enhancers	45	4.4		
5th pillar: Higher education and training	82	4.1		
6th pillar: Goods market efficiency	70	4.3		
7th pillar: Labor market efficiency	105	3.8		
8th pillar: Financial market development	35	4.5		
9th pillar: Technological readiness	73	4.0		
10th pillar: Market size	11	5.6		
Subindex C: Innovation and sophistication factors	50	3.8		
11th pillar: Business sophistication	45	4.2		
12th pillar: Innovation	55	3.4		

Source: The Global Competitiveness Report 2016-2017, page 260

In comparison with regional and global leaders, primary education is a significant weakness in Mexico's national competitiveness. Institutional quality is also lagging.

The Mexican economy had a fall in industrial production because of the oil prices falling and the weak global trade.

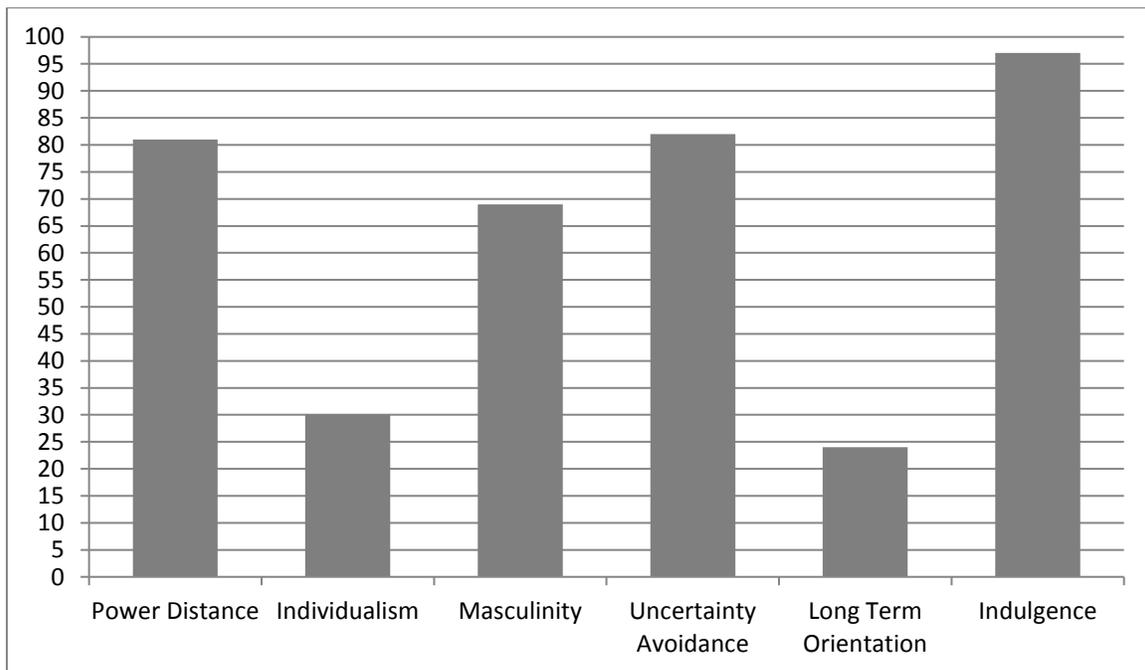
However, Mexico is making progress on some fundamental drivers of future prosperity, being one of the most competitive economies in the region.

The Executive Opinion Survey published by World Economic Forum in 2016 shows us that, at least in the people's point of view, corruption is a major problematic factor for doing businesses, followed by crime and theft.

b. Culture

This 6-dimensions model (Figure 5) shows us the driving factors of Mexico's culture relative to the rest of the world.

Figure 5. The cultural dimensions of Mexico



Source: <https://geert-hofstede.com/mexico.html>

Having a score of 81 at the Power Distance index, Mexico is a hierarchical society. With such a society, organisations reflect inherent inequalities, where employees expect to be told what to do, not asked about opinions. Superiors are not very accessible for employees and communication has a lot of barriers.

Mexico is considered a collectivistic society, having a low score at the 2nd dimension. This reflects itself in the long-term commitment to groups and loyalty. But this can also lead to a collective responsibility that encourages each employee to be less responsible for his own actions while waiting for another person to fix situations.

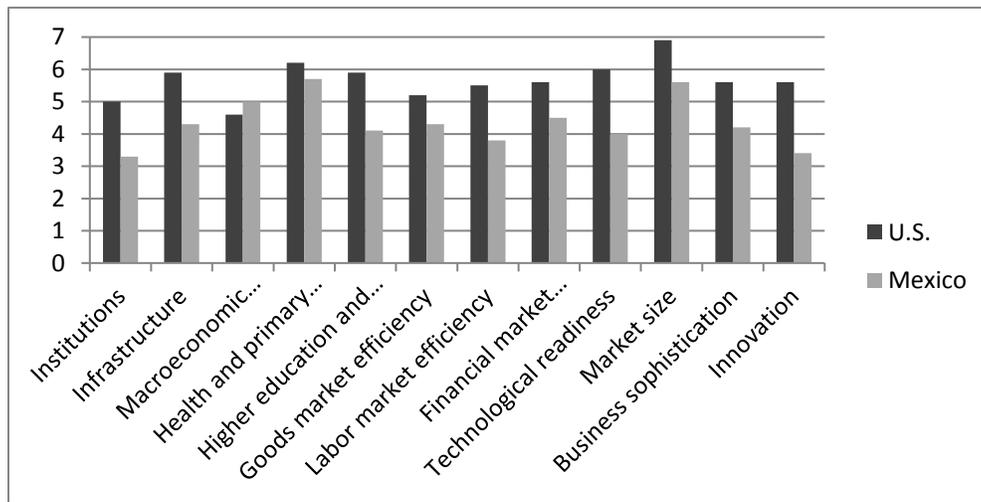
With a high Uncertainty Avoidance level, Mexico is intolerant of unorthodox behaviour and ideas. Because of this, innovation may be resisted. An important element in individual motivation would be security.

The 5th dimension's score means that Mexico has a normative culture. Mexicans have great respect for traditions, a relatively small tendency to save for the future, being focused on achieving quick results.

Mexico has a definite tendency toward Indulgence. People in societies having a high score at this dimension, generally display a propensity to realise their impulses and desires in order to enjoying life and having fun.

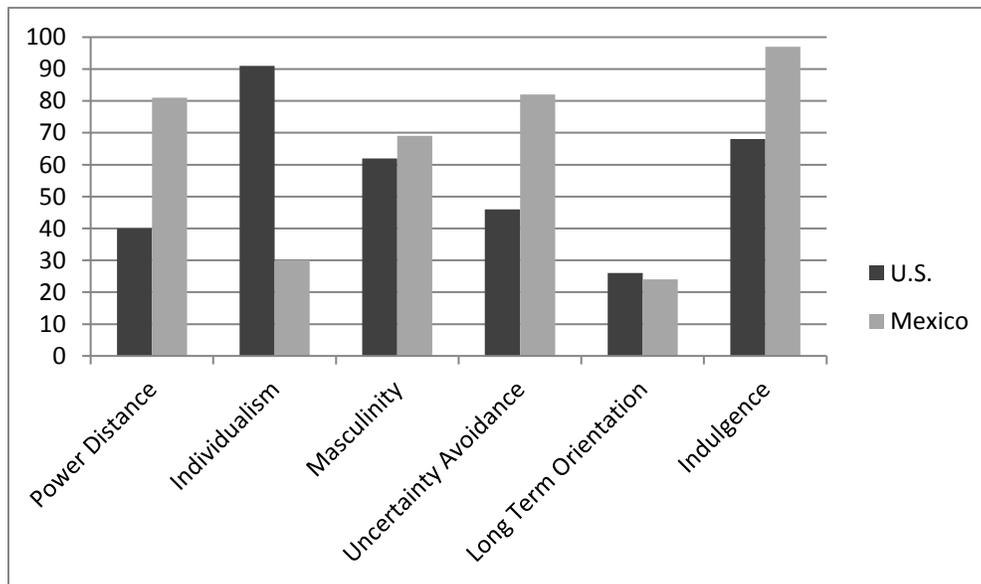
3. Conclusions

Figure 6. Performance overview of the U.S. and Mexico



Source: The Global Competitiveness Report 2016-2017, pages 260 and 357

Figure 7. The cultural dimensions of the U.S. and Mexico



Source: <https://geert-hofstede.com/countries.html>

We can now see the differences between the U.S. and Mexico. A detailed list of their competitiveness index showed us the following:

Table 3. Education and training statistics in U.S. And Mexico

	U.S.		Mexico	
	Rank	Score	Rank	Score
Higher education and training	8	5.9	82	4.1
Quality of the education system	17	5.1	112	3.0
Quality of math and science education	33	4.7	120	2.9
Quality of management schools	7	5.7	65	4.2

Source: The Global Competitiveness Report 2016-2017, pages 260 and 357

It is also known that Mexican schools focus on memorization, having a rigid and broad curriculum, while American schools have a more analytical approach, with emphasis on the practical.

A source for these differences is exactly the national culture. Comparing the cultural dimensions of the U.S. and Mexico, we note outstanding differences at dimensions like Power Distance, Individualism and Uncertainty Avoidance. Having a convenient hierarchy in organisations, an informal and participative communication, a strive for doing things in a better way and be the best you can be, an acceptance for new ideas and innovative products, these can only enhance the efficiency and favour innovation and sophistication.

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THE EVOLUTION OF MARKETING OVER THE LAST CENTURY

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Abstract

The following paper contains a short history of marketing over the last century. From Marketing 1.0 which concentrated very much on the product or service which had to be sold, to Marketing 2.0 which began to notice that the client is very important in a marketing perspective and finally to Marketing 3.0 which is the newest and the most complex kind of marketing. For each category there are some examples presented to better understand each of the concepts and see what the reality of marketing was over the years.

Keywords: marketing, marketing 1.0 2.0 3.0, Chesterfield, Starbucks, globalization

At the beginning companies were focusing strictly on the product that they were selling, since in their view, the only function of marketing was to sell a product. They were finding new ways to make mass production of a different range of products that were to be presented to the customers and who will have to buy them in order for the companies to be worth the effort.

Every quality of that certain product was displayed in the ads as much as possible, to make the customers buy it. But the companies did not have a clear vision about who was actually buying their products, in what quantities and how often. This is why they could not influence those statistics in the first place.

Between the common known companies who practiced the mass production was of course Ford with their famous “Model T”. The car was advertised to anyone, since it was affordable for a wider range of people than the cars produced till then.

Another company that practiced this kind of marketing with success was Coca-Cola. They also promoted their juice as one for everyone.



Throughout the years, Coca-Cola experimented different types of marketing and we can all be the judge if they were successful by how popular this company is today although it was founded so many years ago.

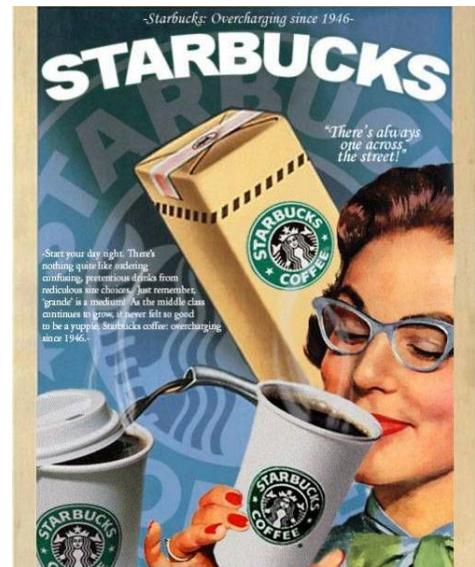
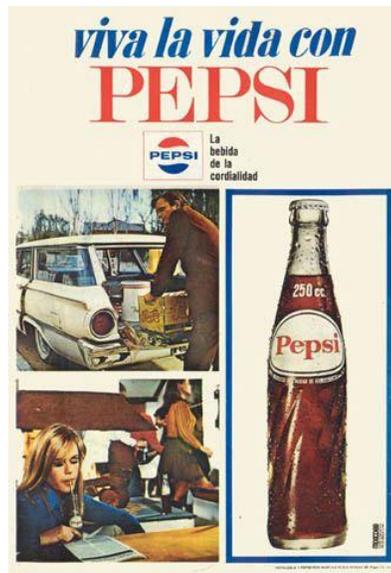
At the beginning of the last century doing marketing was a totally different story than it is today. It would consist mostly of advertisements placed in different populated places or sent to individuals. This method was both costly and not very efficient, since they were not targeted and you had to guess what ad the customer saw and came to buy the product. This kind of marketing would later be called Marketing 1.0.

By the middle of the last century, marketing has evolved to a different stage. More and more companies were founded and each had to stand out. This is when ad agencies also thrived because their clients were starting to see the benefits of a well-done marketing strategy.

Traditional media such as radio, newspapers and magazines remained vital ad conduits during the early years of the decade, but TV quickly became a cornerstone of many advertisers' national media plans. (Ad Age, 2003)

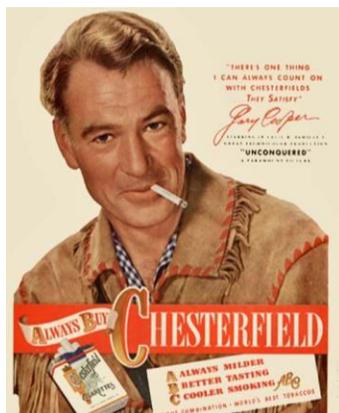
The focus remained on the product mainly, but they were trying to make it look as good as they could both in the packaging used and, in the advertisements, where it was placed.

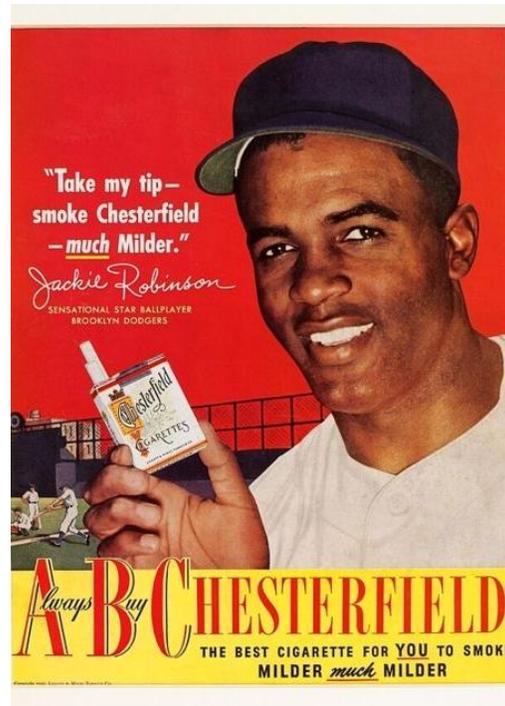
Here are some examples:



The next very important step in the history of advertising was endorsements. This concept means a testimonial, a written or spoken statement endorsing, promoting or advertising a product. This way companies with a consistent marketing budget could “hire” certain famous individuals to promote their products or services. (Wikipedia)

A good example from the 50's and 60's would be the cigarettes brand Chesterfield.



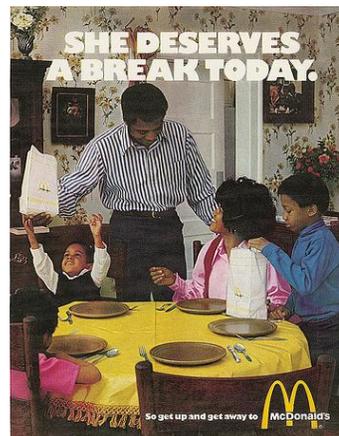
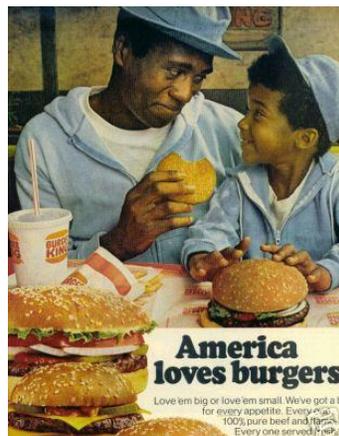


From the 1950's, marketers started using the market research, something we still value today, allowing companies to sell what the consumer actually wanted to buy rather than trying to talk them into buying pointless items. This gave birth to a new king of marketing, one that can be called Marketing 2.0, with its main focus on the client.

This time the marketer had to segment the market and develop a superior product for a targeted market. The old saying “client is king” works for almost all the companies.

Segmenting the market means a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers (known as segments) based on some type of shared characteristics. In dividing or segmenting markets, researchers typically look for shared characteristics such as common needs, common interests, similar lifestyles or even similar demographic profiles. The overall aim of segmentation is to identify high yield segments – that is, those segments that are likely to be the most profitable or that have growth potential – so that these can be selected for special attention. (Wikipedia)

Since we are analyzing the “evolution” of marketing, let’s take a look at some targeted ads from McDonald’s from the 1970’s. They were aiming at the working class of black americans.



In contrast to the "product era" of the 1950s and the "image/impression era" of the 1960s, "positioning" emerged as a primary ad strategy of the 1970s. In a media-oriented culture, marketers found it necessary to position a product in the consumer's mind, both within the context of its own merits and strengths and in relation to its competitors.

Around this time, a new group of customers were aimed at, especially with the growth in popularity of the TV sets and advertising through them: children. The early years of the decade also brought an increased threat of government regulation, triggered largely by concerns that advertising was capitalizing on the inability of children to distinguish between commercials and programs. TV advertisers were spending millions of dollars annually pitching products to children. Empirical research suggested that children younger than eight generally could not distinguish between a commercial and the main program fare. The data suggested this remained true until about sixth grade. (Ad Age)

Finally we get to the final stage of marketing, at least so far, which is called Marketing 3.0.

What is specific to this kind of marketing is that it has to keep all the aspects of the previous generations of marketing, make them better and introduce new concepts and elements to consider and to make a marketing strategy more effective. The demands of all parties: customers, companies who want to promote their products and services and marketers have all grown over the last years, since we live in a time when everyone wants things better, faster and cheaper.

I think that it is the marketer's job to balance them all and to explain to each party the true cost of what they deserve.

Collaborative marketing is the first element of this kind of marketing. Companies are now aiming to change the world. And they can't do this alone. In an interconnected society, they have to collaborate with each other, with their shareholders, partners, employees and customers.

Globalization as you can guess is another major force leading to Marketing 3.0. And its engine is technology. Information technology makes it possible for corporations, nations and individuals to exchange information from anywhere in the world. Meanwhile nowadays transportation facilitates other exchanges in the international chain of value. This new kind of marketing brings it to the sphere of aspirations, values and human spirit. Consumers are now seen as human beings who should never be let down on their needs and hopes.

Marketing should no longer be considered as only selling and using tool to generate demand. Instead marketers should approach costumers "as whole human beings with mind, hearts, and spirits. (Phiplip Kotler, 2010)

Now let's take some examples to better understand this.

Starbucks seizes this idea of Kotler in the book Marketing 3.0 and takes a stand for the society and the environment. Since 2001 Starbucks publishes its Global Responsibility Report annually and in 2008 they launched their Starbucks Shared Planet Program. "Starbucks Shared Planet means focusing on the core areas where the company has the biggest influence – ethical sourcing, environmental stewardship and community involvement". (Starbucks 2011a – Starbuck Shared Planet). These core areas can be further divided into five fields, which cover Coffee Purchasing & Farmer Support, Energy & Water Conservation, Green Building, Recycling & Reusable Cups, and Community Involvement. In every of the mentioned fields Starbucks has set realistic goals for itself. By means of their varied commitment they want to achieve these goals and want to make the world a little bit better.



Another example of practicing this new kind of marketing is Unilever. Unilever has done more than make green investments, it's made sustainability part of its corporate identity. The company's Sustainable Living Plan sets targets for sourcing, supply chain and production on everything from energy and water use to treatment of suppliers and communities where they operate. When it was first adopted in 2010, CEO Paul Polman said he wanted to double the company's business while halving its environmental impact in just 10 years. It's made amazing strides: three quarters of Unilever's nonhazardous waste does not go to landfills and the share of its agricultural suppliers that use sustainable practices has tripled. The United Nations awarded the company's CEO its Champion of the Earth Award in 2015 for his efforts toward reaching this goal. (Virgin, 2016)

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ROMANIA IN THE CONTEXT OF CREATIVE ECONOMY AND KNOWLEDGE-BASED SOCIETY

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Abstract

The concept of creative economy is rather new, appearing under this form after 2000 and being defined such as to be applied nowadays to a series of professions and activities. In the context of the global economy, creative economy holds an important role, being one of the focuses of the European Union.

Creative economy states as essential factors creativity, innovation and knowledge management that contribute to a sustainable development. In John Howkins' „The Creative Economy: How people make money from ideas” published in 2001, we count among the creative industries/sectors research, advertising, software, video games, theatre, movies, design. The concept of creative economy can also be applied to non-IT and non-artistic fields, where processes can be improved through innovation.

The European Innovation Scoreboard (EIS), the Global Creativity Index (GCI) and the Bloomberg Innovation Index are tools used to measure the degree of creativity and innovation of nations accros Europe or at the global level. Romania occupies one of the last positions at the european level and ranks average at the global level, scoring low in the entrepreneurship and property rights areas.

The research methodology of the paper consists of qualitative methods, searching for answers regarding the position of Romania in the context of creative economy and providing solutions for the development of the creative industries in the country.

The paper structure includes a brief literature review on creative economy and continues with best practice examples and the issues that arise in the process of implementation of the concept in Romania, followed by conclusions and recommendations.

Keywords: Creative Economy, Creative Industries, Creative Sectors, Innovation

1. Introduction

Creative economy appeared as a concept more than a decade ago, becoming over the years an important sector of the global economy. The concept is now applied to numerous activities and constantly develops in the context of the knowledge-based society.

The concept highlights the fact that innovation can appear in various sectors of the economy in efficiency-driven economies as well as in innovation-driven economies, while also observing the phenomenon and its results at the global level (Hartley, 2015).

It is very important to acknowledge the fact that innovation can arise in all industries, not only in the artistic or IT related ones, for example in agriculture, where the discovery of new techniques can increase efficiency (Suciu, 2008).

This paper has the purpose of documenting Romania's position in the context of creative economy and to find ways of improving the well-being and development degree of the country with the help of the creative industries.

2. The evolution of creative economy

Creative Economy first appeared as a concept in John Howkins' groundbreaking publication „The Creative Economy: How people make money from ideas”, where individual creativity was described as the most

important factor, while the creative product was defined as „an economic good, service or experience resulting from creativity and with the characteristics of being personal, novel and meaningful” (Howkins, 2001, p. 8)

The European Union developed programmes such as „Europe 2020” and „Creative Europe”, following the „Lisbon Strategy”, that have the objective of supporting a smart and sustainable development, favorable to job creation and inclusion. One of the most important sectors highlighted by the „Europe 2020” strategy is research and development. (EC, 2013)

„Creative Europe” is a programme amounting €1.46 billion adopted in 2013, that will run between 2014-2020 with the purpose of supporting the creative industries from across the European Union (European Commission, 2013).

John Howkins includes in the creative sectors research, software, publishing, architecture, music, theatre, film, video games and other industries, highlighting the importance of the intellectual property rights for the aforementioned. (Howkins, 2001)

Creative products are defined by the intangible factor and can take various shapes, from theories and hypotheses to designs and materials. (Suciu, 2004)

Since the concept of creative economy rose, there have been many discussions regarding the distinctions that should be made between „creative sectors” and „cultural sectors”, concluding with the cultural sectors being a sub-sector of the creative sectors, as they only address social and cultural activities and professions, including industries in relation to cultural tourism, museums, heritage.

Among the pioneers of the concept of creative economy, Richard Florida also wrote about the human creativity that leads to innovation and considers it one of the most valuable economic resources. He also developed three pillars, the 3 T’s (talent, technology, tolerance) that contribute to the development of nations. The Martin Prosperity Institute together with Richard Florida are currently developing a fourth pillar, territory, related to the importance of local and regional creative communities.

There are various benchmarking methods that can provide a view of the most innovative countries at the Global level, among which the Global Creativity Index (GCI), that takes into account the 3T’s and calculated the degree of innovation of a country based on criteria such as the number of registered patents, the number of PhD graduates, the number of scientific researches. (Richard Florida, The Martin Prosperity Institute, 2011).

UNCTAD edits and publishes regularly a report entitled „Creative Economy”, that highlighted when first published in 2008 the most important factors that contribute to the social inclusion and creation of new businesses and therefore new jobs, while also increasing the level of innovation: technology, culture, creativity and knowledge (UNCTAD, 2010).

Creative economy is known the Orange Economy in Latin America and the Caribbean (Buitrago, 2013), being defined by creative sectors of the economy that involve activities leading to the generation or exploitation of knowledge and information (Hesmondhalgh, 2002).

3. Statistical findings and methodology

Creative economies can be measured with the help of indicators such as trade, consumer expenditure, employment, but also with the help of indicators such as patents or intellectual property rights.

Due to the intangible factor, measuring creative economies can be very challenging, especially when it comes to ideas, theories, designs. Products and services that are delivered through creativity determine a market with numerous freelancers, part-time workers and non-financial transactions.

Since creative economy is a rather new concept, it is very difficult for governments across the world to modify national statistics in order to measure and reflect the creative activities, although several are making efforts in this regard.

Romania is not an exception, although in the past few years, there have been attempts to develop programs such as „Creative Romania”, that will support creative industries, due to the fact that innovation is acknowledged as essential for the development of the country. Such initiatives will also lead to a more accurate measurement of the creative sectors.

There is also a cluster association and a gathering of innovative clusters from across the country which gather companies from several cultural and creative industries.

Among the more developed countries that strive to promote creativity and innovation, such as United Kingdom, Portugal, Finland, Australia, Luxembourg, the United States of America, South Korea and other leaders in the international rankings on this matter, an effort to accurately measure the creative sectors and reflect the measurement in the national statistics has been noticed.

Among the most notable countries that adopted strategies to support the creative sectors, United Kingdom adopted the strategy „Creative Britain” (NESTA, 2016). United Kingdom’s government, through the Department for Culture, Media and Sport (DCMS) acknowledged nine creative sectors, marketing and advertising, architecture, crafts, IT, publishing, design, museums, music and film. DCMS stated that these industries bear a high potential for job creation and wealth, generated from the exploitation and generation of intellectual property (DCMS, 2015).

The Department for Culture, Media and Sport from United Kingdom classifies companies and occupations according to the primary products and to the primary activities of the employees. This is an initiative that is trying to measure the amount of creative workers and the number of companies engaged in creative activities.

Locations with high concentrations of creative activities developed into creative clusters, amounting 47 in total in the United Kingdom, managing to develop considerably in the past years, generating 5.3% of the country’s GDP in 2015, year in which these clusters were accountable for 1.9 million jobs, also supporting other sectors of the economy through their final products and services such as advertising or design. (NESTA, 2016)

In 2016, Romania’s government was planning the launch of a programme called „Creative Romania”, that would activate the economic potential of the creative and cultural sectors of Romania. „Creative Romania” was supposed to amount €35 million, giving access to entrepreneurs activating in creative and cultural sectors to funds that would help develop new businesses and generate new jobs.

The purpose of this initiative was to turn Romania into a global development center for creativity and better measure the creative industries while also helping entrepreneurs to access european funding for their businesses that will later turn into best practice examples.

The Global Creativity Index 2015 (GCI) is a study released by the Martin Prosperity Institute, connecting global economic development with creativity, ranking 139 countries according to Richard Florida’s „3Ts”, talent, technology and tolerance. The first pillar counts the workers in the creative industries and adults with higher education, technology refers to the number of patents per capita and research and development within an economy and the third pillar relates to the attitude towards LGBTQ communities, immigrants, ethnic and racial minorities.

The Global Creativity Index promotes the idea that the three pillars and creativity lead to social and economic development in nations across the world, placing in its ranking Australia as the most creative

country at the global level, which surpassed Sweden, which was at the top of the list in the previous editions from 2004 and 2011.

In the ranking, the second country on the list is the United States of America, while New Zealand occupies the third spot, Canada is fourth, followed by Finland and Denmark, occupying the fifth place. Among the other countries in the top ten most creative countries, the list included Iceland, Sweden, Singapore and the Netherlands.

The highest amount of people engaged in creative sectors is in Luxembourg, at a share of 54%, the position being motivated by the territory and population of the country. The leader in technology is South Korea, while in terms of talent, Australia comes first. When it comes to the third pillar, Canada is the most tolerant country, showing positivity towards LGBTQ communities, as well as towards other minorities.

The Global Creativity Index highlights the fact that the more urbanized nations are also the most prosperous, drawing a line between creativity and urbanization and the prosperity of the high performers from the ranking. The countries found at the top of the list are defined by equality, human development, competitiveness and entrepreneurship.

According to the Martin Prosperity Institute research, the GCI shows Romania on the 68th position in relation to creativity, ranking average out of 139 countries. The position before is taken by Trinidad and Tobago, while the 69th is occupied by Peru. The below table reflects the first 25 most creative countries in the world and their Global Creativity Index (table 1).

Table 1. Top 10 Countries according to the Global Creativity Index

Rank	Country	Technology	Talent	Tolerance	Global Creativity Index
1	Australia	7	1	4	0.970
2	United States	4	3	11	0.950
3	New Zealand	7	8	3	0.949
4	Canada	13	14	1	0.920
5	Denmark	10	6	13	0.917
5	Finland	5	3	20	0.917
7	Sweden	11	8	10	0.915
8	Iceland	26	2	2	0.913
9	Singapore	7	5	23	0.896
10	Netherlands	20	11	6	0.889
68	Romania	65	60	76	0.425

Source: Global Creativity Index 2015 Report, Martin Prosperity Institute

Another benchmarking tool showing the degree of innovation of countries is the Bloomberg Innovation Index, a report that was last published in 2017, calculating the degree of innovation of a country by using factors that include the concentration of high tech companies and the research and development spending, patent registration, higher education and researcher concentration. In this year's report, South Korea is occupying the first position in the ranking, followed by Sweden, Germany, Switzerland and Finland.

The report continues with more positions, as first the ranking started with more than 200 economies, from which the ones that did not report data for at least seven categories measured were removed, publishing a final list of 50 most innovative economies.

Table 2. Bloomberg 2017 Innovation Index

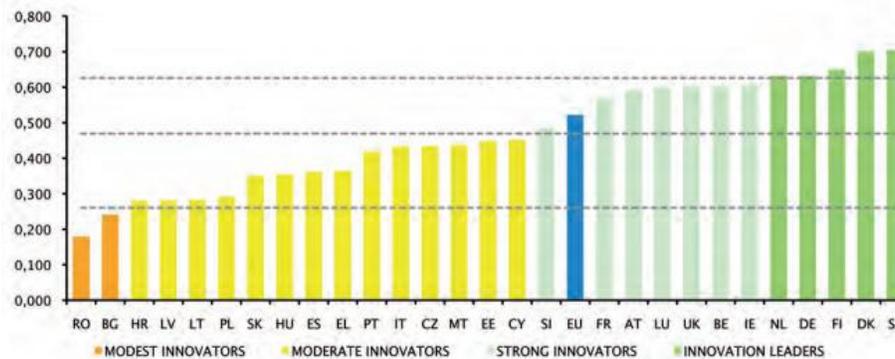
2017 rank	2016 rank	YoY change	Economy	Total score	R&D intensity	Manufacturing value-added	Productivity	High tech density	Tertiary efficiency	Researcher concentration	Patent activity
1	1	0	S. Korea	89.00	1	1	32	4	2	4	1
2	3	+1	Sweden	83.98	5	11	15	7	18	5	6
3	2	-1	Germany	83.92	9	3	16	5	12	16	9
4	5	+1	Switzerland	83.64	8	6	2	11	16	14	4
5	7	+2	Finland	83.26	4	13	20	15	5	3	5
38	-	-	Romania	57.06	49	14	41	25	32	46	35

Source: Bloomberg Website, 2017

Another report that shows the degree of innovation of several countries, the European Innovation Scoreboard (EIS), developed by the European Commission, published annually, with the last number released in 2016, places Romania among the modest innovators. (European Commission, 2016) In this ranking, Romania holds the last spot, together with Bulgaria, as shown below in figure 1.

The two countries are below the average innovation performance level of the European Union, but with good chances of improving the innovation level and research performance of the economy, that showed an improvement nevertheless in the past 11 years since the EIS started being published.

Figure 1. EU Member States' innovation performance



Source: European Innovation Scoreboard, European Commission, 2016

The innovation performance of the countries is calculated through a composite indicator, the Summary Innovation Index, that is obtained from various indicators classified into three types, namely the firm activities (firm investments, entrepreneurship) enablers (PhD graduates, human resources in creative sectors) and outputs (medium and high-tech product exports).

The countries from the European Union, as well as other European countries that are not member of the EU are ranked based on a total of 25 criteria, which include the number of registered patents, the number of employees in IT, the number of investments in research and development, the sales of new products.

A well known fact is that Romania occupies the last positions when it comes to intellectual property and entrepreneurship (European Commission, 2016). In this regard, Romania has shown the most negative growth rate during 2008-2015, while countries such as Malta are positioned at the opposite side, showing the highest growth rate for 2008-2015. However, although not part of the European Union, Switzerland is the most innovative country in Europe.

Since it has been noticed in several researches that Romania is not a top innovator nor a country that supports and develops a legal frame for the evolution of the creative and cultural sectors of the economy, the national statistics of the country are also not accurate in this regard, making it challenging to assess the real situation in the context of the creative economy and knowledge-based society.

However, it is very clear that Romania cannot be counted among the top innovator countries of the European Union, also ranking average in the global reports. This is an issue that can find solution in government support, that will enable the development of entrepreneurship, generating new businesses in the cultural and creative sectors, that will further create new jobs and will lead to social inclusion, creative communities and clusters.

Although in the past years there have been initiatives that encouraged young entrepreneurs to apply for funds from the European Union, there are still numerous persons with innovative ideas that are not well informed and are missing on opportunities to develop a business.

However, the European Union, has shown an outstanding improvement in the creative sectors of the economy, with the European Innovation Scoreboard estimating an increase in innovation for the EU of 2.5% forecasted for the next two years.

4. Conclusions

Creative economy is a rather new concept that places the human factor at the core of the development of nations through creativity and innovation. There are constant efforts coming from countries across the globe trying to measure the performance of the cultural and creative sectors.

To support the development through innovation, the European Union adopted strategies that support job creation, social inclusion, sustainable and smart development, as well as the preservation of art and heritage and investment in research and development.

This paper is a literature review on the topic of creative economy and knowledge-based society, containing several rankings in regard to the innovation degree of countries across the globe, with the purpose of placing Romania within this context.

Since creative economy appeared as a concept about a decade and a half ago with the publications of the pioneers of this topic, John Howkins and Richard Florida, there are several limitations related to it, such as the low pace of several countries when it comes to the modification of the national statistics in order to include the creative occupations and products/services, making it very challenging to measure the innovation degree of a country.

Romania is one of the modest innovators, also very slow in modifying the statistics accordingly, which leads to difficulties in assessing the situation of the country, since statistics are not accurate with regard to creative industries, as they are not distinguished in any way.

Romania ranks very low in entrepreneurship, especially in the less developed areas, which triggered the launch of several initiatives that had the purpose of increasing the number of new businesses, by informing people of the opportunities of obtaining funding from the European Union, as well as guidance in opening new businesses in the cultural and creative sectors.

According to several studies, Romania ranks last in creativity and innovation when compared to the other members stated of the European Union, according to the European Innovation Scoreboard published in 2016 by the European Commission, while ranking average in the Global Creativity Index published in 2015 by Richard Florida and the Martin Prosperity Institute.

In order to improve Romania's situation in the context of the creative economy and knowledge-based society, a best practices guide resulting from a comparative analysis of the most innovative countries from the EU as well as at the global level is of high importance.

The degree of creativity and innovation of Romania can be improved by initiatives coming from the government, recognizing the importance of the human resource in relation to the cultural and creative sectors, informing and supporting future entrepreneurs with innovative ideas that will also lead to the creation of new jobs and new products.

To conclude, Romania is a modest innovator, although Romanians are known as creative people. Government support is needed in order to develop the cultural and creative sectors, as most of them are not benefitting from proper funding. Government initiatives are needed in order to increase the number of informed individuals that possess creative ideas that can turn into businesses, contributing to the development of the economy by creating new, innovative products.

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JOINT EFFECTS OF E-WOM, SOCIAL MEDIA ADVERTISING AND EXPERIENTIAL VALUE ON CUSTOMER EXPERIENCE IN A RETAIL COFFEE SERVICE SETTING

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Abstract

Cultural, economic and technological developments bring changes to the society we live in, which leads to a turnaround in how production and consumption takes place. The coffee shop culture is here, where the venues are either a third place with elements of home and work or a place where to find a state of psychological, physical and/or social well-being. In order to keep up with the challenges brought up by consumers demands, but also to face the high competition, retailers have focused their efforts into creating business environment-related stimuli that determine approach responses and create a positive Customer Experience. As a consequence, this paper aims to determine the relationship between customer perceptions and behaviour responses in a local coffee shop mediated expectation (e-WOM and Social Media Advertising) and business performance (Experiential Value).

Keywords: e-WOM, Social Media Advertising, Experiential Value, Customer Experience

1. Introduction

Consumer re-buying demeanour is more than just behaviour. There are a variety of factors that determine why customers repeat the act of purchasing, but today more and more organisations focus on being a differentiator, on making their offer the best option. The main aim of entrepreneurs is to keep their businesses competitive, so the responsibility of managing Customer Experience in all its forms should become a top priority not only for managers, but for everyone in the organisation. From the messages it uses, to the products and service process, everything contributes to the way customers perceive a company. Because each interaction from the customer journey is unique and adds to customers perception fragility, a strong Customer Experience must be maintained. Given its importance, I have decided to study the relationship between past and actual factors which determine overall Customer Experience and eventually Purchase Intent of customers in the coffee shop industry.

2. Theoretical framework

Studies have shown that one third of online users actively search information on products or services in others recommendations (Nielsen et al., 2010). The information exchange among consumers via Internet is known as electronic Word-of-Mouth (e-WOM) and among the first authors to do research in the field were Lee (2008) and Henning-Thuran (2004). When an individual has already experienced a product he will be less likely to turn to the advice of others. However, when an individual does not have experience with a product, he will be more likely to be influenced by the example of others. Consumers attitudes may be modelled by the advice of others when their example is sought, and they are referred to as reference groups, namely virtual communities in the online environment.

Since the new digital technologies emerged, they brought many changes. They allow marketers to customize their product marketing mix in a more efficient manner and more quickly than ever, therefore the way business firms use advertisement has shifted lately from traditional media to social media. Besides advertising campaigns, Social Media enables Word-of-Mouth, which leads to brand awareness and, eventually, to an increase in sales (Kumar&Mirchandani, 2012). Thus, Social Media ads induce perceptions and responses among users and their peers (Gustin, 2012; Lipsman, Aquino&Kemp, 2012).

Today, the post-modern consumer purchases due to a complexity of reasons, but one of the main reasons is the perceived value. This is both subjective and relative and it translates as the ratio between customer's perceived benefits and the resources invested (money, effort, time) in obtaining the benefits. The benefits are more and more about the interaction between the consumer and the selling environment (Platania,2010), where besides utilitarian motives, hedonistic and emotional motives are valued (Maturro&Remuzzi, 2005; Jang&Namkung, 2009; Muruganatham&Bhakat, 2013).

3. Research model

3.1. Problem definition

In a highly dynamic business world that we live in, customer retention is vital for a healthy and sustainable business. When it comes to retail, consumers have plenty of choices regarding to where to spend their money in which is why they could easily switch businesses if confronted with unsatisfactory customer service. Therefore, companies must redraw their strategies and generate customer loyalty instead of expecting it. When it comes to coffee shop industry, overall in-store experience and not only is influential to customers which is why is important to identify whether there is a relationship between the identified factors and customer experience, to augment the factors and turn them into competitive advantage.

3.2. Purpose and research questions

The main purpose of the present paper is to identify and analyse the factors that influence the Purchase Intention of Hug The Mug coffee shop consumers, factors that lay at base of Customer Experience.

Table 1: Objectives and hypothesis

Objectives	Hypotheses
O1. Measuring Customer Experience through Expectations and Performance felt	H1. Expectations factor has a positive and significantly statistic influence on Customer Experience
	H2. Performance factor has a positive and significantly statistic influence on Customer Experience
O2. Measuring e-WOM through Source Trustworthiness, Information Usefulness and Social Tie Strength	H3. Source Trustworthiness factor has a positive and significantly statistic influence on e-WOM
	H4. Information Usefulness factor has a positive and significantly statistic influence on e-WOM
	H5. Social Tie Strength factor has a positive and significantly statistic influence on e-WOM
O3. Measuring Social Media Advertising through Informativeness and Attitude	H6. Informativeness factor has a positive and significantly statistic influence on Social Media Advertising
	H7. Attitude factor has a positive and significantly statistic influence on Social Media Advertising
O4. Measuring Experiential Value through Sense, Think, Relate, Act and Feel factors	H8. Sense factor has a positive and significantly statistic influence on Experiential Value
	H9. Think factor has a positive and significantly statistic influence on Experiential Value
	H10. Relate factor has a positive and significantly statistic influence on Experiential Value

	influence on Experiential Value
	H11. Act factor has a positive and significantly statistic influence on Experiential Value
	H12. Feel factor has a positive and significantly statistic influence on Experiential Value
O5. Determining the relationship direction and intensity between e-WOM and Expectation	H13. e-WOM factor has a positive and significantly statistic influence on Expectation
O6. Determining the relationship direction and intensity between Social Media Advertising and Expectation	H14. Social Media Advertising factor has a positive and significantly statistic influence on Expectation
O7. Determining the relationship direction and intensity between Experiential Value and Performance	H15. Experiential Value factor has a positive and significantly statistic influence on Performance
O8. Determining the relationship direction and intensity between e-WOM and Customer Experience	H16. e-WOM factor has a positive and significantly statistic influence on Customer Experience
O9. Determining the relationship direction and intensity between Social Media Advertising and Customer Experience	H17. Social Media Advertising has a positive and significantly statistic influence on Customer Experience
O10. Determining the relationship direction and intensity between Experiential Value and Customer Experience	H18. Experiential Value has a positive and significantly statistic influence on Customer Experience
O11. Determining the relationship direction and intensity between Customer Experience and Purchase Intention	H19. Customer Experience factor has a positive and significantly statistic influence on Purchase Intention
O12. Customer Segmentation based on Purchase Intent and socio-demographic variables	H20. There are statistically significant differences between men and women in matters of Purchase Intent from Hug The Mug

3.3. Limits

Most studies have their limits. So does the present study. The questionnaires were shared in-store only for customer fill-in, therefore the main limit of this study is given by time, since most of the customers take their beverage on to go. Still, the study represents a base model for further research.

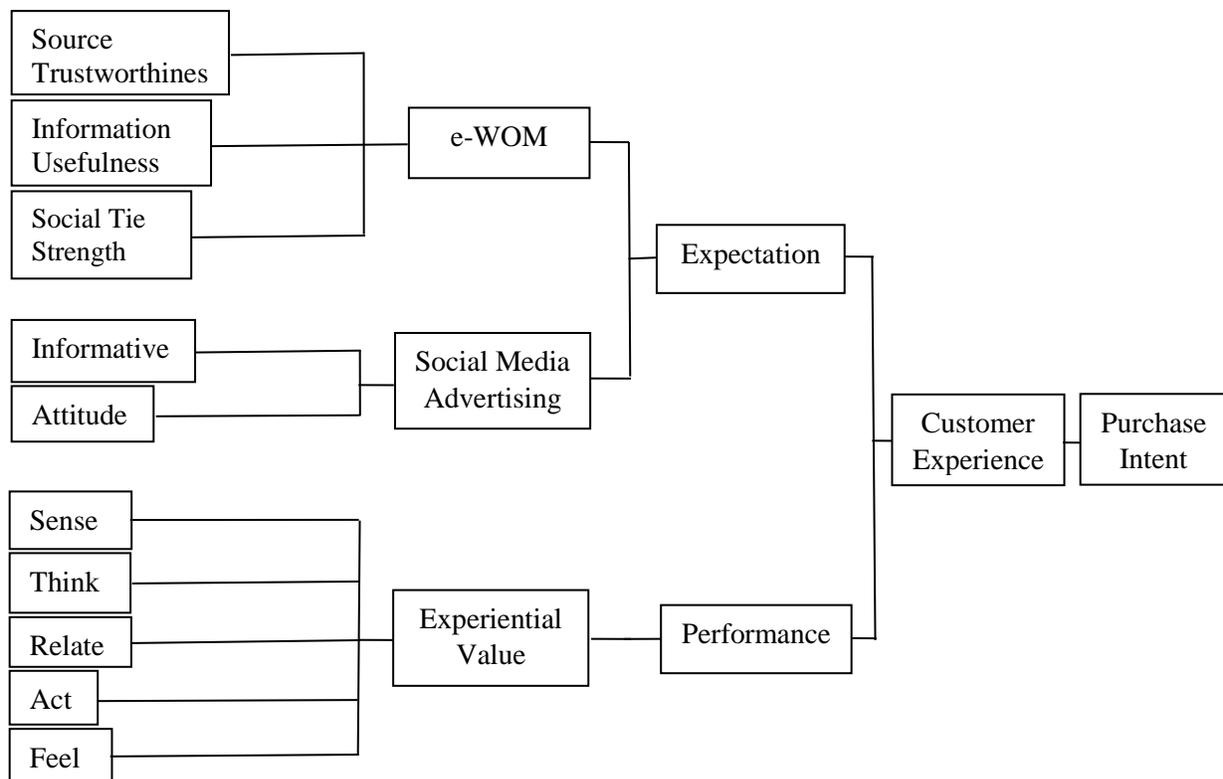
4. Research design and collection method

The present study is a descriptive research and uses the quantitative method. The chosen method of data collection is the primary method, which includes a questionnaire with items regarding Customer Experience at Hug The Mug coffee shop. The targeted population for the study is represented by the coffee shop's consumers. The sample size is reduced, since the present study is a pilot study. As a consequence, the number of respondents was 47. The questions from the questionnaire have been adapted by the ones in the speciality literature with regard to e-WOM, Social Media Advertising and Experiential Value of consumers. There are two main parts which compile the questionnaire. The first part includes items which relate to

factors that explain the Purchase Intent of customers to buy from Hug The Mug Coffee Shop. The second part of the questionnaire deals with determining the demographical characteristics of Hug The Mug buyers. The first part is also divided in two sub-divisions. These sub-divisions contain certain questions dedicated to each analysed section: Expectation and Performance, respectively. Therefore, the Expectation division is analysed through three factors: e-WOM, Social Media Advertising and Experiential Value. The e-WOM latent factor contains three sub-factors: Trustworthiness which comprises 4 items, Information Usefulness with 3 items and Social Tie Strength with 2 items. The Social Media Advertising factor is analysed through two sub-factors: Informativeness which compiles 3 items and Attitude with 4 items. The Performance division entails the Experiential Value latent factor which consists in five sub-factors to be analysed: Sense through 4 items, Act through 4 items, Think through 2 items, Feel through 6 items and Relate through 5 items. In this section, the questions are built on the ordinal 5 point Likert scale, with answers ranging from 1 (strongly disagree) to 5 (strongly agree).

Furthermore, in order to determine which component has the most significant impact in matters of choice to purchase from Hug The Mug Coffee Shop, the comparative scale method was used in which respondents had to allot 100 points between e-WOM, Social Media Advertising and Experiential Value. In order to classify the respondents depending on gender, educational level and age the nominal scale has been used. Demographical questions are included in the second part of the questionnaire, which is also the final part of it.

Figure 1. Research model



5. Data analysis

In order to analyse the input, the SPSS software was used. Therefore, the coded variables corresponding to Customer Experience were computed according to the factors illustrated in the research model. For the Source Trustworthiness factor were computed 4 variables from the following items: I trust the information

in online reviews about Hug The Mug to be equitable and rational; The messages in the online reviews about Hug The Mug are truthful; I trust the sender of the online review about Hug The Mug; The content of the online review about Hug The Mug is dependable. After the descriptive statistics analysis, the calculated mean is 17.93. Taken together with a variation coefficient of 13.1%, the mean is representative and designates a homogeneous population. The Information Usefulness factor computed 3 variables from the following items: Online reviews about Hug The Mug are useful for me; The message in the online reviews about Hug The Mug are objective; The message in the online review about Hug The Mug in persuasive. The calculated mean for the Information Usefulness factor is 12.23 with a variation coefficient of 14.8%. For the Social Tie Strength of information factor were computed 2 variables from the following items: I pay attention to my friends' reviews; I have the same interest as the online review sender. In the context of a variation coefficient of 17.33%, the mean of 8.77 is representative.

Figure 2. Descriptive statistics SPSS output table for e-WOM computed factors

		Statistics		
		Trustworthine ss_Source	Info_ Usefulness	Social_Tie
N	Valid	31	30	31
	Missing	16	17	16
Mean		17.9355	12.2333	8.7742
Median		19.0000	12.0000	9.0000
Std. Deviation		2.35139	1.81342	1.52118
Variance		5.529	3.289	2.314
Minimum		12.00	9.00	5.00
Maximum		20.00	15.00	10.00

The Informative factor computed 3 variables from the following items: Social Media Advertising content about Hug The Mug provides enough information for me when it comes to coffee store choice; Hug The Muf always updates new products/services on Social Media; The information I get from Hug The Mug Social Media pages is useful. The calculated mean for the Informative factor is 13.76 and since the variation coefficient of 9.96% is under 40%, the mean is representative. The Attitude factor comprises 4 computed variables from the following items: I find out about new products at Hug The Mug from Social Media Advertising; I feel that Social Media Advertising content from Hug The Mug is relevant; Multimedia features in Social Media ads from Hug The Mug give me a positive feeling towards the product; Hug The Mug's Social Media Advertising influences me in patronizing this coffee shop. A calculated \bar{X} =18.33 and CV=12.3% designates a homogeneous population.

Figure 3. Descriptive statistics SPSS output table for Social Media Advertising computed factors

		Statistics	
		Informative	Attitude
N	Valid	33	32
	Missing	14	15
Mean		13.7576	18.1250
Median		14.0000	19.0000
Std. Deviation		1.37000	2.22522
Variance		1.877	4.952
Minimum		10.00	12.00
Maximum		15.00	20.00

The Sense factor computed 4 variables from the following items: The interior design at Hug The Mug makes me feel comfortable; I enjoy the music at Hug The Mug; The coffee aroma at Hug The Mug tastes good; I enjoy the smell of freshly ground coffee when I walk in at Hug The Mug. The factor indicates a \bar{X} =19.21 and CV=7.29%. Think factor computed 2 variables from the following items: The way baristas

work at Hug The Mug arouse me the curiosity of coffee; The freshly ground beans make me think of a better coffee taste. The descriptive statistics show a \bar{X} =8.87 and CV=15.1%.

Relate factor computed 5 variables from the following factors: When people mention coffee shop, I think about Hug The Mug; Hug The Mug is part of my daily activities; I usually follow information of Hug The Mug; The visit to the store serves as a temporary escape from daily routine; The people and the environment of the store match my social status. The \bar{X} =20.28 is representative in the context of CV=20.12% for the Relate factor.

Act factor computed 4 variables from the following items: I feel pleasant whenever I go to Hug The Mug, so I go to Hug The Mug; Hug The Mug positively affects the frequency of me buying coffee; The time and effort spent in the store are worth for the experience; I would say positive things about the store to others. With a \bar{X} =19.1 and CV=8.59%, the investigated population is homogeneous. Last but not least, for the Feel factor were computed 6 variables from the following items: I feel the atmosphere is warm at Hug The Mug; I feel that the staff attitude is nice at Hug The Mug; I feel that the service is speedy at Hug The Mug; It feels good to being able to adjust the coffee at Hug The Mug as a customer; Overall, the buying process is smooth and therefore saves my time; The visit to the store in enjoyable. The \bar{X} =28.4 is representative in the context of CV=8.1%.

Figure 4. Descriptive statistics SPSS output table for Experiential Value computed factors

		Statistics				
		Sense	Act	Think_Exp	Feel	Relate
N	Valid	47	47	47	47	47
	Missing	0	0	0	0	0
Mean		19.2128	19.1064	8.8723	28.4043	20.2766
Median		20.0000	20.0000	9.0000	29.0000	20.0000
Std. Deviation		1.39776	1.64494	1.13477	2.29990	4.07912
Variance		1.954	2.706	1.288	5.290	16.639
Minimum		12.00	12.00	6.00	18.00	11.00
Maximum		20.00	20.00	10.00	30.00	25.00

In order to test the items in the questionnaire reliability, the Cronbach's alpha was run. For the e-WOM's variables the following values were computed: Source Trustworthiness with 0.884 has a good internal consistency; Information Usefulness with 0.405 as unacceptable, but if 'The messages in the online review about Hug The Mug are objective' is deleted, the value will increase to a poor value of 0.564, while Social Tie Strength factor has also a poor value of 0.528. Social Media Advertising's variables computed both acceptable Cronbach alpha values of 0.619 for Informativeness and 0.682 for Attitude, for which it becomes 0.731 if item 'Hug The Mug Social Media Advertising influences me in patronising this coffee shop' gets deleted. For the Experiential Value factors the values indicated: 0.728 for Sense, 0.790 for Act, an unacceptable 0.402 for Think, 0.809 for Feel and 0.825 for Relate.

When ran again the analysis for the latent variables, the results indicated 0.720 for e-WOM, 0.738 for Social Media Advertising and 0.715 for Experiential Value, therefore relatively good internal consistency.

6. Conclusions

The measurement model and conceptualization of Customer Experience examined through receiver's perceptions presented in the present pilot study offers a basis for future research. The platform suggests which variables should be included in the future for further study, namely Source Trustworthiness in e-WOM's case, Attitude when referred to Social Media Advertising and Feel when examining Experiential Value. The study improves our understanding of what lies at the base of Customer Experience and proves

once again its complexity. The mechanism of the influences acting upon it is also intricate, which makes it of interest for managers who use it to develop effective marketing tools.

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THE EVOLUTION OF MARKETING AND CONSUMER BEHAVIOR

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Abstract

Since the beginning of time, five distinct phases of evolution were important for the progress of marketing sector: the simple trade era, the production era, the sales era, the marketing department era and the marketing company era.

The market is now a place full of possibilities and chances, so the customers are free to have their own opinion and they are able to choose any product from the market which fits their needs. Customers are looking for brands they can believe in and can connect with.

The main objective of this paper is to explain the connection between marketing and consumer behaviour. Therefore, the present article: provides an overview of the marketing and consumer behaviour evolution; explains the connections between advertising industry and consumers reactions; analyses which are the most important elements used in an ad; identifies the most important type of advertising and analyses the main positive and negative impacts on consumer behaviour; presents the results of a case study for two important companies.

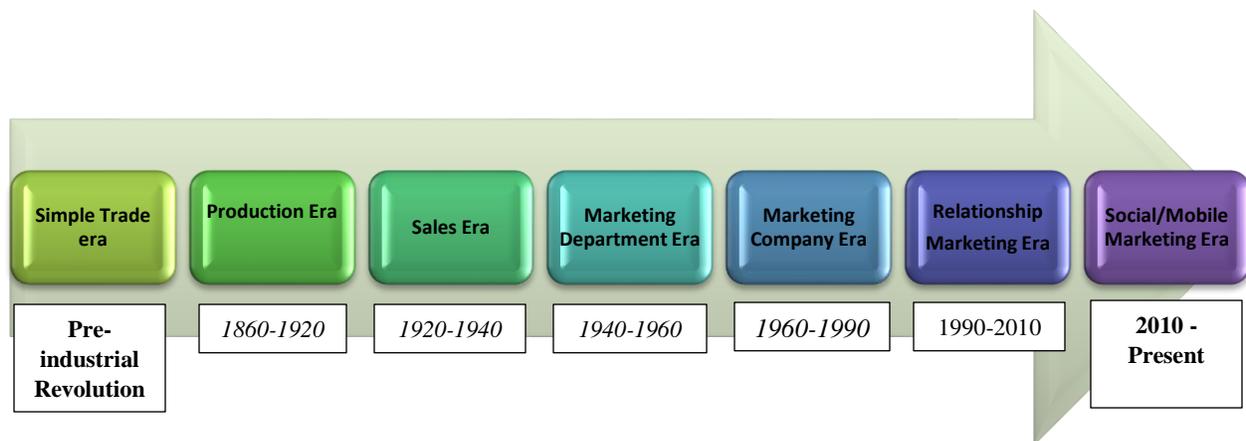
Keywords: marketing, advertising, brand, consumer behavior

1. Introduction

One of the main aims of marketing and consumer behavior is to create more valuable products and services for potential or current consumers so that destinations and their communities receive social and economic benefits.

In this context, the figure below highlights the marketing evolution and all the eras.

Figure 1. The evolution of marketing sector during 1860-present



Source: <http://dstevenwhite.com/2010/06/18/the-evolution-of-marketing/>

An important and essential component of winning a game is to know the game and which are the rules to play it. The first era is known as the simple trade era- every product was handmade and in limited supply and it lasted from the beginning of time through the mid-19th century. The simple trade era was replaced by the production era at the time of industrial revolution. Mass production increased the availability of product options in the marketplace. This marketing era lasted approximately 60 years from the 1860 until the 1920's.

The sales area (1920-1940's) followed the production era once consumer demand became saturated. In this way, companies weren't able to sell everything they produced and for this reason competition for market share increased. As a result of this changes, all the companies had to work harder in order to be able to sell what they were producing.

Marketing department era made manufacturing firms to realize how important the customer is. It became mandatory to check if the sales orientation of the past was connected with consumer's needs. New products on the market, more companies gave customers more power in their purchasing decision. This era transformed all marketing-related activities (advertising, sales, promotion, public relations, etc) a single department. This period lasted from the 1940's through the 1960's.

The focus to the lifetime customer value and the loyalty was changed in the marketing company era. It became essential for the companies to build strong relationships with their customers, based on trust.

In present, a sixth era is identified: the relationship marketing era. The goal is to build long-term, mutually beneficial relationship with the customer.

2. Marketing and consumer behavior

According to the American Marketing Association (AMA) marketing means "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large".

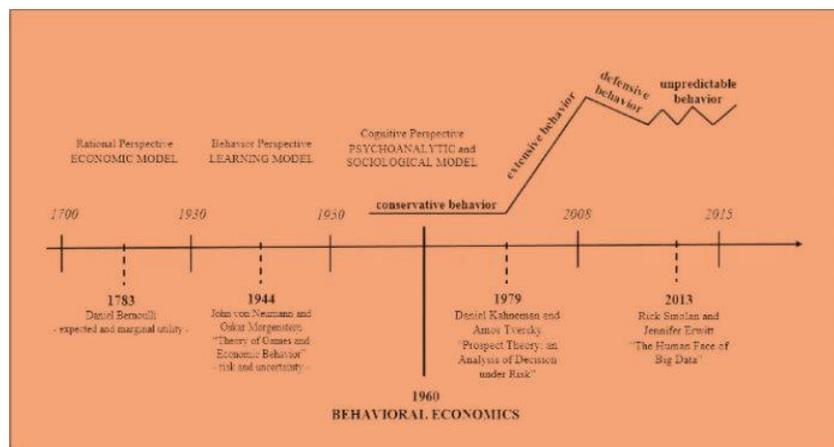
One definition of consumer behavior is "The study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society".

Marketing is used by companies for two main directions: to promote their products or services and to sell them, while consumer behavior refers to the way consumers are used to react in retail environment

A strong marketing campaign starts from the ability of companies to understand the way customers are thinking, so to understand what the customer will respond for and how they will do it.

The relationship between marketing and consumer behavior involves studies, focus groups, psychological analyses and other methods of studying the market for a particular product or service.

Figure 2. Evolution of consumer behavior



Source: Database Systems Journal vol. VI, no. 3/2015

As we can see in Figure 2 consumers behavior changed over the time(1700-present). At the beginning of the time customers purchasing decision was based on e rational perspective. During the time, the perspectives changed as well: it started with the rational perspective, behavior perspective, cognitive perspective, extensive behavior, defensive behavior. Nowadays, the present perspective is based on an unpredictable behavior and that's the reason why in marketing is essential to understand consumer behavior for any product or service. When a company can understand why people buy what they buy and the reasons behind their decisions as consumers, the company can create a marketing campaign that specifically addresses those elements of the purchasing decision. Not all products appeal to all people; the key for successful marketing is to understand the values of a specific consumer group.

In order to have more information about the target market companies are studying the relationship between consumer behavior and marketing. In this way they can use those information for developing the best ad campaigns. Nowadays the most important thing is to stay as close as possible to the customer, to understand his way of thinking, attitudes and behavior. All the elements are connected with his cultural environment.

Every company wants to serve the consumer in the best way possible, that's why they are trying to understand the most challenging aspect of marketing ->consumer behavior.

Figure 3. The theory of consumer behavior



Source: www.investopedia.com

Figure 3 describes in a perfect way the connection between marketing actions (product, price, place, promotion) - 4P, and the influence on the consumer behavior.

The four Ps are the categories that are involved in the marketing of a good or service, and they include product, price, place and promotion¹⁶.

Product

Product refers to a good or service that a company is producing. The ideal deal would be between a product and a certain consumer demand, or it must be so convincing that clients believe they really need it.

The most important is to have a plan in order to be able to solve any kind of problems in any stage of the life cycles. So, to have success the marketers have to understand the lifecycle of a product.

¹⁶ <http://www.investopedia.com>

Price

Price is represented by the cost consumers must pay for a product. Marketers need to think about a good connection between the price and the perceived value of the product. They also have to take into consideration all the other possible costs like: Supply costs, discounts and prices used by competitors. Companies can apply some strategies in order to manipulate customer perception. For example, they can increase a price to make a product seem more valuable and expensive or they can increase the price to mark it more accessible for consumers.

Place

It explains where companies sell their products and the way they deliver it to the market. The key of success is to distribute the products in places where a lot of consumers are interested in buying them. In other words, it refers to the stores in which the products are placed but it can also refer to the special space where a product is showcased on a web page or where is displayed in the shop.

Promotion

Advertising, public relations, sales promotion and selling are just some types of promotion. If a company promotes a product, they try to show the best characteristics of it and convince consumers to pay a certain price. The best way to have good results is to create a connection between promotion and placement elements.

Figure 4. Questions which are necessary to create a strong marketing strategy



Source: Personal research

3. Promotion

In order to have a successful promotion campaign companies must use one of the following methods. It is necessary to take into consideration what are the consumers' needs and which is the target market. In this way companies can clearly communicate to the target market which are the benefits of a product or service.

Table 1. Promotional Mix Methods

Types of Promotion	Explanation
Advertising	Promotions are communicated through mass media and the company has to pay for this type of service.
Public Relations	Creating a favorable relationship based on trust, between the firm, the media and the public. This method doesn't involve only creating positive publicity through the media, it also means changing the impact of negative situations.
Sales Promotion	This kind of promotions are used to create a short term increase in sales. For example, money off coupons, discount codes and "flash sales".
Personal Selling	Sales connection between the organisation's representative and a customer on a one to one basis.
Direct Mail (post and e-mail)	Companies are used to use data bases with names, e-mails and postal addresses in order to send the promotions via email. It can be very effective when the direct mail recipients are within the firm's target market.
Internet Marketing	Showing adverts which are placed on internet pages. For this method companies use special tools such as Google's AdWords.
Social Media	In order to keep customers interested, 95 % of the companies are placing daily messages on social media: Facebook, Twitter, Instagram. In this way they are able to present their promotions, flash sales and discounts.
Sponsorship	Companies have to pay to an organization in order to use their brand and logos during an event or presentation. They use sponsorship in sporting events where player's clothing and stadiums will be covered in the company's branding and even the tournament may be named after the firm.

Source: <http://www.learnmarketing.net/promotion.htm>

3.1 Advertising

Advertising is the best way to communicate to customers because they will buy a product or a service only after they are made aware of the supply on the market.

Placement can refer to the act of placing a product on TV shows, films or blogs in order to garner attention for the product, but this type of placement overlaps with promotion.

In other words, customers feel stimulated to choose a product when they can learn about the large variety of them. In this case, we can explain the primary function of advertising which refers to the ability to persuade customers to buy something. Customers will always take into consideration the benefits of a product and for this reason they will choose the product that is the best for them.

In addition to encouraging consumers to choose the products that are best for them, advertising, at least in democratic nations, allows individuals to learn about the wide variety of lifestyle and political choices available to them and choose the ones that they find best.

Customers are used to compare benefits because in this way they become emotionally involved with advertising and promotion.

They are looking for ways the product or service can make them happier or improve their lives. We can define this type of consumer as an irrational consumer.

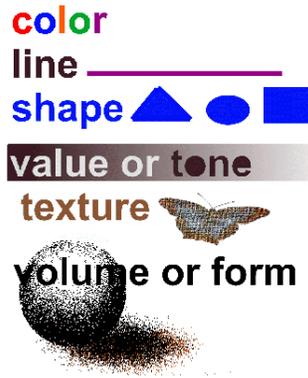
Figure 5. Importance of Advertising



Source: <http://kalyan-city.blogspot.ro/2013/01/importance-of-advertising-why>.

As we can see in figure 5, advertising is a part of the marketing mix and it is very important for a company because it promotes goods, services, ideas and events. Advertising is crucial for a launch or announcement and it represents a source of revenue for Publishers. On the other hand, advertising is used to educate society and to generate employment.

Figure 6. Visual Elements of Art Used in Advertisement



Source: <https://www.goshen.edu/art/ed/Compose.htm>

Have you ever heard the phrase “a picture is worth a thousand words?”

Advertising uses a lot of methods to promote a product. For example, an image represents a set of emotional associations the consumer is meant to have with respect to the product. The artistic methods of advertising revolve around the creation of such an image.

An image is formed from a lot of elements like lines, shapes, space, color, texture which can have a different interpretation for every customer.

Consumers' moods and emotional responses to advertisements have received increased attention from consumer researchers. A major component influencing audience responses is background music accompanying commercials.

Color can be the most important element in a business advertising campaign because consumers notice color before words. Advertisements and promotional campaigns can influence consumer feelings about the products or services and can play an important role in generating sales. Carefully choosing the colors in the advertising campaigns can make companies emphasize the characteristics of the products.

4. Promotion Through the Product Life Cycle

As products move through the four stages of the product life cycle different promotional strategies should be employed at these stages to ensure the healthy success and life of the product.

Figure 7. Promotion through Product Life Cycle



Source: <http://www.learnmarketing.net/promotion.htm>

Promotion strategies that can be employed at each stage of the Product Life Cycle are as follows:

- Introduction - When a product is new the organization's objective will be to inform the target audience of its entry. Television, radio, magazine, coupons etc. may be used to push the product through the introduction stage of the life cycle. Push and Pull Strategies will be used at this crucial stage.
- Growth - As the product becomes accepted by the target market (at this stage of the life cycle) the organization will employ strategy to increase brand awareness and customer loyalty.
- Maturity - At this stage of the life cycle the product will be experiencing increased competition and will need persuasive tactics to encourage consumers to choose their product over their rivals. Any differential advantage/benefit will be need to be clearly communicated to the target audience.
- Decline - As the product reaches the decline stage of its life cycle, all the organization can do is use pstrategy to remind consumers about the product in a bid to slow the inevitable.

Important factors that influence consumer behaviour

- Consumer behavior is influenced by many things, including a lot of variables: Personal, culture, social, psychological, environment, marketing, social media, customers' response.
- Consumer behaviour is a physiological process and it is all related to the emotions of the consumer.
- Culture plays a vital role in determining consumer behaviour
- Social factors are subdivided into the following: reference groups, social roles, status, household type.
- A number of personal factors also influence consumer behaviour : age, occupation, education.
- Marketing strategies are very important because in this way the company is able to promote in the best way the products. In this case they use different strategies, promotions, advertising.
- Nowadays, an essential variable is represented by the social media: Youtube, Facebook, Twitter.

Figure 8. Important factors that influence consumer behaviour



Source: <http://www.researchomatic.com/Consumer-Behavior-Concepts-58549.html>

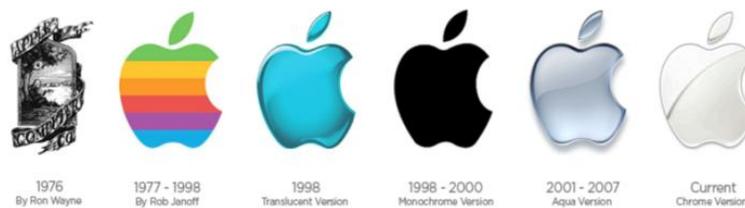
5. Case study: Apple & Samsung's promotional approaches

Figure 9. Samsung logo evolution



Source: <http://www.samsung.com/ro/>

Figure 10. Apple logo evolution



Source: <https://www.apple.com/lae/>

Apple is an American multinational technology company headquartered in Cupertino, California that designs, develops, and sells consumer electronics, computer software, and online services.

Samsung Group is a South Korean multinational conglomerate headquartered in Samsung Town, Seoul.

Promotional activities

After all, Apple takes a peculiar approach. It doesn't have Twitter or Facebook accounts, run a blog, or produce a web series. By contemporary standards, that amounts to a pretty weak content strategy. Meanwhile, Samsung manages a number of social accounts, runs celebrity-partnered campaigns, and teams up with major apps to reach new audiences.

When it comes to content marketing, the most innovative campaigns are about the consumer, not the product itself. Apple and Samsung have both accomplished this.

Apple may win at innovation, but when it comes to marketing, Samsung is all about entertainment. It's no secret that Samsung loves star power. The company partnered with Jay Z to produce commercials.

Still, when it comes to video, Samsung is probably best known for its "Next Big Thing" campaign, which features ads that skewer Apple product culture, particularly the fact that Apple devotees wait in line for hours for new products. The commercials angered Apple marketing chief Phil Schiller so much that Apple sued Samsung for \$2 billion in damages.

Apple can be found on YouTube, but that's about the extent of the company's official presence on major social platforms. Samsung, meanwhile, handles several YouTube, Twitter, and Facebook pages for Samsung Mobile, Samsung TV, Samsung USA, and more

According to CNET, Samsung spent 15 percent more than Apple on U.S. mobile marketing in 2014. But Apple still continues to outsell Samsung, even with Samsung's new Galaxy products on the market. Evidently, the biggest budget doesn't always make for the most effective marketing strategy. It may pay for a live-streamed Jay Z concert and exposure at the Oscars, but sometimes audiences don't want to just be entertained. When it comes to technology suited for business, art, and everyday life, consumers want to be empowered. And that's where Apple has succeeded the most with its content.

Figure 11. Phones evolution-Samsung

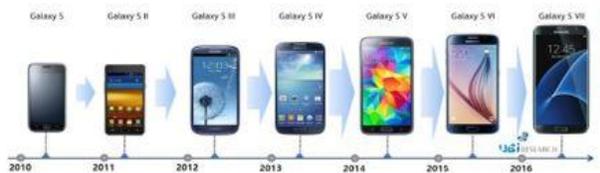


Figure 12. Phones evolution-Apple



Consumer Behavior & Trends

Understanding consumer behaviour is the key to business success

Who are we targeting? Which mechanics resonate well? Which channels encourage engagement? Where can they be reached? How can we build relationships?

As a direct consequence of the global economic strains of the late 2000s and early/mid 2010s, the consumer's appetite for absolute value and generous deals remains undiminished.

Businesses often try to influence a consumer's behavior with things they can control such as the layout of a store, music, grouping and availability of products, pricing, and advertising

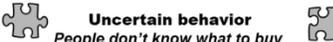
Scientists have developed a research tool to study the effects of retail price interventions in a virtual-reality setting: The Virtual Supermarket.

The Virtual Supermarket is a Dutch-developed three-dimensional software application in which study participants can shop in a manner comparable to a real supermarket. The tool can be used to study several food pricing and labelling strategies.

The Virtual Supermarket is an innovative research tool with a great potential to assist in gaining insight into food purchasing behaviour.

An interesting research on consumer behavior by Dr. Robert Cialdini, Professor of Psychology at Arizona State also reveals why it's important to analyze why people say "no," rather than always looking at why they say "yes." "Today customers want instant value, mobile functionality and user-friendly services, so their behavior has changed.

Figure 13. Types of consumer behavior

 <p>Constant behavior People buy the same product</p>	 <p>Open-minded behavior People are trying new products and begin to buy more</p>	 <p>Uncertain behavior People don't know what to buy because they have to many options</p>
<p>Past-1950 Finding balance after two World Wars</p>	<p>1960-2000 Exponential growth of World Population</p>	<p>2000-Present Fast evolution of technology</p>
<p>Political Polling Advertising studies IS IT HAPPENING?</p>	<p>Surveys Focus groups Interviews WHAT IS HAPPENING?</p>	<p>Observation Online surveys Big Data Neuromarketing WHY IS HAPPENING?</p>

Source: www.investopedia.com

As we can notice in the figure 13, consumer behavior had a large evolution during the time. At the beginning their behavior was a constant one, while in present it's impossible to predict the way they are going to act. This type of behavior is known as the "uncertain behavior and it is bases on a fast evolution of technology during the last years, especially 2000-present. The uncertain type of behavior is able to find answers for the next question: "Why is happening?"

6. Conclusions

Consumer behavior study is a interdisciplinary and emerging science, developed in the 1960s. Its main sources of information come from economics, psychology, sociology, anthropology and artificial intelligence. If a century ago, most people were living in small towns, with limited possibilities to leave their community, and few ways to satisfy their needs, now, due to the accelerated evolution of technology and the radical change of life style, consumers begin to have increasingly diverse needs. At the same time the instruments used to study their behavior have evolved, and today databases are included in consumer behavior research. Throughout time many models were developed, first in order to analyze, and later in order to predict consumer behavior.

Marketing meant only selling but today the concept has changed. Marketing is an act of management and require new skills of processing product information, consumer database and media planning. Consumer behavior is the process that describes the ways and means in which the consumer interacts and participates in purchasing the product. Consumer behavior embodies the consumer's attitude, perception, emotions, feelings and actions of the consumer in respect of the product or service that is on sale.

Advertising and promotion affect consumers in ways one might find surprising. And these effects must be known before launching a campaign. This can be explained as the psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products, and retailers); The psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media);

It is very important to know how consumer motivation and decision strategies differ between products that differ in their level of importance or interest that they entail for the consumer; and how marketers can adapt and improve their marketing campaigns.

A fundamental premise of the consumer's behavior is that people not only buy products or services for what the products can do but also for what they represent, consumers often trying to create an identity through different consumption activities. Therefore, a person will choose the brand which has an image that fits to his ideas about himself, in other words the brand chosen should not enter into cognitive dissonance with the mental representations of the consumer.

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USING OF MULTI-CRITERIA METHODS WITHIN THE INVESTMENT PROJECTS EVALUATION ON EXAMPLE OF INVESTMENT GROUP "INTERPIPE UKRAINE"

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Abstract

The efficiency of the organization is a very complex concept, which can be characterized by a variety of methods, both quantitative and qualitative factors of different nature. Also required information about the different areas of the organization activities can be obtained mainly by the results of forecasts, expert evaluation and rarely real numbers. Currently, all Ukrainian enterprises are in a situation where they need to operate in an uncertain market, strict limitations, needs of resources and weak infrastructure. All these factors cause the need of using any methods, which can reduce impact of every single factor and make less influential human judgments during decision-making process. The paper presents an approach using such methods of multi-criteria analysis as SMART, SAW and LINMAP in process of the election of potential investment projects for one of the largest Ukrainian enterprises.

Keywords: multi-criteria analysis, basic problem situation, alternatives, criteria, weight coefficient.

Investment group "Interpipe Ukraine" is a global steel pipe producer — one of the top ten largest manufacturers of seamless pipe in the world. "Interpipe Ukraine" is one of the greatest representatives of the Ukrainian steel industry. After the Soviet Union collapse company had only a short-term vector of development as well as other industry representatives, which did not implement any innovative projects, and as a result, lost competitiveness in the world market of steel finished products. Ukrainian was industry was re qualified to semifinished goods low coefficient of added value producer. In the twentieth century "Interpipe Ukraine" began production capacities upgrading, realizing the strategic importance of innovations and energy-efficient production.

Currently "Interpipe Ukraine" is consistently implementing strategy of technological and economic development aimed at improving product competitiveness and strengthening positions on key markets. Using of new innovative projects, upgrading of modern equipment, expanding assortment of products, further improving its quality and performance properties are main areas of company's strategy realization. Continuing to be one of the largest steel companies in Ukraine, "Interpipe" adheres to the strategy of sustainable development of innovation activities according to global trends and permanent consumer-orientation.

This strategy is especially actual now, when the export market space has undergone significant transformations due to detachment of the Russian sales market for "Interpipe". These changes resulted the loss of 600 tons of pipe products sales in 2014 (year, when the market was detached). The structure of company sales changed somewhat and was characterized by the following indicators in 2016: Ukrainian market consumed 26%, CIS – 23%, American – 9%, while the European market consumed about 27%, and the Middle East slightly less than previous year – 15%. On the basis of total 2016 sales in total of the three priority markets – European, Middle East and American – firstly consumed more than 50%.

But company started to feel the shortage of export capacity since 2014-2015 too. There was a decrease in sales under the influence of negative external factors: reduced demand for tubular products in the US due to low oil prices, decreasing of oil production; shortage of scrap in the domestic market of Ukraine, the suspension of the agreement on free trade zone with Russia.

Because of the above negative impact factors, the "Interpipe" partially reduced manufacturing of pipes (for 10%), while increased sales of wheels (about 22% in 2016). Thus, the company is trying to increase sales

in the domestic market, which is contributed with modernization of "Ukrzaliznytsia" (Ukrainian government railway company) .

Because of all these factors, "Interpipe" announced that the focus of efforts for the period 2016-2019 years will be an efficiency increasing. Also, "Interpipe" continues to invest in expanding production “bottlenecks” and new products developing.

Summing up, it is possible to form a **basic problem situation** for the company as follows: "Interpipe" through the growing problem of export capacities shortage, significant reduction of the internal market and the transformation of the world market requires increasing of production efficiency through constant focus on the needs of foreign customers and the gradual expansion of the narrow places of production.

Today, global trends in the toolkit of management decisions are multi-criteria methods of analysis in solving difficult and complex problems. Methods of multi-criteria analysis provides a rational, systematic and transparent decision-making process in the analysis of impacts and interactions in complex systems.

In order to understand more detailed how investment group "Interpipe" implementing the chosen strategy it was singled out certain projects (**alternatives**) that are implemented or planned for implementation in enterprises group to get the company goals (to receive a solution of basic problem). It was used the following methods of multi-criteria analysis as a method of SMART, a method of SAW and method LINMAP in order to determine which from the projects will have the most significant impact and have the greatest importance for the successful implementation of technological and economic development of the company and, consequently, the most attractive further investment.

ALTERNATIVES

1. Producing cutting-edge premium connection technology JFEBEAR™ developed by JFE Steel (premium connection – PC). As part of the agreement, JFE has granted "Interpipe" (two mills – "Interpipe NTRP" and "Interpipe Niko Tube") license to cut its premium joint technology, which has been designed and tested to meet needs for critical well loads. With this license agreement, "Interpipe" has expanded its product portfolio and is able to address customer requirements in the most challenging environments. It is a strategic step forward in developing a leading position in the narrow premium segment.

2. New production site for finish precision machining of railway wheels (finish machining – FM). New facilities provide company with the ability to produce complex products that are in high demand in Europe, America and the MENA region. Previously the company has ordered such services from European subcontractors. But as of now, "Interpipe" produces it in-house ("Interpipe NTZ"). The project is a part of complex development program of "Interpipe" wheel business. The launching of the new production site for finish machining of railway wheels will give us a good opportunity to move into the market segment of passenger, metro and complex locomotive wheels.

3. Mastering the production of wheel sets for freight transport (wheel sets - WS). "Interpipe" mastered the technology of wheel sets assembling for railway freight transport. The capacity of the new site allows the company to collect more than 10,000 wheel sets annually. Previously, "Interpipe" has assembled wheel sets with subcontracting European companies. The new capacity will make wheel sets assembling possible in Ukraine. "Interpipe" is the first manufacturer of wheels among enterprises of CIS countries, which is able to offer its customers this decision. For this purpose, was upgraded on an existing plant equipment. Potential customers are leasing companies and operators of European railways. "Interpipe" has put the first batch of wheel sets to national operators of railways in Saudi Arabia and Bulgaria.

4. New ring furnace commissioned at "Interpipe Niko Tube" (ring furnace – RF). German production equipment serves to heat steel billets before rolling. The main advantages of the new furnace – high production capacity, energy efficiency (power consumption reduced more than a third in comparison with previous furnace), reduction in metal and natural gas consumption. New furnace capacity is 1.5 times more than the capacity of the previous furnace. There is no analogues of such furnaces installed in Ukraine.

Casing and line pipes produced with furnace using are marketed in 20 countries, including – Austria, Saudi Arabia, Spain, Italy, the United States.

5. Big diameter seamless pipes producing (big diameter pipes – BDP). Previously the maximum mill range of pipes produced by "Interpipe" was limited to 377 mm. Experimental batch of pipes with diameter 426 mm with wall thickness of 10 mm was held in October 2012 for Belarusian consumers. Further, for two years at the plant mastered the production of other types of pipes with a diameter bigger than 400 mm with varying thickness of the pipe wall for Polish consumers. Seamless pipes of large diameter are highly demanded worldwide; but the number of suppliers of these products is limited. That is why these production capacities are strategically important for "Interpipe": for distinguishing among the competitors and making it possible to deliver high quality products in accordance with the requirements of European customers. Further for using the multi-criteria method of analysis in order to address the problem of efficiency and export opportunities increasing for "Interpipe" – it should be taken into account the following criteria.

CRITERIA

1. The cost of the project. The cost of acquiring a new license for entering a new market may differ significantly from the cost, for example, of readjustment of existing facilities. Therefore, this criterion has significant weight coefficient.

2. Possibility of increasing in capacity. This figure is chosen because some of the alternatives are not aimed directly at increasing the capacity of enterprises, but, for example, to raise certain environmental performance or energy efficiency.

3. Uniqueness of the technology – a criterion that is accumulating main competitors' performance as on the Ukrainian as world markets.

4. The export potential. The possibility of entering foreign markets after the implementing of the project.

5. The terms of implementation. The time required for putting the project into the life and the first results received.

6. Environmental friendliness of the project. The weight coefficient for this factor is not high because of loyalty Ukrainian environmental legislation.

7. The level of vertical integration. Some types of processes of "Interpipe" were subcontracted to European companies. New capacities can make assembling possible in-house. Therefore, the rate of vertical integration takes into account the level of involvement of other enterprises of the "Interpipe" group.

To apply the multi-criteria method of analysis – SMART, firstly it was calculated weight coefficients for each of the defined criteria. After that the evaluation on a 100-point scale was provided where with 100 points was evaluated the most significant factor.

Table 1. Criteria evaluation with 100-point scale

Criterion	Points	Calculation	W
Possibility of increasing in capacity	50	50/470	0,11
The export potential	100	100/470	0,21
The level of vertical integration	75	75/470	0,16
Uniqueness of the technology	60	60/470	0,13
Environmental friendliness	30	30/470	0,06
The cost of the project	85	85/470	0,18
The terms of implementation	70	70/470	0,15
Σ	470	-	1

By the same principle alternative has been assessed. After the evaluation rating of the alternatives was calculated by the simple additive weighting with taking into account the weight coefficients: $R(A_i) = \sum W_j * x_{ij}$

Table 2. Alternatives evaluation with 100-point scale

Alternative \ Criterion	Capacity increasing	Export potential	Level of vertical integration	Uniqueness of the technology	Environmental friendliness	Cost of the project	Terms of implementation
W	0,11	0,21	0,16	0,13	0,06	0,18	0,15
Premium connection (PC)	60	80	100	90	50	75	100
Finish machining (FM)	90	100	85	100	50	35	80
Wheel sets (WS)	70	90	85	90	50	90	70
Big diameter pipes (BDP)	65	65	85	65	50	100	95
Ring furnace (RF)	100	65	85	75	100	40	75

Thus, with SMART method, premium connection JFEBEAR™ is leader among the alternatives with rating – $R(PC) = 82.6$; mastering the production of wheel sets is next rated with $R(WS) = 81.6$, third position is taken with project of finish precision wheel machining ($R(FM) = 78.8$), fourth – production of big diameter seamless pipes ($R(BDP) = 78.1$) and fifth – the launching of a new ring furnace with indicator $R(RF) = 72.45$.

Further it was investigated the sensitivity of the results provided with changing of one of the criteria evaluation results. For example, evaluation for "Environmental friendliness" was changed from 30 points to 60. Thus, the weight coefficients calculations were affected (Table 3).

Table 3. Secondary criteria evaluation with 100-point scale

Criterion	Points	Calculation	W
Possibility of increasing in capacity	50	50/500	0,1
Export potential	100	100/500	0,2
Level of vertical integration	75	75/500	0,15
Uniqueness of the technology	60	60/500	0,12
Environmental friendliness	60	60/500	0,12
Cost of the project	85	85/500	0,17
Terms of implementation	70	70/500	0,14
Σ	500	-	1

Therefore, rating of alternatives was calculated, taking into account new numbers (Table 4).

Table 4. Final rating of alternatives

Alternative	Premium connection (PC)	Finish machining (FM)	Wheel sets (WS)	Big diameter pipes (BDP)	Ring furnace (RF)
R	80,55	76,9	79,65	76,35	74,05

Rating of the alternatives were changed in absolute values, but sequence of alternatives in the overall vector-rating was not changed. Thus, it was concluded that the rating of alternatives is not quite sensitive to changes in weight coefficient of criteria, but in order to make more detailed scenario analysis should be done .

Further alternatives were evaluated by the SAW method. The first step was determining the weight coefficients (by SMART method – Table 1), and the type of function for each criterion: descending(D) or ascending(A). Further marks were given for each of the alternatives based on the criteria. For such criteria as "Export potential", "Level of vertical integration", "Uniqueness of the technology" and "Environmental friendliness" evaluation was presented made by an experts 10-point scale using. For the criterion of "Possibility of increasing in capacity" data was presented in thousand tons. For the "Cost of the project" in millions of US dollars, and for "Terms of implementation" in years.

Table 5. Alternatives evaluation

Alternative \ Criterion	Capacity increasing	Export potential	Level of vertical integration	Uniqueness of the technology	Environmental friendliness	Cost of the project	Terms of implementation
Type of function	A	A	A	A	A	D	D
W	0,11	0,21	0,16	0,13	0,06	0,18	0,15
Premium connection (PC)	8	6	8	8	5	8	0,5
Finish machining (FM)	60	8	5	9	5	23,1	3
Wheel sets (WS)	10	7	5	8	5	2,2	4
Big diameter pipes (BDP)	8	5	5	6	5	0,8	0,5
Ring furnace (RF)	325	5	5	6	8	20	0,75

According to the type of function resulting matrix was normalized, for the ascending type with using formula – $x_{ij} = a_{ij}/\max a_{kj}$; for descending – $y_{ij} = \min a_{kj}/a_{ij}$ (Table 6). After the normalization of the matrix, simple additive weighting rating method was used: $R(A_i) = \sum W_j * x_{ij}$.

Table 6. Alternatives evaluation

Alternative \ Criterion	Capacity increasing	Export potential	Level of vertical integration	Uniqueness of the technology	Environmental friendliness	Cost of the project	Terms of implementation
Type of function	A	A	A	A	A	D	D
W	0,11	0,21	0,16	0,13	0,06	0,18	0,15
Premium connection (PC)	0,03	0,75	1	0,89	0,63	0,1	1
Finish machining (FM)	0,19	1	0,63	1	0,63	0,03	0,16
Wheel sets (WS)	0,03	0,88	0,63	0,89	0,63	0,36	0,13
Big diameter pipes (BDP)	0,02	0,63	0,63	0,67	0,63	1	1
Ring furnace (RF)	1	0,63	0,63	0,67	1	0,04	0,67

Based on the results of the SAW method vector-rating is looking in following way:

1. R (BDP) = 0.69,
2. R (PC) = 0.64,
3. R (RF) = 0.6,
4. R (FM) = 0.53;
5. R (WS) = 0.52.

Vector-rating of SAW method differs significantly from that one, which has been received by SMART method, largely through the primary use of absolute numbers within evaluation of alternatives.

The results indicate that criteria such as "Terms of implementation" or "Cost of the project", which have the largest difference between the limit parameters should have less weight coefficient, if it will be appropriate.

That is why more appropriate to use such method of multi-criteria analysis as LINMAP, at which a decision matrix is normalized as in the method of SAW, but with formula: $x_{ij} = a_{ij} / \sqrt{\sum_{k=1}^n a_{kj}^2}$, that, consequently, does not consider the impact of type of function. The final option is calculated as $S = \sqrt{\sum_{j=1}^7 W_j (x_{ij} - x_j^+)^2}$. As higher is parameter value, as alternatives in the overall vector-rating – less. The results of the analysis using method LINMAP alternatives were the following:

1. R (RF) = 0.6,
2. R (FM) = 0.53,
3. R (WS) = 0.52,
4. R (PC) = 0.64,
5. R (BDP) = 0.69.

Thus, in order to form conclusion it was taken into account results only of methods SMART and LINMAP. By results of these methods in top-3 of vector-rating were: new production site for finish precision

machining of railway wheels and mastering the production of wheel sets for freight transport. That mean that these two initiatives are strategically important for the investment group "Interpipe" during the implementation of the strategy of technical and economic development company that aims to increase the competitiveness of products and strengthen the position on key markets. It should be mentioned that both projects are directly connected to the railway segment, which in opposite with pipe products is more important from point of development not only in foreign markets, but also domestically.

Most multiattribute decision making problems include both quantitative and qualitative attributes which are often assessed using imprecise data and human judgments. In order to make every single factor less influential to the decision-making process modern market conditions: fluctuality, instability etc. multi-criteria analysis is becoming more popular. In this work it was shown the example of using multi-criteria methods of analysis in order to find the best opportunity for investment. As a result, it was shown that different methods can be substituted with another one depends on the type of industry, alternatives, criteria and their types.

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THE DEVELOPMENT OF INFORMATION TECHNOLOGY AND THE INFLUENCE IT HAS IN ORGANIZATIONS

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Abstract

The paper aims at presenting the development of information technology and the influence it has in everyday life. The 21st century is also called the century of technology, and therefore information technology is essential in an organization for its development. We will also present the evolution of computers in 1944 when the first computer appears until now.

Keywords: development, Information Technology, organizations

We all live surrounded, influenced and determined by a multitude of tools, mechanisms, components and technologies that are increasingly sophisticated from a constructive point of view but also easier to use.

We live in the digital era, the era in which the main vector of development is the set of information and communication technologies, TIC.

The field of informatics is a particularly dynamic one, technical and logical performances being in constant ascension, and their knowledge becomes obligatory for those who want to ensure their competitive advantage.

The widespread use of TIC has led to essential changes in society and in the economy by supporting and leading to new stages in the humanity development, the information society and the knowledge society.

The first TICs that changed the society were the electric telegraph, fixed telephony, radio, and then the television. The emergence and improvement of electronic computers, starting with the second half of the 20th century, determined the acceleration of changes, with influences in all areas of economic and social life. IT is very dynamic. New products and services are emerging on a daily basis that make us more comfortable living and make it easier for us to solve many problems in different areas.

The history of computing is very old and is related to the appearance of numbers and of the first computing devices.

Computer Generations:

1. First generation (1944-1958)

The main characteristics of the computers in this generation are:

- The logic circuits were made of electronic tubes;
- Memory was of low capacity. The memory support used was the magnetic drum, without a distinction between internal memory and external memory;
- The working speed was relatively low: 50-100 operations per second;
- The programs were written in machine code;
- The peripherals used were slow.

2. Generation 2 (1959-1964) has the next characteristics:

- The memory of the calculation systems are separated in two components: internal memory and external memory;
- Increased speed of work: thousands and hundreds of thousands of operations per second;
- Increased reliability, trading prices dropping, the proportion price/performance substantially improved;
- The appearance of new office equipment and improvement of the existing ones (quick printers);
- Notable advances in the field of computer programming by the use of programming languages of high level.

3. Generation 3 (1965-1981) it is customize through:

- Expanding the use area and delimiting distinct classes of computers (microcalculators, minicomputers, medium / large computers, supercomputers) oriented to meet the requirements by type of beneficiaries;
- Ultra-fast memories that improve the performance of internal memory and approach processor speed;
- The widening of conversational processing in real time;
- The improvement of the existing programming languages and the appearance of new other;
- The application of the principle of micro-programming and the realization of firmware, “software by hardware” (programs special incorporated in hardware).

4. Generation 4 (1981-1989) has the following features:

- Optimization of operating systems;
- Remarkable progress in the field of peripheral equipment;
- The development of computer networks and the widening of interactiv processing;
- Structurally electronic computers appear with multiple processors, some of them are specialized: communication, databases, symbolic processing.

5. Generation 5 (after 1990) was created to describe a newgeneration of computers based on the principles of artificial intelligence. This computers use:

- Parallel processing;
- New principles of organization of internal memory;
- New tipes of operations micro-programmed;
- Programming languages close to natural language.

Information and communication technology (TIC) is one of the most powerful forces for the outline of the 21st century. Its revolutionary impact affects how peoples live, learn and work and how governments interact with civil society. TIC is rapidly becoming a vital growth engine for the world economy. (...) The essence of the economic and social transformation driven by TIC is its power to help individuals and societies to use knowledge and ideas.

Structure of people aged 16-74 after using the computer by age group in 2014

Age group	People who never used the computer	People who used the computer	In last 3 months	More than 3 months ago
16-24	9,7	90,3	93,2	6,8
25-34	16,0	84,0	90,8	9,2
35-44	24,4	75,6	89,7	10,3
45-54	40,9	59,1	86,5	13,5
55-64	60,9	39,1	74,7	25,3
65-74	82,8	17,2	63,5	36,5

The Internet, mobile telecommunication and GPS can be considered as new information and communication technologies (NTIC). Also included in this category are nanotechnologies, open-source platforms, cloud computing, etc..

New developments in technology trigger changes in marketing, logistics, human resources, finance, accounting, as well as in relations with customers and business partners. The performance evolution of a company implies the implementation of NTIC.

Information technologies have revised the rules of the business environment. Customer Relationship Management, Production Planning, Design and Development, Research and Marketing Strategies, Planning, Development and Operation of Distributions, Human Resource Management depend on IT. In this context, is the question necessary for studying system information? In the educational programs in the field of Business Administration, Accounting, Finance, Management or Marketing, for the economist profession, the answer is: can not be without. All are vital areas and information technologies provide indispensable support to everyone.

Information systems are based on three key resources: information, information technologies and people. Information technologies provide the human factor with access to information and make it possible to manage the informational wealth, as well as to efficiently carry out the operations of the current business environment.

A modern organization can no longer be conceived without the use of systems based on information technologies. Information technologies are technologies based on digital devices that have as their object data, information and knowledge and their transformation. Information systems are built with them.

Technology has made a very deep impact on the more global aspects of Business and Industry, and continues to do so, with newer and more efficient methods of functioning being created virtually every day. When it comes to the Global Economy, we see Technology as an industry in itself. The magnitude of the effect of this particular industry on the economy is rather obvious, what with its constant provision of solutions for every kind of organizational issues and demands.

Thanks to the IT sector, then, there has been a major shift in Global Standards and requirements as well. Today, it is impossible to conceive any kind of business as surviving without promoting itself without IT support, or communicating through the internet, and those that do not are considered to be lacking in some

way or another. The general consensus now is that if you are a reliable company, you are supposed to have at least a website.

Technology, on the other hand, also creates higher standards for Quality, while providing viable solutions for Sustainability, which is yet another vital aspect and responsibility of organizational functioning.

Conclusion

The computer is one of the most important inventions of the twentieth century. It has brought huge benefits to mankind, enabling more tasks / activities in the most areas of activity.

A modern organization can no longer be conceived without the use of systems based on information technologies. Information technologies are based on digital devices that have as their object data, information and knowledges and their transformation.

Computers have influenced and are still influences our everyday life more and more intense. They are all over now: in the office, at home, in stations, in banks, in schools, in hospitals, in fun parks.

In the immediate future there will be no institution, no individual, no government that will not bear the impact of TIC.

We live in a world dominated by 99% of the technological inflation recorded in the last century, but we can hardly estimate how much we can assimilate from the new inventions and which are indeed those that will put their mark on humanity.

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