

# A Case Study Research on Retro Energy Private Limited

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**Abstract:** It was mid-December 2011; the climate in India was as pleasant as it could be, but the business climate of Indian City Gas Distribution (CGD) sector was not. The recent changes in the Regulatory Policy had further fueled the growing unpredictability of the sector. The thought of the business and market implications of the policy changes made Shravan Ragunathan, Founder Director, Retro Energy Private Limited (REPL) fret, and sweat on otherwise a cold evening. He brought his attention back to the last slide of his presentation for the board meeting to be held the next day, and keyed in the quote of Peter Drucker- “The best way to predict future is to create it”. The board meeting was called to review REPL’s business strategy in the wake of the changed business environment. Shravan was expected to present to the board a new strategy- whether to extend REPL’s techno-commercial consultancy services to the international market or diversify domestically. Headquartered at Ahmedabad, REPL- the techno-commercial oil and gas consulting company had been contemplating a strategy change for quite a while. It had been inconclusively weighing the options available to it- whether to partner with the established consulting giants in India; or venture into the CGD business itself; add new domains to its existing consulting spectrum, or grab the consulting opportunity in Nigeria. But, the nearing deadline for responding to the Nigerian proposal, made immediate decision on REPL’s future strategy a necessity.

**Keywords:** Energy Sector, Case Study Research, Diversification Strategy, Modes of Foreign Entry

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## 1. About the Company

### 1.1. Business

REPL was a young, dynamic and energetic company, cofounded in 2008 by Sujit Sugathan and his two friends- Rajiv Menon and Shad Ahmad. REPL was founded in response to the CGD challenges faced by the Government, when the regulatory framework concerning natural gas downstream business was introduced. It provided end to end consulting services to its clients and partners in energy sector, with special focus on downstream business initiatives. Its services included business transformation initiatives, assistance in exploration, conceptualization, realization and actualization of business opportunities in CGD. In addition to regulatory advocacy, valuation, acquisition and divestiture of upstream blocks and downstream business, it offered solutions related to planning, implementation, operation and maintenance of large scale projects including Natural Gas transportation and logistics, CGD, Liquid Natural Gas (LNG) and Compressed Natural Gas (CNG) supplies (Figure 1).

Ever since, REPL came into existence, its business model brought it consistently growing revenue (Table 1).

### 1.2. People

REPL’s team constituted of management consultants, energy industry professionals, and researchers. In addition to the three founder directors, it had in it, three highly experienced experts, nine young associates and fifteen contract staff, who were ever willing to deliver (Figure 2). REPL believed in developing the young associates by teaming them up with the experienced experts for all of its assignments. In the words of Shravan

“We don’t look for star performers at the entry level. We have our key performers, who have vast experience of advising and engaging with multiple clients in energy sector; they are technically and managerially sound and are capable enough to build competencies and enthusiasm among young employees”.

### 1.3. Clients

REPL believed in maintaining a long term relationship

with its clients, and was proud of its relationship with them. Its deep techno-commercial expertise helped them earn substantial profits. REPL worked on various advisory and transactional assignments for multiple clients. Its client base included a wide variety of upstream, midstream and downstream gas companies including the CGD players (Figure 3).

#### 1.4. Competition

Despite presence of financial and legal consulting giants like CRISIL, PWC, EY, Mercados, and Energy Markets India Pvt. Ltd., REPL hardly faced any competition in India. Convinced with the strong oil & gas expertise of REPL, the consultants rather agreed to partner with it. As a result, they were able to offer a wide variety of techno-commercial consultancy services to the clients in oil and gas domain.

## 2. CGD Business

### 2.1. CGD Constituents

CGD business comprises the last segment of the natural gas value chain. The natural gas undergoes systematic chemical treatment and is converted into PNG (for household, commercial and industrial purposes) and CNG (for transportation purpose), which is distributed to the end users across the city through CGD. CGD is an interconnected system of primarily underground gas pipelines and the associated equipment used for transporting gas from high pressure transmission centre to the service pipes supplying to end users premises situated entirely within the same city (Table 2). (Vikalpa available at <http://www.vikalpa.com/pdf/articles/2010/Vik354-06-Colloquium.pdf>). The stakeholders in CGD business range from gas suppliers to end-users, statutory authorities, financial institutions and CGD infrastructure development entities. The CGD infrastructure development entities include consultants for preparing CGD project feasibility report, project management consultants, network development consultants, contractors to build network, manufacturers of equipment (pipes, pipelines, fittings, compressors, dispensers etc.,) and CNG kit suppliers. (<http://www.vikalpa.com/pdf/articles/2010/Vik354-06-Colloquium.pdf>).

### 2.2. CGD Business in India

In India, CGD has moved from being just a conceptual framework of alternative fuel to a fast paced utility business; it constitutes about 8% of India's natural gas consumption. A large number of customers ranging from housewives, car owners, and fleet owners to owners of industrial and commercial enterprises have switched to natural gas-based solutions, which have been rolled out by CGD companies (Infraline energy report, 2011). The sales of the three major CGD companies- Indraprastha Gas Limited, Mahanagar Gas Limited and Gujarat Gas Company Limited have grown approximately 9% per year from 2007-2011. The number of

CNG service station has gone up to 943, and nearly 1.2 million vehicles run on CNG, which represents 1% of the total fleet of registered vehicles in India. The number of household PNG connections stands at 2.6 million, and 27,073 industrial and commercial users spread over 43 geographical areas in 13 states. The total gas demand from CGD business is expected to grow from 13.6% in 2010-2011 to 85.6 MMSCMD in 2029-30 at a CAGR of 10.7% (<http://www.pngrb.gov.in/Hindi-Website/pdf/vision-NGPV-2030-06092013.pdf>). The CGD extension plan aims at adding 60 geographical areas by 2021 by awarding bids for CGD infrastructure development (GoI (2011) Report of Working Group on the Petroleum and Natural Gas Sector for the XII Plan (2012- 2017), p.110, Government of India. available at <http://petroleum.nic.in/docs/reports/wgreport.pdf>). Though, CGD sector is full of promises, but it has its share of challenges too. The challenges namely insufficient gas supply, inadequate infrastructure, ([https://www.iea.org/publications/freepublications/publication/natural\\_gas\\_india\\_2010.pdf](https://www.iea.org/publications/freepublications/publication/natural_gas_india_2010.pdf)), difficult and expensive land acquisition, long gestation period, regulatory interference and reduced return on investment because of tariff regulation (<http://www.vikalpa.com/pdf/articles/2010/Vik354-06-Colloquium.pdf>) constrained the growth of CGD and prevented new companies from entering the distribution market. As a result of the business becoming mature, the existing companies too were assumed to grow at a rate 20%-30% lower than their previous 5 year growth rate till 2022 (<http://www.pngrb.gov.in/Hindi-Website/pdf/vision-NGPV-2030-06092013.pdf>).

### 2.3. Regulatory Framework for CGD Business in India

City Gas Distribution is expected to be one of the most growth oriented business in upcoming years. The realization of natural gas as a greener and cleaner fuel is growing.[1] In 2007, the Government of India set up a regulator- the Petroleum and Natural Gas Regulatory Board (PNGRB), which had among other, a the mandate of regulating the CGD business. It was constituted under The Petroleum and Natural Gas Regulatory Board Act, 2006 (No. 19 of 2006) notified via Gazette Notification dated 31st March, 2006. The Act provided for the establishment of PNGRB to protect the interests of consumers and entities engaged in specified activities relating to petroleum, petroleum products and natural gas and to promote competitive markets and for matters connected therewith or incidental thereto. Using natural gas as a fuel provides a cleaner environment at an affordable price and also with the ease of availability. [1]. Further as enshrined in the act, the board has also been mandated to regulate the refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas excluding production of crude oil and natural gas so as and to ensure uninterrupted and adequate supply of petroleum, petroleum products and natural gas in all parts of the Country. Its vision included expanding the CGD network to over 300 cities in India. (Figure 3). In order to accelerate the deployment of the CGD

network in the country, PNGRB in 2008 started the bidding process in a phased manner where the entities were required to lay, build, operate or expand the CGD networks to meet requirement of natural gas in domestic, commercial and industrial segments. The bid had to be authorized and also compliant with the relevant regulations. The results of the first two rounds of bidding were very upbeat (Table 4). Sujit commented:

The third round of bidding was opened in July 2010, but before the results could be declared, PNGRB got involved in litigation with some parties, hence the results were withheld. The fourth round of bidding initiated in October 2010, in which eight cities were offered the distribution projects, was eventually cancelled.

The key energy policy objective of any country is to develop an efficient, cost effective energy sector that will take into account security and flexibility of supply, safety of the population and protection of the environment. Most important problems the national energy sector faces are scarce domestic resources and unfavorable energy mix, low electricity prices, a high degree of inefficiency in energy production and use, as well as insufficient institutional and human capacities. The formulated portfolio of actions towards enabling sustainable energy development urges the adoption of a comprehensive energy strategy built upon sustainability principles, intensified utilization of the natural gas, economic prices of electricity, structural changes in industry, promotion of energy efficiency and renewable, including Clean Development Mechanism projects and human capacity building [2].

#### **2.4. Diversification Strategies and Market Entry Choices**

As an increasing number of firms have pursued global diversification strategy the corporate profit performance impact of global diversification strategy has become an important issue. The corporate profit performance impact of related and unrelated diversification may vary contingent upon the extent of a firm's international market diversification [3]. Performance differences exist. In turn, those differences appear to be linked to characteristics of the markets in which the firms operate [4]. A firm must assess before entering a particular market the potential factors that play a significant role during the process of decision making for the potential market selection [5].

The rapid globalization of business in the last two decades has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home locations [6]. International risk perceptions influenced the choice of entry mode [7]. The structure-conduct-performance paradigm in industrial organizations economics focuses on the industry context of the relationship between diversification and performance [8]. The strong relationship between firms' size and experience, on the one hand, and the use of systematic and active approach to market selection and entry mode decisions, on the other hand points out an important issue on the strategic model that an SME can follow [5]. There is a resource based view on strategy in

which business relatedness and corporate international experience are viewed as resources that to some degree are exploited in the implementation of international strategy [9]. This integrative framework explicates the role of e-commerce on the entry mode of service firms, where several internal and external factors moderate this relationship [10]. Models adopted by small businesses may not be based on the logic of rational choice. Within various models adopted by organizations there must be room for "test and learn models" rather than fully rational and systematic approaches. Firms exhibit an active behavior by carrying out a systematic comparison of alternative entry modes and analyzing many factors prior to making a decision [11].

### **3. REPL at Cross Roads**

The discussion among the members of the board was on the future direction of the business of REPL. With the changes in the government policies, and knowing well that the company could not rely on CGD projects for the nearest future, the board had to decide on the various other opportunities available in the market. Shravan believed that the company was well equipped with competent people and experts who could challenge other players in the industry. As a growing company, REPL had established competitiveness through its knowledge component. The members discussed extensively on the short time and long time growth plans.

Accordingly in order to consistently work in the energy sector, REPL had opportunities to assist the existing financial consultants like PwC, KPMG etc. in their techno-commercial projects. Hence they could easily associate with the consultants and develop their capability to work on similar projects outside India in the long run. Due to the credibility gained by working for the Gujarat Government, some of the companies from overseas had approached REPL for their techno-commercial support and expertise. But the challenge was that they were also looking for assistance in Engineering, Procurement and Construction services. REPL had limited experience in those areas.

Another suggestion which the board was contemplating on was to enter the downstream projects in the energy business. Several cities in which the city gas distribution was sanctioned had to realize supply to the customers through a planned procedure. REPL could easily venture into market surveys and supply of gas through pipelines. But the board was of the opinion that it would be a capital intensive venture.

PEPL had been involved in market research and socio-economic studies for government and other agencies. Hence they were approached for similar such projects which the board resisted, as they thought that they were diverting from their mainstream.

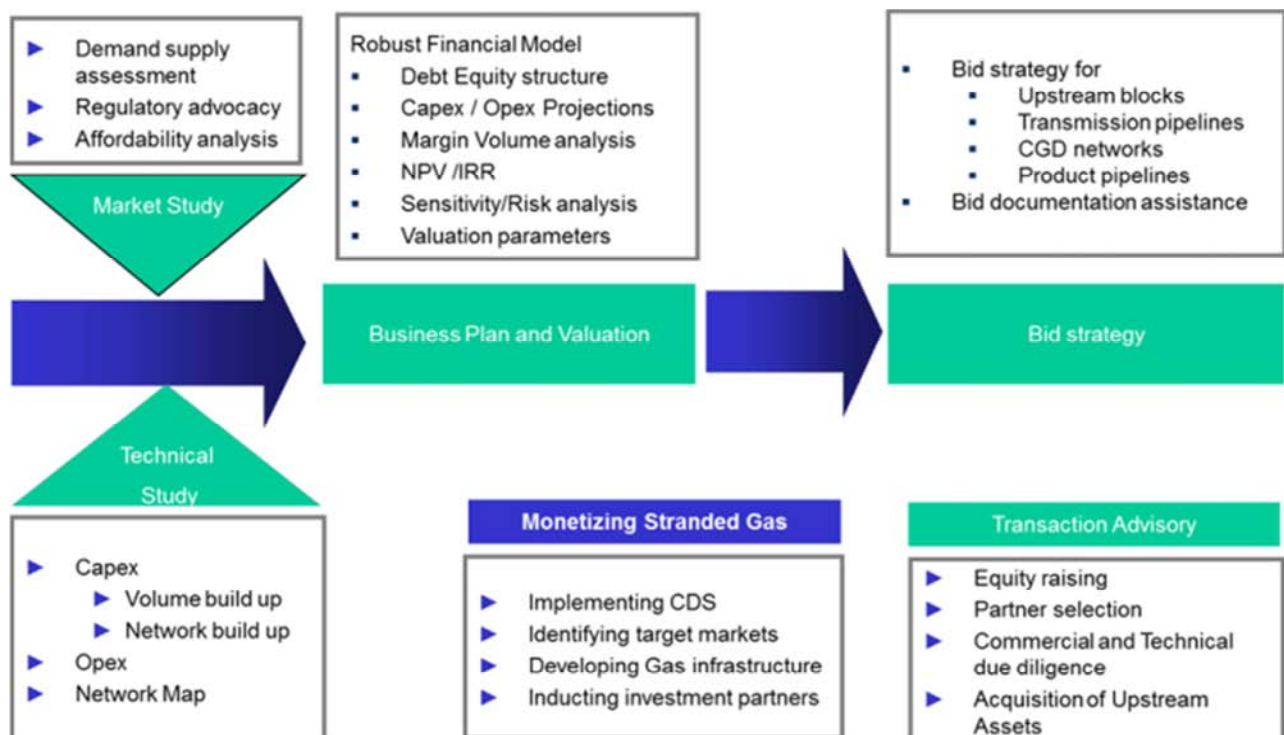
Shravan pointed out that there was an overseas consultancy opportunity from a Nigerian company i.e., ABC Ltd for project planning in CGD business. ABC Ltd was a multi-national company having its presence in India, Russia and Nigeria. ABC's oil and gas portfolio comprised of

operations of two onshore oil and gas blocks in Nigeria. The Nigerian multinational company held stakes in various business operations globally in the areas of Gold mining, Equity Investments, Real Estate Fund etc. (Table 5). Although REPL was confident that they would satisfy their client through their credentials, they were required to complete the techno-commercial report within 4 weeks, if they decided to go for the project. REPL would require market data from Nigeria to prepare the formats and simulation sheets for the feasibility report. The board had to consider the credentials of their team and decide whether to take up the assignment and enter the Nigerian Market. Shravan had some information about the Geo-political situation of Nigeria (Table 5).

The information collected by Shravan and team about the state of competition in Nigeria was also quite similar to that of India. There were some small and medium consultancy firms like Ovex Energy, Lonadek, Genesis, etc. The big firms those who were in consultancy were also in downstream or upstream business. So a firm searching for consultancy services wouldn't like to go to these firms because of the threat perception in future. Ovex Energy, was a comparatively small consultancy firm in Nigeria, which

provided procurement and logistics services to the oil and gas industry. Their comprehensive services included conceptual, front end engineering Design, Detail Design Engineering, project management skill, testing and inspection etc. The competition as such was not very high for these small consultants in Nigeria. But Nigerian Oil and gas companies relied and preferred foreign consultancy firms. A firm seeking to enter a foreign market must make an important strategic decision on which entry mode to use for that market. [12] Entry modes differ greatly in their mix of advantages and drawbacks. The trade offs involved are different to evaluate [13]. There has been an association between diversification strategy and profitability [14]. There is a U-shaped relationship between experience and propensity for integrated entry modes [15].

The Board was keen on working on the possible alternatives. It was even important to take a decision immediately as the consultancy report was required to be submitted within 4 weeks, if for any reason REPL chose to work in Nigeria. Now Shravan and team were to evaluate their strengths and competencies and take a decision that whether they were ready to take the challenges or not, eventually that would decide their future course of action.



Source: Company

**Figure 1.** Business Model of REPL.

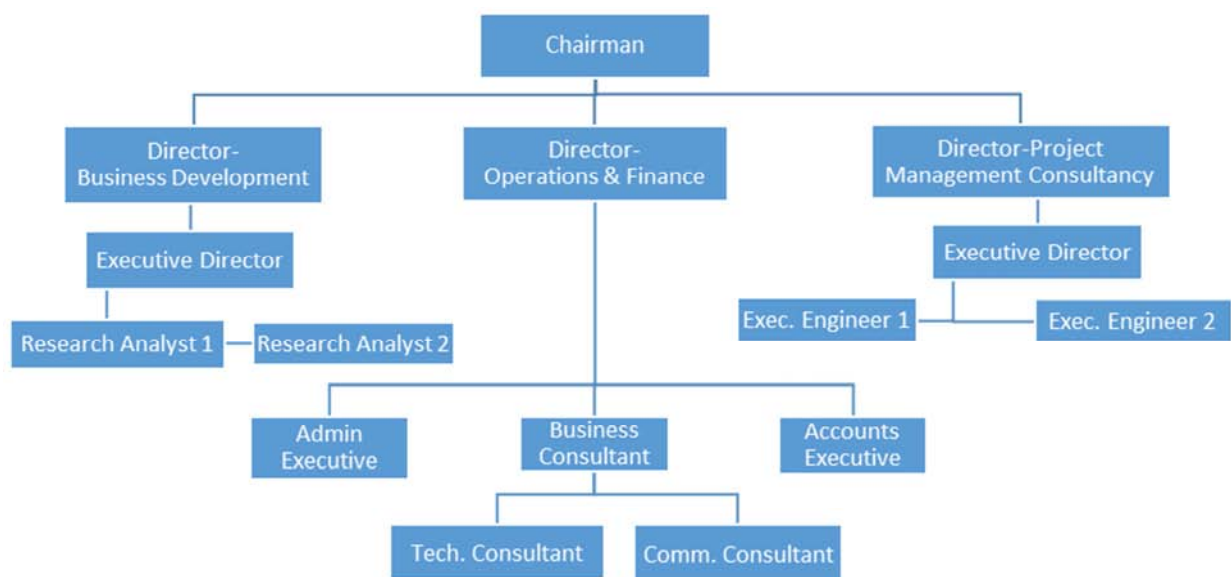
**Table 1.** Revenue and PAT for REPL (in Million Rupees).

	2008	2009	2010	2011	2012*
Revenue	14	161.9	116	117	124.4
PAT	2	83	41.6	31.5	51.1

Source: Company documents, \*Projected for the year 2012

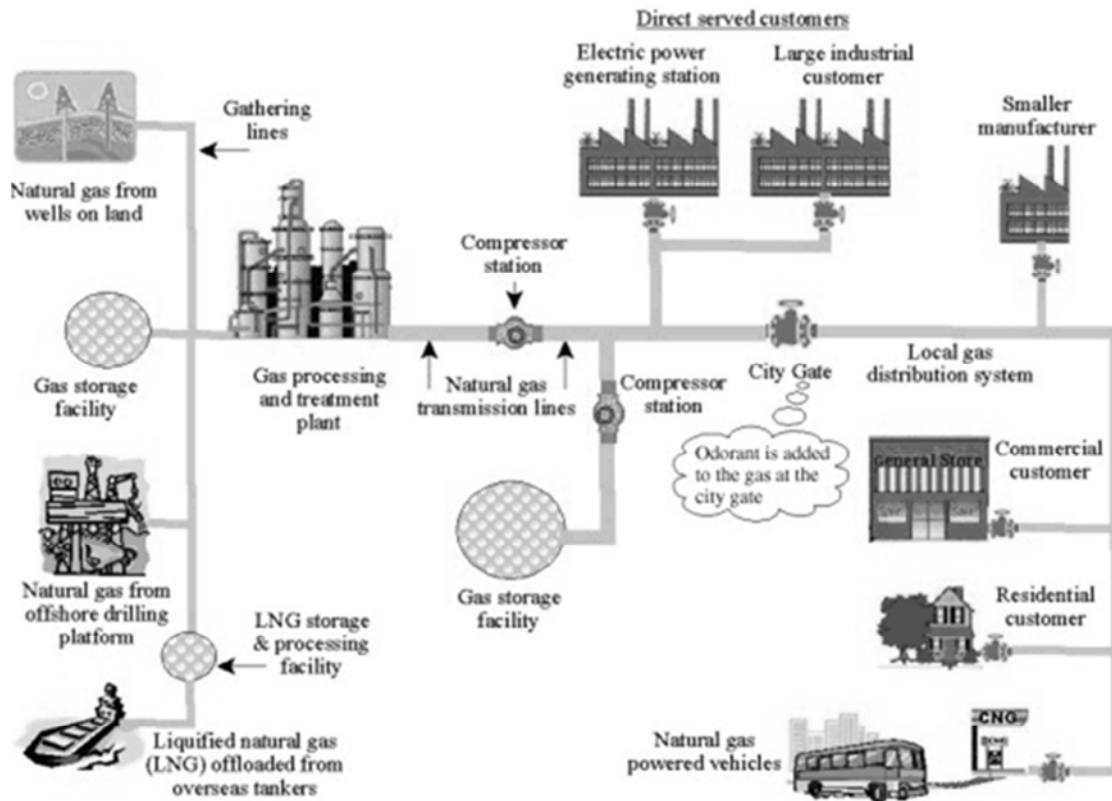
**Table 2.** REPL's Client Details.

S.NO	CLIENT	DESCRIPTIONS
1	Vadodara Municipal sevasadan	Retainership for regulatory and transaction advisory
2	Vadodara Municipal sevasadan	Project Management Consultant for laying MS pipeline in Vadodara
3	Charotar Gas Sahakari Mandali Limited	Obtaining authorization for their CGD network
4	Calcutta Compressors and Liquefaction Engineering Limited	Preparation of DFR for Bokaro and Dhanbad
5	Calcutta Compressors and Liquefaction Engineering Limited	Transaction advisory for raising equity from potential investors
6	Bombay Gas	Technical and regulatory advisory for CGD network in South Mumbai
7	Bhagyanagar Gas Limited (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Natural Gas Demand Assessment
8	IDFC Project Equity	Technical Due Diligence of CGD networks
9	Indian Oil Corporation Limited	Natural Gas Demand Assessment along proposed transmission pipeline
10	Aavantika Gas Limited (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Demand assessment and technical study for CGD networks in Madhya Pradesh
11	Kerala State Industrial Development Corporation	Technical pre-feasibility study for CGD networks in Kerala
12	Petroleum and Natural Gas Regulatory Board (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Verification of capital and operating costs of transmission pipelines
13	Hindustan Petroleum Corporation Limited	Industrial Demand Mapping in Gujarat
14	Gujarat Gas Company Limited	Alternative Fuel Price analysis
15	Indraprastha Gas Limited (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Consultancy for a potential acquisition of equity stake in CUGL
16	Assam Gas Company Limited	Advisory services for preparation of DFR and Review existing Distribution System
17	LANCO Infratech Limited (Associate of Mercados Energy Markets India (P) Limited)	Demand assessment and technical study for CGD networks
18	Hindustan Petroleum Corporation Limited (Associate of PwC)	Demand assessment and technical study for CGD networks in East Kutch for Round-3 PNGRB Bidding
19	Raipur City Gas Distribution Company Limited	Demand assessment and technical study for CGD networks in Raipur and Durgapur
20	Gujarat State Petroleum Corporation (GSPC)	Natural Gas Demand Assessment for Round-3 of PNGRB Bidding
21	Kerala State Industrial Development Corporation (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Demand assessment and technical study for CGD networks in Ernakulam for Bidding Round -4 of PNGRB
22	Bhagyanagar Gas Limited (Associate of CRISIL Risk and Infrastructure Solutions Limited)	Review Demand assessment and technical study for CGD networks in Dangareddy Medak, Khammam and Nalagonda for Bidding Round -4 of PNGRB
23	GAIL Gas Limited	Technical study for CGD networks in Asansol Geographical Areas under CGD Bidding Round-3
24	GAIL Gas Limited (Associate of Mercados Energy Markets India (P) Limited)	Technical study for CGD networks in Vadodara Geographical Areas



Source: The Company

**Figure 2.** The Abridged Organogram of REPL.



Source: Company

Source: <http://www.desmogblog.com/america-s-natural-gas-pipelines-closer-look-gigantic-pipeline-system>

**Figure 3. Illustration of CGD Network.**

**Table 3. CGD Demand for Natural Gas from 2012-13 to 2029-20.**

MMSCMD	2012-13	2016-17	2021-22	2026-27	2029-30
City Gas	15.30	22.32	46.25	67.96	85.61

Source: file:///E:/New%20Volume/IVY/vision-NGPV-2030-06092013%20(1).pdf

**Table 4. Results of First Two Rounds of Bidding.**

First Round of Bidding		Second Round of Bidding	
Geographical Area	Successful Bidder	Geographical Area	Successful Bidder
Sonepat	GAIL Gas Limited	Allahabad	IOC-Adani
Kakinada	Bhagyanagar Gas Ltd.	Chandigarh	IOC-Adani
Dewas	GAIL Gas Limited	Ghaziabad	IOC-Adani
Meerut	GAIL Gas Limited	Jhansi	Central UP Gas Ltd.
Mathura	DSM Infratech	Rajahmundry	Reliance Gas
Kota	GAIL Gas Limited	Shahdol	Reliance Gas
		Yanam	Reliance Gas

(Source). Company documents

**Table 5. Overview of ABC Ltd.**

Company Overview	ABC Ltd ("the Company") is a multi-national company having its presence in India, Russia and Nigeria In Nigeria, ABC's oil and gas portfolio comprises of two (2) onshore oil and gas blocks in which they are the technical operator ABC has also stakes in various business operations globally in the areas of. Gold mining, Equity Investments, Real Estate Fund etc The license for each of the onshore blocks are in the name of a reputed Nigerian Company Block 1 is a gas block that has 2 discoveries.
Details of Underlying Assets	Discovery A: estimated to have gas resources of ~ 1.2 TCF (OGIIP) Discovery B: Uncertain resource estimates due to lack of sufficient data Block 2 is expected to produce oil and associated gas and is the exploratory stage P3 resource estimates in excess of 2 Tcf GIIP / 200 MMbbls* CIIP (or over 850 MMbbls **STOIIP for an oil case)

Source: Company documents, \*Million Barrels, \*\*Stock tank oil initially in place

## 4. Economic Outlook of Nigeria

Nigeria is a federal constitutional republic comprising of thirty-six states and one Federal Capital Territory. The country is located in West Africa and shares land borders with the Republic of Benin in the west, Chad and Cameroon in the east, and Niger in the north. Nigeria is the most populous country in Africa and the eighth most populous country in the world with a population of over 160 million. It is a regional power, is listed among the "Next Eleven" economies, and is a member of the Commonwealth of Nations. The economy of Nigeria is one of the fastest

growing in the world. Nigeria has abundant Gas resources. As the world's seventh largest, and Africa's largest deposit of Natural Gas, with a current reserve of 185 TCF (trillion cubic feet), Nigeria is described as a gas province with some oil in it. Nigeria's natural gas reserves are largely unexploited. The country's economy is very much dependent on Oil and gas sector. Last seven years of Gas production was given in Table-6. The government has recently developed the Nigerian Gas master Plan, which is expected to underpin the development of gas infrastructure, including central processing facilities and transmission pipelines in Nigeria.

**Table 6.** Seven years Gas Production (in mscf\*).

Year	Gas Produced
2005	2,093,628,859
2006	2,182,432,048
2007	2,415,649,041
2008	2,287,547,344
2009	1,837,278,307
2010	2,392,838,898
2011	2,400,402,880

Source: NNPC ASB 2011-1<sup>st</sup> Edition, sited on 16<sup>th</sup> September, 2013 at www.nnpcgroup.com \*mscf: million standard cubic feet

### 4.1. Fiscal and Monetary Policy of Nigeria

The government budgets for 2011 and 2012 were aligned to the long-term policy priorities defined in the Vision 20:2020 and the Government's Transformation Agenda. Government spending up to 2015 will be focused on priority sectors, including security, infrastructure, agriculture, manufacturing, housing and construction, entertainment, education, health, and information technology. The government is also targeting private sector growth. The government's medium-term expenditure strategy is to keep

the fiscal deficit below 3% of GDP (Table-8). Nigeria has a very narrow tax base with the oil and gas sector accounting for 75%-80% of total tax receipts and 23%-25% of GDP. The non-oil sector accounts for 20%-25% of tax receipts and 5%-7% of GDP (Table-3). Such a heavy reliance on oil and gas revenues could make planning and development difficult because of the volatility of oil revenues. The country is having a good monetary policy implementation system through its Central Bank, which actively changes the CRR, Repo, etc from time to time to check the inflation.

**Table 7.** The projected Macro Economic Indicators.

	2010	2011	2012	2013
Real GDP Growth	7.8	6.7	6.9	6.6
Real GDP per capita Growth	5.3	4.1	4.4	4.1
CPI Inflation	13.7	10.2	10.1	8.4
Budget Balance (% of GDP)	-7.7	-0.2	0.3	0.2
Current account (% of GDP)	6.2	11.6	10.8	9.8

Figures for 2010 are estimates; for 2011 and later are projections.

**Table 8.** Public Finances (percentage of GDP).

	2008	2009	2010	2011	2012	2013
Total Revenue and Grants	32	17.8	23.3	28.2	27.3	26.7
Tax Revenue	5	6.3	5.8	5.1	5.5	5.5
Oil Revenue	25.8	10.6	16.3	21.6	20	20.2
Grants	--	--	--	--	--	--

Figures for 2010 are estimates; for 2011 and later are projections.

### 4.2. Political Context in Nigeria

Nigeria held presidential, gubernatorial and legislative elections in April 2011. Apart from logistical problems and isolated cases of voter intimidation, civil society groups,

local and foreign observers concluded overall that the elections were credible and fair. The ruling People's Democratic Party (PDP) candidate, Goodluck Ebele Jonathan, won the presidential election with 59.6% of the vote. But the second half of 2011 saw significant security deterioration. Northern Nigeria was hit by regular bomb



blasts and shootings blamed on a particular communal sect. Curfews were imposed in some northern states. Particularly alarming were deadly suicide bomb blasts at the Nigerian Police Headquarters and the United Nations Building in Abuja and a spate of targeted bombings during the end of year holiday season. After this, trade unions called a nationwide strike in January 2012 to protest against the removal of fuel subsidies by the government because of its impact on transport costs and the general cost of living, particularly, on the poor. The strike was called off after the government negotiated a partial removal of the fuel subsidy with unions. This type of instability is a hindrance in the path of growth of the country.

#### 4.3. Poverty and Unemployment in Nigeria

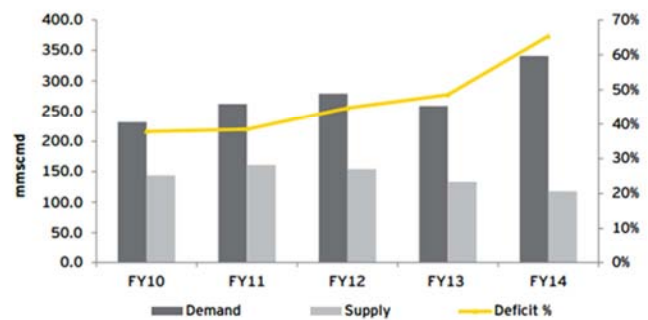
The poverty situation in the country is very grievous. There seems to be little prospect that Nigeria will meet the MDG target of cutting the number of people living in extreme poverty by the UN's 2015 deadline. In 2011, 63% of the population lived on less than USD 1 per day, up from 61% in 2010. Furthermore, National Bureau of Statistics reports say that some inequality indicators have also worsened. (Table 7). The widely-used Gini coefficient for measuring inequality increased from 0.43 in 2004 to 0.45 in 2010. The unemployment rate for men in urban areas is 16.9% while for women it is 17.2%. In rural areas, the rate is 25.1% for men and 26.1% for women. According to National Bureau of Statistics (NBS), the 2011 Annual Socio-Economic Report gave an unemployment rate of 24% compared to 21% in 2010. The unemployment rate for the 15-24 age group was 38%, while it was 22% for 25-44 years and 18% for the 45-59 age group and 21% for those aged between 60 and 64. The unemployment rate was higher in rural areas (26%) than urban areas (17%). An average of 1.8 million people has entered the active labour market every year over the past five years, and the system has not been able to absorb these numbers. The consequences of mass youth unemployment can be seen in the number of cases of armed robbery, hostage-taking for ransom, illicit drug trade and addiction, militancy, and the militancy issues. Robust economic growth in Nigeria over the past decade has not created the jobs the country needs.

#### 4.4. FDI in Nigeria

Foreign direct investment (FDI) into Nigeria fell from USD 8.65 billion in 2009 to USD 6.09 billion in 2011 as a result of the global economic troubles and uncertainty over a petroleum industry bill which is perceived as unfavorable to trans-national corporations. However Chinese direct investment in non-oil sectors has been successful. Chinese enterprises have invested in manufacturing; telecommunications, power and transport, and Chinese construction companies are active in Nigerian infrastructure projects. The volume of trade between Nigeria and China was estimated at USD 10 billion in 2011.

Source: African Economic Outlook 2012

<http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Nigeria%20Full%20PDF%20Country%20Note.pdf>



Source: PPAC, MoPNG

Figure 4. Rising Natural Gas Deficit.

[http://www.ey.com/Publication/vwLUAssets/EY-oil-and-gas-equipment-industry-in-india/\\$FILE/EY-oil-and-gas-equipment-industry-in-india.pdf](http://www.ey.com/Publication/vwLUAssets/EY-oil-and-gas-equipment-industry-in-india/$FILE/EY-oil-and-gas-equipment-industry-in-india.pdf)

## 5. Teaching Note for “Retro Energy Private Ltd.”

### 5.1. Assignment Questions

Assess the current competence of REPL, using Hambrick's model on essential elements of strategy.

What strategy would you suggest REPL to follow to continue its business?

Should REPL take up the overseas consultancy? If decision is to execute,

What should be the mode of execution?

What are the risks of strategy you select?

What are the most significant operational difficulties for REPL in executing the project in Nigeria? Discuss using PEST analysis.

### 5.2. Analysis

#### 5.2.1. Hambrick's Diamond Analysis

Assess the current competence of REPL, the support REPL would receive from the environment using Hambrick's diamond.

Hambrick Five Diamond Model

*Arena*

Product Category – Techno-commercial Services

Market Segment Oil & Gas Industry

Geography- India

Value addition- Technical expertise

Core Technology-Technical Knowledge

*Vehicles*

Internal Development

Association with PWC, CRISIL, etc.,

*Differentiator*

Customization on the basis of Client needs

*Staging and Sequencing*

Consultancy CGD



Getting into association with people like PwC, CRISIL and built the brand

#### *Economic Value*

Premium price for unmatched service and proprietary services

### **5.2.2. Implementing Strategic Decisions**

What kind of preparations in terms of resources, capabilities and knowledge is required for implementing the strategic options chosen by REPL?

Resources	Capability/Competency	Knowledge
Customized assistance to multiple clients in various initiatives across the entire oil and gas value chain.	Trained team of people to provide customized services in the energy sector.	Comprehensive knowledge and experience of the team members in the technical and commercial aspects.
Team of experienced experts and consultant for exploring diversification to try international clients	Project management and Project Execution for a different demography	Expert knowledge of domestic market in energy sector for international market.
Knowledge of technologies used in respective markets.	Operation integration for projects outside India.	Micro and Macro level environmental factors of different countries for successful entries
External partners and alliance for assistance in access to different geographies	Internalizing new processes from new external partners.	Identifying the right partners that compliment your capabilities
Access to capital market for undertaking bigger projects	Better financial management for a stronger balance sheet.	
Recruitment of a new marketing team to expand into new markets	To be able to tap in to new markets.	

### **5.2.3. Overseas Consultancy**

Should REPL take up the overseas consultancy? If decision is to execute,

- What should be the mode of execution?
- What are the risks of strategy you select?

To begin discussion on this issue, the instructor may ask the class to vote on whether the firm should take on the business in Nigeria.

#### *Argument in Favor of Nigeria Project*

En-cash the experience in the area

Less business opportunities in India

Opportunity in other parts of the world market growth is high

Local adaption is very less because consultancy services is more or less same

*Various Modes of Entry*

Degree of Market Adaptation	High	Not Lucrative	Moderately attractive
	Low	Moderately attractive	Highly attractive
		Low	High
		Pay-off	

**Figure 5.** Various Modes of Entry.

*Establishment of Business*

Stability of Socio Economic Market Factors	High	Outsourcing	Greenfield
	Low	No Entry	Outsourcing / Green field
		Low	High
		Pay-off	

**Figure 6.** Establishment of Business.

If the stability of socio-economic factor and pay-off are high in the future, it is advisable to go for Greenfield

If the stability of socio-economic factor is high and pay-off is low in the future, it is advisable to go for outsourcing

If the stability of socio-economic factor is low and pay-off is high in the future, it is advisable to go either outsourcing or Greenfield.

#### 5.2.4. Operational Difficulties

What are the most significant operational difficulties for PEPL in executing the project in Nigeria? Discuss using PEST analysis.

Strict timeline of execution.

Identification of right manpower for market research and data collection.

Selection of manpower and executing the data collection in specified time.

#### 5.3. Pest Analysis

##### *Political Analysis*

a. Political stability and newly established democratic government

b. Steps taken by the government to restore peace and security

##### *Economic Analysis*

GDP of the country

Growth rate

Oil dependency and production

##### *Social Analysis*

Education

Employment

Demography of human resources

##### *Technological analysis*

Reliance on Eastern Europe and US

##### *Ecological Analysis*

Oil dependency (largest source of income for the economy)

Energy consumption

##### *Legal Analysis*

Legal compliances required

Policies of the state

## 6. Conclusion

Retro Energy Private Ltd., (REPL) had emerged as a leading techno-commercial consultancy in the oil & gas sector in India. The case provides a clear picture of the current business scenario in the oil & gas sector. The case places students in an evaluation role, asking them to analyze the business opportunities available for REPL and its contribution to capacity creation. To find a new strategy-whether to extend REPL's techno-commercial consultancy services to the international market or diversify domestically.

This case can be best used in the MBA level to provide a discipline view of strategic drive decision making in global business environment. The focus is on environment analysis and International market entry strategy. The opportunities to combine with other strategic synergies in the new market may in turn lead to a distinct competitive advantage of the company.

The learning objectives to apprehend the need for keeping pace with the change in the social, economic shift resulting from factors beyond a company's control which may be viewed as either opportunities or threats. To know the

distribution deregulation in the energy industry which strengthen competition for prices and services. To understand the complexity of gaining entry into new global market.

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