

# **CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

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**Diploma Thesis Title:**

**Strategic analysis of O2 Czech Republic a. s.**

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**Master of International Business and Administration**

**Strategic analysis of O2 Czech Republic a.s.**



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**September, 2015**

## **Declaration**

I hereby declare that I have been working on my diploma thesis titled “Strategic analysis of O2 Czech Republic a. s.” solely and independently under the direction of my supervisor Mr. Kevin Pon. The diploma thesis contains no material previously published or written by another person except where due reference is made in the diploma thesis itself. In addition, as the author of thesis I declare that I did not violate the copyright of third parties.

In Lyon, 15 September, 2015

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Bc. Tomáš Ježek

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**Strategic analysis of O2 Czech Republic a. s.**

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**Strategická analýza O2 Czech Republic a. s.**

## **Synopsis**

The topic of master's diploma thesis is „Strategic analysis of O2 Czech Republic a.s.". The diploma thesis is aimed at analysis and evaluation of a current strategic position of O2 Czech Republic a. s., as well as aimed at recommending further strategic direction for the Company. The literature review focuses on the theoretical background of strategic management, on the definition of particular environmental analyzes its components, tools and models. The empirical part deals with the strategic analysis of the Company based on the models and methods mentioned in the theoretical part. The aim of the work is to identify the Company's corporate and business strategy with respect to the circumstances of internal and external environments. According to the specific findings are formulated suggestions and recommendations for future improvements in strategic positions in the telecommunications market.

**Keywords:** Strategy, Corporate strategy, Business strategy, O2 Czech Republic a.s., Telecommunication sector, Porter's 5 forces.

## **Souhrn**

Téma diplomové práce je „Strategická analýza společnosti O2 Czech Republic, a. s.". Diplomová práce je zaměřena na analýzu a zhodnocení současné strategické pozice společnosti O2 Czech Republic a.s., jakož i zaměřené na vytvoření doporučení pro další strategický směr společnosti. Přehled literatury se zaměřuje na teoretická východiska strategického řízení, dále na definici konkrétních analýz, jejich složek, nástrojů a modelů. Empirická část se zabývá strategickou analýzou společnosti na základě modelů a metod uvedených v teoretické části. Cílem práce je identifikovat korporátní a obchodní strategie společnosti s ohledem na současné a predikované okolnosti vnitřního a vnějšího prostředí. Dle konkrétních zjištění jsou formulovány návrhy a doporučení pro budoucí zlepšení strategické pozice na telekomunikačním trhu..

**Klíčová slova:** Strategie, Korporátní strategie, Obchodní strategie, O2 Czech Republic a.s., Telekomunikační sektor, Porterův model 5-ti sil.

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## **List of Acronyms**

ADSL – Asymmetric Digital Subscriber Line  
ARPU – Average Revenue per Unit/User  
BEREC – Body of European Regulators for Electronic Communications  
BYOD – Bring Your Own Device  
CAPEX – Capital Expenditure  
CDMA – Code Division Multiple Access  
CPI – Consumer Price Index  
CRM – Customer Relationship Management  
CSO – Czech Statistical Office  
CTO – Czech Telecommunication Office  
GSM – Global System for Mobile communications  
ICT – Information and Communication Technologies  
IoT – Internet of Things  
IPTV – Internet Protocol Television  
LTE – Long Term Evolution  
M2M – Machine to Machine  
MIT – Czech Ministry of Industry and Trade  
MNO – Mobile Network Operator  
MVNO – Mobile Virtual Network Operator  
NGMN – New Generation Mobile Network  
OpEx – Operating Expenditure  
OTT – Over-the-Top  
PSTN – Public Switched Telephone Network  
SIM – Subscriber Identity Modul  
SMS – Short Message Services  
UMTS – Universal Mobile Telecommunications System  
VDSL – Very High Speed Digital Subscriber Line  
VoIP – Voice over Internet Protocol  
VoLTE – Voice over LTE  
WiFi – Wireless Fidelity

# 1 INTRODUCTION

The telecommunications industry is one of the most dynamically developing sectors in the Czech Republic as well as around the world. In fact, pervasive globalization is a large contributor to the dynamic changes that are taking place within the telecommunications industry. Nowadays, people aspire to be in touch with the outside world; in particular they are eager to be online, eager to entertain, eager to save time, eager to save money under the circumstances of anywhere and anytime. Therefore, any successful telecom company must be in line with the growing expectations of customers and the pace of technological developments. Indeed, the telecommunications companies have to face a number of challenges, ranging from regulatory and legislative factors, shifts in demand and to technological advances or the life cycle of each product.

Over the years, despite the turbulent moments within the industry, the telecommunication company O2 Czech Republic is considered to be among the largest and most respected employers in the Czech Republic. The Company is seen as a long-term leader within the telecommunication sector where has been providing its services for many years. The strategic analysis of the environment and strategy selection are key elements in creating a competitive enterprise. The essence of analysis is particularly in identifying strengths and weaknesses of the Company, which are critical in the exploitation of occurring market opportunities and overcoming market threats. In this thesis will be answered these following research questions:

- How is the Company competing within the telecommunications market?
- What needs to be done in order to increase the Company's market share?

In general, the study serves as an overall strategic analysis that is intended to inform the Company's management, about whether the Company is consistent with the market developments and changes. The study is addressed to all the stakeholders who are concerned with the O2 Czech Republic or the Czech telecommunications sector and thus its trends, attractiveness, profitability and level of competition.

## **2 OBJECTIVES AND METHODOLOGY**

### **2.1 Objectives and Hypothesis**

The main focus of this diploma thesis is to analyze and evaluate current strategic position of O2 Czech Republic in the telecommunications market. Fundamentally, the primary objective is to identify current corporate and business strategy employed by the Company. The business strategy is identified relative to the segment of mobile consumers. The secondary objective is to specify recommendations for improving the strategic position of the Company.

The hypothesis is determined as follows – The companies with the largest market shares are likely to be most profitable.

### **2.2 Methodology**

The master's diploma thesis is divided into three thematic sections, specifically theoretical, empirical and conclusion. All of these parts are interconnected – follow each other – and as such contribute to the overall purpose of diploma thesis.

Firstly, the theoretical part aims to define basic terms which are connected to the strategy. Substantially, the definition of strategy is described and then the strategic management is characterized in terms of management discipline. Secondly, the other chapter deals with the description of strategic planning process and consequently are outlined the primary steps for strategic process. The third area comprises of the particular environments which are being analyzed through various models. In fact, the external, industry, intra-industry and internal environments are characterized and described. These environments are defined by several models and tools that contribute to the determination of corporate and business strategy. All of these models, including Porter's 5 forces, BCG matrix, SWOT or Situational analysis, are highlighted with regard to its specifics and requirements. Eventually, the literature review discusses the ultimate selection of both corporate and business strategy. Both strategies are described with regard to main purpose they represent to an organization and with regard to the strategic directions they offer.

In order to study necessary information were used secondary data from the available literature, websites and other study materials that are included within references and list of sources. Essentially, in order to analyze the different environments, primarily were used data published by the Czech Statistical Office, the Czech Telecommunication Office as well as data published within a various market reports, annual reports and within various professional telecommunication websites.

The empirical part is in accordance with the theoretical outputs. Substantially, the secondary data were used for strategic analysis of the Company. The empirical part includes following analyzes and its components:

- ***Strategic analysis of the external environment***  
- PEST analysis; Issues priority matrix.
  
- ***Strategic analysis of the industry***  
- Porter's 5 competitive forces; Key success factors.
  
- ***Strategic analysis of the intra-industry environment***  
- Strategic group analysis; Competitor analysis; Segmentation.
  
- ***Strategic internal analysis of the firm***  
- Financial analysis; Identification of resources/capabilities; Situational analysis.

The obtained information resulted into the ultimate selection of corporate and business strategy, which is conducted upon the Portfolio strategy matrix along with Grand Generic Strategies and the Three Generic Strategies, consequent formulation of proposals and recommendations. The empirical part is concluded by the overall summary of master's diploma thesis.

# 3 LITERATURE PART

## 3.1 Introduction into strategy

### 3.1.1 Definition of strategy

A strategy is perceived to be an intangible instrument that is looking holistically at the company. More importantly, a strategy is linked to an organization's structure, culture and resources as well as its purposes, policies and actions. The concept of strategy has been developing over the years and thus below are stated a several definitions referring to the meaning of strategy.

Firstly, Johnson, Scholes, Wittington (2008; p. 3) described strategy as the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. In other words, Anthony W. Ulwick (1999, p. 4) characterized a strategy as an executable plan of action that describes how an individual or organization will achieve a stated mission. A strategy is often perceived as being intangible, as there is nothing to touch and feel – there are no physical attributes associated with a strategy. In addition, Fred R. David (2011; p. 13) has expressed concern over an influence the strategy has on organization and he claimed that strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the firm.

From the different perspective, Mintzberg, (2000) in his book *The Rise and Fall of Strategic Planning (1994)*, firstly identified the most common ways of using strategy by people, namely these four:

1. Strategy is a plan, a "how", a means of getting from here to there.
2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
3. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
4. Strategy is perspective, that is, vision and direction.

### **3.1.2 Strategists**

The success or failure of an organization is very often linked with those who are responsible for formulation and notably implementation of strategy.

In essence, people responsible for selection, formulation or implementation of strategy, primarily help an organization gather, analyze, and organize information. In the wider scope, Fred R. David (2011; p. 10-11) has discussed other tasks that are in charge of strategists, particularly they track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners are usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). Strategists differ as much as organizations themselves and these differences must be considered in the formulation, implementation, and evaluation of strategies.

Basically, strategists participate in both strategy formulation and implementation. According to Hill & Jones (2010; p. 4) a strategy formulation is the task of selecting strategies, whereas strategy implementation is the task of putting strategies into action, which includes designing, delivering, and supporting products; improving efficiency and effectiveness of operations; and designing a company's organizational structure, control systems, and culture.

## **3.2 Strategic management**

In order to understand the concept of strategic management and its process within an organisation it is desirable to elaborate upon the terms within the discipline of management science in the first instance.

### **3.2.1 Definition of management**

There are plenty of approaches with regard to the management process. However, for the purposes of this thesis, the management is identified from the perspective of an organization. Organization represents a group of people working together in structured and coordinated fashion to achieve a set of goals. (Griffin; 2013; p. 4)

To illustrate a definition of management, Frew (1971; p. 397) has defined a management as the process of moving an organization, either the organization at large or a sub/organization, through its environment toward the accomplishment of goals. Management involves several activities, notwithstanding Griffin (2013; p. 5) has claimed there are four fundamental activities including planning and decision making, organizing, leading, and controlling. Generally, managers play an important, significant role within the management process and particularly within an organization where they handle a set of activities. Essentially, a manager is someone who plans and makes decisions, organizes, leads, and controls human, financial, physical, and information resources.

### **3.2.2 Definition of strategic management**

Strategic management process is viewed as a process to conduct an overall audit of a company which would contribute to the determination of current and future position of any company. Strategic management is described by Harrison & St. John (2008; p. 4) as the process through which organizations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute those strategies, all in an effort to satisfy key organizational stakeholders. In similar way, Wells (1998; p. 4) has noted that strategic management is an approach to identifying and making the necessary changes and measuring the organization's performance as it moves toward its vision. Fundamentally, strategic management can be understood as having three main elements that ultimately provide the strategic framework. In particular, Johnson et al.; (2008; p. 12) stated that strategic management includes understanding the strategic position of an organisation, making strategic choices for the future and managing strategy in action. The importance of strategic management process in



relation to achieving strategic competitiveness is confirmed by Hitt et al. (2011; p. 6) in argument that strategic management process is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.

### **3.3 Strategic planning process**

Strategic management is a more inclusive concept than strategic planning, because strategic management is the reasonable integration of strategic planning and implementation across an organization (or other entity) in an ongoing way to enhance the fulfilment of mission, meeting of mandates, continuous learning, and sustained creation of public value. (Bryson; 2011; p. 25)

In substance, Hill & Jones (2010; p. 12) primarily claimed that the formal strategic planning process has five main steps:

1. Select the corporate mission and major corporate goals
2. Analyze the organization's external competitive environment to identify opportunities and threats
3. Analyze the organization's internal operating environment to identify organization's strengths and weaknesses
4. Select strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats. These strategies should be consistent with the mission and major goals of the organization. They should be congruent and constitute a viable business model.
5. Implement the strategies.

In other words, Bryson (2011; p. 56) has discussed that the main focus of strategic planning is on achieving the best fit between an organization and its environment. Attention to mandates and the external environment, therefore, can be thought of as planning from the outside in. Attention to mission and organizational values and the internal environment can be considered planning from the inside out.

### 3.3.1 Vision and mission

In essence, both mission and vision statements are instruments expressing the main purpose of the organization itself. Likewise, Johnson et al. (2008; 164) claimed a mission statement and a vision statement are typically more explicitly concerned with the purpose of an organisation in terms of its strategic direction. A well-established strategic direction provides guidance to the managers and employees who are largely responsible for carrying it out as well as a greater understanding of the organization for the external stakeholders with whom the organization interacts. (Harrison & St. John; 2008; p. 6)

- **Vision**

In fact, developing a vision statement is according to Griffin (2013; p. 11) often considered as the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. In more comprehensive way, Hitt et al. (2011; p. 17) published an argument that a vision statement articulates the ideal description of an organization and gives shape to its intended future. In other words, a vision statement points the firm in the direction of where it would eventually like to be in the years to come. Vision is “big picture” thinking with passion that helps people feel what they are supposed to be doing in the organization. People feel what they are to do when their firm’s vision is simple, positive, and emotional.

- **Mission**

A mission statement is a statement of the organization’s purpose – what it wants to accomplish in the larger environment. Specifically, Kotler & Armstrong (2014; p. 63) claimed that a clear mission statement acts as an invisible hand that guides people in the organization. In other perspective, Ulwick (1999; p. 14) has argued that on the basis of its purpose a mission may be large or small in scope. Certainly, regardless scope, a mission statement is referring to apparently simple but challenging question: ‘What business are we in?’ Additionally, Hitt et al. (2011; p. 18) are referring to the vision in terms of the foundation for the firm’s mission. Furthermore, a mission specifies the business or businesses in which the firm intends to compete and the customers it intends to serve. The firm’s mission is more concrete

than its vision. However, like the vision, a mission should establish a firm's individuality and should be inspiring and relevant to all stakeholders. Together, vision and mission provide the foundation the firm needs to choose and implement one or more strategies.

### **3.3.2 Goal and objectives**

In order to be effective, a strategic planning system must be goal driven. The importance of setting goals and objectives is understood by Gilligan (2005, p. 271) as a key step in the marketing planning process since, unless it is carried out effectively, everything that follows will lack focus and cohesion.

- **Goal**

Fundamentally, according to Johnson et al. (2008; p. 10) a goal usually means a general aim in line with the mission. It may well be qualitative in nature. The well-constructed goals have four main characteristics which are described by Hill & Jones (2010; p. 17) with the following wording:

1. They are precise and measurable. Measurable goals give managers a yardstick or standard against which they can judge their performance.
2. They address crucial issues. To maintain focus, managers should select a limited number of major goals to assess the performance of the company. The goals that are selected should be crucial or important ones.
3. They are challenging but realistic. They give all employees an incentive to look for ways of improving the operations of an organization. If a goal is unrealistic in the challenges it poses, employees may give up; a goal that is too easy may fail to motivate managers and other employees.
4. They specify a time period in which the goals should be achieved, when that is appropriate. Time constraints tell employees that success requires a goal to be attained by a given date, not after that date. Deadlines can inject a sense of urgency into goal attainment and act as a motivator. However, not all goals require time constraints.

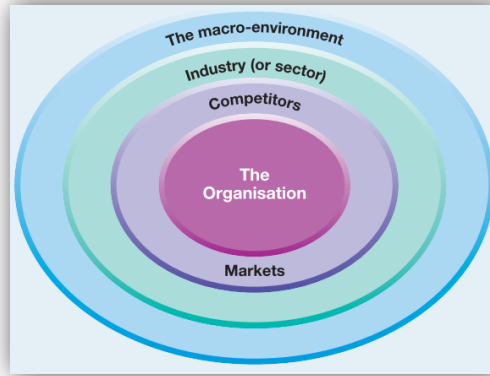
- **Objectives**

Basically, objectives differ from a goal in concreteness and thus Johnson et al. (2008; p. 10, 164) offered an argument that objective is more likely to be quantified, or at least to be a more precise aim in line with the goal. On top of that, objectives represent statements of specific outcomes that are to be achieved. Objectives – both at the corporate and at the business unit level – are often expressed in financial terms. They could be the expression of desired sales or profit levels, rates of growth, dividend levels or share valuations. However, organisations may also have market-based objectives, many of which are quantified as targets – such as market share, customer service, repeat business and so on. Besides, Fred R. David (2011; p. 13) published an argument that objectives should be challenging, measurable, consistent, reasonable, and clear. As well as objectives should be established for the overall company and for each division.

### **3.4 Strategic analysis of the environment**

The environment is consistently changing over the decades and thus it is highly desirable for any organization to carry out certain types of analyzes in order to detect potential opportunities, threats and other forces and factors which are influencing an organization's operations. At present, ability to spot opportunities and threats as well as ability to keep an eye on occurring trends within an industry gives an organization a competitive advantage. Apparently, it does not pay off to underestimate the analysis of any environment as according to Johnson et al. (2008; p. 54) environmental change can be fatal for organisations. It is vital that managers analyse their environments carefully in order to anticipate and – if possible – influence environmental change.

In general, Kotler et al. (2005; p.50) has written that the company must analyze its environment to find attractive opportunities and to avoid environmental threats. It must analyze company strengths and weaknesses, as well as current and possible marketing actions, to determine which opportunities it can best pursue. Analysis feeds information and other inputs to each of the other stages.



**Figure 1 – Layers of environments**

Source: Johnson; 2008; p. 54

### **3.4.1 External analysis**

In particular, the external analysis is focusing on the macro-environment that may either directly or indirectly affects an organization. Generally, the macro-environment represents the most uncertain environment. More specifically, Johnson et al. (2008; p. 54) stated that the macro-environment is the highest-level layer. The macro-environment consists of broad environmental factors that impact to a greater or lesser extent on almost all organisations. Furthermore, Hill & Jones (2010; p. 17) noted that external analysis represents an analysis of the organization’s external operating environment. The essential purpose of the external analysis is to identify strategic opportunities and threats in the organization’s operating environment that will affect how it pursues its mission.

Perform a thorough external analysis is being perceived by Robert (1995; p. 108-109) as the ability to envision what the future business area that will face the company in the future will look like. In other words, it is the ability to look into the future and anticipate what trends or events will shape the “look” of the arena that the corporation plays in. In addition, according to them, no less important ability is to match the strategic capabilities of the corporation with new-to-the-market products and exploit these before the competition does. From the other perspective, Hitt et al. (2011; p. 39) stated another purpose for carrying out an external analysis as they believed that most firms face external environments that are highly turbulent, complex, and global — conditions that make interpreting those environments

difficult. To cope with often ambiguous and incomplete environmental data and to increase understanding of the general environment, firms engage in external environmental analysis. Analysing the external environment is a difficult, yet significant, activity.

In order to handle the external analysis in a proper and efficient way, Hitt et al. (2011; p. 40-41) suggested to continuously encompass three particular stages within an analysis. Namely, these are following stages:

### **A. Scanning**

Scanning entails the study of all segments in the general environment. Through scanning, firms identify early signals of potential changes in the general environment and detect changes that are already under way. Scanning often reveals ambiguous, incomplete, or unconnected data and information. Thus, environmental scanning is challenging but critically important for firms, especially those competing in highly volatile environments. In addition, scanning activities must be aligned with the organizational context; a scanning system designed for a volatile environment is inappropriate for a firm in a stable environment.

### **B. Monitoring**

When monitoring, analysts observe environmental changes to see if an important trend is emerging from among those spotted through scanning. Critical to successful monitoring is the firm's ability to detect meaning in different environmental events and trends. Effective monitoring requires the firm to identify important stakeholders as the foundation for serving their unique needs. Scanning and monitoring are particularly important when a firm competes in an industry with high technological uncertainty. Scanning and monitoring can provide the firm with information; they also serve as a means of importing knowledge about markets and about how to successfully commercialize new technologies the firm has developed.

### **C. Forecasting**

Scanning and monitoring are concerned with events and trends in the general environment at a point in time. When forecasting, analysts develop feasible projections of what might happen, and how quickly, as a result of the changes and

trends detected through scanning and monitoring. Forecasting events and outcomes accurately is challenging.

### **3.4.1.1 PEST analysis**

The PEST analysis is considered to be a useful tool within the analysis of external environment. To certain level, the PEST analysis is very pervasive and as such deals with the future trends and key drivers of change. The PEST analysis is applicable at both international and national levels. In particular, Gilligan (2005; p. 166) widely recognized that the pace of environmental change is increasing and that represents the need for organizations to develop a structured approach to environmental analysis, with the results then being fed into the strategic marketing planning process. The purpose of PEST framework is described by Johnson et al. (2008; p. 54-55) as they claimed that PEST can be used to identify how future trends in the political, economic, social, technological environments might impinge on organisations. The PEST analysis provides the broad data from which to identify key drivers of change. Moreover, these key drivers can be used to construct scenarios of possible futures. Scenarios consider how strategies might need to change depending on the different ways in which the business environment might change. Overall, the PEST provides a wide overview; key drivers help focus on what is most important; and scenarios build on key drivers to explore different ways in which the macro-environment might change. All in all, following segments are examined within the PEST analysis:

#### **A. Political/Legal environment**

The political/legal segment is defined by Hitt et al. (2011; p. 46) as the arena in which organizations and interest groups compete for attention, resources, and a voice in overseeing the body of laws and regulations guiding interactions among nations as well as between firms and various local governmental agencies. Essentially, this segment represents how organizations try to influence governments and how they try to understand the influences of those governments on their strategic actions. More specifically, Daft (2011; p. 88) offered an argument that problem for companies is political instability, which includes events such as riots, revolutions, civil disorders,

or government upheavals that affect the operations of a company. In addition, according to them, in order to reduce uncertainty, companies sometimes rely on the *Index of Economic Freedom*, which ranks countries according to the impact political intervention has on business decisions, and the *Corruption Perception Index*, which assesses countries according to the level of perceived corruption in government and public administration.

### **B. Economic environment**

The economic environment is very important since any company sought to compete in relatively stable economies with strong growth potential. In fact, according to Hitt et al. (2011; p. 45) the economic environment refers to the nature and direction of the economy in which a firm competes or may compete. Essentially, economic environment is defined by Kotler & Armstrong (2014; p. 103) as economic factors that affect consumer purchasing power and spending patterns. This part of the environment includes according to Daft (2011; p. 86) factors such as economic development, resource and product markets, and exchange rates. In addition, factors such as inflation, interest rates, and economic growth are also part of the economic environment.

### **C. Sociocultural environment**

The sociocultural segment is concerned with a society's attitudes and cultural values. Because attitudes and values form the cornerstone of a society, they often drive demographic, economic, political/legal, and technological conditions and changes. (Hitt et al.; 2011; p. 46) In particular, according to Hill & Jones (2010; p. 66) have stated that demographic forces are outcomes of changes in the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class. Furthermore, Daft (2011; p. 89) argued upon that cultural factors can be more perplexing than political and economic factors when working or living in a foreign country.

### **D. Technological environment**

In substance, obviously forces that contribute to the rapid creation of new technologies, products and market opportunities have significantly accelerated over the last few decades. In other words, Hill & Jones (2010; p. 66) noted that



technological change can make established products obsolete overnight and simultaneously create a host of new product possibilities. Thus, technological change is both creative and destructive—both an opportunity and a threat. The influence of technological changes is addressed by Hitt et al. (2011; p. 47) who believed that technological changes affect many parts of societies. These effects occur primarily through new products, processes, and materials. The technological segment includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and materials.

### **3.4.1.2 Issue priority matrix**

A strategic issue priority matrix is developed in order to assess external trends and factors with regard to the probability of occurrence and probable impact of factor on an organization. Likewise, according to By (2009; 51), the way a unit needs to respond to an issue will be determined by the perceived nature and size of the issue's impact on the unit's operation, and the level of urgency needed in dealing with the issue. In substance, to identify and analyze developments in the external environment may be accomplished by using the issues priority matrix (see Figure below). Specifically, Wheelen & Hunger (2012; p. 109) suggested the following steps in order to carry out issue priority matrix:

- 1) Identify a number of likely trends emerging in the natural, societal, and task environments. These are strategic environmental issues – those important trends that, if they occur, determine what the industry or the world will look like in the near future.
- 2) Assess the probability of these trends actually occurring, from low to medium to high.
- 3) Attempt to ascertain the likely impact (from low to high) of each of these trends on the corporation being examined.

The issues priority matrix can be used to help managers decide which environmental trends should be merely scanned (low priority) and which should be monitored as strategic factors (high priority). Those environmental trends judged to

be a corporation's strategic factors are then categorized as opportunities and threats and are included in strategy formulation.

		Probable Impact on Corporation		
		High	Medium	Low
Probability of Occurrence	High	High Priority	High Priority	Medium Priority
	Medium	High Priority	Medium Priority	Low Priority
	Low	Medium Priority	Low Priority	Low Priority

**Figure 2 – Issue priority matrix**

Source: Wheelen & Hunger; 2012; p. 109

### 3.4.2 Industry analysis

The industry analysis represents the next layer that is supposed to be analyzed within the broad general environment. The industry is composed of companies which are offering either same products or services within the specific industry. The main purpose of the industry analysis is to understand the structure of industry and intensity of competition as well as to explore changing factors and key success factors within industry. In general, the industry environment is described by Hitt et al. (2011; p. 38) as the set of factors that directly influences a firm and its competitive actions and responses: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. In total, the interactions among these five factors determine an industry's profit potential; in turn, the industry's profit potential influences the choices each firm makes about its strategic actions. Furthermore, among them the challenge for a firm is to locate a position within an industry where it can favourably influence the five factors or where it can successfully defend against their influence. The greater is firm's capacity to favourably influence its industry environment, the greater the likelihood that the firm will earn above-average returns.

In addition, industry competitive analysis begins by focusing on the overall industry in which a firm competes before market segments or sector-level issues are considered.

### **3.4.2.1 Porter's 5 forces**

The model of Porter's 5 forces enables to measure attractiveness of any industry. More importantly, the model specifies the determinants of industry attractiveness. The Porter's 5 forces framework is described by Johnson et al. (2008; p. 55) as particularly useful in understanding the attractiveness of particular industries or sectors and potential threats from outside the present set of competitors. To put it in similar way, the five forces framework helps identify the attractiveness of an industry or sector in terms of competitive forces. In addition, Hill & Jones (2010; p. 54) claimed that it is important to recognize that one competitive force often affects the others, thus all forces need to be considered and thought about when performing an industry analysis. Overall, Johnson et al. (2008; p. 60) believed that Porter's essential message is that where these five forces are high, then industries are not attractive to compete in. There will be too much competition, and too much pressure, to allow reasonable profits.

In fact, the analysis should be able to identify specific arguments on the following questions, which are described by Johnson et al. (2008; p. 66) as follows:

- **Which industries to enter (or leave)?**

The fundamental purpose of the five forces model is to identify the relative attractiveness of different industries: industries are attractive when the forces are weak. Managers should invest in industries where the five forces work in their favour and avoid or disinvest from markets where they are strongly against.

- **What influence can be exerted?**

Industry structures are not necessarily fixed, but can be influenced by deliberate managerial strategies. For example, organisations can build barriers to entry by increasing advertising spend to improve customer loyalty. They can buy up competitors to reduce rivalry and increase power over suppliers or buyers.

- **How are competitors differently affected?**

Not all competitors will be affected equally by changes in industry structure, deliberate or spontaneous. If barriers are rising because of increased R&D or advertising spending, smaller players in the industry may not be able to keep up with the larger players, and be squeezed out. Similarly, growing buyer power is likely to hurt small competitors most. Strategic group analysis is helpful here.

In the context of Porter's five forces analysis itself, Michael E. Porter (1998; p. 6) claimed that five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors – reflect the fact that competition in an industry goes well beyond the established players. Customers, suppliers, substitutes, and potential entrants are all "competitors" to firms in the industry and may be more or less prominent depending on the particular circumstances. From another point of view, Michael E. Porter identified that all five competitive forces jointly determine the intensity of industry competition and profitability, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation.

#### **A. Threat of entry**

The potential threat of entry, Porter (1998; p. 7) claimed that new entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. Likewise, Wheelen & Hunger (2012; p. 111) added that an entry barrier is an obstruction that makes it difficult for a company to enter an industry. According to Hill & Jones (2010; p. 43-44) a high risk of entry by potential competitors represents a threat to the profitability of established companies. But if the risk of new entry is low, established companies can take advantage of this opportunity to raise prices and earn greater returns. Further, the risk of entry by potential competitors is a function of the height of barriers to entry, that is, factors that make it costly for companies to enter an industry. The greater the costs that potential competitors must bear to enter an industry, the greater are the barriers to entry and the weaker this competitive force. High entry barriers may keep potential competitors out of an industry even when industry profits are high. Important barriers to entry include economies of

scale, brand loyalty, absolute cost advantages, customer switching costs, and government regulation.

### **B. Intensity of rivalry among existing competitors**

In substance, Porter (1998; p. 17) has referred to reasoning of rivalry and he claimed that rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. In most industries, corporations are mutually dependent. Thus, Wheelen & Hunger (2012; p. 111) argued that a competitive move by one firm can be expected to have a noticeable effect on its competitors and thus may cause retaliation. To put it another way, Hill & Jones (2010; p. 46-47) stated that rivalry refers to the competitive struggle between companies in an industry to gain market share from each other. More intense rivalry implies lower prices or more spending on non-price-competitive weapons or both. Because intense rivalry lowers prices and raises costs, it squeezes profits out of an industry. Thus, intense rivalry among established companies constitutes a strong threat to profitability. Alternatively, if rivalry is less intense, companies may have the opportunity to raise prices or reduce spending on non-price-competitive weapons, which leads to a higher level of industry profits.

The intensity of rivalry among established companies within an industry is largely a function of four factors: (1) industry competitive structure; (2) demand conditions; (3) cost conditions; and (4) the height of exit barriers in the industry.

- **Industry Competitive Structure**

The competitive structure of an industry, is according to Hill & Jones (2010; p. 48) referring to the number and size distribution of companies in it. Industry structures vary, and different structures have different implications for the intensity of rivalry.

Primarily, Wheelen & Hunger (2012; p. 114) defined a fragmented industry as where no firm has large market share, and each firm serves only a small piece of the total market in competition with others. On the other hand, Hill & Jones (2010; p. 48) specified a consolidated industry as dominated by a small number of large companies (an oligopoly) or, in extreme cases, by just one company (a monopoly), and companies often are in a position to determine industry prices. In consolidated industries, companies are interdependent because one company's competitive actions

or moves (with regard to price, quality, and so on) directly affect the market share of its rivals and thus their profitability. When one company makes a move, this generally “forces” a response from its rivals, and the consequence of such competitive interdependence can be a dangerous competitive spiral. Rivalry increases as companies attempt to undercut each other’s prices or offer customers more value in their products, pushing industry profits down in the process. Companies in consolidated industries sometimes seek to reduce the threat by following the prices set by the dominant company in the industry.

### **C. Pressure from substitute products**

Another force in Porter’s model is the threat of substitute products. In essence, a substitute product is a product that appears to be different but can satisfy the same need as another product. (Wheelen & Hunger; 2012; p. 112) The reasoning beyond the threat from substitutes is discussed by Hill & Jones (2010; 53) as they claimed that the existence of close substitutes is a strong competitive threat because this limits the price that companies in one industry can charge for their product, and thus industry profitability. Moreover, according to Porter (1998; p. 23) all firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits. Identifying substitute products is a matter of searching for other products that can perform the same function as the product of the industry. Sometimes doing so can be a subtle task, and one which leads the analyst into businesses seemingly far removed from the industry.

### **D. Bargaining power of buyers**

The fourth of Porter’s five competitive forces is the bargaining power of buyers. The definition of buyers is addressed by Hill & Jones (2010; p. 50-51) as they claimed that an industry’s buyers may be the individual customers who ultimately consume its products (its end users) or the companies that distribute an industry’s products to end users, such as retailers and wholesalers. In other words, Porter (1998; p. 24) has discussed the way buyers compete with the industry and he claimed mostly by forcing down prices, bargaining for higher quality or more services, and playing

competitors against each other-all at the expense of industry profitability. The power of each of the industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business. Moreover, Hill & Jones (2010; p. 50-51) suggested that by lowering prices and raising costs, powerful buyers can squeeze profits out of an industry. Thus, powerful buyers should be viewed as a threat. Alternatively, when buyers are in a weak bargaining position, companies in an industry can raise prices and perhaps reduce their costs by lowering product quality and service, thus increasing the level of industry profits.

In addition, Wheelen & Hunger (2012; p. 113) have identified following circumstances under which are buyers the most powerful:

- a) A buyer purchases a large proportion of the seller's product or service.
- b) A buyer has the potential to integrate backward by producing the product itself.
- c) Alternative suppliers are plentiful because the product is standard or undifferentiated.
- d) Changing suppliers costs very little.
- e) The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price.
- f) A buyer earns low profits and is thus very sensitive to costs and service differences.
- g) The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely.

#### **E. Bargaining power of suppliers**

The fifth of Porter's five competitive forces is the bargaining power of suppliers. The suppliers are seen by Hill & Jones (2010; p. 52-53) as the organizations that provide inputs into the industry, such as materials, services, and labour (which may be individuals, organizations such as labour unions, or companies that supply contract labour). Substantially, Porter (1998; p. 27) has discussed the way suppliers can exert bargaining power over participants in an industry and he claimed mostly by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to

recover cost increases in its own prices. Thus, powerful suppliers are a threat. Alternatively, according to Hill & Jones (2010; p. 53) if suppliers are weak, companies in the industry have the opportunity to force down input prices and demand higher quality inputs. In general, Wheelen & Hunger (2012; p. 113) have identified following situations under which are suppliers the most powerful:

- a) The supplier industry is dominated by a few companies, but it sells to many.
- b) Its product or service is unique and/or it has built up switching costs.
- c) Substitutes are not readily available.
- d) Suppliers are able to integrate forward and compete directly with their present customers.
- e) A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier.

### **3.4.2.2 Key success factors**

In any industry there are usually certain variables — key success factors — that a company's management must understand in order to be successful. Certainly, key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry. According to Lynch (2006; p. 92), key factors for success (KFS) are the resources, skills and attributes of an organisation that are essential to deliver success in the market place. They are related to the industry and are unlikely to provide differentiation between organisations in the industry. When undertaking a strategic analysis of the environment, the identification of the KFS for an industry may provide a useful starting point. Furthermore, Wheelen & Hunger (2012; p. 118-119) stated that KFS typically vary from industry to industry and are crucial to determining a company's ability to succeed within that industry. In addition, Flouris (2006; p. 69) published that key success factors can be related to technological advances, marketing skills, cost advantages, customer service advantages, information system capabilities, patent protections or brand identity. Misunderstanding key success factors can result in misdirected strategies and failure in the marketplace. Undoubtedly, key success factors truly are major opportunities for competitive advantage.



### **3.4.3 Intra–Industry analysis**

#### **3.4.3.1 Strategic group analysis**

The strategic group analysis enables a company to compare itself with the others in the market. Based on the analysis a company is looking for empty spaces within industry and thus deciding upon which strategies are desirable to follow. In substance, a strategic group is identified by Wheelen & Hunger (2012; p. 115) as a set of business units or firms that pursue similar strategies with similar resources. Categorizing firms in any one industry into a set of strategic groups is very useful as a way of better understanding the competitive environment. Obviously, Hitt et al. (2011; p. 59) referred to the intensity of competition as they argued that the competition between firms within a strategic group is greater than the competition between a member of a strategic group and companies outside that strategic group. Therefore, intrastrategic group competition is more intense than is intrastrategic group competition. In the context of practical use of analysis, Johnson et al. (2008; p. 73) stated that strategic groups can be grouped into two major categories. First, the scope of an organisation's activities (such as product range, geographical coverage and range of distribution channels used); second, the resource commitment (such as brands, marketing spend and extent of vertical integration). Which of these characteristics are especially relevant in terms of a given industry needs to be understood in terms of the history and development of that industry and the forces at work in the environment. In addition, the usefulness of strategic group concept in at least three ways was addressed by Johnson et al. (2008; 76) as follows:

#### **1) Understanding competition.**

Managers can focus on their direct competitors within their particular strategic group, rather than the whole industry. They can also establish the dimensions that distinguish them most from other groups, and which might be the basis for relative success or failure. These dimensions can then become the focus of their action.

## **2) Analysis of strategic opportunities.**

Strategic group maps can identify the most attractive ‘strategic spaces’ within an industry. Some spaces on the map may be ‘white spaces’, relatively under-occupied. A strategic group map is only the first stage of the analysis. Strategic spaces need to be tested carefully.

## **3) Analysis of mobility barriers.**

Strategic groups are therefore characterised by ‘mobility barriers’, obstacles to movement from one strategic group to another. These are similar to barriers to entry in five forces analysis.

### **3.4.3.2 Competitor analysis**

An analysis of possible competitors is understood as set of activities which determine the comparative position of competing organizations in a given market. A competitor analysis has twofold objectives. These objectives are described by West (2015; p. 78), primarily a company may have to develop a profile of the nature and success of the likely strategy changes each competitor in the market might make. Secondly, a company may have to anticipate other competitors’ probable response to the range of feasible strategic moves other firms could initiate, and each competitor’s goals, strategies, and performance. In fact, according to Kotler et al. (2005; p.494), the process of identifying key competitors involves assessing their objectives, strategies, strengths and weaknesses, reaction patterns; and selecting which competitors to attack or avoid. In particular, the steps in analyzing competitors follow:

#### **1) Identifying the company’s competitors**

A company can define its product category competition as other companies offering a similar product and services to the same customers at similar prices. Many companies identify their competitors from the industry point of view. An industry is a group of firms that offer a product or class of products that are close substitutes for each other. Instead of identifying competitors from the industry point of view, the company can take a market

point of view. Here it defines its task competition as companies that are trying to satisfy the same customer need or serve the same customer group. (Kotler et al.; 2005; p. 495-496)

## **2) Assessing**

In the context of assessing, the emphasis is on identifying competitor's objectives and simultaneously on discovering whether is satisfied with its current situation and how it might react to competitive actions. According to Gilligan (2005, p. 247) these objectives might typically include cash flow, technological leadership, market share growth, service leadership or overall market leadership. Furthermore, Kotler et al. (2005; p. 498, 500) added the more that one firm's strategy resembles another firm's strategy, the more the firms compete. In most industries, the competitors sort into groups that pursue different strategies. A strategic group is a group of firms in an industry following the same or a similar strategy in a given target market. Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience and hearsay. They can also increase their knowledge by conducting primary marketing research with customers, suppliers and dealers. A growing number of companies have turned to benchmarking, comparing the company's products and processes to those of competitors or leading firms in other industries to find ways of improving quality and performance.

## **3) Selecting competitor's to attack and avoid**

Based on the preceding activities within the identification and assessment of competitors, it is highly desirable to choose particular competitor that will be attacked, respectively avoided. There might be different perspectives upon which the company decides who is going to challenge or not. The company takes into account strength or weakness as well as closeness or distance of their competitors.

### 3.4.3.3 Market segmentation

Market segmentation represents dividing a market into distinct groups of buyers who have different need, characteristics, or behaviours, and who might require separate products or marketing programs. A market segment consists of consumers who respond in a similar way to a given set of marketing efforts. In other words, it is a group of consumers who respond in a similar way to a given set of marketing efforts. (Kotler & Armstrong; 2014; p. 73) Likewise, Hooley et al. (2004; p. 265) argued that market segmentation is described as how marketers can divide the market into groups of similar customers, where there are important differences between groups.

Moreover, Kotler et al. (2005; p. 391-392) in his study published that markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs. Market segmentation can be carried out at many different levels. Companies can practise no segmentation (mass marketing), complete segmentation (micromarketing) or something in between (segment marketing or niche marketing). The different types of practised segmentation are in particular described by Kotler et al. (2005; p. 392-394) as follows:

- Mass marketing – mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers.
- A company that practices segment marketing recognizes that buyers differ in their needs, perceptions and buying behaviours. The company tries to isolate broad segments that make up a market and adapts its offers to match more closely the needs of one or more segments.
- Niche marketing – Adapting a company's offerings to more closely match the needs of one or more subsegments where there is often little competition.
- Micromarketing is the practice of tailoring products and marketing programmes to suit the tastes of specific individuals and locations. Micromarketing includes local marketing and individual marketing.

In addition, both Kotler et al. (2005; p. 400, 403) and Gilligan (2005; p. 330, 338) recognized several different types of segmentation:

- 1) **Geographic segmentation** – Involves dividing markets into different geographical units such as countries, regions, counties and cities.
- 2) **Demographic segmentation** – Dividing the market into groups based on demographic variables such as age, sex, family size, family life cycle, income, occupation, education, religion, race and nationality.
- 3) **Behavioural segmentation** – Is based on a series of behavioural measures, including attitudes, knowledge, benefits sought by the buyer, a willingness to innovate, loyalty status, usage rates, and response to a product.
- 4) **Psychographic segmentation** – Dividing a market into different groups based on social class, lifestyle or personality characteristics.

### **3.4.4 Internal analysis**

The internal analysis represents the third component of broad environmental analysis along with previously mentioned external analysis and industry analysis. The internal analysis is focusing on identifying as well as reviewing the resources and capabilities that are major competencies of an organization. In other words, the competencies, respectively resources and capabilities are main contributors to the competitive advantage. Overall, the main purpose of internal analysis is to identify the strengths and weaknesses of the Company.

#### **3.4.4.1 Resources**

In essence, resources are being interpreted by Hitt et al. (2011; p. 15) as inputs into a firm's production process, such as capital equipment, the skills of individual employees, patents, finances, and talented managers. Furthermore, Hill & Jones (2010; p. 75) offered another point of view that resources are particularly valuable when they enable a company to create strong demand for its products, and/or to lower its costs. Valuable resources are more likely to lead to a sustainable competitive advantage if they are rare, in the sense that competitors do not possess them, and difficult for rivals to imitate; that is, if there are barriers to imitation.

Basically, resources are divided into two main categories, particularly tangible resources and intangible resources. Specifically, tangible resources are the physical assets of an organisation such as plant, people and finance. Intangible resources are non-physical assets such as information, reputation and knowledge.

According to Johnson et al. (2008; p. 95-96), typically an organisation's resources can be considered under the following four broad categories:

- 1) **Physical resources** – such as the machines, buildings or the production capacity of the organisation. The nature of these resources, such as the age, condition, capacity and location of each resource, will determine the usefulness of such resources.
- 2) **Financial resources** – such as capital, cash, debtors and creditors, and suppliers of money (shareholders, bankers, etc.).
- 3) **Human resources** – including the mix (for example, demographic profile), skills and knowledge of employees and other people in an organisation's networks.
- 4) **Intellectual capital** – as an intangible resource – includes patents, brands, business systems and customer databases. An indication of the value of these is that when businesses are sold, part of the value is 'goodwill'. In a knowledge-based economy intellectual capital is likely to be a major asset of many organisations.

On top of that, such resources are certainly important, but what an organisation does – how it employs and deploys these resources – matters at least as much as what resources it has. The efficiency and effectiveness of physical or financial resources, or the people in an organisation, depends on not just their existence but how they are managed, the cooperation between people, their adaptability, their innovatory capacity, the relationship with customers and suppliers, and the experience and learning about what works well and what does not. The term competence is used to mean the skills and abilities by which resources are deployed effectively through an organisation's activities and processes.

### **3.4.4.2 Capabilities**

Primarily, Wheelen & Hunger (2012; p. 126) referred to capabilities as a corporation's ability to exploit its resources. They consist of business processes and routines that manage the interaction among resources to turn inputs into outputs. The definition given by Hitt et al. (2011; 15-16) stated that a capability is the capacity for a set of resources to perform a task or an activity in an integrative manner. Capabilities evolve over time and must be managed dynamically in pursuit of above-average returns. Moreover, Hill & Jones (2010; p. 75) pointed out that like resources, capabilities are particularly valuable if they enable a company to create strong demand for its products and/or to lower its costs. Overall, Johnson et al. (2008; p. 10) claimed that strategic capability is concerned with the resources and competences that an organisation can use to provide value to customers or clients. Unique resources and core competences are the bases upon which an organisation achieves strategic advantage and is distinguished from competitors.

### **3.4.4.3 SWOT analysis**

In substance, a SWOT analysis reflects a specific summary of the strengths and weaknesses of the company along with its opportunities and threats it faces. Fundamentally, Hill & Jones (2010; p. 19) claimed that the central purpose of SWOT analysis is to identify the strategies to exploit external opportunities, counter threats, build on and protect company strengths, and eradicate weaknesses. More generally, the goal of a SWOT analysis is to create, affirm, or fine-tune a company-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates. Likewise, according to Wheelen & Hunger (2012; p. 176) SWOT analysis should not only result in the identification of a corporation's distinctive competencies – the particular capabilities and resources that a firm possesses and the superior way in which they are used – but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources.

Thus, Gilligan (2005; p. 54) recognized that SWOT analysis is designed to achieve two principal objectives:

- 1) To separate meaningful data from that which is merely interesting
- 2) To discover what management must do to exploit its distinctive competencies within each of the market segments both now and in the longer term.

The SWOT analysis, in particular internal strengths and weaknesses as well as external opportunities and threats are identified by Daft (2011; p. 164) in the following paragraphs:

- **Internal strengths and weaknesses**

Strengths are positive internal characteristics that the organization can exploit to achieve its strategic performance goals. Weaknesses are internal characteristic that might inhibit or restrict the organization's performance. The information sought typically pertains to specific functions such as marketing, finance, production and research and development. Internal analysis also examines overall organization structure, management competence and quality, and human resource characteristics. Based on their understanding of these areas, managers can determine their strengths and weaknesses compared with other companies.

- **External opportunities and threats**

Threats are characteristics of the external environment that may prevent the organization from achieving its strategic goals. Opportunities are characteristics of the external environment that have the potential to help the organization achieve or exceed its strategic goals. The task environment sectors are the most relevant to strategic behaviour and include the behaviour of competitors, customers, suppliers and the labour supply. The general environment contains those sectors that have an indirect influence on the organization but nevertheless must be understood and incorporated into strategic behaviour.



### 3.4.4.4 Situational analysis

The purpose of situational analysis is to evaluate strategic factors which ultimately determine company's responding to either external or internal environment.

In the context of strategic factors analysis, Wheelen & Hunger (2012) identified three possible matrixes for purposes of strategic factors evaluation:

- **EFAS**

Using an EFAS (External Factors Analysis Summary) table is one way to organize the external factors into the generally accepted categories of opportunities and threats as well as to analyze how well a particular company's management (rating) is responding to these specific factors in light of the perceived importance (weight) of these factors to the company. (p. 126)

- **IFAS**

IFAS (Internal Factor Analysis Summary) table is one way to organize the internal factors into the generally accepted categories of strengths and weaknesses as well as to analyze how well a particular company's management is responding to these specific factors in light of the perceived importance of these factors to the company. (p. 164)

- **TOWS matrix**

The TOWS Matrix, basically represents SFAS (Strategic Factors Analysis Summary), summarizes an organization's strategic factors by combining the external factors from the EFAS table with the internal factors from the IFAS table. Substantially, the highest-weighted EFAS and IFAS factors should appear in the SFAS Matrix. In other words, the TOWS Matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with that company's internal strengths and weaknesses to result in four sets of possible strategic alternatives. (see Figure below) It can be used to generate corporate as well as business strategies. (Wheelen & Hunger; 2012; p. 182) In addition, according to Gilligan (2005; p. 65), TOWS analysis can be seen to add another dimension to the traditional thinking about strengths, weaknesses, opportunities and threats.

<b>INTERNAL FACTORS (IFAS)</b>	<b>Strengths (S)</b> List 5 – 10 <i>internal</i> strengths here	<b>Weaknesses (W)</b> List 5 – 10 <i>internal</i> weaknesses here
	<b>Opportunities (O)</b> List 5 – 10 <i>external</i> opportunities here	<b>SO Strategies</b> Generate strategies here that use <b>strengths</b> to take <b>advantage</b> of <b>opportunities</b>
<b>Threats (T)</b> List 5 – 10 <i>external</i> threats here	<b>WT Strategies</b> Generate strategies here that <b>minimize weaknesses</b> and <b>avoid threats</b>	

**Figure 3 – TOWS matrix**

Source: Wheelen & Hunger; 2012; p. 182; Own processing.

### 3.5 Strategy selection

Once, the vision and mission statements are identified as well as strategic environmental analysis has been completed then comes the strategy selection and its formulation. Essentially, the strategies are presented at a number of levels in an organization, particularly at corporate, business and operational level of an organization.

#### 3.5.1 Corporate-level strategy

In substance, Johnson et al. (2008; p. 7) noted that a corporate strategy is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation. In likewise spirit, Gilligan (2005; p. 12) stated that the corporate strategy deals with the allocation of resources among the various businesses or divisions of an enterprise. Fundamentally, a corporate-level strategy specifies actions a firm takes to gain a competitive advantage by selecting and managing a group of different businesses competing in different product markets. Corporate-level strategies help companies’ select new strategic positions – positions that are expected to increase the firm’s value. (Hitt et al.; 2011; p. 116) In order to determine overall purpose and direction of an organization, the strategic planning process and identification of vision and mission

statements must precede. In relation to the diploma thesis, the corporate strategy is being identified through portfolio strategy and grand generic strategy.

### 3.5.1.1 The Boston Consulting Group Matrix

In the context of BCG matrix, Gilligan (2005, p. 368) argued that matrix forces management to give explicit consideration to both the future potential of the market and to the SBU's competitive position. A company classifies all its SBUs according to the growth-share matrix. On the vertical axis, market growth rate provides a measure of market attractiveness. Thus, the industry attractiveness may be characterized by market growth, market size, industry profitability, competition structure and market concentration. On the horizontal axis, relative market share serves as a measure of company strength in the market. The business competitive strength is classified according to market share, reputation, quality, customer and market knowledge. In particular, Baker (1990; p. 333) identified four types of SBUs within the growth-share matrix:

- A. Stars** – Stars are high-growth, high-share business or products. Large cash balances are generated but heavy investment is required to maintain market share growth and consolidate competitive position. Eventually their growth will slow down, and they will turn into cash cows.
- B. Cash cows** – Cash cows are low-growth, high-share businesses or products. Investment requirements are low and limited to those needed to reduce costs and maintain marketing leverage. Large cash surpluses are generated. Thus, they produce a lot of cash that the company uses to pay its bills and support other SBUs that need investment.
- C. Question marks** – Question marks are low-share business units in high-growth markets. They are managed to gain market share and strengthen their competitive position. The considerable investment is needed since rapid market growth occurs and cash generation is low as a result of low market share. Management has to think hard about which question marks it should try to build into stars and which should be phased out. Where star potential is not evident divestment is recommended.

**D. Dogs** – Dogs are low-growth, low-share businesses and products. They have little potential for gaining market share and are not very profitable. However, where it is possible to obtain a relatively strong competitive position in a market segment, a modest cash return may be generated.

In addition, Kotler (2000 p. 43) addressed what objective, strategy, and budget are assigned to each SBU. Following four strategies can be pursued:

- 1) **Build:** The objective here is to increase market share, even forgoing short-term earnings to achieve this objective if necessary. Building is appropriate for question marks whose market shares must grow if they are to become stars.
- 2) **Hold:** The objective in a hold strategy is to preserve market share, an appropriate strategy for strong cash cows if they are to continue yielding a large positive cash flow.
- 3) **Harvest:** The objective here is to increase short-term cash flow regardless of long-term effect. Harvesting involves a decision to withdraw from a business by implementing a program of continuous cost retrenchment. The hope is to reduce costs faster than any potential drop in sales, thus boosting cash flow. This strategy is appropriate for weak cash cows whose future is dim and from which more cash flow is needed. Harvesting can also be used with question marks and dogs.
- 4) **Divest:** The objective is to sell or liquidate the business because the resources can be better used elsewhere. This is appropriate for dogs and question marks that are dragging down company profits.

### 3.5.1.2 Grand generic strategy

The overall corporate level strategies are being typically referred to grand generic strategies that characterize specific strategies in terms of either growth or decline circumstances. The strategies reflect the Company's overall orientation in industry.

## **1) Corporate growth strategies**

In general, the growth strategies are intended to expand the Company's activities and to increase its size through increased sales. The growth strategies are classified into six basic categories: concentration, market development, product development, integration, diversification and corporate combinations.

### **A. Concentration growth strategy**

The business grows aggressively in its existing line(s) of business when the industry has potential growth and is sufficiently attractive. In other words, Kotler & Armstrong (2014; p. 69) described the strategy in terms of market penetration which means that the company grows by increasing sales of current products to current market segments without changing the product. Market penetration builds on existing strategic capabilities and does not require the organisation to venture into uncharted territory.

### **B. Market development strategy**

The strategy is closely related to a concentration growth strategy. However, Kotler & Armstrong (2014; p. 70) described strategy as company growth by identifying and developing new market segments for current company products. Overall, development might take three forms of new segments, new users and new geographies.

### **C. Product development strategy**

The strategy involves a substantial change in existing products or additions to present products. These products are sold in the existing markets using the existing technology. In fact, according to Johnson et al. (2008; p. 261), the product development represents a limited extension of organisational scope. In practice, even market penetration will probably require some product development, but here product development implies greater degrees of innovation.

### **D. Integration strategy**

In essence, integration basically means combining activities relating to the present activity of a firm. Substantially, there are two forms of integration:

- **Vertical Integration**

Expanding the firm's range of activities backward into the sources of supply and/or forward into distribution channels is called Vertical integration. In other words, the strategy is achieved by taking over a function previously provided by a supplier or by a distributor. The company, in effect, grows by making its own supplies and/or by distributing its own products. (Wheelen & Hunger; 2012; p. 208) The corporate-level strategy of vertical integration is pursued to increase the profitability of a company's "core" business model in its original industry. Vertical integration can enable a company to achieve a competitive advantage by helping build barriers to entry, facilitating investments in specialized assets, protecting product quality, and helping to improve scheduling between adjacent stages in the value chain. (Hill & Jones; 2010; p. 334)

- **Horizontal Integration**

Horizontal integration is strategy of seeking ownership or increased control over firm's competitors. Sometimes, is being called as horizontal diversification. In substance, Wheelen & Hunger (2012; p. 211) claimed that a firm can achieve horizontal growth by expanding its operations into other geographic locations and/or by increasing the range of products and services offered to current markets. Horizontal growth can be achieved through internal development or externally through acquisitions and strategic alliances with other firms in the same industry. Furthermore, in the context of corporate-level strategy of horizontal integration, according to Hill & Jones (2010; p. 334) pursuing increase in the profitability of a company's business model might be done by (a) reducing costs, (b) increasing the value of the company's products through differentiation, (c) replicating the business model, (d) managing rivalry within the industry to reduce the risk of price warfare, and (e) increasing bargaining power over suppliers and buyers. There are two drawbacks associated with horizontal integration: (a) the numerous pitfalls associated with making mergers and acquisitions and (b) the fact that the strategy can bring a company into direct conflict with antitrust authorities. The most important advantage of horizontal integration is that it generally eliminates or reduces competition.

In addition, C. Appa Rao (2008, p. 287) identifies horizontal integration as an appropriate strategy under following circumstances:

- 1) A firm competes in growing industry.
- 2) Increased economies of scale provide a major competitive advantage.
- 3) A firm has both the capital and human talent needed to successfully manage an expanded organization.
- 4) Competitors are faltering due to lack of managerial expertise or resources, which the firm has.

### **E. Diversification strategy**

The strategy takes the organization away from its existing markets and its existing products. In other words, the strategy adds new businesses either products or markets to existing businesses of the company. The diversification strategy is concerned with achieving a greater market from a greater range of products in order to maximize profits. Substantially, diversification is seen as alternative that significantly increases the organisation's scope. Broadly, there are two types of diversification:

- **Concentric (Related)**

Growth through concentric diversification into a related industry may be a very appropriate corporate strategy when a firm has a strong competitive position but industry attractiveness is low. (Wheelen & Hunger; 2012; p. 214)

- **Conglomerate (Unrelated)**

Unrelated diversification is the development of products or services beyond the current capabilities or value network. (Johnson et al.; 2008; p. 265-267) Moreover, according to Hill & Jones (2010; p. 351), unrelated diversification is understood to be a multibusiness model with a goal to increase profitability through the use of general organizational competencies and increase the performance of all the company's business units.

The companies attempt to spread their risk by diversifying into several products or industries. In fact, C. Appa Rao (2008; p. 287) stated that diversification can be achieved through a variety of ways:

- 1) Through mergers and acquisitions – A merger occurs when two business form one new business by pulling all their resources. An acquisition occurs

when one business buys all or part of another business. One business becomes part of an existing business;

- 2) Through joint ventures and strategic alliances – A joint venture is created when two or more businesses join resources to form a separate new business in which they share ownership. A strategic alliance is an agreement between businesses, but does not necessarily involve shared ownership.
- 3) Through starting up a new unit (internal development).

Overall, the diversification strategy is being conducted when the business is influenced by market decline and saturation that leads to stagnating sales. Furthermore, the strategy is favourable when other businesses provide better market opportunities, opportunities in terms of cost and risk reduction. More importantly, the Company may link its well-known brand with new businesses as well as may leverage existing resources, capabilities and strengths by expanding into businesses where these resources become more valuable competitive assets. Thus, by sharing technological capabilities, distribution channels, sales force, financial resources etc. Synergy can be obtained. The diversification strategy is broadly used by companies in order to obtain new technologies and products that might be complement to its existing businesses.

## **2) Corporate declining strategies**

These strategies are intended to reduce the Company's level of activities. Basically, the declining strategies most commonly occur under circumstances of low industry attractiveness and weak business strength/competitive position in some or all product lines of the company. In an attempt to eliminate the weaknesses that are dragging the company down, thus Nieuwenhuizen & Badenhorst-Weiss (2008; p. 56), suggests the following forms of decline strategies:

- A. Liquidation** – Implies that a business admits failure and recognizes that this strategy is the best way to minimise the loss to the shareholders of the business.
- B. Turnaround strategy** – The strategy which is focusing on eliminating inefficiencies in a business and substantially the management looks at costs and asset reduction to reverse declining sales and profits. Additionally, C.



Appa Rao (2008; p. 294) in accordance with John M Hariss, has listed danger signals of impending sickness: 1) Decreasing market share 2) Decreasing profitability 3) Increasing dependence on debt 4) Failure to reinvest sufficiently in the business 5) Lack of planning.

**C. Divestment** – The strategy of selling a business or a major component of the business to achieve a permanent change in the scope of operations. Moreover, C. Appa Rao (2008; p. 300-301) has written that the main purpose of the strategy is to get rid of businesses that are unprofitable, that require too much capital or that do not fit well with the firm’s activities. In fact, divestiture is an appropriate strategy to be pursued under the circumstances such as business need more resources than the company can provide, business is misfit with the rest of organization or when government’s legal actions threaten the existence of a business. In addition, one of the types of divestitures is called spin-off. Basically, an existing parent company distributes the shares of the new company to the shareholders of the parent company free of cost. There is no money transaction and both companies exist and carry on their businesses independently after spin-off. During spin off, a new company comes into existence. The shareholders of the parent company become the shareholders of the new company spun off.



**Figure 4 – Grand Strategy Matrix**

Source: C. Appa Rao; 2008; p. 245. Own processing.

### 3.5.2 Business-level strategy

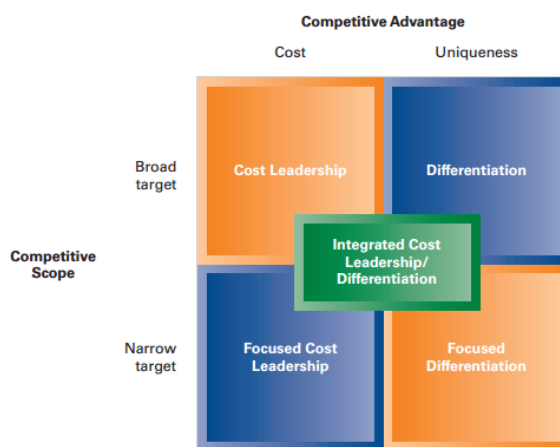
Substantially, business strategy focuses on improving the competitive position of a company's or business unit's products or services within the specific industry or market segment that the company or business unit serves. (Wheelen & Hunger; 2012; p. 183) Furthermore, Hitt et al. (2011; p. 105) stated that the purpose of a business-level strategy is to create differences between the firm's position and those of its competitors. In contrast to corporate strategy, Johnson et al. (2008; p. 7) claimed that whereas corporate-level strategy involves decisions about the organisation as a whole, strategic business decisions relate to particular strategic business units (SBUs) within the overall organisation. A strategic business unit is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU.

In general, according to Wheelen & Hunger (2012; p. 183-184) the competitive strategy raises the following questions:

- Should we compete on the basis of lower cost (and thus price), or should we differentiate our products or services on some basis other than cost, such as quality or service?
- Should we compete head to head with our major competitors for the biggest but most sought-after share of the market, or should we focus on a niche in which we can satisfy a less sought-after but also profitable segment of the market?

In order to determine business strategies are particularly considered Porter's generic strategies. In coping with the five competitive forces, Porter (1998; p. 35) identified and described three potentially successful generic strategic approaches to outperforming other firms in an industry:

1. overall cost leadership
2. differentiation
3. focus



**Figure 5 – Porter’s Generic Strategies**

Source: Hitt et al.; 2011; p. 107; Own processing.

### **A. OVERALL COST LEADERSHIP**

By pursuing a strategy of cost leadership, the organization concentrates upon achieving the lowest costs of production and distribution so that it has the capability of setting its prices at lower level than its competitors. (Gilligan; 2005; p. 390) In other words, the cost leadership strategy is an integrated set of actions taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors. Firms using the cost leadership strategy commonly sell standardized goods or services (but with competitive levels of differentiation) to the industry’s most typical customers. Process innovations, which are newly designed production and distribution methods and techniques that allow the firm to operate more efficiently, are critical to successful use of the cost leadership strategy. (Hitt et al.; 2011; p. 108)

In addition, according to Porter (1998; p. 35-36) cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. Low cost relative to competitors becomes the theme running through the entire strategy, though quality, service, and other areas cannot be ignored. Achieving a low overall cost position often requires a high relative market share or other advantages, such as favourable access to raw materials. The low-cost strategy may require heavy up-front capital investment in state-of-the art equipment, aggressive pricing, and start-up losses to build market share. High market share may

in turn allow economies in purchasing which lower costs even further. Once achieved, the low-cost position provides high margins which can be reinvested in new equipment and modern facilities in order to maintain cost leadership. Such reinvestment may well be a prerequisite to sustaining a low-cost position.

## **B. DIFFERENTIATION**

The second generic strategy – differentiation is aimed at the broad mass market and involves the creation of a product or service that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. (Wheelen & Hunger; 2012; p. 186) Furthermore, according to Kotler et al. (2005; p. 504) the company concentrates on creating a highly differentiated product line and marketing programme, so that it comes across as the class leader in the industry. In addition, product innovation is critical to successful use of the differentiation strategy.

In essence, according to Porter (1998; p. 37-38) the particular approaches to differentiation can take many forms: design or brand image, technology, features, customer service, dealer network, or other dimensions. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a low-cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are thereby less price sensitive. Finally, the firm that has differentiated itself to achieve customer loyalty should be better positioned vis-a-vis substitutes than its competitors. Additionally, Hitt et al. (2011; p. 112) claimed that the differentiation strategy can be effective in helping it earn above-average returns. Through the differentiation strategy, the firm produces nonstandardized (that is, unique) products for customers who value differentiated features more than they value low cost.

## **C. FOCUS**

The final element of generic strategies is focusing on serving particular buyer group, segment of the product line or geographic market. Substantially, the focus differentiation strategy is described by Porter (1998; p. 38, 40) as the strategy that

basically rests on the premise that the firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both. The focus strategy always implies some limitations on the overall market share achievable. Focus necessarily involves a trade-off between profitability and sales volume. In fact, Hitt et al. (2011; p. 116) identified examples of specific market segments that can be targeted by a focus strategy including (1) a particular buyer group (e.g., youths or senior citizens), (2) a different segment of a product line (e.g., products for professional painters or the do-it-yourself group), or (3) a different geographic market (e.g., northern or southern Italy).

## 4 EMPIRICAL PART

The empirical part is focused on the basic characteristics of company and more importantly on the analysis of different environments within the Company operates. Each environment is profoundly analyzed through the models which are mentioned within the theoretical part.

### 4.1 Basic characteristics of Company

In the following sections, the data and information were mainly sourced from the annual reports, market reports, press releases and other reports.

#### 4.1.1 Profile of the Company

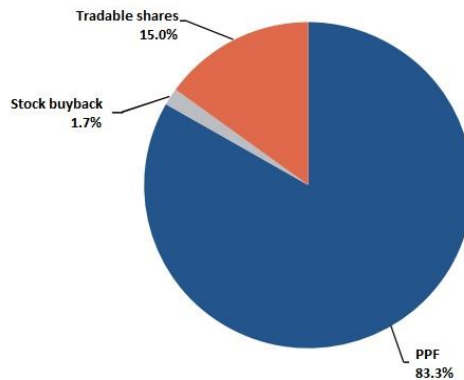
The O2 Czech Republic is the largest integrated telecommunications provider in the Czech market. In the historical context, the company has changed its name several times along with the arrival of the new majority owners. In particular, foundations of company date back to 2003 when the provider of fixed telecommunication services, namely Český Telecom bought at that time the largest Czech mobile operator Eurotel for the value of 1.05 billion USD.<sup>1</sup> In 2005, well known international telecommunication provider Telefónica acquired 51.1% stake in the Český Telecom for 82.6 billion CZK and thus became major shareholder in the company which subsequently led to the establishment of Telefónica Czech Republic.<sup>2</sup> Eventually in 2013, the PPF Group agreed with Telefonica on the acquisition of Telefónica Czech Republic, including 100% stake in the Telefónica Slovakia. Czech investment group PPF paid to Telefónica 63.6 billion CZK for 65.9% of the company.<sup>3</sup> Nevertheless in these days, already 83% of O2 Czech Republic is owned by the PPF Group, see below in the Figure.

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<sup>1</sup> <http://www.mobilmania.cz/clanky/cesky-telecom-koupil-eurotel-co-bude-dal/sc-3-a-1104825>

<sup>2</sup> [http://mobil.idnes.cz/cesky-telecom-uz-patri-spanelum-dnh-/mobilni-operatori.aspx?c=A050405\\_165850\\_mob\\_operatori\\_ekc](http://mobil.idnes.cz/cesky-telecom-uz-patri-spanelum-dnh-/mobilni-operatori.aspx?c=A050405_165850_mob_operatori_ekc)

<sup>3</sup> <http://byznys.ihned.cz/c1-61153170-ppf-se-dohodla-na-prevzeti-ceske-telefoniky-zaplati-vice-nez-63-miliard>



**Figure 6 – Shareholders Structure of O2 Czech Republic**

Source: KB – Strategic and economic research; 2015; Own processing.

At present the Company operates close to eight million mobile and fixed accesses, which ranks it among the market leaders in fully converged services in Europe. In June 2015, the Company recorded 5.060 million registered customers on the mobile services. O2 Czech Republic has the most comprehensive proposition of voice and data services in the Czech Republic which is supported by the largest network of fixed Internet xDSL (ADSL and VDSL) which is used by 799,000 customers. In particular, the company is covering the market by fixed internet (xDSL - ADSL, VDSL) as well as mobile internet in terms of 3G, 4G/LTE networks. In 2012 and 2013, O2 Czech Republic completely altered the landscape of the Czech telecommunications playing field when the company, as the first operator in the country, opened its network to virtual operators, and, in spring 2013, revolutionized the market with its unlimited FREE tariffs. O2 Czech Republic has access to the data centres, with total floor area of 7,300 square meters, which rank the company among the leaders in hosting, cloud and managed services. These data centres are the only ones in the Czech Republic and in Central Europe to have TIER III certification. The Company is also providing unique environment with its O2 TV, the largest IPTV provider in the Czech Republic accounted for 188,000 customers. Besides, O2 Czech Republic is covering its customers by O2 TV Go, the platform of O2 TV for variable mobile devices. In Slovakia, where O2 SK has had operations since 2007, nearly 1.7 million people used its services at the end of 2014. At the present, O2 SK is the third largest telecommunication provider in the Slovak market.<sup>45</sup>

<sup>4</sup> About O2 Czech Republic: <https://www.o2.cz/spolecnost/en/about/>

## 4.1.2 Financial and Operating overview

In the following chapter, both financial and operating indicators illustrate the Company's performance in the past and present. Substantially, in the Table below are demonstrated the Company's financial indicators from 2005 to 2014.

**Table 1 – Financial Indicators 2005-2014**

<b>CZK, mil.</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Revenues</b>	61,040	61,311	63,196	64,709	59,889	55,562	52,409	50,534	47,895	44,689
<b>OIBDA</b>	27,240	27,906	28,033	28,312	27,076	27,380	21,790	19,781	18,477	16,010
<b>EBIT</b>	9,432	11,160	13,598	15,380	15,075	15,524	10,139	8,344	7,445	5,274
<b>EBT</b>	8,748	10,940	13,510	15,348	14,877	15,318	10,008	8,156	7,264	5,178
<b>Net Income</b>	6,248	8,020	10,386	11,628	11,666	12,280	8,684	6,776	5,695	3,998

Source: O2 CR Annual Reports 2005-2014; Own processing.

In the first place, it is desirable to declare that O2 CR is financially stabilized and profitable company. In terms of Czech Republic, the Company is annually ranked among the most profitable companies in the Czech Republic. Nevertheless, as it is shown above, the Company deals with a decreasing trend in profitability.

In general, observing both indicators of revenues and net income, thus they are characterized by the similar trend. Specifically, the revenues were steadily increasing from 2005 up to year 2008. While in 2005 the revenues amounted to 61,040 million CZK so in 2008 it reached to 64,709 million CZK. Overall, in this period there was a 6.01% rise in revenues. However, since then the revenues were gradually decreasing. In 2014, revenues accounted for only 44,689 million CZK and thus representing a significant decrease for the entire period (2008-2014) by 30.94%. Similarly, net income or in other words net profit was growing between years 2005 and 2010. However, net incomes have reported notable slump over the last four years. Namely, comparing net incomes in 2010 and 2014, there is a calculated decrease of 67.4% within the given period.

Despite the deteriorating corporate profits, the O2 CR is doing quite well with regard to operating results in particular segments. Specifically, the Company's business activities are not affected by any significant failures in terms of loss of

<sup>5</sup> January-March 2015: [https://www.o2.cz/spolecnost/en/financial-and-operational-data-overview/rok\\_2015.html#leden\\_brezen\\_2015](https://www.o2.cz/spolecnost/en/financial-and-operational-data-overview/rok_2015.html#leden_brezen_2015)



customers. On the contrary, the O2 CR is able to grow in some of the segments and areas of its business. In the following Table are displayed various data which are reflecting the Company's operating performance.

**Table 2 – Operating Indicators 2005-2014**

Operating Indicators		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
In Thousands	Fixed telephony accesses	2,908	2,402	2,069	1,893	1,771	1,669	1,582	1,500	1,389	1,312
	ADSL connections	274	470	570	631	725	806	872	915	919	922
	Pay TV - O2 TV	-	16	73	115	138	129	136	141	156	184
	Mobile customers in Czech Rep.	4,676	4,864	5,126	4,802	4,945	4,839	4,942	5,083	5,102	5,069
	...of which contract	1,546	1,875	2,244	2,519	2,814	2,864	3,049	3,192	3,235	3,294
	... pre-paid	3,130	2,989	2,882	2,283	2,130	1,975	1,893	1,891	1,866	1,775
	Mobile customers in Slovakia	-	-	274	325	553	880	1,164	1,354	1,540	1,684
Group headcount		10,059	9,416	9,221	9,096	8,687	7,552	6,890	6,365	5,607	4,892

Source: O2 CR Annual Reports 2005-2014; Own processing.

At the first sight, some of the trends are obvious. Over the years, the fixed telephony service has been becoming less and less attractive. Indeed, the fixed telephony service reached its minimum in 2014 as was accounted for 1,312 thousand accesses. On the other hand, segment of ADSL Internet connection is steadily growing and thus in 2014 reached its maximum with 922 thousand customers. Besides, O2 CR offers to its customers paid O2 TV since 2006. As a provider of TV broadcasting, the Company is continually increasing its customer base within the market. At the end of 2014, respectable 184 thousand customers subscribed for the service which thus represents positive change by 17.95% year on year. Mobile segment and its amount of subscribed customers represent the main field of business activity. Obviously, the Company strives to increase the number of customers who are under the contract and according to the above data, the Company performs well as is able to constantly increase base of contractual customers. Specifically in 2014, O2 CR succeeded to add 59 thousands of contractual customers and that represents 1.8% year on year positive change.

In addition, O2 SK is consistently increasing in terms of both financial and operating indicators. As the table indicates, O2 SK increased its base of mobile

customers by remarkable 615% from 2007 to 2014. Besides, O2 CR has been restructuring its human resources in recent years. Evidently, there have been notable headcount reductions as the total number of employees decreased more than twice compared with 2005.

### 4.1.3 Vision and Mission

In case of O2 Czech Republic, the vision and mission statements intend to illustrate the Company's fundamental pillars of doing business. In other words, by formulating vision and mission, the O2 CR is delivering a clear message to all stakeholders about its business passion and future direction. Likewise, both statements are meant to be a fundamental core stones for developing future strategies.

Recently, the Company introduced a new slogan – “Discover Now and Here” – that is fully communicated inside-out of the Company. Specifically, the organization's vision statement is formulated as follows:

- *“Through smart technologies and products, we SIMPLIFY and IMPROVE the lives of people, organizations and companies in the digital world.”<sup>6</sup>*

Substantially, the vision statement indicates that Company thrives to employ its resources, capabilities in order to be able to deliver service which would completely satisfy the customer's needs and expectations. Likely, the Company is pursuing to deliver qualitative services that possess visible aspects of simplicity.

On top of that, the business mission of O2 Czech Republic is understood to be more comprehensive, concrete and specific upon the priorities and principles through which the Company is pursuing achievements in the business environment. Particularly, the Company's business mission is defined as follows:

- *“In order to succeed as a responsible business company, we need to understand the issues that concern people the most, not only thinking of what to do to meet people's expectations and financial results, but about how*

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<sup>6</sup> [https://www.issc.cz/archiv/2015/download/prezentace/o2\\_provaznik.pdf](https://www.issc.cz/archiv/2015/download/prezentace/o2_provaznik.pdf)

*to do it in a responsible way. Our first priority is to be a successful and trustworthy company and that means doing things simply with emphasis on meaningful decisions, fair stance and responsible attitude of each of us.”<sup>7</sup>*

The business mission is further supported by the principles that are projected in the business activities and as such contribute to the actual transfer of the business mission into reality. Certainly, following principles are completely incorporated into corporate culture:

- We provide clear information to our customers.
- We compete fairly in our market.
- We trust and respect our employees.
- We are committed to sustainable development.
- We fulfil our commitments agreed with suppliers.<sup>8</sup>

Eventually, the CEO of O2 Czech Republic, outlined where the Company will be in five years: *"The Company will not only act as a pure mobile operator. There are a number of opportunities that we want to develop. From the menu, unique video content, retail sales or type of insurance. We will not do a hundred small things, but rather focus on a few big ones."*<sup>9</sup>

#### **4.1.4 Goals and Objectives**

In order to be in line with stated pillars of vision and mission, the O2 Czech Republic reflected these statements comprehensibly into the set of goals through which the Company manages to have better guidance and detail look on its business performance. At the end of any reporting period, introduced goals act as effective instruments to track the Company's latest performance within market.

According to Annual and Half-year report 2014, the O2 Czech Republic has set these specific goals based on which is striving to maintain as well as strengthen its position in the market.

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<sup>7</sup> O2 CR-Our Responsible Approach: <https://www.o2.cz/spolecnost/en/responsible-approach/>

<sup>8</sup> O2 CR-Our Business Principles: [https://www.o2.cz/\\_pub/ec/97/5/97308\\_945657\\_Business\\_principles\\_ENG\\_v5.pdf](https://www.o2.cz/_pub/ec/97/5/97308_945657_Business_principles_ENG_v5.pdf)

<sup>9</sup> CZ Leader: <http://czleader.cz/o2-uz-nebude-jen-mobilni-operator-rika-sef-spolecnosti/>

- To implement a simpler and more effective operating model.
- To introduce a straightforward and fair product and service proposition to our existing and new customers.
- To maintain the leading market position in core business areas.
- To lower number of customers' complaints, negative and repeated calls.
- To increase the number of exclusive customers.
- To increase coverage by high-speed internet.
- To focus on the amount of achieved operating profit.
- To decrease costs and economizing measures.
- To invest in growth areas, such as the fourth generation network using LTE technology.

In relation to the objectives, O2 Czech Republic is not willing to publish specific and concrete objectives which are aligned with the stated goals. In this particular case, the objectives of the Company are considered to be available only for internal purposes. Apparently, management of the Company prefers to articulate vision, mission and goals at the first place rather than concrete objectives which may indicate quantifiable measures of Company's progression or regression and thus its current and future strategic position. In other words, the Company does not want to refer to the future business priorities in terms of specific, measurable objectives which would be then easily spotted by the rivals in the market.

Nevertheless, based on the public announcements and comments made by the Company thus some of the quantifiable targets are identified. For instance:

- By the end of 2015, the Company wants to cover 25% of the Slovak population by LTE networks.<sup>10</sup>
- Until the end of 2015, to increase the coverage of LTE network in the Czech Republic, from 61% to 80% of the total area.<sup>11</sup>
- The long-term objective is to deliver a digital O2 TV from the current 190 thousand to 500 thousand households.<sup>12</sup>
- Increase the speed of fixed broadband Internet by fivefold.<sup>13</sup>

<sup>10</sup> <http://www.financnioviny.cz/zpravy/o2-zvysila-v-pololeti-zisk-o-polovinu-na-2-3-miliardy-kc/1242324>

<sup>11</sup> <http://www.mobilmania.cz/clanky/o2-o-lte-pokryti-roste-uzivatele-tolik-ne/sc-3-a-1331365/default.aspx>

<sup>12</sup> <http://www.mediaguru.cz/2015/07/o2-sport-stavi-na-interaktivnim-vysilani-v-dimenzich/#.VcMiCm7tmko>

<sup>13</sup> O2 CR – Investor Presentation: <https://www.o2.cz/spolecnost/en/presentations/>

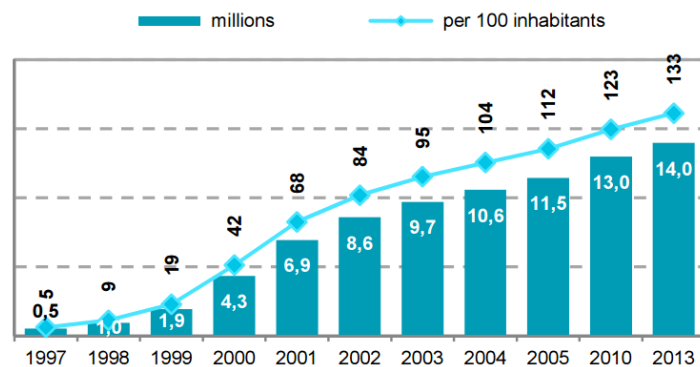
## 4.2 Telecommunications market in the Czech Republic

The following section contains basic operating indicators of the mobile and fixed network market in the Czech Republic. Fundamentally, these data will help to better and more comprehensive understanding of the telecommunications market and its trends.

### 4.2.1 Mobile network

The history of mobile communication networks in the Czech Republic began on 12 September, 1991, when at that time former telecommunication operator Eurotel launched its first mobile phone network. It was the first generation mobile network.

A real boom of mobile communications occurred with the launch of the second generation mobile networks; digital, based on GSM technology. On 1 July, 1996, the GSM network launched by Eurotel (nowadays O2 Czech Republic), on 30 September, 1996 followed by Radiomobil (nowadays T-Mobile Czech Republic) and in 2000 the market for mobile services has entered third GSM operator, Czech Mobil (nowadays Vodafone Czech Republic).<sup>14</sup>



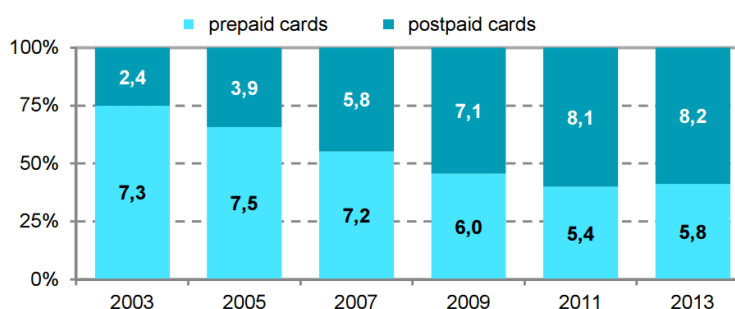
**Figure 7 – Mobile telephone subscriptions (1997-2013)**

Source: CSO-Information society in figures 2015; Own processing.

As illustrated by the mentioned data in the Figure above, the number of people subscribed to the mobile networks was steadily increasing. At the end of 2013, there

<sup>14</sup> [https://www.czso.cz/documents/10180/23202413/2014\\_mobil.pdf/64adb93b-af67-4fdc-b73f-487807cdf048?version=1.0](https://www.czso.cz/documents/10180/23202413/2014_mobil.pdf/64adb93b-af67-4fdc-b73f-487807cdf048?version=1.0)

were 13,979 mobile subscribers, so basically it represents total number of holders of active SIM cards. Besides, in the last three years, the overall outgoing mobile traffic was increasing as follows: 15,541 in 2011; 16,169 in 2012 and 18,066 in 2013 all indicated in millions of minutes.<sup>15</sup> Specifically, there was increase by 4.2% in 2012 year on year and increase by 11.7% in 2013 year on year.



**Figure 8 – Postpaid and Prepaid SIM cards (mil.)<sup>16</sup>**

Source: CSO-Information society in figures 2015; Own processing.

Moreover, according to the illustrated data in the Figure above, the ratio between prepaid and postpaid cards is over time significantly changing. Concretely, from 2003 to 2013, the number of postpaid cards increased more than 3.4 times.

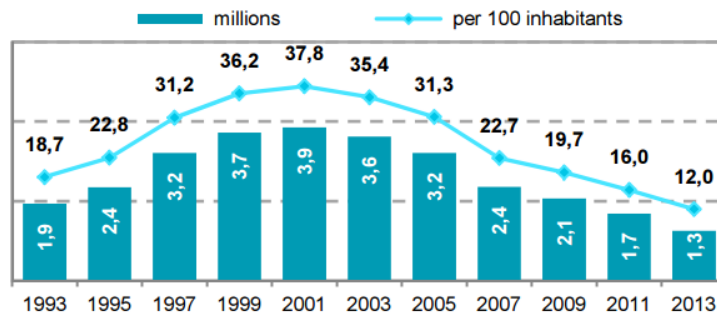
## 4.2.2 Fixed network

The fixed telephone network with its services used to represent the main flagship of the entire telecommunications sector. As time progresses, however, the demand for fixed line services is permanently decreasing. The number of fixed lines culminated around the year 2000 and 2001.<sup>17</sup> In the Figure below is demonstrated development of fixed telephone subscriptions over the time.

<sup>15</sup> [https://www.czso.cz/documents/10180/23202413/2014\\_mobil.pdf/64adb93b-af67-4fdc-b73f-487807cdf048?version=1.0](https://www.czso.cz/documents/10180/23202413/2014_mobil.pdf/64adb93b-af67-4fdc-b73f-487807cdf048?version=1.0)

<sup>16</sup> \*Since the year 2009 only prepaid cards generating any revenue in the last 3 months are included - before it was in the last 13 months.

<sup>17</sup> [https://www.czso.cz/documents/10180/23202413/2014\\_pevna.pdf/5a53e6ab-b2f0-4b6f-907c-ccc752837712?version=1.0](https://www.czso.cz/documents/10180/23202413/2014_pevna.pdf/5a53e6ab-b2f0-4b6f-907c-ccc752837712?version=1.0)

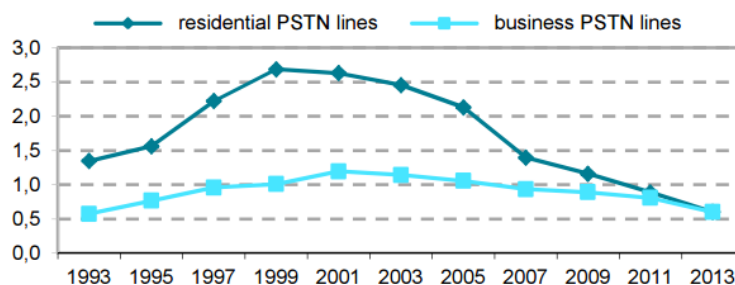


**Figure 9 – Fixed telephone subscriptions – PSTN lines (1993-2013)**

Source: CSO-Information society in figures 2015; Own processing.

In relation to the gradual boom, growth and popularity of mobile networks, the fixed line has recorded strong decline since 2001. The fixed telephone subscriptions were amounted to 1,258 thousand PSTN lines, respectively amounted to 738 thousand VoIP lines in 2013. Among PSTN lines are classified residential, business and public payphones. As indicates the Figure below, the trend between residential and businesses lines is more-less identical, as both were significantly decreasing since 2001 and only differing in the total volume of decline over the time. Furthermore, the total number of public payphones was decreasing every year about 2,000 since 2011. In other words, there were 17,000 in 2011, but only 13,000 of public payphones in 2013.

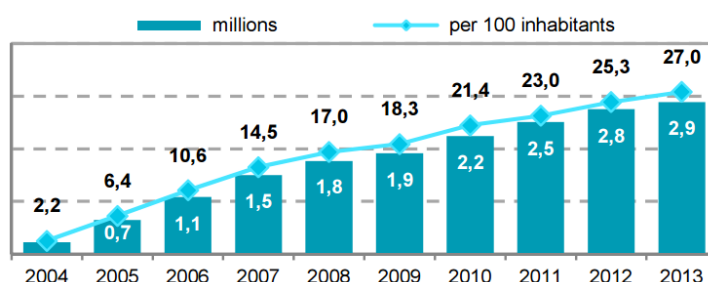
In addition, in the last three years, the overall outgoing telephone traffic was decreasing as follows: 2,148 in 2011; 1,890 in 2012 and 1,647 in 2013 all indicated in millions of minutes. (CSO-Information society in figures 2015)



**Figure 10 – Fixed telephone subscriptions – residential vs enterprises (mil.)**

Source: CSO-Information society in figures 2015; Own processing.

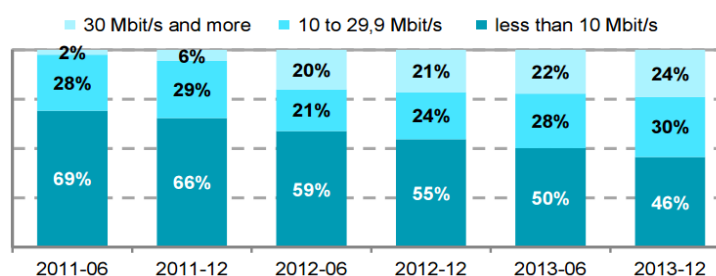
In essence, part of the fixed network market is also fixed broadband network. In the light of technological developments and innovations, the Internet has gradually become a kind of standard which is required by the entire globalization, society. Human’s need for mobility and connectivity contributes to the pace of expansion of fixed Internet connection.



**Figure 11 – Fixed broadband subscriptions (2004-2013)**

Source: CSO-Information society in figures 2015; Own processing.

As indicated by the Figure above, the total number of fixed broadband subscriptions was permanently increasing. Specifically in 2013, there were 2,855 thousand of subscribers to the fixed broadband which represents increase by 109 thousand, respectively increase by 3.9% year on year. The CSO report on Information society elaborates upon the fixed broadband subscriptions by technology. According to the data, most of subscriptions were accounted for 36% of WiFi, following by 33% of xDSL, 18% of cable line and 13% of fibre line. Nevertheless, comparing these subscriptions with year 2010, only WiFi and fibre recorded growth, namely in the first case it grew by 4% and in the second grew by 5%. (CSO-Information society in figures 2015)



**Figure 12 – Fixed broadband subscriptions by speed (6/2011-12/2013)**

Source: CSO-Information society in figures 2015; Own processing.



In addition, in the Figure above are illustrated the proportions between the fixed broadband speeds, which obviously vary slightly over the time. Clearly, there is a tendency of growth among the two fastest internet connections, specifically speed accounted for 30 Mbps and more as well as speed 10-29.9 Mbps. Conversely, the number of fixed broadband subscriptions for the lowest speed of 10 Mbps and less is decreasing.

## **4.3 Strategic analysis of company**

The strategic analysis is a fundamental and integral part of making strategy. Certainly, it allows the Company's management to realize what are the current factors affecting the Company in the external and internal business environment, what are the prerequisites of market success; further facilitates to determine and specify the most relevant competitors as well as to identify the most valuable resources and capabilities which as such contribute to the ultimate creation of competitive advantage. Substantially, ascertained findings will help to determine the Company's strategic direction.

### **4.3.1 External analysis**

The external analysis is an important and initial step within the strategic analysis of the Company. In order to be successful within the market, the Company has to be in compliance with the basic assumption – to carry out regular and thorough analysis of the external environment which is understood to be as the most uncertain environment.

The external environment will be analysed with the help of PEST analysis. As it was aforementioned, the PEST analysis will focus on the external factors that affect the telecommunication business. Namely, as abbreviation indicates, the analysis will elaborate upon the political, economic, social and technological factors. Eventually, the PEST analysis reveals more findings about the current and future trends that are strongly affecting business as well as determines the potential opportunities and threats.

### 4.3.1.1 PEST analysis

#### 1) Political/legal factors

Political/legal factors represent key drivers of changes in the political and regulatory environments which can have a significant impact on the overall business environment.

- *Governmental/Political stability*

The political/legal forces are considered to be one of the least predictable elements within the business environment since the most of regulatory measures are related to the change of governmental political forces. Certainly, the government stability is among the factors which can notably influence the business environment. Particularly in the Czech Republic, political and governmental system is perceived to be at the similar level of stability comparing to the rest of countries in Europe. In other words, Czech political stability does not deviate in any way from other countries in Central and Western Europe. However, currently, the political map of the Czech Republic is very fragmented and hardly identifiable in terms of the political spectrum.

Recently, there used to be two main traditional parties that regularly took turns at the Government Office. Namely, Czech Social Democratic Party (CSSD) which stands on the left side of spectrum and on the other side Civil Democratic Party (ODS) that is established on the right side of the political spectrum. Strict polarization among the both parties was a source of relevant uncertainties within the business environment as one or another party have taken over the Government office and started to implement its policies. For instance, both parties have fundamentally disagreed on the corporate tax policies. Whereas ODS would either lower or keep current tax rate 19%, on the other hand CSSD would do opposite as they declared: *“CSSD proposes increasing this tax from the current rate of 19 % to 21 % and introducing a second corporate income tax rate of 30% for large companies in the sectors of financing, energy, and telecommunications.”*<sup>18</sup> Particularly, such a proposal would have significantly affected profitability in the telecommunications sector. The ultimate decision regarding to the increase in corporate income tax and the introduction of sectorial taxes has not been made yet and it is very difficult to

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<sup>18</sup> ČSSD tax policy, a balanced budget and the euro: <http://www.cssd.cz/data/files/tax-policy.pdf>

assume when it will be so. Notwithstanding, the government led by the CSSD is currently considered to be more-less stable as the party along with its coalition partners possess a comfortable majority in the parliament.

Overall, on the basis of aforementioned, there might be two perspectives. Firstly, the political environment and its volatility contribute to the uncertain business environment. Secondly, the political tensions do not represent a threat to business and society as a whole.

- ***Corruption level***

Corruption may be another factor that may partly affect the fairness of competition in the telecommunications sector. Specifically, in the case of procurements relating to the public sector, the corruption may play a negative role. According to the Transparency International (2014), the Czech Republic ranked on 53<sup>rd</sup> position out of 175 countries that were observed within the corruption perception index.<sup>19</sup> Besides, among 31 European countries, the Czech Republic ranked 25<sup>th</sup> position within the same index.<sup>20</sup> Furthermore, according to the Index of Economic Freedom 2015, the Czech Republic is placed on 24th spot in the worldwide comparison and thus considered to be as “mostly free”. The countries are ranked in accordance with the level of political interventions that affect the economic freedom in the particular country.<sup>21</sup>

- ***Law on Electronic communications***

There are a number of specific laws and legal regulations that might be observed and taken into account by the telecommunications companies. One of the most important documents that affect telecommunications sector in the Czech Republic is the Law on Electronic communications, specifically Act no. 127/2005 Collection of Laws.<sup>22</sup> In this law are described all the legal principles within the telecommunications market, including definition of basic terms, explanation of objectives and main principles of regulation, conditions of entry into the telecommunications market etc. According to the law, main principle of regulation is to replace the missing effects of economic competition, to create conditions for the

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<sup>19</sup> Corruption by Country/Territory: [http://www.transparency.org/country#CZE\\_DataResearch\\_SurveysIndices](http://www.transparency.org/country#CZE_DataResearch_SurveysIndices)

<sup>20</sup> CPI Index 2014: <http://www.transparency.cz/wp-content/uploads/CPI-2014-EVROPA.pdf>

<sup>21</sup> Country Rankings – Index of Economic Freedom 2015: <http://www.heritage.org/index/ranking>

<sup>22</sup> CTO-Act on Electronic Communication: [http://www.ctu.eu/164/download/Legal\\_Regulations/Acts/act\\_No\\_127-2005.pdf](http://www.ctu.eu/164/download/Legal_Regulations/Acts/act_No_127-2005.pdf)

proper functioning of economic competition and to protect users and other market participants until the achievement of a fully competitive environment. And thus by Act no. 127/2005 Coll. was established Czech Telecommunications Office (hereinafter CTO) as the central administrative authority with regard to the regulation and definition of conditions for doing business in the field of electronic communications and postal services. Substantially, CTO oversees the market in order to promote efficient investment and innovation, to remove unfair conditions and consequently establish equal conditions for all participants within the market. Moreover, CTO is cooperating with other national or supra-national authorities, e.g. European Union.

Likely the most recent issue, which is governed by the CTO – according to the Act no. 105/2010 Coll.,<sup>23</sup> – is the allocation of radio frequency bands for a construction and consequent development of a high speed mobile network LTE (4G). In accordance with the allocation of frequencies, CTO determines specific conditions which are necessary to be met in relation to the rapid development of new mobile networks and the wide availability of new mobile broadband services. In 2013, the auction of frequency bands within the 800, 1800 and 2600 MHz raised the amount of CZK 8.5 billion.<sup>24</sup> According to CTO reports, during the year 2015 will be held another auction of frequency bands, however this time in the bands 1800 and 2600 MHz and 3.6-3.8 GHz bands.

- *EU regulations*

Among other institution that significantly affect the telecommunications market is the European Union. Within the European Union are identified four bodies that are involved in the regulation of the telecommunications market, namely European Commission, European Council, European Parliament and Body of European Regulators for Electronic Communications (hereinafter BEREC). The European Union has implemented regulatory framework for electronic communications which as such represents the binding rules for the telco companies. The regulatory framework is based on the package of Directives and Regulations.<sup>25</sup>

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<sup>23</sup> Act on Plan of Frequency Bands Allocations: [http://www.ctu.eu/164/download/Measures/NTFA/CZE\\_NTFA10.pdf](http://www.ctu.eu/164/download/Measures/NTFA/CZE_NTFA10.pdf)

<sup>24</sup> DSL.cz: <http://www.dsl.cz/clanek/3209-aukce-o-zbyle-kmitocty-pro-lte-probehne-az-v-roce-2015>

<sup>25</sup> Europa.eu: <https://ec.europa.eu/digital-agenda/sites/digital-agenda/files/Copy%20of%20Regulatory%20Framework%20for%20Electronic%20Communications%202013%20NO%20CROPS.pdf>

The regulation on roaming is seen as one of the main and key initiatives of the European Union and thus is being executed through Regulation (EC) No 544/2009 and Regulation (EC) No 717/2007. The European Union has been reducing roaming tariffs since 2007 which so far resulted into the following statistics: The EU has achieved retail price reductions across calls, SMS and data of over 80% since 2007; Data roaming is now up to 91% cheaper compared to 2007; Since 2007, the volume of the data roaming market has grown by 630%.<sup>26</sup> It is expected that by 15 June 2017, the roaming charges will be completely abolished across the EU. In other words, using mobile devices when travelling in the EU, people will be paying its domestic prices.<sup>27</sup> However, the telecommunications companies argue that such a regulation contributes to the further decrease of its profits. Moreover, it might be assumed that the regulation is contra productive in terms of that the telecommunication companies will be less willing to put investments into innovations and further development of its services. All in all, the telco companies argue that on one side are committed to deliver access of internet above 30 Mbps to all Europeans and internet above 100 Mbps to at least 50% of Union households until 2020, but on the other hand its operations and services are permanently regulated.<sup>28</sup>

Overall, the European Union is committed to comply with introduced strategy called „The digital agenda for Europe – A Europe 2020 Initiative“ that aims on restoring growth and job creation within market of electronic communications. A significant part of strategy focuses on the telecommunication industry and based on that the main intention is to establish a single European telecoms market that would stands for a connected continent with aspects of sustainable competition.

- ***Corporate Income Tax***

An organization in the Czech Republic is obliged to tax its income in accordance with Act no. 586/1992 Coll., on income taxes. The Table below shows the development of the corporate income tax rates in the years 1998 – 2015. The company has tax duty on its annual profit and thus the amount of the tax paid depends on the profit made that year.

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<sup>26</sup>Europa.eu – Roaming: <https://ec.europa.eu/digital-agenda/node/28785>

<sup>27</sup>European Commission: [http://europa.eu/rapid/press-release\\_MEMO-15-5275\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5275_en.htm)

<sup>28</sup>Directive 2014/61/EU: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.155.01.0001.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.155.01.0001.01.ENG)

**Table 3 – Corporate Income Tax Rate (1998-2015)**

<b>%/p.a.</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Corporate Income Tax Rates</b>	35%	35%	31%	31%	31%	31%	28%	26%	24%
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	24%	21%	20%	19%	19%	19%	19%	19%	19%

Source: OECD (2013); Účetní kavárna (2015); Own processing.

Since 1998, the tax rate decreased by 16% on the current rate 19%. Substantially, over the years the tax rates were decreasing and in the last six years remained unchanged and stabilized. However, as it was mentioned above within the Political/Legal factors, one of the policy proposals envisages an increase of the current rate 19% to 21% and simultaneously suggests an introduction of 30% corporate income tax rate for large companies including these within the telecommunications sector. Based on that, the business environment remains very uncertain in relation to the future development of corporate income tax rates.

A stable and constant corporate income tax rate helps companies to assume and predict the certain level of taxation which is subsequently resulting into the net income.

## **2) Economic factors**

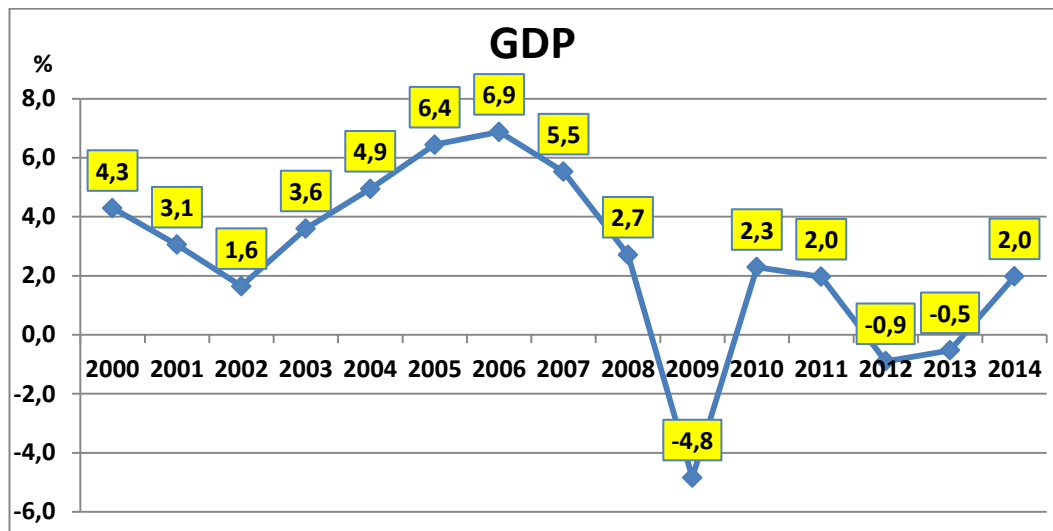
These factors represent specific determinants of a national economy and its condition. The current and future economic development plays an important role within the strategic decisions made by firm as either economic growth or economic recession have an impact on the operations in the business environment.

- ***Gross domestic product***

Undoubtedly, Gross domestic product (hereinafter GDP) indicator is fundamental macroeconomic measure that is widely used all over the world. Basically, GDP determines the size of economy and more importantly the economic performance of the country based on the total monetary value of goods and services produced in a given period in a certain area.

The Figure below shows the development of GDP in the Czech Republic from 2000 to 2014. Basically, the data demonstrate annual change in real GDP which is indicated in constant prices as well as adjusted for inflation.

**Graph 1 – Gross Domestic Product (2000 – 2014)**



Source: CSO-Key macroeconomic indicators; 2015; Own processing.

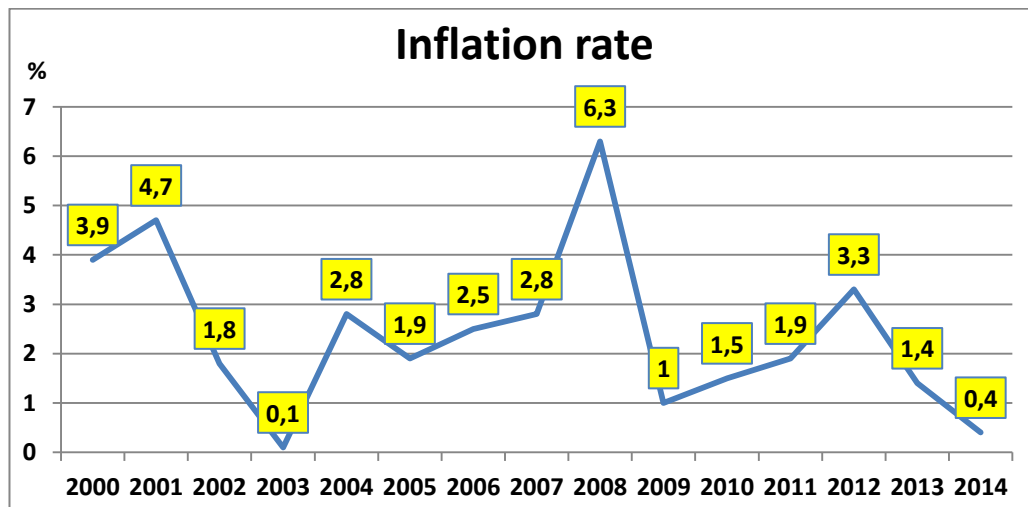
The change of annual real GDP reflects the rate of economic growth of the country. From 2002 to 2006, the economy in the Czech Republic recorded a significant growth. Nevertheless, the following years brought a slight slowdown which eventually resulted in a recession. In 2009, GDP indicated a large drop that was caused by the economic crisis. Namely, the economic decline in 2009 was 4.8%. Despite the short-term recovery in the given years 2010, 2011, in the following years 2012 and 2013 the Czech economy ultimately went into recession. During the years of recession, people were less willing to spend their money as even inflation rose in 2008 and thus the low level of consumer spending was reflected in the GDP. In 2014, the economy indicated notable improvement that is supposed to last in the coming years in the form of gradual growth in GDP. Concretely, according to Macroeconomic Forecast - July 2015 by Ministry of Finance, GDP is expected to grow by 3.9% in 2015 and 2.5% in 2016.

Furthermore, GDP per capita is expected to grow as well which substantially represents an increase in individual's wealth. Such a prognosis would be positively reflected in the Company's revenues and overall competitiveness in the market as customers with higher wealth would afford more and spend more on products and services. In the Appendix 5 are demonstrated the data with regard to GDP per inhabitant.

- **Inflation**

Generally, the inflation is understood to be a regrowth in the price level within the economy. The price level is known as the average price of goods and thus accordingly is being monitored whether the price of goods is increasing or decreasing over the time. In the Graph below is shown the development of inflation rate in the Czech Republic between years 2000 and 2014. The data are calculated based on the consumer price index (CPI).

**Graph 2 – Inflation Rate (2000-2014)**



Source: CSO-Prices, Inflation; 2015; Own processing.

The data above proved that inflation rate tends to be volatile in the Czech Republic. In 2008, the inflation rate climbed its maximum at the rate of 6.3%. Such an increase in the inflation rate was caused by the economic crisis that began in 2008-2009, as was even evident in GDP. Since then the inflation rate is more-less decreasing. However, the Czech National Bank (CNB) is concerned about the further decline in the inflation rate towards possible deflation. So in 2013, the Czech National Bank intervened in currency market through weakening the Czech crown in order to avoid possible deflation.<sup>29</sup> The intervention caused an increase in prices of imported goods and an increase in the overall price level which consequently resulted in lower household purchasing power. On the other hand, the intervention made export cheaper and more competitive. Simultaneously, along with rising investments of domestic enterprises and reducing unemployment it lead to the

<sup>29</sup> Financial Times: <http://www.ft.com/intl/cms/s/0/52428dfc-47d2-11e3-b1c4-00144feabdc0.html#axzz3iXj10Jlg>



increased household purchasing power. All in all, as year 2014 indicated the inflation rate at 0.4%, there might be clues that the CNB could again intervene in future.

Certainly, inflation negatively affects wages whose purchasing power is declining. High levels of inflation lead to the reduction in demand, thus resulting in the overall reduction in sales as well as real product. According to Macroeconomic Forecast - July 2015 by Ministry of Finance, the average inflation rate is forecasted to be 0.5% in 2015, respectively 1.5% in 2016.

Nevertheless, the development of the inflation rate in the Post and Telecommunications sector differs significantly from the general inflation rate that was mentioned above. In fact, the data regarding to the telecommunications sector are illustrated in the Table below.

**Table 4 – Inflation Rate in Post and Telecommunications sector (2001-2014)**

%	2001	2002	2003	2004	2005	2006	2007
<b>Inflation - Post and Telco</b>	5%	3.3%	(-2%)	12.9%	7.6%	6.8%	0%
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	(-2.7%)	(-4.6%)	(-2.1%)	(-0.9%)	(-2.4%)	(-8.9%)	(-5.3%)

Source: CSO-Prices, Inflation (Post and Telecom); 2015; Own processing.

A consistent decline in the price level over the last seven years is most likely caused by the regulation of market, stiff competitive pricing that eventually in 2013 resulted into introduction of new unlimited tariffs that have changed the pricing policy of the market and products themselves. In fact, in the Appendix 7 are shown the data regarding to the development of average retail price per actually called minute in Czech telecommunications. In particular, the data showed that in 2005 the cost per minute was about CZK 4.7 and in 2014 the price for airtime was only CZK 1.28.

There might be a threat of deflationary spiral. As the prices falling down lead to the decrease in the Company's sales, profits and thus the Company is forced to cut costs possibly in terms of laying off some employees or reducing its wages. In light of cost savings, both the rise in unemployment and decline in wages may lead to the reduced demand of households. Eventually, lower demand will lead to the further downward pressure on prices and thus the spiral is closed.

- **Interest rate**

Interest rates are perceived to be a measure of the cost of money. It is assumed that if the inflation rate is higher than the nominal interest rate, then it decreases the value of deposits and borrowings. Nonetheless, in terms of the Czech Republic and year 2014, the latest data showed that the inflation rate is lower than the interest rate. The companies are constantly comparing the interest rates in the financial markets as they measure the profitability of its projects. Below, in the Table are demonstrated the interest rates from the last five years in the Czech Republic, namely from 2010 to 2014.

**Table 5 – Interest Rate (2010-2014)**

<b>%, p.a.</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Interest rates (10 years)</b>	3,7%	3,7%	2,8%	2,1%	1,6%

Source: Ministry of Finance-Macroeconomic Forecast July 2015; Own processing.

The interest rates are consistently decreasing which is encouraging and beneficial for those who plan to borrow or take a loan. On the other hand, low interest rates are reducing interest rates on deposits and from the future perspective fixed-income investments would hardly cover inflation. According to Macroeconomic Forecast - July 2015 by Ministry of Finance, the long-term interest rates will further decrease in 2015 on 0.8%, however the interest rate in 2016 is expected to be 1.3%. The National Reform Programme of the Czech Republic (2015) forecasts even beyond the years 2015, 2016 and thus presenting an outlook that the interest rates will be 1.2% in 2017, respectively 1.8% in 2018.

- **Unemployment**

In the Table below are illustrated the data in relation to the development of general unemployment rate between 2005 and 2014.

**Table 6 – General Unemployment Rate – annual average (2005-2014)**

<b>%</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Unemployment Rate</b>	7.9%	7.1%	5.3%	4.4%	6.7%	7.3%	6.7%	7%	7%	6.1%

Source: CSO- Employment, Unemployment; 2015; Own processing.

The trend in the unemployment rate can be divided into two opposing stages, namely the period before and after the economic crisis. Firstly, in the period from 2005 to 2008, the unemployment rate was permanently decreasing and thus reached its lowest level of 4.4% in 2008. Secondly, since the outburst of economic crisis in 2008, the unemployment rate was increasing and then fluctuating around 7%. However, the latest data pointed to an improving trend that emerged in the form of declining unemployment which thus reached 6.1% in 2014. Obviously, it goes hand in hand with the overall betterment of economy which was highlighted by the improved GDP as well. The decreasing trend of the unemployment rate might be reflected by increased incomes and thus consumers could use their funds to purchase more goods and services. Substantially, it should have a positive effect on the Company's revenues.

In addition, according to Macroeconomic Forecast - July 2015 by Ministry of Finance, thus it predicts further decrease in the unemployment rate, concretely on 5.7% in 2015 and on 5.5% in 2016. Moreover, it might be interesting to observe future development of the unemployment with regard to its relationship to inflation. It is assumed that falling unemployment rate results in growing pressure on increased wages and thus it leads to the higher inflation and vice versa.

### **3) Social factors**

The social factors might be seen to certain level as perplexing within the business environment. However, demographic indicators such as population growth, population according to the age structure or even distribution of education, life styles and cultural factors may have an important influence within a macro environment, especially from long term perspective. In order to be well responsive to the social changes thus all these factors are desirable to take into account.

- ***Demographic indicators***

According to the Czech Statistical Office (2015), the overall population of the Czech Republic was 10,537,818 on 31 March 2015. Moreover, according to published data by CSO on Population changes, there were 10,538,275 inhabitants in 2014 and 10,512,419 inhabitants in 2013. Thus, the overall population indicated total increase of 25,856 inhabitants' year on year which is supported by the data in the Table below.

**Table 7 – Total increase in population (2010-2014)**

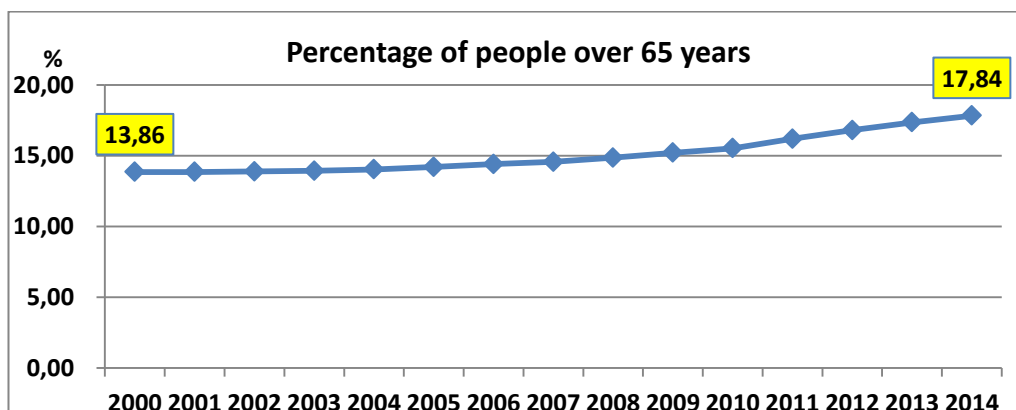
Absolute figures	2010	2011	2012	2013	2014
Natural increase	10,309	1,825	387	-2,409	4,195
Net migration	15,648	16,889	10,293	-1,297	21,661
Total increase	25,957	18,714	10,680	-3,706	25,856

Source: CSO-Population changes; 2015; Own processing.

As it is presented above in the Table, the total increase is mostly driven by the net migration in recent years. In other words, the population growth is significantly driven by immigrants who are coming into the country from its outside. Theoretically speaking, the continuation of a similar trend in the future could affect the position of the original residents and their values. The CSO projects the future structure of total increase up to 2100 (see Appendix 8). According to the study, it is expected the negative total increase since 2020 until 2100. To put it in another way, there will be continuous decline in the overall population in the Czech Republic.

Secondary, the demographic aging is another demographic factor that may have significant impact on the business environment. At present, there is a particular trend – aging of population. Obviously, the trend has become a global problem and thus being issue for most of countries around the world. Below, the Graph indicates the percentage increase of people who are aged over 65 years in the Czech Republic from 2000 to 2014. The data are sourced from the Appendix 9.

**Graph 3 – Share of people over 65 years in the total population (2000-2014)**



Source: CSO-Česká republika od roku 1989 v číslech; 2015; Own processing.

It is evident that through 2000 up to 2014, the share of people over 65 years in the overall age structure stands for rise by 3.98%. For better understanding, such an increase is represented by 457,000 people in 15 years. Substantially, aging process raises reasonable concerns over the slowing economic development in the future. One of the reasons for these concerns could be insufficient influx of new and younger generation in the labour market. Secondly, an aging workforce could have a lower ability to innovate; besides they might be less flexible, mobile and adaptable to the new technology. All in all, there might be concerns over the productivity. According to CSO study on Information society (2015), the data strongly suggest that with advancing age, people less and less use a computer. While 66% of people aged 35-44 tend to use a computer at least once a week, in contrast only 39% of people aged 55-64 and 16% of people aged 65 and over use a computer once a week.

In respect to the future outlook, the CSO carried out a projection of expected population by major age groups up to 2100. According to the forecast, there will be about 3.2 million people over 65 years whereas only 5.1 million people in the productive age of 15 – 64 by the year 2055 (see Appendix 10).

Eventually, the business environment might be affected to certain extent by the level of distributed education in the Czech Republic. Educated population is undoubtedly an important factor in the long-term economic growth. Generally, it may be observed that the higher education is significantly growing among the Czech population. This trend is illustrated by the total number of people with higher education from 2001 to 2014, namely the data are shown in the Table below.

**Table 8 – Number of people with University Education (2001-2014)**

In Ths.	2001	2002	2003	2004	2005	2006	2007
Higher Education	744,2	813,7	831,7	862,2	907,1	954,6	974,8
	2008	2009	2010	2011	2012	2013	2014
	1 050,0	1 147,2	1 236,3	1 327,2	1 411,9	1 495,7	1 541,3

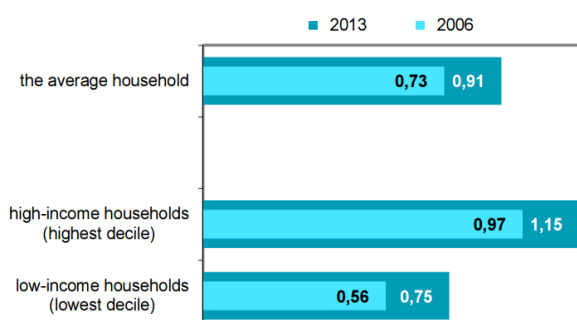
Source: CSO-Česká republika od roku 1989 v číslech; 2015; Own processing.

The number of people with higher education is perpetually growing. Since 2001, the number of people with a university degree more than doubled. Besides, according to the latest statistics in 2014, people with higher education occupy 17.3% in the

overall structure of educated population. Despite the fact of increasing education of the population, some of the companies struggle to find and recruit qualitative professionals for certain positions.<sup>30</sup> Most of these problems are indicated in technical fields, respectively within technically oriented positions. Basically, the problem is that students are not interested in technical fields but rather prefer the humanities, although in these fields is high competition and consequently it is difficult to find employment in the labour market. In the long-term perspective, lack of techniques may threaten the Czech economy. A significant part of industrial production contributes to the GDP and thus in order to sustain high competitiveness of Czech industrial production; it is desirable to strive for a greater emphasis on the promotion as well as popularization of traditional technical jobs.

- **Other social factors**

There are several factors that contribute to the living standards in the Czech Republic. The disposable household income is one of these factors that may have an impact on the external business environment. According to the OECD (2015), the average household net-adjusted disposable income per capita is USD 18,404 a year which is less than the OECD average of USD 25,908 a year. These incomes are after taxes and thus available to households for spending on goods and services. In other way, the Figure below illustrates the number of mobile phones per one member of household that is being classified according to the income level.



**Figure 13 – Number of mobile phones per one member of household**

Source: CSO-Information society in figures 2015; Own processing.

<sup>30</sup> <http://www.ekontech.cz/clanek/ceske-prumyslove-firmy-narazi-na-nedostatek-kvalitu-absolventu-technicky-oboru>

Necessity to have a modern and the latest technology, particularly stylish smartphone or tablet for everyday use as well as need to be a part of connected world through Internet are trends which are being visible in nowadays lifestyle in the Czech Republic. According to CSO-Information society in figures (2015), households in the Czech Republic increasingly prefer the latest technology. Specifically, in 2014: 72.1% of households in the Czech Republic had an Internet connection comparing with only 65.4% in 2012; furthermore 72.4% of households have at least one computer and 6.2% of individuals aged 16+ are using tablet.

In relation to the culture, the Hofstede's cultural dimensions indicate particular aspects that exist within the Czech society. These cultural aspects contribute to a better understanding of the behaviour, expectations, perceptions and attitudes of people in the society. Accordingly, it is desirable to adapt the way of communication and negotiation when approaching clients, customers, suppliers etc. Basically, the Czech society is perceived to be in hierarchical order and tends to be individualistic, pragmatic and pessimistic. Moreover, the society rather works in terms of "live in order to work" which means there is a certain emphasis on equity, performance and competition. More importantly, people in the Czech Republic prefer to avoid uncertainty. Basically, people stick to the rules, precision, punctuality and security; on the other hand changes and innovations might be resisted.<sup>31</sup>

#### **4) Technological factors**

The telecommunications sector represents the market that is subject to permanent innovation as well as dynamic modernization and therefore any Company has to be very attentive to the various technological factors that may affect the business environment. According to the EY (2014), inability to keep pace with the technological developments is along with legislative uncertainty; further demands for personal data protection and data security are the biggest risks for the sector. Nevertheless, at the same time these factors are considered to be the most promising for growth potential. Technological factors are characterized by the development of the latest and most advanced technologies. These advances in technology have an important influence on the current and future direction of the telecommunications

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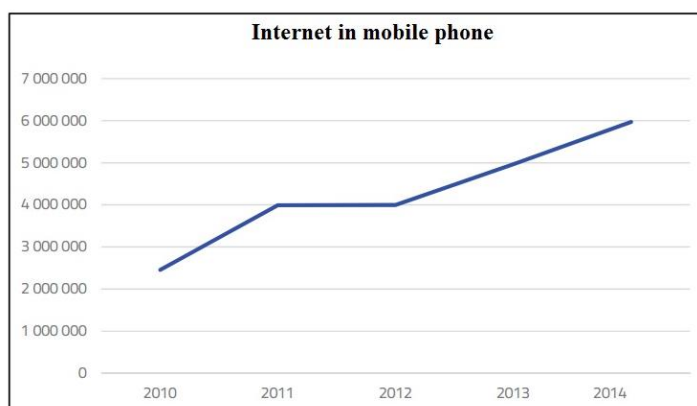
<sup>31</sup> Czech Republic. The Hofstede Centre: <http://geert-hofstede.com/czech-republic.html>

sector. In the telecommunications business is required to monitor the current as well as future technological innovations and trends, because only then the company could be competitive in the market. Additionally, various technology trends are reflected in the specific demands and requirements of customers who thus expect to get the best product and service on the market.

Below are the technological factors which may likely affect the telecommunications business environment in the Czech Republic.

- ***New Generation Mobile Network***

The fastest growing segment in the telecommunications sector is mobile data transmissions. Overall trend of rising penetration of data is shown in the Graph which is available in the Appendix 11. Specifically in the Czech Republic, the increasing use of Internet in mobile phones is shown in the Figure below.



**Figure 14 – Number of customers using Internet in cell phones**

Source: CTO; Annual Report 2014; Own processing.

Regarding to the data transmissions, currently the LTE technology represents a network of new generation and in the future will play a key role within the mobile data transmissions in Czech telecommunications sector. Essentially, the LTE network does not provide only faster data access to the Internet but in the future perspective the technology will allow and provide voice services, called as VoLTE (voice over LTE). Moreover, LTE technology allows mobile devices to receive less energy and thus it has a positive effect on extending battery life. In 2013-2014, all major competitors within the Czech telecommunications sector have started with the



construction of new generation mobile networks, namely LTE network. By the end of 2014, fourth-generation network coverage of households increased by 80%, from 12% to 92%. Meanwhile, the European average was just below 80%.<sup>32</sup>

- ***Electronic records of sales***

In June 2015, the Czech government approved a draft with regard to the law on electronic records of sales. If the law succeeds in the parliament, it is expected that the norm will come into the force in 2016. The Act will apply in the first stages for more than 310,000 businesses, primarily binding for restaurants, hotels, catering services and businesses in wholesale and retail trade.<sup>33</sup>

The planned introduction of standards provides to the telecommunications operators new opportunities in the market as they have resources and capabilities to secure a rapid delivery of modern systems of communication between entrepreneurs and financial administration of the country. Due to the nature of law, thus will be required two technical aspects – hardware (including a smartphone or tablet) and connection to the Internet. It is expected that telecommunications companies will strive to offer the fastest LTE network as part of “all-in-one” package which would involve all the necessary elements needed for the functioning of the electronic records of sales.

- ***M2M solutions***

The system e-Call was finally approved by the European Parliament. Since April 1, 2018, the facility has to be implemented into every new passenger and light commercial vehicle.<sup>34</sup> The system will operate on the basis of mobile telecommunication networks. It is understood to be a part of M2M service which will bring new technological requirements into the market. Besides, in the following Table are illustrated data that indicate growing demand for M2M services in the Czech Republic.

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<sup>32</sup> <http://mobilenet.cz/clanky/lte-se-stale-rozsiruje-v-pokryti-jsme-predehnali-evropu-27605>

<sup>33</sup> <http://www.financninoviny.cz/zpravy/vlada-schvalila-zavedeni-elektronicke-evidence-trzeb/1223323>

<sup>34</sup> <http://ec.europa.eu/digital-agenda/en/news/ecall-all-new-cars-april-2018>

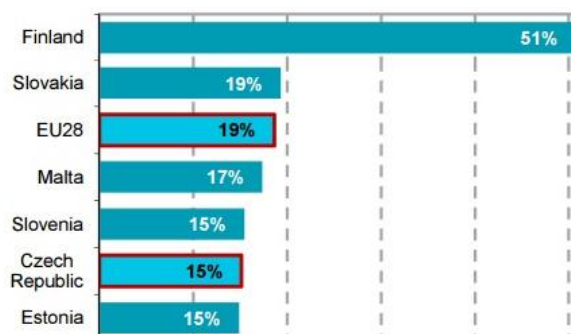
**Table 9 – Active M2M SIM cards in the Czech Republic (2009-2013)**

M2M SIM cards	2009	2010	2011	2012	2013
	106,499	178,596	322,837	533,200	613,853

Source: CTO – Indicators of electronic communications market; Own processing.

- **ICT solutions**

The telecommunications industry is changing dynamically. IT services are one of the key drivers. As time goes by and the huge amounts of data are continually collected it leads to the growing concerns over the future storage of these data. In IT field is expected that there will be a shift in implementation of cloud solutions and further increase of investments in the data centres. Cloud solutions are perceived to be as an attractive segment which is expected to deliver a significant stream of revenues in the upcoming future. In the following Figure is illustrated comparison of selected countries in relation to the percentage of enterprises using cloud services in 2014.



**Figure 15 – Percentage of Enterprises using paid cloud services (2014)**

Source: CSO-Information society in figures 2015; Own processing.

Certainly, cloud solutions are favourable especially in terms of its simplicity of use and its availability to share data regardless where the user is. On the other hand, there might be some negative aspects linked with cloud services like the higher costs or the higher security risks. Nowadays, a cloud services for an organizations and corporations represent a main focus nonetheless an era of personal cloud is about to come yet. (Gartner; 2014) More and more users have a wide range of devices and thus there is potential for delivering reciprocally interactive personal cloud that would make available data of any kind, anywhere, anytime. Besides that, cyber

security represents another factor that will be necessary to take into account within the business environment of telecommunications companies in the Czech Republic. Profound monitoring and scanning of hacking methods will be a pivotal agenda that strives to prevent data leakage. In general, the companies that are able to design a good enough solution will have a major competitive advantage.

- ***Mobile networks***

There will be an expected shift from fixed (wired) networks to mobile (WiFi) networks. It seems to reflect a trend that people strive to be mobile as much as possible, specifically to have an opportunity to stay connected online anywhere and anytime. The trend of global connectivity will be either resonating in large corporations as the trend of BYOD (“Bring your own device”) has strengthened up. Obviously, such a trend has become attractive for both employees and corporations as they can reduce the costs of asset management. Notwithstanding, as employees will increasingly use their own devices for work purposes thus it will rise the need for securing and managing enterprise content on these devices.

- ***CRM and Big data***

The CRM systems will be highly beneficial in terms of the use of a variety of data that as such allow filtering out the relevant information and subsequently contribute to the targeting customers in more efficient and proper way.<sup>35</sup>

Moreover, another influential factor is so called BIG data. Statistically, in 2010 the world produced 5 million terabytes every two days; however in 2015 it has doubled. The world simply generates data in faster and faster manner and the pace is increased via the web, mobile applications and wearable electronics.<sup>36</sup> The example given on the benefits of BIG data, the telecommunications companies are able to detect where their customers most often go shopping or where they go for weekend – all is explored through BIG data sources. These data provide a tremendous amount of statistics and information that could be used for commercial purposes in other fields such as banks, insurance companies, and traders.

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<sup>35</sup> <http://www.businessit.cz/cz/rok-2014-zasadni-trendy-ocima-odborniku-z-it-firem.php>

<sup>36</sup> <http://www.mobilmania.cz/clanky/tech-trendy-2015-vic-fit-a-vic-sexy-smartphony/sc-3-a-1329284/default.aspx>

- ***Mobile applications***

New applications will bring new opportunities for cooperation, and as such may increase operational efficiency. According to the International Data Corporation (IDC), globally the consumer interest in downloading mobile apps will slowly fall. However it is expected to double market of enterprise mobile applications. (IDC Predictions 2015: Accelerating Innovation – and Growth – on the 3 Platform; 2015)

- ***IPTV***

In other words Internet Protocol Television is a technique of distributing television content over IP which offers an additional customized and interactive user experience. It delivers video stream encoded as a series of IP packets and is distributed by a service provider to deliver either stored video or live TV.<sup>37</sup> Basically, over the next few years is expected a shift in watching video content, namely linear TV viewing will be replaced by digital television in form of IPTV or OTT (Over the top technology, e.g. YouTube; Amazon). Watching video content via the Internet brings a wide range of new functionalities and generally it provides to users a completely independent, comfortable and intuitive environment. According to Analysys Mason (2013), the number of pay-TV households in Central and Eastern Europe will increase by a healthy 12% between 2013 and 2018. Moreover, it is expected that 3.5% of FTA (Free-to-air) TV households in the Czech Republic will use OTT video services as a primary pay-TV service in 2018.

Overall, lifestyles, access to the fast internet, penetration of electronic devices are the main factors of growth that will lead to the increased demand for OTT platform.

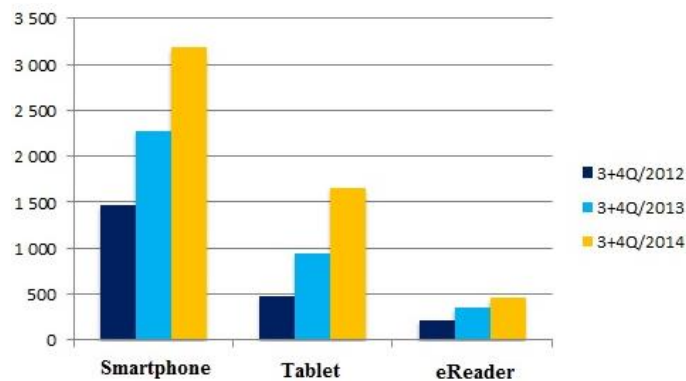
- ***Increasing use of Electronic devices***

It may be expected to have a positive and growing trend in the use of modern devices such as smartphones, tablets and e-book readers. This assumption is in accordance with an increasing data usage. In fact the Figure below indicates, there was substantial growing trend in utilisation of modern electronic devices from 2012 to 2014 in the Czech Republic. Nowadays, according to the estimations there are

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<sup>37</sup> <http://www.marketwatch.com/story/iptv-market---global-industry-analysis-size-share-growth-trends-and-forecast-2014---2020-2015-03-02>

more than 3 million of smart phones in the population and its penetration is approaching nearly 40%.<sup>38</sup>



**Figure 16 – Total number of electronic devices (In Ths.)**

Source: Media Guru; 2015; Own processing.

For the telecommunications retailers of end products and services will be important to monitor specific elements of customer's demands in terms of what kind of brands, features, functionalities do they appreciate. In such a context, there are emerging features like new innovative flexible display, higher resolution of display, screen size, battery life, wireless power supply etc. Moreover, the market is open not only for new types of tablets, scanners, phones or various hybrid devices, but either for sunglasses or watches. Differentiation of devices will be more-less increasing.

<sup>38</sup> <http://www.mediaguru.cz/2015/02/mp-pocet-smartphonu-presahl-3-miliony-tabletu-je-17-mil/#.Vc0bNG7tmkq>

### 4.3.1.2 Opportunities and Threats

Based on the analysis of the external environment are identified specific opportunities and threats which are listed below, in the Table.

**Table 10 – Opportunities and Threats in the external environment**

Opportunities	Threats
1. Investments into new generation mobile networks (NGMN).	1. The overall legal uncertainty and national regulations by CTO.
2. The predicted growth in GDP and growing economy in the Czech Republic.	2. Political unpredictability, volatility regarding to the corporate income tax rate.
3. Decreasing unemployment rate.	3. EU regulations with ultimate creation of a single European telecommunications market.
4. Increasing market penetration of new technologies (e.g. smartphones, tablets)	4. The abolition of roaming charges in 2017.
5. Growing interest in the Internet data.	5. Prolonged deflation in the Czech telecommunications sector - deflationary spiral.
6. Evolving innovations in segments of ICT, Big Data, Mobile apps, M2M, Digital TV.	6. Mature market – A limited demand of customers in the Czech telecommunications market.
7. The planned implementation of electronic records of sales.	7. Current and projected aging of the population.
8. Life style – connected world.	8. Lack of technical people in the labour market.
9. Liberalization, deregulation of telecommunication business environment.	9. Permanently decreasing prices in the telecommunications sector.

Source: Own processing.

From the standpoint of telecommunications sector, among the key opportunities may be classified mostly technological factors that bear the sign of technological developments in segments such as mobile new generation networks, cloud services, Big data, M2M services and paid digital TV. Telecommunications operators will pay close attention to the segments mentioned beforehand, because in the future it is expected increasing demand for such services and products. Besides, growing both the economy and household incomes will be considered as aspects that strongly

encourage the business opportunities in the telecommunications market. On the other hand, among the main threats and pitfalls are included political and legislative uncertainties (especially regulations by EU, CTO) as well as falling prices in the telecommunications sector. Moreover, some facts like a growing number of people over 65 years or that the Czech market offers only a limited number of potential customers (unless the company decides to enter the foreign market) are considered to be potential future threats.

### 4.3.1.3 Issues prioritization matrix

Below, in the Figure is shown a template of a prioritized matrix of factors and issues according to the two criteria's, namely the probability of occurrence and probable impact of factor on the corporation. In fact, for strategic purposes it is important to focus on the blue and yellow cells which should be subject to scanning and monitoring. More importantly, these issues should be taken into account during the strategy building.

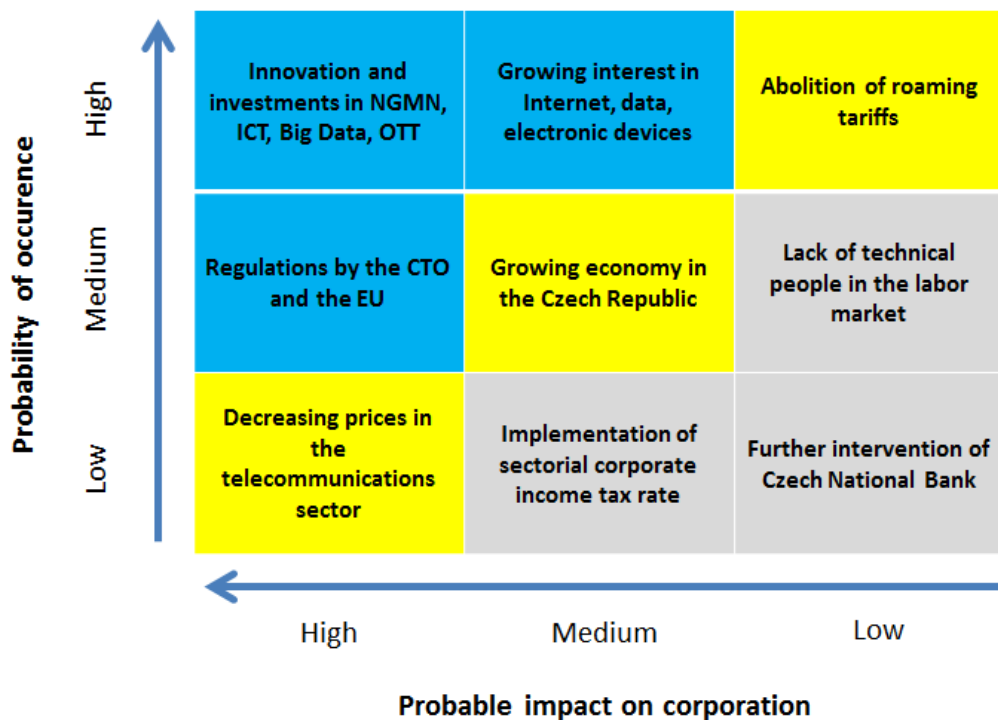


Figure 17 – Prioritization matrix of external environment

Source: Own processing.

#### **4.3.1.4 Scenarios**

Likely future scenarios take into account all the aforementioned information. Fundamentally, two alternative scenarios are outlined as follows:

##### **A. Optimistic scenario**

The Czech economy will continue to prosper, which has a positive effect on GDP growth and falling unemployment. Such a trend will ultimately increase the distribution of income and thus it strengthens purchasing power of individuals who will be willing to spend more as even inflation rate is quite low. Total revenues will rise, but market prices will stagnate. The trend of falling profits will be alleviated.

Furthermore, the consumption of mobile data is growing, therefore leading to the increased interest in LTE technology as well as increased demand for the newest hardware. The political situation in the Czech Republic is stable as well as rates of corporate tax and value added tax. No new market regulations are in place than those announced in advance (e.g. abolition of roaming charges). Conversely, market deregulation is present in the M2M services or electronic records of sales. The main growing segments are the mobile data, cloud services, Big Data and Digital TV. A prosperous economy contributes to more investments within the telecommunications sector.

##### **B. Pessimistic scenario**

Economy falls short of that projected growth which is primarily influenced by the worsening situation on foreign markets. Therefore consumers are concerned and less willing to spend their money on services and products in telecommunications which is thus reflected in a decline in total revenues. Consumers are interested in LTE technology; however stagnating household incomes do not encourage consumers to purchase hardware with LTE technology. Thus, the usability of LTE Internet among consumers is very low, consequently leading to the low return on investment for the construction of LTE network. The government is unstable, leading to early elections and a greater political and legislative uncertainty. In addition, the new government does not introduce a law on electronic records of sales as well as decided upon cancelling auction of LTE frequencies and thus both decisions leading to lost profits.



Overall, the trend of falling profits will continue through deepening price decrease for the actual airtime, eventually it has a negative effect on the further investments in technology and innovation. Based on the economic situation, there is not significant demand for Cloud services, M2M services or Big Data.

### **4.3.2 Industry analysis**

The industry analysis is another part within the overall strategic analysis of the O2 Czech Republic. Substantially, the main purpose of industry analysis is to explore the structure of telecommunication industry in the Czech Republic and more importantly to identify factors through which the industry is changing as well as identify the key success factors. The pivotal point within the industry analysis is to carry out the model of Porter's 5 forces with the main focus and emphasis on the segment of mobile networks.

#### **4.3.2.1 Porter's 5 forces**

The industry environment is analyzed through the Porter's 5 forces in terms of the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. The model of Porter's 5 forces is mainly concerned with the mobile networks market where O2 Czech Republic faces the stiff competition.

##### ***1) The intensity of rivalry among competitors***

Czech telecommunications market is divided among two main segments, namely mobile network and fixed network that is comprised of a fixed telephone line and fixed broadband. Substantially, competition in each segment differs primarily in the level of market concentration. Nowadays, mobile network segment constitutes the core business of telecommunications operators as long as the segment brings more opportunities than the market of fixed telephone networks. In relation to the fixed broadband, its position is somewhere among the mobile and the fixed network, however for instance IPTV is considered to be a product, service which will bring more and more customers in the future.

- **Mobile network**

As indicated above, the mobile market is a key business for telecommunications operators. The main competitors and basically the only players in the mobile network are these mobile network operators (hereinafter MNOs), namely O2 Czech Republic, T-Mobile Czech Republic, a. s. and Vodafone Czech Republic, a. s.. Since 2013, Air Telecom, a. s. represents the fourth provider of mobile telecommunications services in the Czech Republic. Certainly, Air Telecom is well short of the same magnitude as the above three telecommunications companies and normally is not even included in the market reports.

Notwithstanding, among other contenders within the mobile market are considered to be the so-called mobile virtual network operators (hereinafter MVNOs) who entered the market in 2012 as a form of market regulation under the decree of the CTO. Basically, three major telecommunications operators enable MVNOs to enter their built infrastructure and thus through agreed contract virtual mobile operators are able to gain access to services at wholesale prices. The main advantages of MVNOs are that generally offer cheaper call tariffs as well as offer more transparent and comprehensible portfolio of tariffs. More importantly, their services are not bound by any contract or other fees. On the other hand, MVNOs do not offer any information line or other customer and premium services within the customer care.<sup>39</sup> Most of mobile virtual network operators have their products and services narrowly aimed at specific target groups such as students or seniors. At the end of 2014, more than 70 MVNOs were presented in the market and as such the share of MVNOs in the telecommunication mobile market was 11.2%, thus representing about 1,595 thousand active SIM cards. Nevertheless, in 3/4 of all mobile virtual operators have a stake either O2 CR, T-Mobile CR or Vodafone CR. Eventually, the independent MVNOs account for 2.7% which represents 390 thousand active SIM cards in the overall market. Interestingly, O2 Czech Republic dominates between 60-70% within the market of MVNOs.<sup>40</sup>

In the Table below are listed the most significant virtual mobile operators with respect to a mobile operator in whose network, respectively infrastructure they are registered.

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<sup>39</sup> <http://www.dsl.cz/jak-na-to/3-poskytovatele/229-virtualni-mobilni-operatori-fakta-a-tipy>

<sup>40</sup> <http://www.tarifon.cz/aktuality/kolik-je-nezavislych-virtualnich-operatoru/?page=2>

**Table 11 – MVNOs registered in network of MNOs (2014)**

MVNOs 2014 (Ths.)	O2 CZ		T-Mobile CZ		Vodafone CZ	
	Bleskmobil	360	Mobil.cz	130	Oskarta	60
	Bonerix	310	Kaktus	50	Studenfone	20
	Tesco Mobil	200	GTS	20	Coop Mobil	20

Source: Tarifon.cz; 2015; Own processing.

Overall, as the above information and data are indicating the market of MVNOs acts as another form of competitive business involving all three standard mobile network operators who are able to generate revenues from new customers within the mobile virtual network operators. As long as O2 CR, T-Mobile CR, Vodafone CR have a dominant stake in the market of MVNOs, so stiff competition is unlikely to occur from any MVNOs, rather the competition remains and continues among all three MNOs.

Thus, the Czech mobile telecommunications market is consolidated and dominated by a few large companies, namely O2 CR, T-Mobile CR, Vodafone CR. Essentially, the market seems to have characteristics and aspects of an oligopoly as the market comprises a few firms from which the two largest control more than 50% of the market. Despite the accurate data on the latest market shares are not published (especially, information regarding to Air Telecom are very difficult to detect), approximate market shares may be find out through basic calculation and assumption. Making the assumption that the total mobile market in 2014 was made up of a total of 14,295 thousand active SIM cards (excluding those from MVNOs, Air Telecom), the estimated market shares are shown in the Table below.

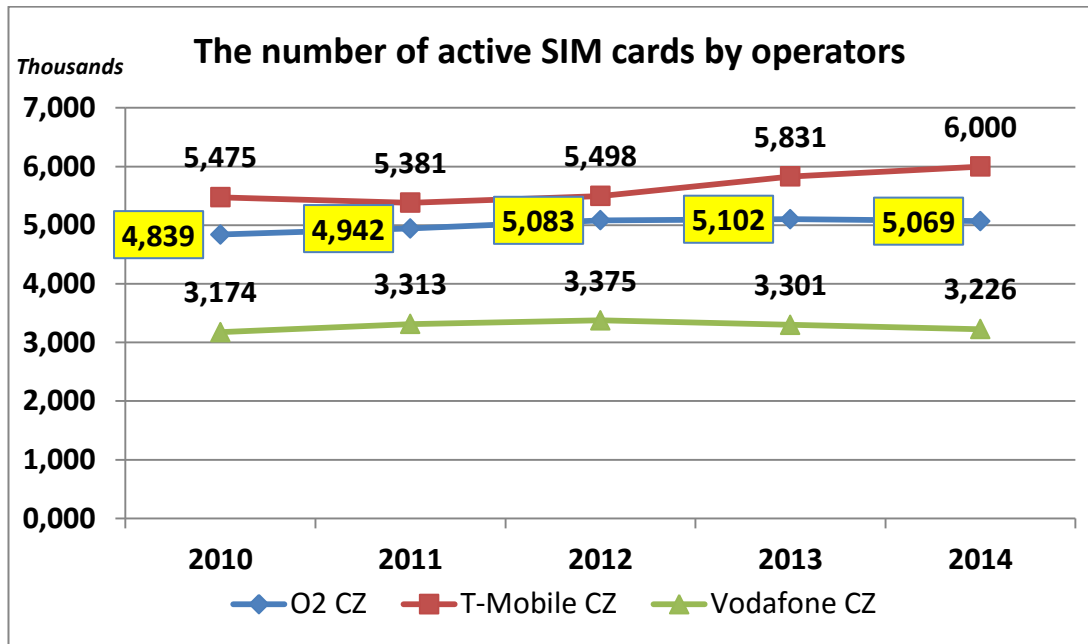
**Table 12 – Market shares in the total no. of active SIM cards (2014)**

In %	Market share in 2014
O2 Czech Republic	35,46%
T-Mobile Czech Republic	41,97%
Vodafone Czech Republic	22,57%

Source: Own processing.

Subsequently, in the Figure below are demonstrated the data regarding to the number of active SIM cards according to the annual reports of mobile operators.

**Graph 4 – The no. of active SIM cards by operators**



Source: Annual Reports 2010-2014; Own processing.

As indicated by the graph above, T-Mobile CR is the strongest in terms of number of customers, followed by O2 CR and eventually followed with distance by Vodafone CR. However, according to the mobile revenues within annual reports of each company, O2 CR recorded CZK 19,577 mil., T-Mobile CR recorded CZK 18,454 mil. and Vodafone CR indicated CZK 13.627 mil. in 2014.

Fundamentally, the competition among three main players is characteristic in terms of that provided products and services are very similar – in other words are highlighted by no differentiation – and therefore are less distinguishable to customers. In relation to the industry demand, as it was indicated previously, the number of mobile subscriptions is continually growing as well as mobile traffic is growing, but it is assumed that the market is highly saturated, and thus cannot expect rapid growth of customers. Basically, the companies strive to grow by taking market share away from its competitors. All in all, it leads to stiff competition which is characterized by quality of service and falling prices at the expense of rivals.

All operators follow a similar strategy and they imitate and response to one another in terms of price competition. Besides, competitive response with respect to the introduction of new products and services is illustrated by the following examples. In 2013, O2 CR (at that time Telefónica CR) launched unlimited tariffs as

the first operator in the Czech market. Nevertheless, just two days after the launch of FREE tariffs, Vodafone CR and T-Mobile CR also came out with their unlimited proposition. Likewise in February, 2014, when the shared data tariffs were introduced by T-Mobile CR, particularly offer included a second SIM for sharing data to the voice tariff. In order to be in line with the competition, a strategy was consequently followed by O2 CR in July, respectively by Vodafone CR in September. Nevertheless in practice, it is even possible to witness collaboration between firms as they follow a common strategy. Specifically, O2 CR and T-Mobile CR have signed network sharing agreement with respect to 2G, 3G and 4G networks. Based on that, both companies intend to achieve significant operational savings as well as increase the quality of network coverage.<sup>41</sup>

The nature of industry either predetermines the exit barriers and with respect to the telecommunications these barriers are high. Essentially, the exit barriers involve excessive investments in infrastructure, specialized equipment and other facilities, further high fixed costs particularly related to the workers such as health benefits and pensions. Besides, considering a company's long-term strategy within the industry, the exit barriers are high due to lasting commitments with regard to suppliers and customers and a licensing agreement concluded among the company and the state.

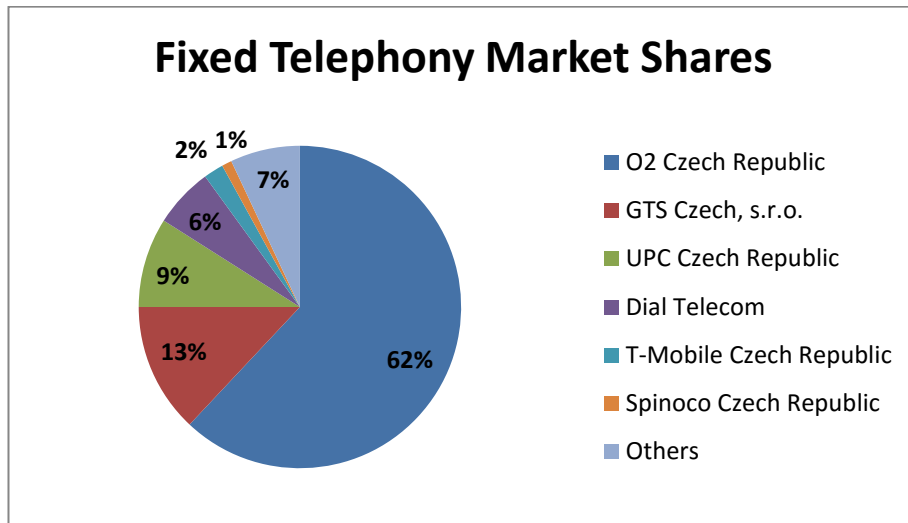
- ***Fixed network***

Primarily, in the market of fixed telephony are present about 28 firms which providing the service. The market is concentrated as O2 CR possesses about 62% of market. The falling revenues and profits in the fixed telephone networks are caused mainly due to the declining interest in the service. Basically, O2 CR differs in size and thus maintains to hold a dominant position in the market. In recent years, there have been several mergers within the market and thus the most significant was the merger between T-Mobile and GTS Czech in 2015. The market is characterized by decreasing demand (see previous Figures), high fixed costs and high exit barriers as well as low level of differentiation.

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<sup>41</sup> O2 Annual Report 2013, 2014

**Graph 5 – Market shares in the fixed telephony segment (2013)**



Source: CTO, 2/2013; Own processing.

Secondly, internet broadband network market segment is less concentrated, very fragmented and thus rivalry is driven by competing for each other market share. Nevertheless, the growing demand (see previous Figures) reduces rivalry as companies can sell more without taking significant market share away from other companies. According to the data from 2013 there were 1,504 broadband providers, but many of these providers are small in size and only focused on local areas. Basically, O2 CR leverages its position through the built infrastructure of fixed networks and its ability to maintain wholesale activities and thus as a leader accounts for 29.48% share in the overall market of internet broadband network. The second one UPC Czech Republic holds 16.02% of the market and the third in a row, T-Mobile CR has a 4.26%. Generally, the market consists of only 10 companies with a market share of more than 1%.<sup>42</sup> Substantially, the segment is less challenging on high costs and the exit barriers are not significant comparing to the previous segments. Despite the fact that the segment generally does not deliver differentiated product, for instance IPTV as well as Internet solutions are seen as products for potential differentiation.

<sup>42</sup> [http://www.ctu.cz/cs/download/art/oop/rozhodnuti/oop\\_art-05-10\\_2014-09.pdf](http://www.ctu.cz/cs/download/art/oop/rozhodnuti/oop_art-05-10_2014-09.pdf)

## *2) The threat of new entrants*

At present, the market for mobile telecommunications services is thoroughly and adequately covered. Thus in connection with high barriers to entry and potential response from existing operators, the arrival of the fifth mobile telecommunications operator is very unlikely in the near future. Basically, the threat of new entrants might be seen from two perspectives as entry of a standard MNO or entry of mobile virtual network operator. Despite the increasing number of MVNOs on the market and its growing significance in various international telecommunications market, these entries are not perceived to be serious threat for existing operators under current circumstances in the Czech Republic. Nevertheless, O2 CR and its competitors have to be attentive to the potential increased threat from MVNOs in the future. In contrast, the potential entry of a standard MNO would be a significant change and intervention into the structures of oligopolistic market. Notwithstanding, there are several factors and determinants that make entry into the sector very difficult and thus unlikely.

Fundamentally, capital requirements and costs that potential new operator must bear to enter a telecommunications sector are very high. In other words, initial investments for licenses, frequencies along with the high fixed costs of establishing and operating the network with desirable signal coverage across the country are perceived to be as notable barriers. An example of the high costs might be recent investments in a certain spectrum of frequency band made by mobile operators. According to the Annual reports of individual telecommunications companies, O2 CR gained frequencies for CZK 2.802 billion, T-Mobile CR for CZK 2.614 billion and Vodafone CR paid CZK 3.113 billion. Obtaining the frequency spectrum is followed by further significant investments into the construction of network. Undoubtedly, such an example refers to the high degree of investment costs which are needed in the initial phase. In fact the auction in 2013, among other things aimed to bring a new MNO to the market which was even declared by both the government and the CTO. Nevertheless, the participation of only three existing operators supports the claim that Czech telecommunications market is not easily accessible with respect to the conditions set in the auction and presence of entry barriers. Nowadays, CTO revealed new information about the upcoming tender for the acquisition of additional LTE frequencies. Basically, potential applicants are legible to gain 80MHz and existing operators are entitled to 40MHz. The criteria for developing the network of

80MHz are more demanding and specifically stipulate that from 5 years of the legal decision on allocation shall be covered more than 45% of municipalities with more than 5,000 inhabitants.<sup>43</sup>

Furthermore, entry to the market is also limited by the legislative and governmental actions. Regardless of laws, measures, regulations which necessarily relate to the market, a fundamental prerequisite for meeting the terms of entry to the market is obtaining the license from the CTO, which is conditional upon the announcement of the tender for the license, and its approval by the government. Obviously, several licenses such as UMTS, GSM, CDMA and LTE are in place and on demand.

The mobile telecommunications market is in maturity stage and highly concentrated which even more devalue the threat of new entrants. Established companies in the telecommunications market provide large quantities of products and services and the amount determines whether unit prices decline with the amount of total production. Obviously, T-Mobile CR and O2 CR achieve greater economies of scale than Vodafone CR. Particularly, O2 CR as the fully integrated operator has a competitive advantage in the form of a broad portfolio that offers to customers; in addition within the fixed network market has a leading position. However, market saturation, price regulations and significant stagnation in the market of fixed telephony hinder the economies of scale. In relation to the cost advantages, existing operators leverage its position based on the accumulated experience, materials, equipment and management skills which are familiar with the Czech market.

Among other determinants of market entry are the brand loyalty and switching costs. Certainly, there are well-established customer preferences among O2 CR, T-Mobile CR and Vodafone CR, moreover Air Telecom has proved that taking the market share away from established operators and thus breaking down the brand loyalty is not easy task. Loyalty to the brand is likely to vary between residential and corporate customers. While corporate customers have entered into the long-term agreements with existing operators and often pursue to maintain and even extend the cooperation; loyalty among residential customers is lower which is also due to the low switching costs. In the light of Czech market, the potential new competitor has to create brand loyalty through continuous advertising with emphasis on the product quality and after-sales services. It is assumed that the greatest chance of obtaining the

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<sup>43</sup> [https://www.ctu.cz/cs/download/aktualni\\_informace/opening\\_of\\_the\\_tender\\_05\\_03\\_2015.pdf](https://www.ctu.cz/cs/download/aktualni_informace/opening_of_the_tender_05_03_2015.pdf)



loyalty of customers has well-known brand, potentially international brand with strong capitalization which is able to differentiate from others.

### *3) The threat of product substitutes*

The threat of potential substitutes which would affect telecommunications business is low. Essentially, in the Czech telecommunications market and relative industries are not present any significant substitutes and if so it is controversial and difficult to decide upon the product is a substitute or complement. However, for instance there might be several substitutes in terms of cable-digital TV or fixed lines-VoIP substitutes, fixed-mobile substitutes and messaging-OTT substitutes.

Firstly, in relation to the fixed line segment, the traditional fixed lines are being slowly substituted by telephoning over the Internet, so called as Voice over Internet Protocol (VoIP). This might be threat for traditional fixed lines which are extensively operated by O2 Czech Republic.

Secondly, a certain level of substitutability can be recognized within the fixed-mobile services. Traditional fixed lines are gradually substituted due to technological innovations and clear benefits which are typical for the mobile networks and its particular voice services. Moreover, the level of substitutability for fixed-mobile substitutes may increase due to the introduction of NGMNs which as such are able to match the speed of fixed networks (e.g. VDSL, xDSL). Basically, through introduction of LTE technology is presented new substitute for current fixed services.

Thirdly, with global and geographical extending access to the Internet there might be a variety of platforms as part of OTT, which is understood as audio-video content distributed over the Internet protocol. Essentially, IP data allow sending voice traffic and text messages thus substituting traditional telephone calls, SMS and MMS. The factors like steadily improving internet accessibility with emphasis on the NGMNs as well as increasing penetration of smartphones and tablets; contribute to the strengthening of threats from these substitutes. Among the platforms of OTT are considered to be WhatsApp, Facebook Messenger, Viber, Skype etc. which are basically free of charge. Undoubtedly, these platforms meet functions of voice services, instant messaging and thus are able to satisfy customer's needs.

In addition, in the Figure below are indicated the data with regard to increasing traffic of SMS sent in the network of O2 Czech Republic. In fact, it confirms the

findings made by McKinsey & Company (2012) that OTT messaging represents low threat in the Czech Republic. Overall, substitutes mentioned above are more-less dependent on the quality of Internet and thus it does not represent a major threat to O2 CR. Moreover, in the Figure below are shown comparative operational data for fixed and mobile segments at O2 CR which are in line with what was mentioned beforehand.

**Table 13 – Fixed, Mobile operational data of O2 CR (2011-2014)**

<b>OPERATIONAL DATA - CZ Fixed Line Business</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total outbound minutes (x 1 000 000)	1 515,2	1 319,5	1 120,5	850,0
Traditional telephony lines	1 292,4	1 137,4	977,9	863,2
Voice over IP	52,1	76,7	86,4	88,8
<b>OPERATIONAL DATA - CZ Mobile Business</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total traffic (mil. minutes)	8 955,7	9 591,7	10 781,6	11 531,9
Total number of SMS sent (x 1 000 000)	2 531,8	2 680,3	2 828,9	2 860,0

Source: O2 CR-Financial and Operational Data Overview; Own processing.

#### **4) *The power of buyers***

Primarily, the market distinguishes its customers into two groups: corporate and residential. Among the corporate customers are included large corporations as well as state institutions and public governance. The residential customers are seen to be individuals with prepaid cards, individuals with contract, entrepreneurs, small and medium businesses.

In principle, the corporate customers have better and stronger bargaining position than the residential customers. Actually, the corporate customers represent important long-term strategic partners. Fundamentally, the power of corporate buyers is strengthened as they buy in large volumes and thus purchase comprises larger portion than several purchases made by individuals; further the corporate segment is far more concentrated than the residential segment. Based on its bargaining power, the corporate customers are frequently offered better pricing for products as part of bundling services. Undoubtedly, migration of a corporate customer to a competitor would be a great loss in terms of tens to hundreds of individual customers, and in particular the impossibility to offer further comprehensive ICT services.

Additionally, the residential customers are powerful as switching costs are quite low; they are moderately price sensitive and well educated about the market and its competition. Eventually, customers are mostly dealing with less differentiated products and services in terms of its perceived functionality or value. On the basis of market regulation in the past, portability of mobile numbers to the competition is free of charge, besides it is quick and simple process that significantly reduced buyer's switching costs. In the Appendix 12 are illustrated the data which suggest a growing trend in mobile number portability from one operator to another. Specifically, in 2014 there was a 51.9% rise in the number of ported numbers. On the other hand, the negotiating power of the residential customers is weaker as they are less concentrated than seller and thus represent large, fragmented group with limited option for appropriate substituted products as well as with low backward integration. In relation to the fixed broadband network, the bargaining power of residential customers is becoming higher as customers remain to be well educated and have low switching costs in the segment which is characterized by less concentration.

#### ***5) The power of suppliers***

The power of suppliers is another force which shapes the competitive structure of the telecommunication industry. In this case, the telecom operator acts as the buyer, and so it is important to determine the extent to which suppliers affects the potential profitability of the buyer. From the viewpoint of O2 CR, the suppliers should be observed according to the character of supplied components, namely suppliers of products purchased directly for provided services, respectively suppliers of products or services for operating purposes.

Generally speaking, the first category may include suppliers of network infrastructures; active devices such as telephone switches or base stations; end devices for customers comprising of modems, mobile phones or fixed telephone lines and eventually suppliers responsible for installation and construction. Secondly, the facility services, computing technology, software solutions and database applications as well as advertising and PR agencies represent supplies which are incorporated into buyer's operations. The O2 CR maintains a diverse portfolio of technology suppliers and its main objective is to have competition on the supply side. Specifically in 2014, the main suppliers of technology and related services to the company were IBM Česká republika, Alcatel-Lucent Czech, Nokia Siemens Networks, Accenture Central

Europe B.V., Indra, NextiraOne Czech, Amdocs Development Limited, LHS, Cisco, Ericsson, Hewlett-Packard and Huawei Technologies. All principal technology supply contracts were awarded by tender (O2 Annual Report 2014). Certainly in the future, among the aforementioned suppliers will be included CETIN, the provider of fixed infrastructure that was recently formed by splitting off from O2 Czech Republic.

Overall, the level of bargaining power of suppliers varies according to the individual components which are demanded by buyer, but in general the bargaining power is considered as lower. Basically, the market is characterized by a plenty and fragmented sources of supply in contrast to high concentrated mobile telecommunication market. Most of agreements have a long-term character, besides telecom operators as large purchasers of technologies strive to put pressure on suppliers in order to reduce prices and thus to improve the offer. Regularly, due to the technology obsolescence the contracts are being re-negotiated and potential switch to new supplier is made if the offered conditions are exceeding switching costs. The switching costs from one supplier to another are quite low, but it may significantly differ according to the components. In particular, apparently the buyers would have higher switching costs if they changed their long-term supplier of software solutions. On the other hand, the switching costs are lower in terms of hardware supplies. Furthermore, the suppliers have to realize what are the circumstances and competitive structure within the buyer's industry. Specifically, the buyer's decreasing profitability and high entry barriers to the telecommunications market make the suppliers bargaining position even weaker. In addition, the telecom companies are well educated about the product, more importantly as part of negotiation they are reluctant to accept new releases of products and thus in certain way it may hinder supplier's development.

#### **4.3.2.2 Evaluation of competition framework**

The industry attractiveness of mobile telecommunications found to be on the moderate level as scored 2.714. In the Appendix 13 are displayed all evaluated forces of Porter's model with focus on competitive forces within the residential mobile market. Based on the evaluation, it was found that the profitability of mobile

telecommunications is depressed predominantly by rivalry among existing competitors and the bargaining power of buyers, while forces like bargaining power of suppliers and threat of new entrants contribute to the market's profitability and attractiveness.

Essentially, the observations are quantified on a scale of numbers 1 to 5. Whereas the number 1 indicates a weak force thus less competition and more attractive industry. Conversely, the number 5 illustrates a strong force thus too much pressure, competition and less attractive industry.

#### **4.3.2.3 Changing factors within industry**

Below are the most important factors that significantly contribute to the changes in the telecommunications industry.

##### ***A. Technology***

The telecommunications industry has experienced and continues to experience rapid development of technological innovations. In this regard, the main indicators of the changes include mobile communications and the Internet. Particularly, a clear trend of declining interest in fixed telephony services, while mobile voice and data services are on the rise. The growing influence of the Internet is reflected in the consumption of data, which is one of the key growth areas, as well as the overall market penetration of smartphones and tablets. In addition, along with the Internet is rapidly developing fields of Clouding, M2M services, OTT or Big Data. The most recent issue is associated with expansion of the LTE technology that generally represents the biggest driving initiative in the Czech telecommunications market. Additionally, technological innovation with respect to IPTV is also another source of change in the entire market.

##### ***B. Industry demand***

Rising or falling demand affects the rivalry intensity as well as overall strategy, behaviour and reactions of competing firms in the market. In particular, growing demand tends to reduce rivalry because all companies can sell more without taking market share away from other companies. Conversely, declining demand results in

more rivalry as companies fight to maintain market share and revenues. Economic growth and household income plays another role in development of industry demand. Furthermore, it is also important to monitor changes in consumer preferences. The development of customer preferences largely follows technology trends. Thus, missing a pace of technological development represents a loss of potential customers.

### ***C. Competition***

The competition among existing operators is one of the key drivers that contribute to the continuous change of industry. The companies follow similar strategies which lead to a fight for market share through either cutting prices or incorporation of new features in product's portfolio.

### ***D. Regulations and deregulations***

Regulations by the EU, the state or the CTO are significant agents of change within the industry. Most regulations relate to the fixed network for wholesale and retail prices and the prices for roaming service. Regulations have a big impact on the revenues and profitability of the companies, as well as on its overall approach to the medium-long term strategies.

## **4.3.2.4 Key success factors**

In order to be successful in the telecommunications market and thus gain a greater market share than competitors, it is desirable to identify the key factors that actually lead to success. These factors should represent binding guidelines for a company, reflecting both the wants and demands of customers as well as activities in order to achieve superior competitive position.

### ***A. Innovative leader***

The key to strengthening the market position, the Company has to bear features of the main visionary, mover and innovator within the market that invests in current and future market priorities and simultaneously uses its key resources and capabilities to outperform the competitors. Among the exploitable resources and capabilities may be included strong brand equity, financial strength, capability to improve network

coverage or capability to leverage the main market trends at the expense of competitors. In fact, dynamic, agile, market as well as trend oriented business activities contribute to achieving success in the telecommunications market. All in all, the strong market position tends to strengthen the bargaining power with suppliers, buyers, regulators and other entities within the business environment.

### ***B. Quality of service***

Customer satisfaction, whether residential or corporate is a key success factor in the retail telecommunications. In terms of product expectations, according to Research PPM Factum (2013) customers expect products that guarantees them mobility, sustainability and long-term quality. They also want quality products at affordable prices and are specifically interested in cheaper calls and the possibility of using integrated services from one operator. The Company pursuing an excellent customer service should promote and implement processes with regard to simplification, efficiency and quality. Essentially, the customer's loyalty must be seen as a key performance indicator which is monitored, benchmarked on the permanent basis. Based on the performed results, the customer approach should be adequately adjusted.

### ***C. Differentiation***

In broad perspective, the oligopolistic mobile market seems to be less differentiated with its similar products and services, nevertheless even marginal differentiations are among the main factors how to attract more customers. The Company's capability to differentiate itself in terms of product development and innovations, brand promotions, marketing activities, and customer service would attract more customers and thus subsequently generate greater market share and greater sales.

### ***D. Technical reliability***

In principle, the provision of satisfactory services is mainly determined by the level of network quality. Substantially, providing excellent network quality is a basic prerequisite for increased customer satisfaction and in parallel assumption for increased customer loyalty. Overall, the Company's ability to increase network

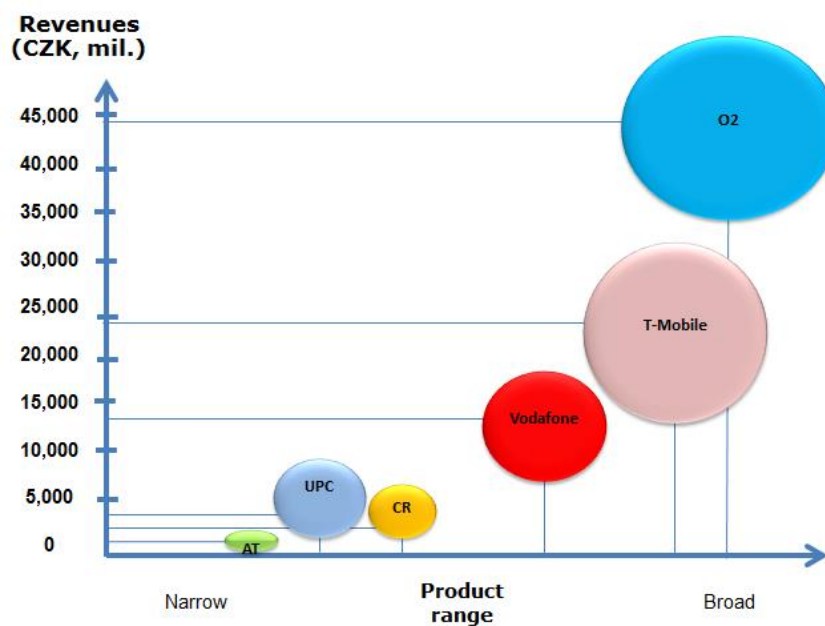
coverage areas, improve and guarantee the connection speed as well as eliminate network downtime would be reflected in improved business productivity.

### 4.3.3 Intra-Industry analysis

In order to identify the closest competitor is carried out the Strategic group analysis and subsequent analysis that strives for more specific analysis of competitor's implemented strategies and objectives.

#### 4.3.3.1 Strategic group analysis

Certainly, the oligopolistic competition between the three major operators is clear as well as it is evident that the competition sets the standards and trends for entire sector. The strategic group analysis and its comparative indicators determine the position of various companies within the market and thus refer to the closest possible competitors of O2 CR. Based on the given structure of strategic groups, the O2 CR can more efficiently and more wisely spend its resources and capabilities on overcoming the most relevant competitors



**Figure 18 – Revenues and Product range relative to Group size**

Source: Annual Reports 2014; Official websites; Own processing.



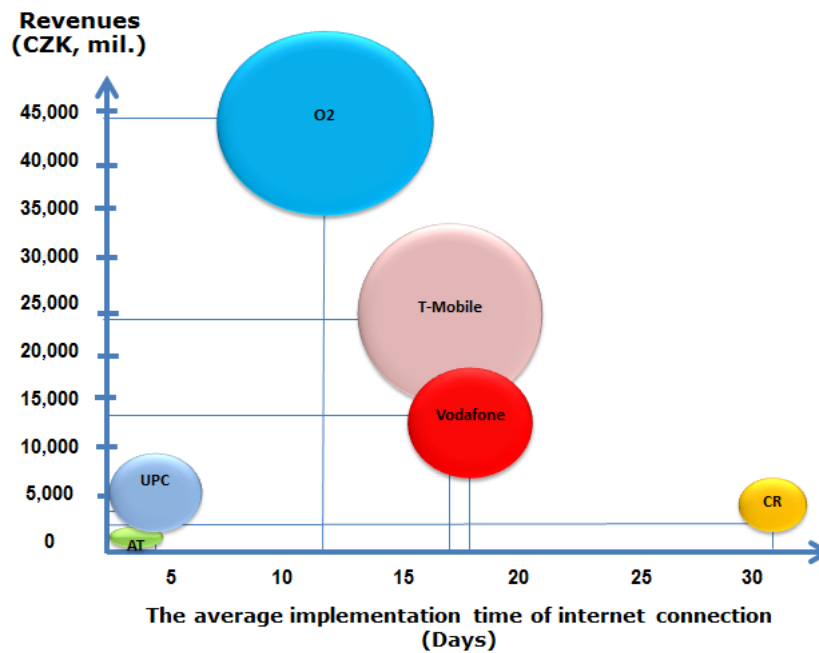
The Figure above demonstrates the strategic map according to the established revenues and scope of product portfolio. The strategic map indicates position of following companies: O2 CR, T-Mobile, Vodafone, UPC, Ceske Radiokomunikace (hereinafter CR) and Air Telecom (hereinafter AT). The size of the circles is relative to the size of the companies, namely the total number of employees. A summary table with recorded revenues and range of products offered by the individual companies is available in the Appendix 14, respectively Appendix 15.

According to the above mentioned strategic indicators, the superior position is hold by O2 CR, followed by T-Mobile and Vodafone. In terms of scope of services and products, the O2 CR masterfully represents the most comprehensive, flexible operator who is characterized by high integrity. Observing both the strategic map and table with range of products, particularly TV broadcasting may represent market opportunity as the O2 CR along with the UPC and the CR are the most significant providers in the market. While the Ceske Radiokomunikace focuses on wholesale and terrestrial broadcast, both the O2 CR and the UPC focus on retail customers. In comparison to the total service coverage, the O2 CR covers 90% of households by its fixed broadband, whereas the UPC only 33% of households.<sup>44</sup> According to annual reports of both companies, the UPC indicated 369,500 customers while the O2 CR indicated 188 thousand customers at the end of 2014. Nevertheless, looking at the operating results in recent years, while the UPC recorded a decline in its customers thus the O2 CR continually increases its customer base. In fact, the O2 CR aims to be a market leader in the TV segment which manifests itself through unique innovation of interfaces and functions provided by O2 TV. In addition, the competitive advantage of O2 CR is perceived to be that as the only entity has its own TV channel, namely O2 Sport which contributes to the creation of video content. Overall, the TV segment is relatively under occupied, offering new challenges and strategic opportunities with the potential for future success. Moreover, TV segment is an opportunity for potential diversification and differentiation, which is thus in line with the key successful factors in the market.

The strategic map indicates the basic assumption that the more products and services company offers the higher revenues achieves. In terms of number of employees, company size and volume of revenues so the O2 CR and the T-Mobile are the biggest players in the market.

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<sup>44</sup> Investor presentation – New O2 – 29 July 2015 <https://www.o2.cz/spolecnost/en/presentations/>



**Figure 19 – Revenues and speed service implementation relative to Group size**

Source: Annual Reports 2014; CTO<sup>45</sup>; Own processing.

Outlined above, the Figure illustrates the market from a slightly different perspective, namely the strategic map involves firms by size of revenues and average speed deployment of Internet connectivity to customers. Both indicators are considered with regard to the size of company which is demonstrated by the relative size of the circles.

The strategic map suggests the level of the firm's ability to implement technological solutions as efficiently as possible, so that the customer has service available as soon as possible. According to the map, the smaller a company is the faster approach to implementation of the Internet (with exception of CR). Logically, with a growing product range at the same time a growing customer base, a company may struggle to improve the average duration of the implementation process towards its customers. However, one of the key success factors in the market is the quality of customer care which can certainly be classified as availability and speed of delivery of services. Therefore, O2 CR should strive to accelerate its implementation processes, so that the average time for the deployment of the Internet has reduced and thus it would undoubtedly distinguished and heightened competition strength over others, especially T-Mobile and Vodafone.

<sup>45</sup> <http://www.ctu.cz/ctu-informuje/srovnavaci-prehled-cen-a-podminek/srovnavaci-prehled-o-kvalite.html>

### 4.3.3.2 Competitor analysis

Based on the strategic map, T-Mobile is specifically analyzed as the largest and most relevant competitor for O2 CR. Through gained information about competitor, O2 CR may better define its own strategy and market priorities over its particular competitor.

- **T-Mobile Czech Republic**

T-Mobile Czech Republic operates in the Czech market since 1996 and currently is perceived to be leader in the mobile telecommunications market as serves 6 million customers. Additionally, T-Mobile is the number two in market of fixed-line services. T-Mobile takes care of 200 thousand corporate customers thus representing a 37% market share in total number of customers. (B2B Presentation; T-Mobile) Since 2002, the Czech branch of T-Mobile is a subsidiary of the international Deutsche Telekom, which operates globally in more than 50 countries and employs about 228,000 workers. In the fiscal year 2014, total revenue of Deutsche Telekom was 62.7 billion euros.<sup>46</sup>

- *Strategy*

The company over the years makes clear its intention to become the largest integrated operator in the Czech Republic. At present, the T-Mobile embodies an integrated operator which among to fixed and mobile telecommunications services, focuses on providing IT services and system integrated solutions for corporate customers and public governance.

Primarily, the fact that T-Mobile is the leader in mobile market to a certain extent affects further strategic orientation of the company. Indisputably, the T-Mobile will strive to stabilize and possibly increase customer base and thus market share in the mobile market, mostly through market penetration. In the context of residential segment, the company wants to be perceived as a strong brand that understands market trends and demands of its customers. Nevertheless, the T-Mobile is focused primarily to compete with its network quality and technology. In this sense, the senior management of the company declares that a key priority is to improve the

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<sup>46</sup> Facts and Figure-Deutsche Telekom AG: <https://www.telekom.com/company/at-a-glance/81660>

signal for mobile voice and data services; further offer the best mobile network LTE to as many customers as possible and therefore to be ahead of the competition. Actually, the T-Mobile has declared a clear goal that by the end of 2015 will cover 79% of the population and 80% of the area by LTE connectivity.<sup>47</sup> According to the latest data published by CTO, the T-Mobile covers 81.6% of the Czech Republic and thus meets its declared objective in advance. On the other hand, both O2 and Vodafone are building LTE network at a faster pace and thus cover a slightly larger area.<sup>48</sup> The strategic emphasis on building LTE networks is highlighted by the fact that the company will continue to invest a large amount of the funds, namely up to CZK 13 billion in the development of LTE technology.<sup>49</sup> The investments have already paid off in the form that T-Mobile as the first in the Czech Republic and only the fourth in Europe, introduced the technology VoLTE, a service that allows standard IP calls in the network of new generation – LTE. The related strategy through which the T-Mobile wants to be ahead of the competition is based on the enhanced penetration of phones that enable LTE connectivity. Concretely, the T-Mobile sets a target that by the end of 2015, will offer 98% phones from its portfolio that enable usage of LTE network.<sup>50</sup> Another key point recognized in the strategy implemented by the T-Mobile is a systematic and thorough customer orientation. Specifically, the company implemented a new CRM system that enables faster, more efficient and flexible customer service as well as faster deployment of new products and services. Thus, the company highlights the importance of having correctly configured customer offerings that are primarily simple, clear and transparent. All in all in respect to the residential segment, the T-Mobile concentrates on the quality of available networks in light of the increasing trend of consumption data, the quality of customer service and on building strong brand awareness through marketing campaigns.

Secondary, the T-Mobile has openly declared its strategic intention and focus to strengthen its position in the corporate segment. In order to be aligned with such a strategic intention, the T-Mobile has recently carried out a series of mergers. Firstly in 2013, merger of T-Systems CR has improved market position in field of ICT solutions and system integration. Specifically, the T-Systems CR focuses on

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<sup>47</sup> <http://www.mobilmania.cz/clanky/t-mobile-se-rozpovidal-o-lte-ma-pokryte-23-uzemi/sc-3-a-1331109>

<sup>48</sup> [https://www.ctu.cz/cs/download/monitorovaci\\_zpravy/monitorovaci\\_zprava\\_07-2015\\_cervenec.pdf](https://www.ctu.cz/cs/download/monitorovaci_zpravy/monitorovaci_zprava_07-2015_cervenec.pdf)

<sup>49</sup> <http://t-press.cz/cs/tiskove-materialy/tiskove-zpravy-t-mobile/t-mobile-letos-pokryje-rychlým-mobilním-internetem-93-populace.html>

<sup>50</sup> <http://www.mobilmania.cz/clanky/t-mobile-se-rozpovidal-o-lte-ma-pokryte-23-uzemi/sc-3-a-1331109>

providing comprehensive ICT approach for small and large corporations. Another significant merger occurred at the beginning of 2015, the acquisition of GTS Czech entails portfolio of voice services, data, hosting, Internet and ICT services. Through the acquisition, the T-Mobile has gained access to the infrastructure as well as access to major customers such as Coca-Cola, Danone, HP, Tesco, Unilever, etc. (Annual Report 2014). Both acquisitions have significantly contributed to the T-Mobile's improvement and further development of ICT services for business customers. In addition, the T-Mobile has placed strategic importance on the usability of data centres, ICT security issues, cloud applications, utilization of big data and further development of partner solutions within M2M. The competitive advantage of T-Mobile may include applicability of know-how and expertise facilities provided by the parent company Deutsche Telekom. In this case, the Czech branch employs IT competence centre for better and more efficient vertical solutions within the corporate segment.

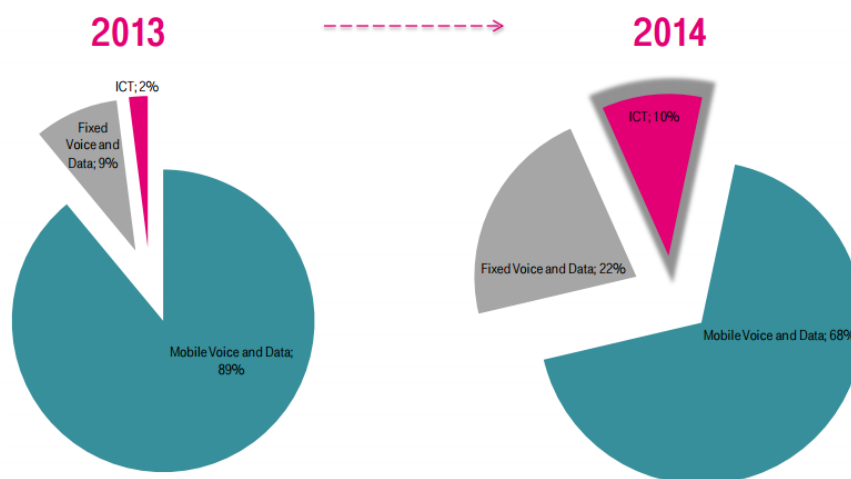
Overall, the above activities are intended to make the T-Mobile as the leading provider of ICT services in business segment. As the data indicate, the share of revenues from corporate segment has been growing, and at the end of 2015 will represent nearly 50% of total service revenues. Expansion of business customer base through M&A appears to be a successful strategy, which most likely will continue as they are able to gain more competencies as well as extend and strengthen the portfolio of services and products. A strong background in the form of parent company Deutsche Telekom, along with integrated services and unified strategy give to the T-Mobile promising prospects for success not only within the corporate segment but even within residential segment.

- *Assumptions*

Based on the current strategy through which the T-Mobile competes, rapid change in the future strategic direction is not expected. Rather, it can be assumed that T-Mobile will continue in the trend, thus stabilizing its leading position in the mobile market and strengthening its position in the area of ICT solutions for corporate and public governance segment. In fact, it can be expected that there will be an intensification of competitive conditions in the business segment as the T-Mobile CR wants to pursue a long-term goal to become a market leader, which currently accounts for company O2 CR. Further, it is expected that T-Mobile CR will increase

investment in technology and human resources, especially in those which deliver exceptional know-how and thus increase the capacity for further development in the ICT field.

In essence, the T-Mobile CR envisages that the market will be marked by a drop in revenue from SMS and calls, however on the other side it will be compensated by growing consumption of data. Furthermore, the expected trend is a growing demand for corporate IT solutions as well as the demand for analysis of big data. In the Figure below are shown the data which demonstrate growing share of fixed and ICT services provided by the T-Mobile CR. Lastly, the T-Mobile CR assumes that the market will be characterized by constantly increasing demands on Internet speed and mobility, which will be represented by the development of so-called BYOD.



**Figure 20 – Growing share of fixed and ICT services (2013 vs 2014)**

Source: T-Mobile B2B Presentation; 2015

- **Financial indicators**

All financial indicators and ratios are calculated on the basis of selected financial statements, namely fundamental numbers within balance sheet and income statement (see Appendix 16). Substantially, the T-Mobile CR indicates a strong financial position; however the following financial indicators point to a concerning trend of diminishing returns. Unfavourable fact is that from 2011 to 2014 net profit fell by 27.17%, which is mainly due to the overall decline in sales and decline in average revenue per user (ARPU). According to T-Mobile Annual Reports (2011-2014), the

mobile ARPU decreased by 30.79%, as in 2011 accounted for CZK 380 and then in 2014 was recorded CZK 263.

In order to obtain comprehensive information on the financial aspects of the company, following group of financial ratios indicate past and current business performance of the T-Mobile CR. All average financial ratios of the telecommunications sector are consistent with published data of Czech Ministry of Industry and Trade (hereinafter MIT). Specifically, these groups of financial ratios are analyzed:

**Table 14 – T-Mobile Liquidity ratio (2011 – 2014)**

Liquidity ratio	2011	2012	2013	2014	Sector average 2014
Current ratio	3.04	3.33	2.43	1.89	1.39

Source: T-Mobile CR Annual Reports; MIT Report; Own processing.

Current ratio indicates the solvency margin of the company, respectively showing how many CZK of short-term assets are available for every CZK of short-term liabilities. Obviously, the T-Mobile chose a conservative strategy in terms of higher values of current ratio and as such is able to meet day to day operating expenses. Overall, the T-Mobile performs above the sector average.

**Table 15 – T-Mobile Activity ratios (2011 – 2014)**

Activity ratio	2011	2012	2013	2014	Sector average 2014
Accounts Receivable Turnover	7.58	6.87	4.74	4.99	0.59
Receivables collection period	48.15	53.14	77.04	73.12	
Accounts Payable Turnover	5.99	6.18	5.63	4.13	
Total Asset Turnover	0.87	0.84	0.77	0.70	0.59

Source: T-Mobile CR Annual Reports; MIT Report; Own processing.

Declining turnover of receivables and lengthening the period of collection of receivables may indicate that customers do not pay their bills on time. Despite the trend of declining total asset turnover, the T-Mobile achieved above-average result in comparison to the sector average which is understood to be 0.59 in 2014.

**Table 16 – T-Mobile Leverage ratios (2011 – 2014)**

Leverage ratios	2011	2012	2013	2014	Sector average 2014
Debt/Equity Ratio	0.198	0.184	0.296	0.342	
Interest coverage	8,975	8,592	109.2	104.4	
Debt ratio	0.166	0.156	0.228	0.255	

Source: T-Mobile CR Annual Reports; MIT Report; Own processing.

Obviously, the T-Mobile does not represent high risk as its activities are mainly financed through equity, although the total debt in recent years is growing while equity decreases. Overall, less debt is used to finance the company's assets, which thus represents less liabilities and less risk.

**Table 17 – T-Mobile Profitability ratios (2011 – 2014)**

Profitability ratios	2011	2012	2013	2014	Sector average 2014
Operating Margin	31.05%	30.89%	29.96%	27.33%	
Net Profit Margin	25.29%	24.99%	24.10%	22.12%	
Return on Assets	27.07%	26.08%	23.03%	19.12%	
Return on Equity	26.42%	24.99%	24.01%	20.76%	8.55%

Source: T-Mobile CR Annual Reports; MIT Report; Own processing.

The trend of declining profitability of the telco industry is very much reflected in the declining values of profitability ratios. However, the T-Mobile still reaches double-digit levels of its profitability ratios. Overall, shareholders of the T-Mobile are likely to be satisfied with the result of ROE, which clearly exceeds the threshold of 15% as well as sector average, on the other hand are probably concerned about the long-term rate of decline and thus are concerned over management's efficiency at using their funds.

- ***Resources and Capabilities***

In essence, both financial and physical assets represent key resources upon which are built current and future activities. As long as the company emphasizes the excellent network quality so operating equipment such as transmitters, cables, optical fibres and other network technology equipment will be perceived as valuable assets that may contribute to the creation of competitive advantage. The T-Mobile



concentrates on investing in technology in order to be one step ahead of the competition, and an example might be launch of VoLTE technology. Besides, merger of T-Systems and GTS, brings access to more tangible physical resources. Particularly, the buildings in the form of data centres represent opportunities for further expansion of business activities. As shown by the data, the T-Mobile is financially stable which is reflected in the low level of debt, availability of significant cash or higher profitability indicators. Basically, the company has reasonable capacity for potential investments that would intensify market position.

Intangible resources in terms of licensing and trademark pose an equally important role. Specifically, it is a license to operate both GSM and UMTS which expires in 2024 and the license to operate the LTE network which is due to expire in 2029. In addition, the company is entitled to long-term use of brand name as well as owns 79 registered trademarks in the Czech Republic. Overall, intangible fixed assets in the form of software and licenses represent the highest net book value, namely the value of the software is CZK 1,923 mil. and the licenses are awarded to CZK 4,842 mil. Furthermore, T-Mobile underlines the need for continuous improvement in corporate reputation. Good reputation, at least in terms of marketing communications, is demonstrated by the fact that T-Mobile has the most subscribers in social networks among telecom operators. Undoubtedly, a very valuable resource is human resources which are the main carriers of information and knowledge. The T-Mobile employs 3,168 employees whose average age is 35 years. Among other things, the integration of T-Systems and GTS contributed to the variability of skills and know-how, as well as the expansion and improvement of knowledge (TMCZ Annual Report 2014).

In terms of capabilities and competencies, the company has flaws in the ability to quickly implement technology and services for common consumer use (e.g. building LTE technology, deployment an Internet connection). Nevertheless, the T-Mobile's distinctiveness is due to the ability to promote and communicate its reputation, its brand. Based on the original communication and marketing campaigns, the company is able to achieve up to 77% engagement on social networks and thus attract potential new customers (Newton Media Study, 2013).

- **Strengths vs Weaknesses**

Based on previous information and analysis on T-Mobile CR are identified strengths and weaknesses, see the Table below. All in all, the company's key strengths include its market position, financial stability, provided technology, well perceived brand and that brand is part of one of Europe's largest telecommunications operators. On the other hand, weaknesses are mainly characterized by the trend of declining financial results.

**Table 18 – Strengths and Weaknesses of T-Mobile**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Integration in the Deutsche Telekom Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Declining total revenues.</li> </ul>
<ul style="list-style-type: none"> <li>• Strong brand awareness.</li> </ul>	
<ul style="list-style-type: none"> <li>• Integrated operator with a wide range of products and services.</li> </ul>	<ul style="list-style-type: none"> <li>• Overall, the declining financial results.</li> </ul>
<ul style="list-style-type: none"> <li>• Leader in the Czech mobile telecommunications market.</li> </ul>	
<ul style="list-style-type: none"> <li>• Growing base of residential customers;</li> </ul>	<ul style="list-style-type: none"> <li>• Low level of differentiation of products and services.</li> </ul>
<ul style="list-style-type: none"> <li>• Network quality and coverage.</li> </ul>	
<ul style="list-style-type: none"> <li>• Merger and Acquisitions know-how.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower pace of technology implementation for customers.</li> </ul>
<ul style="list-style-type: none"> <li>• Highly liquid company, low indebtedness, medium profitability.</li> </ul>	

Source: Own processing.

- **Predictions**

Due to the fact that T-Mobile is doing relatively well in a difficult environment of telecommunications market thus significant changes in the set strategy are less likely to happen. However, if the economy continues to grow and T-Mobile CR will successfully implement its LTE technology, including increased number of mobile customers, it is expected that the company will be very ambitious in the future. In the long-term perspective, the T-Mobile CR will want to gain the greatest market share in the corporate segment and increasingly will strive to be perceived as the largest integrated operator in the Czech Republic. The T-Mobile CR will probably respond

to competitors' initiatives through improved pricing, consolidated services and improved quality of available services. Considering the company's significant resources and capabilities, further expanding activities through M&A should not be excluded from the future potential strategic steps. As the company rarely presents its specific objectives, it is very difficult to define specific targets in terms of desired market share, revenue, profit, number of customers etc.

#### **4.3.3.3 Segmentation**

Generally, the telecommunications market is not very segmented as there is low differentiation of products and services and thus limited number of buyers who would have notably different need, characteristics or behaviours. Basically, the telecommunication operators prefer to practice mass segmentation. Nevertheless, in certain segments like corporate customers and sub-segments such as elderly or young consumers is required to practice certain level of segmentation in order to better identify the expectations and tastes of the customers. Thus, the main basis for market segmentation is represented by the customers – residential and corporate.

- **Residential segment** – Telecommunications sector identifies residential customers as customers using prepaid cards, customers with a contract, small entrepreneurs as well as small and medium businesses.
- **Corporate segment** – Among the corporate customers are perceived to be large corporations, further state institutions and public governance.

In relation to corporate customers, the telecommunication operators strive to deliver high standard solutions which are customer tailored. Additionally, practicing individual approach and emphasis on quality of pre-sales and after sales services are key factors for success in the corporate segment. Among the main characteristics according to which corporate customers are segmented might be included company size and technical complexity of the procurement, in other words technical sophistication. Another important characteristic is exclusivity, which can be determined by the volume of funds involved in procurement, the length of cooperation etc. In order to obtain exclusive customer, it is desirable to have high

quality technology and attractive pricing along with discounts on a number of provided services. According to the internal sources of the Company, the O2 CR maintains a share of around 47% of the B2B market. Certainly, the O2 CR is a leader in the business segment.

In terms of residential segment, the market is fundamentally segmented according to customers with either prepaid or postpaid tariffs. As indicated previously, interest in prepaid tariffs has been decreasing in recent years in favour of customer growth with postpaid tariffs. In accordance with the official tariff offers of all three mobile operators, the main group of customers comprising the prepaid segment is elderly people who need and use only basic services, especially voice services. Conversely, families, middle aged people, students and younger people are generally placed in the postpaid segment. In terms of publicly offered tariffs, it is obvious that demographic factors and lifestyle factors play an important role in setting the portfolio of services and its prices. In particular, students and young people are targeted by cheaper tariffs with a monthly fee that is aligned with excellent accessibility and speed of the Internet. Another specific group of consumers are families who emphasize the overall quality of highly integrated services for a reasonable price. In fact, families are targeted by availability of free minutes, further shared mobile data to smartphones, tablets, and the quality of fixed Internet connection. According to conducted research by PPM Factum (2013), one of the key success factors in the residential segment include the possibility to use all services from one operator, therefore emphasis put on high integrity and consolidation of services. More importantly, rational pricing in relation to offered value of services is being perceived as another key success factor within the segment. In addition, an important factor is open and fair approach to customers, which contributes to the quality of pre-sales and after-sales service and thus improves the overall customer loyalty. In terms of the O2 CR, the Company is struggling with the low loyalty of residential mobile customers. According to data from 1Q 2014, the O2 CR recorded the largest outflow of customers from a total number of contract terminations among all operators. In particular, from all the contract terminations in the first quarter, the O2 CR had a share of 46%.<sup>51</sup> Overall, the Company lost 33,000 customers in 2014 year on year. On the other hand, comparing the years 2012 and 2014, shows a 17%

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<sup>51</sup> Patria Online: <http://www.patria.cz/zpravodajstvi/2713631/o2-zratilo-mezi-operatory-za-1-pololeti-nejvic-zakazniku.html>

decrease in churn.<sup>52</sup> Generally, the Company has shortcomings in its approach to customers, which is led by unfair practices such as wrong and misleading billing services.

All in all, the residential segment is mainly segmented according to demographic factors such as age, life style, family size and eventually its purchasing power.

Another point of view, the telecommunications sector may be divided into two other segments. Essentially, the market is distinguished by the nature of provided services which are either fixed or mobile services. These segments are perceived as follows:

- **Fixed segment** – Providing voice, data and Internet services over the fixed network, moreover business activities focused on integrated systems and ICT services. Besides, the fixed segment includes wholesale and retail services.
- **Mobile segment** – Providing mobile voice and data services.

In the following Table are demonstrated the data with regard to revenues in these segments, namely fixed and mobile segments.

**Table 19 – Revenues according to Fixed and Mobile Segments (CZK Ths.)**

<b>Fixed Segment</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Fixed Voice Services	14,602,565	14,192,844	14,282,153
Fixed Internet Broadband	15,499,642	15,185,910	14,965,462
Fixed Other Revenue	13,149,328	13,048,064	11,934,902
<b>Total Revenues in Fixed segment</b>	<b>43,251,535</b>	<b>42,426,818</b>	<b>41,182,517</b>
<b>Mobile Segment</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Mobile Voice Services	47 897 917	44,161,650	34,790,339
Mobile Internet	4 931 922	6,194,015	7,833,360
Mobile Other Revenue	15 766 217	15,473,856	15,843,961
<b>Total Revenues in Mobile segment</b>	<b>68,596,056</b>	<b>65,829,521</b>	<b>58,467,660</b>

Source: CTO – Open Data Catalogue; 2015; Own processing.

<sup>52</sup> Investor presentation – New O2 – 29 July 2015 <https://www.o2.cz/spolecnost/en/presentations/>

### 4.3.4 Internal analysis

Internal analysis represents the last stage in the strategic analysis of O2 CR. On the basis of financial analysis and identification of resources and capabilities will be determined strengths and weaknesses. In addition, the situational analysis reveals the position of the Company with respect to internal and external factors.

#### 4.3.4.1 Financial analysis

Financial analysis deals with the latest reported financial results; through financial ratios is analyzed the financial position and strength of O2 Czech Republic. The calculated financial ratios are sourced from the balance sheet and income statement data (see Appendix 17).

Firstly, in the following Table are shown the data regarding to the consolidated financial results from the first quarters in the last five years. The main purpose is to demonstrate the latest reported data.

**Table 20 – Consolidated financial data 1Q 2010-1Q 2015**

<b>Financial Indicators (CZK, mil.)</b>	<b>1Q 2011</b>	<b>1Q 2012</b>	<b>1Q 2013</b>	<b>1Q 2014</b>	<b>1Q 2015</b>
<b>Revenues</b>	12,889	12,468	11,925	10,792	11,184
<b>OpEx</b>	7,835	7,641	7,347	7,120	6,765
<b>EBITDA</b>	5,070	5,049	4,346	3,448	4,332
<b>EBIT</b>	2,195	1,903	1,361	758	1,516
<b>Net Income</b>	1,740	1,622	1,047	558	1,150

Source: O2 CR-Financial and Operational Data Overview; Own processing.

Observing the aforementioned data, all consolidated financial indicators were decreasing since the first quarter of 2011. Nonetheless, a significant improvement was recorded in the latest Q1. The revenues went up by 3.6% year-on-year to CZK 11,184 mil. According to the Company, increased revenues were supported mainly by mobile data and growing business in Slovakia. The O2 Slovakia continues to be one of the Group's key growth drivers. Specifically, revenues increased by 17% and EBITDA by 20% on EUR 20 mil. in Q1 2015. Indeed, the O2 Slovakia increasing its contribution to the consolidated financials as close to 15% of Group's revenues and

EBITDA in Q1 2015.<sup>53</sup> Moreover, the Group's EBITDA grew by 25.6% year-on-year and OpEx decreased by 5% on CZK 6,765 mil. In fact, OpEx reduction was significantly encouraged by reducing marketing costs by 32.4% year on year, and by reducing the cost of external services by 51.6% year on year.<sup>54</sup>

In the long-term perspective the Company focuses on improving EBIT and thus its ability to increase revenues at the same time decrease operating expenses. All in all, based on the latest figures from the January-March of 2015, the O2 Czech Republic might be slightly optimistic about further upcoming quarters.

Secondly, the following financial ratios refer to the past, present and potential future performance of O2 Czech Republic. Part of interpretation is achieved by comparing the results with those in the telecommunications sector and the results of its main competitor T-Mobile. The calculated financial ratios are sourced from the balance sheet and income statement data (see Appendix 17).

**Table 21 – O2 CR Liquidity ratio (2011-2014)**

Liquidity ratio	2011	2012	2013	2014	T-Mobile 2014	Sector average 2014
Current ratio	0.99	0.92	0.93	0.88	1.89	1.39

Source: O2 CR, T-Mobile CR Annual Reports; MIT Report; Own processing.

The current ratio has been decreasing since 2011 which is mainly through reduction of current assets, specifically cash and cash equivalents. The current liabilities in the last three years have been stable. Essentially, receivables represent the main part of current assets. Conversely, T-Mobile has a significant part of its current assets in cash and cash equivalents. Obviously, the O2 CR should focus more on improving its liquidity and thus improve the current ratio to more desirable level in the telecom sector.

<sup>53</sup> O2 CR: January – March 2015 Quarterly Results

<sup>54</sup> O2 CR: January – March 2015 Quarterly Results

**Table 22 – O2 CR Activity ratios (2011-2014)**

Activity ratio	2011	2012	2013	2014	T-Mobile 2014	Sector average 2014
Accounts Receivable Turnover	6.34	6.54	6.78	6.21	4.99	
Receivables collection period	57.62	55.85	53.82	58.76	73.12	
Accounts Payable Turnover	4.07	4.13	3.93	4.41	4.13	
<b>Total Asset Turnover</b>	0.59	0.64	0.65	0.59	0.70	0.59

Source: O2 CR, T-Mobile CR Annual Reports; MIT Report; Own processing.

The turnover of receivables, as well as the Company's ability to collect cash from its sales is more-less stable. The O2 CR collects cash from its customers at a faster rate than the T-Mobile, as averagely got paid in 59 days compared to 73 days at T-Mobile for the year 2014. Substantially, the O2 CR demonstrated an improved trend in asset turnover, unlike T-Mobile, which although currently achieves a higher asset turnover ratio, but gradually indicates deteriorating turnover of its assets. The sector average of total asset turnover was 0.59 in 2014. Obviously, the T-Mobile exceeds sector average; nonetheless the O2 CR meets sector average.

**Table 23 – O2 CR Leverage ratios (2011-2014)**

Leverage ratios	2011	2012	2013	2014	T-Mobile 2014	Sector average 2014
Debt/Equity Ratio	0.29	0.31	0.33	0.37	0.342	
Interest coverage	45.26	52.15	111.12	83.71	104.4	
<b>Debt ratio</b>	0.22	0.24	0.25	0.27	0.255	0.376

Source: O2 CR, T-Mobile CR Annual Reports; MIT Report; Own processing.

These ratios correspond to the question of how much debt is used to finance assets, respectively what is the main source of financing the activities. Much like the main competitor, O2 CR is primarily and predominantly financed through equity, despite the fact that equity in recent years has been notably reduced. The O2 CR manages the total debt in very stable manner in contrast to slightly growing debt at T-Mobile. Both the O2 CR and the T-Mobile are under the sector average with regard to debt ratio which is understood to be 0.376 in 2014. The value of the interest coverage ratio refers to the Company's ability to meet its fixed interest payments. In



essence, the O2 CR can afford more debt, because it has sufficient capacity to service debt. The capacity is due to the fact that the Company's profit significantly exceeds the interest expenses.

**Table 24 – O2 CR Profitability ratios (2011-2014)**

Profitability ratios	2011	2012	2013	2014	T-Mobile 2014	Sector average 2014
Operating Margin	19.35%	16.51%	15.54%	11.80%	27.33%	8.55%
Net Profit Margin	16.57%	13.41%	11.89%	8.95%	22.12%	
Return on Assets	11.39%	10.54%	10.07%	7.04%	19.12%	
Return on Equity	12.57%	11.19%	10.22%	7.38%	20.76%	

Source: O2 CR, T-Mobile CR Annual Reports; MIT Report; Own processing.

Although all of the above indicators are positive, thus reflecting the Company's profitability, steady trend of decreasing profitability is clear and unequivocal. Two essential elements that contribute to the deterioration of the profitability are the overall declining sales and decreasing revenue per user (ARPU, mentioned before). The management's efficiency at using both assets and stockholder's funds might be seen very concerning as the amount of profit earned on each CZK invested in assets is year by year perilously falling. Moreover, the sector average of the return on equity is understood to be 8.55%. In this case, unlike the T-Mobile CR, the O2 CR achieves below-average return on equity. It is expected that the major shareholder will require a significant improvement in the profitability of the Company and thus accordingly adapts its strategy.

#### **4.3.4.2 Resources and capabilities**

Primarily, the technological infrastructure is an essential tangible resource that facilitates the Company's to position in the mobile market and a dominant position in the fixed line market. Actually, the net book value of property, plant and equipment is accounted for CZK 36,200 mil. The most valuable part is represented by lines, cables, and related outdoor equipment whose net book value is amounted to CZK 17,147 mil.<sup>55</sup> Extensive ownership of fixed and mobile infrastructure facilitates

<sup>55</sup> O2 CR Annual Report 2014

deployment of products and technologies to the market such as VDSL, LTE or O2 TV. Therefore are seen as valuable assets whose specifics contribute to the creation of competitive advantage. In terms of financial resources, the company indicates a low level of indebtedness and strong operating cash flow. Moreover, the O2 CR indicates significant amount of capital expenditure on investments, see the Table below.

**Table 25 – Capital expenditure (2011-2014)**

<b>CZK, mil.</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>CAPEX</b>	5,856	6,366	5,673	11,490
<b>CAPEX/Revenues</b>	11.2%	12.6%	11.9%	25.7%

Source: O2 CR Annual Reports; Own processing.

Ownership of licenses is seen as the basic prerequisite for successful business at O2 Czech Republic. Both licenses for mobile and fixed services are valuable and scarce assets that imply a competitive advantage. At the end of 2014, the O2 CR hold a wide spectrum of licenses, namely GSM, CDMA, UMTS and LTE for both the Czech and Slovak Republics (except CDMA). The net book value of the licenses is CZK 5,891 mil., representing just over 22% of the total value of intangible assets. However, as the most valuable intangible asset is reported goodwill, whose net book value amounts to CZK 13,448 mil. The goodwill reflects good position of the Company in the market, which is supported by the long-term presence in the marketplace along with wealth of experience and expertise. Unquestionably, one of the most valuable assets that cannot be imitated is a trademark of O2, which generally contributes to the positive reputation and strong brand awareness. Besides, the Company's reputation is enhanced by various recognitions. For instance in 2014, the Company was voted as the best employer of the year in both the Czech Republic and the Slovak Republic, where the Company was even awarded as the Operator of 2014.

The Company's success is broadly dependent on the skills and knowledge of human resources. At the end of 2014, the total number of employees was 4,892 and according to the director of human resources average age was 33 years.<sup>56</sup> Basically,

<sup>56</sup> Human Relations: HR Kávárna – O byznysu a lidech: [http://www.hrkavarna.cz/stale-rubriky/hr-human-relations/se-ctiradem-lolkem-o-velkem-tresku-v-jedne-korporaci/#.Vem2n\\_m8PGc](http://www.hrkavarna.cz/stale-rubriky/hr-human-relations/se-ctiradem-lolkem-o-velkem-tresku-v-jedne-korporaci/#.Vem2n_m8PGc)

the O2 CR has in recent years sought to restructure human resources so that the Company would operate more efficiently and dynamically. Simultaneously, an important strategic step was the creation of Professional Services thus new division which gathers and recruits the most respected experts from ICT field. Moreover, the Company emphasizes the attraction of the most talented people and therefore focuses on the internship program that should contribute to the qualitative improvement of human resources. Additionally, the integration into the investment group of PPF may have a positive impact on the development of certain skills. Specifically, the O2 CR may benefit from original know how as well as expertise in the merger and acquisition growth market. Overall, the O2 CR is perceived as the Company with a long tradition, expertise and high level of experience.

The Company's ability to exploit resources is dependent on its capabilities. In terms of organizational capabilities, the O2 CR is adaptable company that can act responsively to the long-term positive and negative forces in the business environment. Likewise, the Company is capable of responsiveness to changing customer needs and expectations over the time. The Company also focuses on talent management, the ability to attract and retain talented employees. Within the talent management plays an important role internship program. Observing the latest financial results and the changes that occurred after the onset of the majority owner, the speed and thus make changes rapidly is obviously promoted as organizational capability. At present, the Company is able to lower its costs. For instance, comparing the years 2011 and 2014, commercial costs (including Call centers, Commissions, Handset subsidies & Marketing) decreased by 45%, from which actual marketing expenses decreased by 41%. Furthermore, due to restructuring and joint rollout & consolidation, IT costs decreased by 16% and Network costs by 24%.<sup>57</sup> In addition, the recent split off the Company, respectively separation of the fixed infrastructure and the mobile infrastructure should enhance its organizational capability. Certainly, the intention is to increase the efficiency of the Company, simplify the processes and eliminate the effects of regulation on fixed infrastructure. More importantly, the Company may strengthen its focus solely on retail services. Nevertheless, the success of the separation will be verified over the next few months.

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<sup>57</sup> Investor presentation – New O2 – 29 July 2015 <https://www.o2.cz/spolecnost/en/presentations/>

Unlike its competitors, the O2 Czech Republic's distinctive competence is characterized as fostering development within O2 TV and O2 Sport. Clearly, the IPTV with unique multidimensional features and creation of video content are considered to be strategic activities that distinguish O2 CR from others. Substantially, the O2 CR is capable of creating demand for these products.

- ***Strengths and Weaknesses***

Below, In the Table are identified strengths and weaknesses of the Company with regard to previous information and findings.

**Table 26 – Strengths and Weaknesses of O2 CR**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Goodwill and reputation of the company.</li> </ul>	<ul style="list-style-type: none"> <li>• Declining consolidated revenues and net profits – decline in profitability.</li> </ul>
<ul style="list-style-type: none"> <li>• Strong tradition, history and level of experience.</li> </ul>	
<ul style="list-style-type: none"> <li>• Unique access network – extensive fixed and mobile infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Declining market share in the mobile market over the years.</li> </ul>
<ul style="list-style-type: none"> <li>• Broad portfolio of services – highly integrated operator.</li> </ul>	
<ul style="list-style-type: none"> <li>• Single operator of public payphones.</li> </ul>	<ul style="list-style-type: none"> <li>• Fluctuating total number of residential customers.</li> </ul>
<ul style="list-style-type: none"> <li>• Dominant market position in fixed line segment and corporate segment.</li> </ul>	
<ul style="list-style-type: none"> <li>• Fastest growing provider of IPTV.</li> </ul>	
<ul style="list-style-type: none"> <li>• Strong business growth of O2 Slovakia.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower loyalty of residential customers.</li> </ul>
<ul style="list-style-type: none"> <li>• Leader of innovation and investment in development.</li> </ul>	
<ul style="list-style-type: none"> <li>• Integration into PPF Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Low liquidity of the company.</li> </ul>
<ul style="list-style-type: none"> <li>• Skilled and talented employees.</li> </ul>	
<ul style="list-style-type: none"> <li>• Efficiency in decreasing costs (OpEx)</li> </ul>	
<ul style="list-style-type: none"> <li>• Low level of indebtedness.</li> </ul>	

Source: Own processing.

#### **4.3.4.3 Situational analysis**

In the following chapter are evaluated strategic factors within the Company's external and internal environment. Based on the total weighted score will be considered and determined whether it is desirable to rebuild a particular approach towards certain environment and its factors.

Primarily, strategic factors are evaluated from 1.0 (Most Important) to 0.0 (Not important) according to the scale of probable impact on the Company's strategic position. Secondly, each factor is rated from 5 (Outstanding) to 1 (Poor) based on the scale of how well the Company is responding to that factor. Overall, the total weighted score indicates how well the Company is responding generally to its factors in either external or internal environment.

- ***External Strategic Factor Analysis Summary (OT/EFAS)***

The Company's external environment assessment is based on an evaluation of the most significant opportunities and threats that emerged from both analyzes PEST and Porter's 5 Forces and thus are formulated as specific external strategic factors.

The total weighted score is 3.23, so O2 Czech Republic shows above-average response to the external environment. The Company should reinforce and strengthen its position with regard to decreasing prices in the telecommunications. A complete matrix of different external strategic factors along with weighted scores can be viewed in the Appendix 18.

- ***Internal Strategic Factor Analysis Summary (ST/IFAS)***

The Company's internal environment assessment is based on an evaluation of the most significant strengths and weaknesses that emerged from financial analysis as well as from identification of resources and capabilities; thus are formulated as specific internal strategic factors.

The total weighted score is 3.27, so O2 Czech Republic shows above-average response to the internal environment. However, the company has to improve response to declining revenues and profitability, further improve the position in relation to the market share in the mobile market and the level of customer loyalty. A complete matrix of different internal strategic factors along with weighted scores can be viewed in the Appendix 19.

- **TOWS matrix**

In addition, the TOWS matrix suggests suitable strategies for overcoming particular internal and external strategic factors

**Table 27 – TOWS Matrix of O2 CR**

<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="width: 50%; text-align: center;"><b>IFAS</b></div> <div style="width: 50%; text-align: center;"><b>EFAS</b></div> </div>	<b>STRENGTHS</b>	<b>WEAKNESSES</b>
		1. Fastest growing provider of IPTV. 2. Network coverage – fixed, mobile. 3. Market position in fixed line, corporate segment. 4. Innovations, Investments.
<b>OPPORTUNITIES</b>	<b>SO Strategies</b>	<b>WO Strategies</b>
1. NGMN. 2. Developing trends in ICT, M2M, Big Data and OTT. 3. Growing interest in the Internet and data. 4. Increasing market penetration of new technologies.	<b>A.</b> Horizontal integration in order to strengthen position in the fixed market as well as to obtain resources and capabilities to increase competitive position in ICT etc.  <b>B.</b> Entrepreneurial unit for developing mobile applications.	<b>A.</b> Strengthen the strategy of expanding NGMN, in order to reduce operating costs and attract customers to the fastest mobile connectivity in the market.  <b>B.</b> Increase data limits (FUP) in order to deliver added value to customers.
<b>THREATS</b>	<b>ST Strategies</b>	<b>WT Strategies</b>
I. Regulations by CTO, EU. II. Competition among firms. III. Decreasing prices in the telecommunications market. IV. Mature market – A limited demand of customers.	<b>A.</b> To increase demand, market share within IPTV segment service through product and market development.  <b>B.</b> Diversification of business in order to eliminate both declining revenues and threat of regulation in the telecommunications.	<b>A.</b> To increase in house processes and thus emphasizes cost reduction of external services.  <b>B.</b> Sell out the operating units of public payphones.

Source: Own processing.

## 4.5 Strategy selection

The information and data gathered in the framework of the strategic analysis serve to the identification and consequent selection of the current corporate and business strategy of O2 Czech Republic.

### 4.5.1 Corporate strategy

The corporate strategy determines markets and segments in which the Company should compete in to maximize its long-term profitability. The total organization's scope and direction is identified through both portfolio strategy and grand strategy.

#### 4.5.1.1 BCG Matrix Portfolio

The portfolio strategy is carried out through the BCG matrix. In fact, for the purpose of portfolio matrix are classified fixed, mobile, geographic as segments in which O2 CR operates. In the following Figure, the segments are indicated within the growth-share matrix.

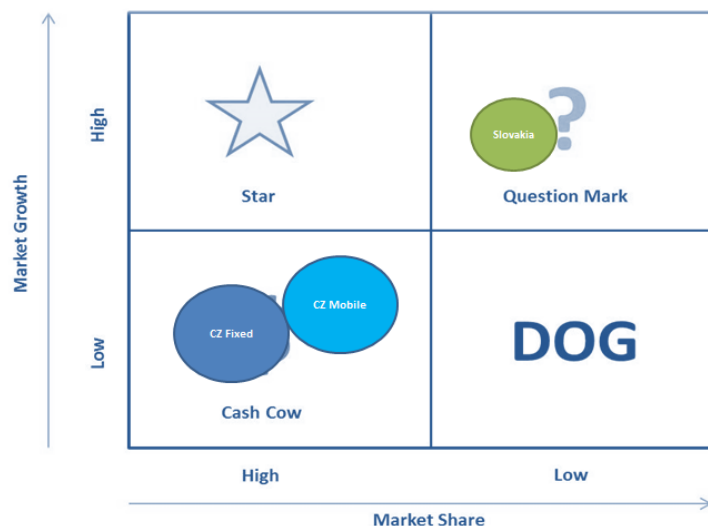


Figure 21 – BCG Matrix of O2 CR

Source: Own processing.

In fact, according to the O2 Financial and Operational Report (2014), the O2 Slovakia increased its revenues by 14.3% year on year as well as increased its market share which accounted for 25% at the end of 2014. In contrast, operating revenues in both Czech segments of fixed and mobile services recorded decrease. Namely 11.6% in the mobile segment and 3.7% in the fixed segment, where the O2 CR has a dominant market share of around 62% whereas 36% in the mobile segment. In terms of traffic in 2014, the mobile voice grew by 7% while the fixed voice traffic decreased by 24.1% year on year. Overall, in terms of operating revenues in 2014, the mobile segment recorded CZK 19,277 mil., the fixed segment recorded CZK 19,597 mil. and eventually O2 Slovakia earned CZK 6,173 mil.

Regardless of the declining market in the Czech Republic, all three segments represent key strategic units within the corporate strategy. Undoubtedly, the main growth unit is the O2 Slovakia, as the subsidiary keeps its subscribers' growth and steadily improves financial performance. The parent company in the Slovak Republic invests primarily in the expansion of LTE coverage, which is even declared within the Group's objectives. Despite the lowest market share in the market, the O2 Slovakia holds favourable strategic position which is expected to be strengthened as the Company is only operator with growing customer base and thus market share. The O2 Slovakia has potential for further growth and therefore requires significant cash. However, declining financial performance on the Czech market may pose a threat to future investments in the Slovak Republic. In terms of Czech market, both segments represent cash cows thus generating a lot of cash due to large market shares. Theoretically, despite the low investment requirements to maintain market share, the O2 CR invests the most in the mobile segment. The Company is aware of the business growth of consumption data and thus is focusing its investments and strategy on LTE network. Actually, a smaller part of the investment goes into the fixed segment, namely to expand the coverage of fixed broadband internet.

In relation to the future perspective, likely the O2 Slovakia has a potential to shift on a verge of stars, whereas both fixed and mobile segments in the Czech Republic remain in the quadrant of cash cows. Nevertheless, growing sub-segments of IPTV and mobile data are promising for the future and in some ways may have the character of stars.



#### **4.5.1.2 Directional strategy**

Initially, identification of the Company's current strategic direction is considered with regard to both aspects of industry attractiveness and business competitive position. Primarily, based on the consideration of all factors within the Porter's 5 forces analysis, the industry attractiveness is understood to be at medium level. Secondly, the business strength is perceived to be strong as the O2 CR is leading company within fixed and B2B market besides has valuable market knowledge and experience. As long as the Company is strong, the corporate direction is referring to the growth strategies. In certain context there might be considered to undergo stability strategies due to saturation and maturity stage of telecommunications industry. Nevertheless, the O2 CR has neither reduced or halted its activities, but rather has expanded. In fact, as far as the current and recent business activities are considered, the O2 CR concentrates its activities on current telecommunication industry along with growth through internal development. Despite slow market growth, especially in terms of revenues, the Company focuses on product development. Basically, the O2 CR strives to deliver either modified existing products or new developed products for currently served customers. For instance, unlimited tariffs, increased speed attributes of fixed broadband Internet, implementation of LTE network service, innovative features within IPTV, modified cloud services, new hardware in product portfolio (e.g. Apple) are basically list of examples confirming the Company's current corporate direction. Retrospectively, there were strategies of market development as the Company entered both Slovakian market and segment of digital TV broadcasting, but nowadays the main direction is understood to be through product development.

Nevertheless, another part of corporate strategy has occurred in recent weeks as the major shareholder decided to spin-off the O2 Czech Republic on two independent companies. Particularly, the main reason and purpose for such a strategy was to increase efficiency, to simplify business model and thus promote overall strategic fit within the O2 CR. Likely, the major impulse to undergo spin-off was associated with elimination of regulatory and legislative ruling that was permanently linked with the fixed network infrastructure.

## 4.5.2 Business strategy

In essence, the business strategy is identified through consideration of aspects within generic strategies, namely cost leadership, differentiation or focus. For the purposes of this work, the Company's business strategy is characterized only in relation to the consumer division in the Czech Republic called as residential customers.

In assessing the business activities of the Company, it is quite complex to straightforwardly identify its business strategy. Primarily, it is very important to take into account the competitive environment in which O2 CR operates. The specifics of the functioning of oligopolistic market facilitate the role of all three operators in the market. Basically, as long as O2 CR, T-Mobile CR and Vodafone CR dominate the market, they will act on themselves as only dominant competitors and partners in one entity. In particular, the traditional operators have a common interest in ensuring that the market entry barriers remained significantly high, so as to minimize the entry of a strong operator that could disrupt the established competition. Nevertheless as competitors, they are competing through technology, product range and quality of services. Interestingly, to keep customers, operators reduce prices as part of a retention strategy, which generally intensifies competition. In light of market and competition forces, the O2 CR is in accordance with differentiation strategy through which aims at broad mass market.

In particular, the O2 CR positioning itself as the largest integrated operator whose products and services meet customer needs as well as high quality standards. Besides, the Company strives to be seen as major mover and innovator with respect to market trends and technology changes. Hand in hand with stated vision statement, the Company focuses on product engineering skills through which intend to simplify and improve people's life. Specifically, the Company's business strategy is based on certain drivers of differentiation. Firstly, superior and overall perceived quality of services represents high priority. For instance, the Company is seen as the best provider of mobile Internet in the market with regard to both aspects – speed and coverage.<sup>58</sup> Secondly, more responsive customer service is incorporated into business model. The O2 CR as the only operator offer to its customer's professional technical

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<sup>58</sup> <http://www.stech.cz/clanky/archiv-a-clanku-a-aktualit/id/1320/lide-nejlepe-hodnoti-mobilni-internet-od-o2.aspx>

assistance directly at the sales store, where experienced technical staff are intended to solve customer problems. Besides, thanks to broad and integrated portfolio of services, the Company leverages its competitive advantage in terms of capability to be responsive to any customer's needs and expectations. Basically, no other operator can match such a comprehensive services provided by O2 CR. In addition, the Company offers more personalized services within the O2 Extra program, where customers may get discounts on various assortments of consumer goods. Thirdly, the Company emphasizes service ability and reliability. Fourthly, the Company is driven by focus on new technologies and innovations which would bring more value to customers. For instance, as the first in the market, the O2 CR introduced both VDSL technology and commercial operation of LTE network which in fact increases speed of fixed Internet and mobile Internet. Eventually, the Company focuses on improving corporate reputation and brand image strengthening which is strongly accompanied by long tradition and experience in the industry. On top of that, the O2 CR strengthens its differentiation strategy by focusing on IPTV product. Currently, the product offers unique multidimensional features in terms of movie on demand, time shift up to 30 hours or customer tailored selection of cameras while watching sports matches. Moreover, O2 Sport offers unique and exclusive video content as owns rights for particular competition which cannot be broadcasted by anyone else in the Czech Republic.

Overall, the Company strives for long-term quality products and services for affordable prices. In addition, there is high emphasis on aspiration to sustain first-mover and leader in relation to product innovations and customer service.

## 5 Proposals and Recommendations

The following chapter discusses the potential proposals and recommendations on the future strategic direction of the O2 Czech Republic. In essence, all proposals focus on improving sales, overall profitability of the company, market share and long-term customer satisfaction and loyalty. At the same time, the proposals take into account of the opportunities as well as strong threats in the form of regulation and slow growth of conventional telephone services. In the following paragraphs, the proposals are outlined in relation to the current corporate and business strategy.

- **Keep strengthening product development**

Currently applied corporate direction in the form of product development must be intensified and reinforced in particular with regard to the rapid development of technologies along with the growth of consumption data. Basically, the main objective is to increase market share within existing markets through products and services which are perceived as attractive, useful, simple as well as market innovative and unique. The centrepiece of the strategy should be O2 TV, which recorded strong growth. Substantially, the modifications within O2 TV should be driven by features of uniqueness which would consequently boost demand for the product. Matter of course is continual improvement of elements such as response of set top box, service availability etc., but the main product development should focus on strengthening the unique content of O2 TV. In fact, the Company should leverage its position and capabilities in order to add another custom channel that would complement the current O2 Sport. As long as O2 TV offers its function of movie on demand, the Company should easily introduce new movie channel, which would be in direct competition to the popular foreign HBO. In fact, the competitive advantage compared to HBO is that O2 CR can use its comprehensive data about customers and thus target them in better way with respect to the movie menu. The Company may consider be introducing music channel as well, but it seems like less attractive due to high penetration of other music channels. Nevertheless, the recommendation should go for implementation of education channel which would be targeting children, students, adults as well as people of advanced age. Firstly, a similar type of channel is not yet on the Czech market. Secondly, the channel would be in line with what O2

CR stands for and thus promotes technology development, innovation etc. Third, the program would reflect the growing global demand for online education. Overall, the range of content could be from teaching English to the use of electronic devices in practice.

The Company must be able to respond to current and future trends and thus re-distribute the main priorities of the business from calls and SMS, mobile data up to complex ICT solutions that include mobile and fixed services, Cloud, Big Data, IoT etc. Nowadays, the O2 CR is well positioned with regard to Cloud services, data security or Big Data; however there is lack of product developments within the IoT. Without any doubt, an essential prerequisite for success is superior coverage and network speed; hence the O2 CR should intensify the construction of 4G and as soon as possible to invest in building 5G network. In relation to IoT, the O2 CR is quite active in terms of connected homes or cars; however there are plenty of opportunities with regard to either connected cities or industrial Internet. Since it is estimated according to International Data Corporation (2015) that the Internet of Things market in the Czech Republic will more than doubled, particularly will increase from 480 million dollars (11.7 billion CZK) in 2014 to 1 billion dollars (24.3 billion CZK) in 2018. Based on that, the recommendation is that the O2 CR should establish its own nationwide network, which would be specially designed for the Internet of things. The introduction of the network would represent a significant competitive advantage, which would enable better attraction mainly industrial customers or clients of public governance. Generally, the network would improve data integration.

Altogether, the aforementioned product developments must come from highly qualified and skilled human resources. In this sense, the O2 CR should expand its focus on talent management and besides internship program also establish a graduate program that would be determined by the best graduates in the field of IT and Marketing. In order to find synergy among product innovations and talented people, the Company should establish start-up HUB which would operate as entrepreneurial unit that is generating and developing ideas for IT and ICT solutions. Especially, the development of mobile apps should be seen as opportunity to earn additional cash and attract more users into the O2 CR network.

- **Implement additional corporate strategic direction**

Primarily, the focus is on existing lines of business and fundamentally the aim is to increase market share and thus strengthen position in the market. The recommendation constitutes that the Company should follow growth through horizontal integration, notably through acquisitions. Actually, such a direction would increase market share, profitability, perceived business value and consequently would eliminate the level of competition. The horizontal diversification should be especially pursued in the fixed market with regard to ICT field and fixed broadband market. Actually, as T-Mobile acquired GTS, the O2 CR should acquire other firms like Dial Telecom or Spinoco Czech Republic since both occupy significant market share.

Secondly, the Company should be looking for opportunities outside of existing business. In relation to the telecommunications sector, as long as the profits are falling down, mainly due to declining ARPU along with slow growth of classical telecommunication services as well as regulatory issues are on the rise; basically there is high need to minimize these negative trends through diversification of business. Indeed, the O2 CR should leverage its market position, financial strength, resources and capabilities as well as know-how of major shareholder PPF in order to gain greater organizational scope. The diversification can be carried out either way, using concentric or conglomerate diversification. Specifically, the recommendation is addressed to building up an internal unit which would be focusing on financial sector. In particular, the Company may provide cashless loans, purchases in instalments, various types of insurance, etc. Incidentally, the analysis of the Ministry of Finance for 2014 points to the fact that the banking services have been indicating growing profits in the last 5 years.<sup>59</sup> Certainly, the O2 CR could leverage its strengths in terms of widespread sales channels, whether sales branches, door to door sales people or especially sales people at call centres. Eventually, the diversification can be carried out through strategic alliance with some existing players in the market.

- **Build O2 Slovakia into Stars**

The O2 Slovakia is the fastest growing operator in the Slovakia. Indeed, the current results of the subsidiary are very promising for the future growth; therefore

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<sup>59</sup> <http://www.mfcr.cz/cs/soukromy-sektor/regulace/financni-stabilita-a-dohled/vyvoj-financniho-trhu/2014/zprava-o-vyvoji-financniho-trhu-v-roce-2-21618>

the O2 CR should reinforce its investments for maintaining and strengthening the growth position of O2 Slovakia in the market of mobile services. The main aim is to increase market share as quick as possible and thus re-build O2 Slovakia from “question marks” to “stars”. The secondary aim is to increase the perceived value of differentiation on the Slovak market. Basically, the O2 CR should follow product development with regard to its subsidiary in Slovakia. Once again, primary basis for current and future success is driven by rapid expansion of LTE network along with the subsequent sale of compatible LTE devices. Nevertheless, from the perspective of O2 TV, the Company can practice product development and thus also market development, since the O2 TV in the Slovak Republic is not provided yet. In this sense, some significant investments will be needed to secure fixed infrastructure. Overall, the O2 Slovakia should be seen as remarkable opportunity to gain additional streams of revenues.

- **Reinforce fairness, flexibility, agility toward customers**

In recent years, the Company has been struggling with customers loyalty, however the latest data indicated improving trend in total churn. In order to improve customer relations even more, the emphasis should be placed on values such as fairness, responsiveness, agility and simplicity. Firstly, the communication should be seen as building instrument of mutual trust and overall it seems as opportunity how to be closer to customers. Basically, the Company should be attentive to all forms of communication including verbal, non-verbal, communication over the phone, communication at sales store etc. Nevertheless, the Company should pay even greater attention to communication over social networks as it represents one of the key communication tools towards customers. Overall, the marketing communication should be based on aspects of storytelling so that customers are fully attached with brand as well as with specific product. Besides, the Company should strive to keep strengthening customer’s engagement especially through initiatives which would be focusing on greater customer’s experience. In relation to both values of flexibility and agility, the Company may provide some of the products for free as long as the customer is literally testing the service for certain period of time. The aim is to give an unique option to customers to testify and verify on themselves whether the product is beneficial and attractive for them. Besides, in the light of agility, the Company has to be proactive. For instance, in order to increase usage of LTE

service, the Company should send LTE SIM cards to all customers completely on its own. Nowadays, there are a number of customers with newer mobile phones, but so far have not collected (at sales store) the SIM card that would support LTE service. Although sending of sim cards would account for some extra costs, in this particular case, such an initiative would positively increase the return on investment in building the LTE networks. In order to highlight and promote fairness, the Company should rebuild its approach towards loyal customers. Substantially, it is highly inappropriate and disrespectful that customers with long-term loyalty have no benefits at the expense of those, who are new at the Company. The recommendation is given to initiatives and actions which would recognize and appreciate loyal customers. For instance, customer with a 10-year contract should be entitled to use higher data limit for the original price. In sum, in order to obtain the customer's satisfaction and loyalty it is needed to put a strong emphasis on the individual professional approach which is accompanied by personal responsiveness and accessibility.

In relation to corporate customers, a recommendation is given for the implementation of focus differentiation strategy. In particular, the Company should focus on attracting narrow group of exclusive customers. In other words, the priority should be given to larger purchasing orders from fewer customers than to less worthy orders from plenty of customers. The focus differentiation strategy allows better focus on custom tailored solutions as well as building long-term relationship with customers.



## 6 Conclusion

The main objective of the diploma thesis was to analyze and evaluate current strategic position of O2 Czech Republic. The entire work was divided into two main load-bearing parts. In the first part, the theoretical findings and knowledge were summarized in order to determine successive steps of strategic analysis. In the second part, the empirical part was based on two main pillars: firstly, the detailed and comprehensive strategic analysis of external and internal environment which eventually led to the selection of the current corporate and business strategies. Secondly, in addition to the strategic analysis, which can be considered as the contribution of the author, the findings from strategic analysis were reflected in the formulation of the author's own proposals and recommendations for further strategic direction of O2 Czech Republic.

In essence, prior to the strategic analysis was carried out the general analysis of the telecommunications market during which was found growing trend of using mobile network, specifically confirmed by the increase in SIM cards and operating results in the number of voice minutes. Conversely, the opposite trend was observed in fixed telephone lines which have been consistently recording decline in the use of services. In turn, an increasing trend was observed in fixed broadband Internet, which is accompanied by trend of accelerating speed of the Internet connection. Subsequently, in the context of strategic analysis were discovered fundamental facts which notably determine the current market position of O2 Czech Republic. Initially, the external environment analysis highlighted the significant trends and factors that resonate in opportunities and threats. It was found that the greatest opportunities are economic factors in the form of current and future development of economy, and also the technological trends in terms of increasing consumption of data and penetration of electronic equipment, as well as trends in ICT such as Cloud, Big Data or IoT, respectively opportunities in digital television segment. On the other side, the main threats were identified in relation to legislative and regulatory intervention by the CTO and the EU; further deflationary spiral coupled with falling prices in the telecommunications sector and limited demand in the number of Czech customers. Subsequently, through the Porter's five forces model was conducted industry analysis. In fact, it was ascertained that the oligopolistic mobile market is moderately

attractive with a score of 2.714 and in terms of depressing profitability is mainly affected by strong forces due to rivalry among existing competitors and the bargaining power of buyers. In addition, were identified factors changing industry and key factors for success in the sector. In particular, the key success factors were classified as leadership in innovativeness, quality of service, differentiation of products and services and ultimately technological reliability. The Intra-Industry analysis examined through using the Strategic Group analysis most relevant competitors. According to the analysis, it was discovered that the most notable competitors are T-Mobile CR in the mobile market and UPC in the Internet and TV segment. However, in terms of the limited scope of the diploma thesis was analyzed only T-Mobile CR. The competitive analysis demonstrated that T-Mobile CR is clear leader in mobile telecommunications market and that in long term strengthens its position in the market of corporate customers, especially through horizontal integration. The main strengths of T-Mobile CR were classified as strong brand, growing base of residential customers or strong financial position, particularly the T-Mobile CR indicated at the end of 2014 the return on equity in the amount of 20.76%. In the segmentation analysis were classified segments of residential versus corporate customers and fixed versus mobile segments. Substantially, it was ascertained that O2 CR is a leader in the corporate segment, where holds around 47% of the market, while in the residential segment is number two in the market and is faced with low loyalty of its customers, which is improving over time though. In the context of the fixed and mobile segments, in both cases was observed downward trend of total revenues along with the finding that only Mobile Internet has boomed. The Internal analysis of O2 Czech Republic recorded strengths as an asset in the form of built fixed and mobile infrastructure, as well as goodwill and reputation, broad range of integrated services and strong business growth of the subsidiary in the Slovak Republic. Conversely, as weaknesses were identified low liquidity, lower customer loyalty and decreasing profitability which is decreasing every year and in particular at the end of 2014, the Company recorded 7.38% in return on equity. All in all, the Situational analysis demonstrated that O2 CR shows above-average response to both external and internal environment. At the end of the strategic analysis, it was determined that of O2 Czech Republic applies product development at the level of corporate strategy and differentiation strategy at the level of business strategy. In the context of formulated proposals was recommended to strengthen product

development through unique content within IPTV, namely the launch of new TV channels. On top of product development, it was recommended to implement horizontal integration and diversification as further corporate directions. Lastly, it was recommended that the Company should intensify its efforts to increase market share of O2 Slovakia as well as O2 CR should amend its approach to customers.

Additionally, in the context of stated hypothesis, it has been confirmed that companies with the largest market shares are the most profitable. In particular, the size of the market shares literally replicates the profitability of companies, identifying T-Mobile CR and O2 CR as the most profitable companies within the market.

In conclusion, the diploma thesis contributes to the overall strategic assessment of the current position O2 Czech Republic in the telecommunications market at the same time contributes by established suggestions for improvement of future market position. In the near future, it is recommended to conduct further comprehensive and profound strategic analysis of the Company that would essentially reveal whether the separation of mobile and fixed infrastructure, respectively whether the spin-off of CETIN from O2 has had a positive impact on the strategic position as well as overall results of O2 Czech Republic. Additionally, further research may focus on identification and evaluation of potential M&A opportunities.

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# Appendix

## Appendix 1 – Consolidated Income Statement 1Q 2010-1Q 2015

<b>CONSOLIDATED INCOME STATEMENT (CZK million)</b>	1Q 2010	1Q 2011	1Q 2012	1Q 2013	1Q 2014	1Q 2015
Operating revenues	13 727	12 866	12 451	11 902	10 764	11 160
Non-operating revenues	102	23	17	23	28	24
<b>Revenues</b>	<b>13 829</b>	<b>12 889</b>	<b>12 468</b>	<b>11 925</b>	<b>10 792</b>	<b>11 184</b>
Internal expenses capitalized in fixed assets	155	163	170	127	139	109
Costs of sales	(8 239)	(7 835)	(7 641)	(7 347)	(3 195)	(3 770)
Operating expenses	(377)	(154)	(164)	(372)	(3 925)	(2 996)
<b>EBITDA</b>	<b>5 346</b>	<b>5 070</b>	<b>5 049</b>	<b>4 346</b>	<b>3 448</b>	<b>4 332</b>
<b>EBITDA margin</b>	<b>38,9%</b>	<b>39,4%</b>	<b>40,5%</b>	<b>36,5%</b>	<b>32,0%</b>	<b>38,8%</b>
Impairment of fixed assets	(10)	(2)	(5)	(2)	(2)	(1)
Depreciation and amortization	(2 759)	(2 874)	(2 872)	(2 737)	(2 689)	(2 815)
<b>Operating Income</b>	<b>2 587</b>	<b>2 195</b>	<b>1 903</b>	<b>1 361</b>	<b>758</b>	<b>1 516</b>
Net financial income (expense)	(65)	(27)	(45)	(29)	(30)	(63)
Results attributed to joint venture	-	-	-	-	-	2
<b>Income before taxes</b>	<b>2 522</b>	<b>2 168</b>	<b>1 858</b>	<b>1 332</b>	<b>728</b>	<b>1 455</b>
Income taxes	(510)	(429)	(237)	(285)	(170)	(305)
<b>Income from continuing operations</b>	<b>2 012</b>	<b>1 740</b>	<b>1 622</b>	<b>1 047</b>	<b>558</b>	<b>1 150</b>
<b>Net income</b>	<b>2 012</b>	<b>1 740</b>	<b>1 622</b>	<b>1 047</b>	<b>558</b>	<b>1 150</b>

Source: O2 CR Half-year reports 1Q 2010-1Q 2015; Own processing.

## Appendix 2 – Total Consolidated OpEx 1Q 2014-1Q 2015

<b>TOTAL CONSOLIDATED OPEX (CZK million)</b>	1Q 2014	1Q 2015
<b>Cost of Sales</b>	<b>3,195</b>	<b>3,769</b>
<b>Costs of Service</b>	<b>2,385</b>	<b>2,853</b>
Mobile Costs of Service	955	961
Fixed Costs of Service	1,430	1,892
<b>Commercial Costs</b>	<b>809</b>	<b>916</b>
Mobile Hardware & Other Costs	395	581
Fixed Hardware & Other Costs	52	40
Commissions	361	294
<b>Operating Expenses</b>	<b>3,925</b>	<b>2,996</b>
<b>Personnel Expenses</b>	<b>1,238</b>	<b>1,100</b>
<b>External Services</b>	<b>2,688</b>	<b>1,896</b>
Marketing	217	147
Network & IT maintenance	671	580
Rentals, Buildings and Vehicles	515	430
Utilities supplies	297	261
Other external services	988	479
<b>Total Operating Expenses</b>	<b>7,120</b>	<b>6,765</b>

Source: Interim report January-March 2015; Own processing.

### Appendix 3 – Revenues Fixed Segment 1Q 2014-1Q 2015

REVENUES - CZ Fixed Segment (CZK million)	1Q 2014	1Q 2015
<b>Service Revenues</b>	<b>4,713</b>	<b>4,875</b>
Voice Retail	950	773
Voice Wholesale	1,243	1,668
Data Services	530	489
Internet & Broadband	1,438	1,379
Retail	1,300	1,237
Wholesale & LLU	137	142
ICT	393	427
Other fixed	158	139
<b>Hardware Revenues</b>	<b>50</b>	<b>41</b>
<b>Total operating revenues</b>	<b>4,763</b>	<b>4,916</b>

Source: O2 CR Financial and Operational Overview; Own processing.

### Appendix 4 – Revenues Mobile Segment 1Q 2014-1Q 2015

REVENUES - CZ Mobile Segment (CZK million)	1Q 2014	1Q 2015
<b>Gross Service Revenues</b>	<b>4,351</b>	<b>4,282</b>
Mobile Originated	3,777	3,658
Voice Services	2,502	2,352
Messaging (SMS & MMS)	304	276
Non-Messaging	971	1 030
Mobile Terminated	485	543
Other	89	81
<b>Mobile Other Revenue</b>	<b>134</b>	<b>153</b>
<b>Hardware Revenues</b>	<b>229</b>	<b>296</b>
<b>Total operating revenues</b>	<b>4,713</b>	<b>4,732</b>

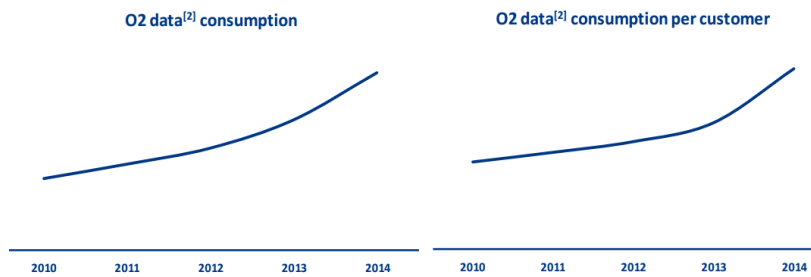
Source: O2 CR Financial and Operational Overview; Own processing.

### Appendix 5 – GDP per inhabitant

CZK/inhabitant (current prices)	2001	2002	2003	2004	2005	2006	2007
<b>GDP per inhabitant</b>	250,649	262,199	274,579	299,567	318,345	341,604	371,204
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	384,992	373,810	375,921	383,218	384,575	387,900	404,843

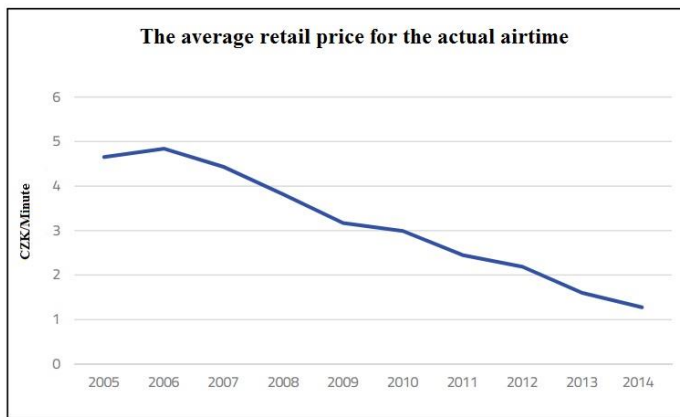
Source: CSO-Macroeconomic Indicators; 2015; Own processing.

## Appendix 6 – O2 Data Consumption



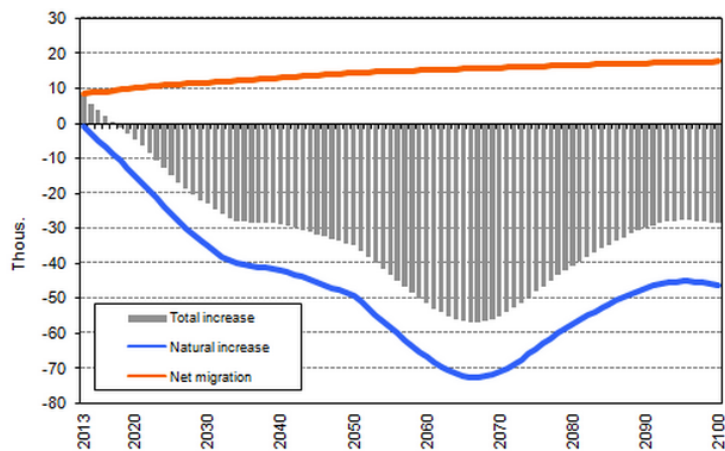
Source: Investor presentation – New O2 – 29 July 2015; Own processing.

## Appendix 7 – The average retail price for the actual calls (2005-2014)



Source: CTO Annual Report 2014; Own processing.

## Appendix 8 – Expected structure of total increase up to 2100



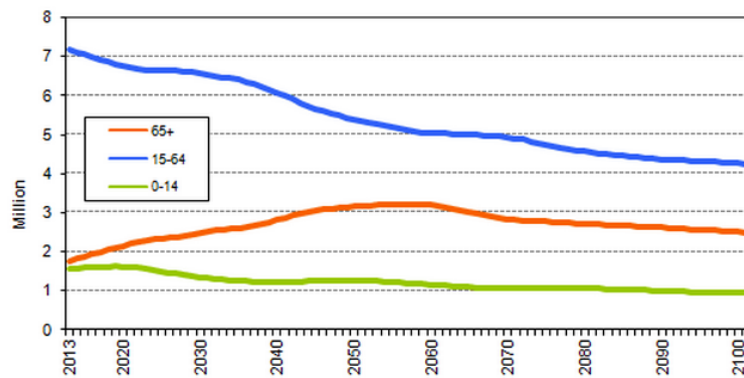
Source: CSO; 2015; Own processing.

## Appendix 9 – Age structure in % (2000-2014)

In age:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0 - 14	16,21	15,89	15,58	15,22	14,94	14,65	14,38	14,23	14,14	14,22	14,41	14,67	14,84	15,01	15,19
15 - 64	69,93	70,25	70,52	70,84	71,02	71,15	71,21	71,20	70,99	70,56	70,06	69,13	68,35	67,63	66,96
65 over	13,86	13,86	13,90	13,94	14,04	14,21	14,41	14,57	14,87	15,22	15,53	16,20	16,81	17,37	17,84

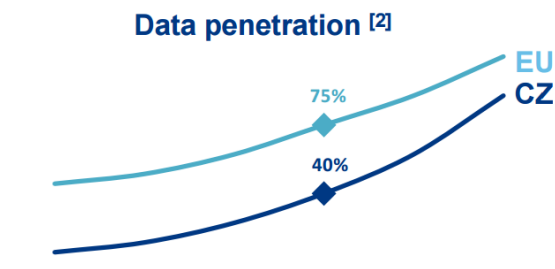
Source: CSO; Own processing.

## Appendix 10 – Expected population by major age groups up to 2100



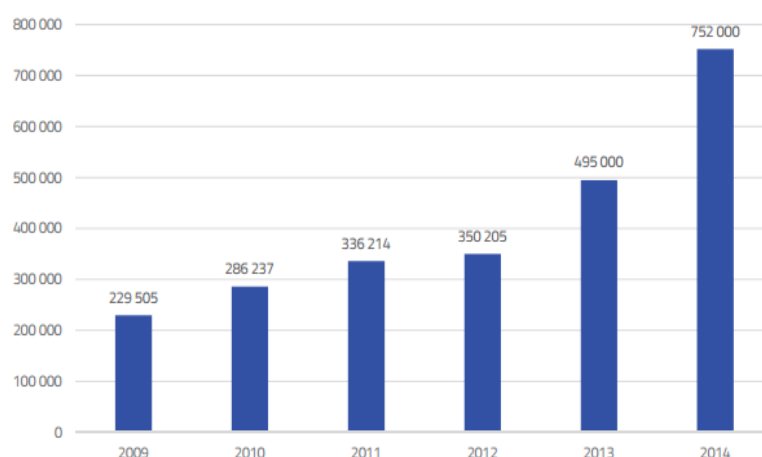
Source: CSO; 2015; Own processing.

## Appendix 11 – CZ vs EU Data penetration



Source: Investor presentation – New O2 – 29 July 2015; Own processing.

## Appendix 12 – Portability of mobile numbers (2009-2014)



Source: CTO, Annual Report 2014; Own processing.

## Appendix 13 – Evaluation of Porter’s 5 forces

Porter’s 5 forces	Determinants	Score (1-5)	Weak/Strong force
1) Threat of substitutes	• <i>Current trends</i>	3	MODERATE (2.667)
	• <i>Price/performance</i>	3	
	• <i>Availability of substitute products</i>	2	
2) Threat of new entrants	• <i>High capital requirements and fixed costs</i>	1	LOW (2.5)
	• <i>Economies of scale</i>	2	
	• <i>Products differentiation</i>	3	
	• <i>Brand awareness + Brand loyalty</i>	2	
	• <i>Low consumer switching costs</i>	4	
	• <i>Accessing distribution channels</i>	3	
	• <i>Legislative and licensing policy</i>	2	
	• <i>Expected retaliation of existing firms</i>	1	
3) Power of buyers	• <i>Low concentration</i>	1	MODERATE (2.571)
	• <i>Low switching costs</i>	4	
	• <i>Price sensitive</i>	3	
	• <i>Well educated regarding to the product</i>	4	
	• <i>Individual purchases in low volume</i>	2	
	• <i>Products differentiation</i>	3	
	• <i>Substitutes are unavailable</i>	1	
4) Power of suppliers	• <i>Low concentration</i>	1	LOW (2)
	• <i>Low switching costs</i>	2	
	• <i>Forward integration</i>	2	
	• <i>Well educated regarding to the product</i>	2	
	• <i>Large portion of the supplier’s sales</i>	2	
	• <i>Supplier’s product differentiated</i>	3	
5) Rivalry among firms	• <i>Similar sized companies</i>	4	HIGH (3.833)
	• <i>High Concentration - oligopoly</i>	4	
	• <i>Similar strategy</i>	4	
	• <i>Products differentiation</i>	3	
	• <i>Demand in the industry</i>	3	
	• <i>High exit barriers</i>	5	
<b>INDUSTRY ATTRACTIVENESS</b>		<b>2.714</b>	<b>MODERATE</b>

Source: Own processing.



## Appendix 14 – Product range

Product range	O2	T-Mobile	Vodafone	UPC	CR	AT
Mobile services	Mobile voice and data	√	√	X	X	√
	Mobile Internet	√	√	X	X	√
	Mobile TV	√	X	√	X	X
	M2M	√	√	X	X	X
	Roaming	√	√	X	X	X
Fixed services	Fixed voice	√	X	√	√	√
	Fixed Internet	√	√	√	√	√
	VPN	√	√	X	√	X
	TV	X	X	√	√	X
ICT	Cloud	√	X	X	√	X
	Data Centres	√	√	X	√	X
	Server Hosting	√	√	X	X	X
System Integration	Big data	√	√	X	X	X
	Applications development	√	√	X	X	X

Source: Annual Reports; Official websites; Own processing.

## Appendix 15 – Comparison of Revenues and Net Profits (2014)

2014	Customers (thous.)	Revenues (CZK mil.)	Net Profit (CZK mil.)
O2	5,069	44,689	3,998
T-Mobile	6,000	24,072	5,325
Vodafone	3,226	13,627	0,208
UPC	1,185	4,020	0,164
CR	-	1,952	-1,463
AT	-	0,338	0,004

Source: Annual Reports; Press releases; 2015; Own processing.

## Appendix 16 – T-Mobile Financial Statements (2011-2014)

<b>Balance Sheet (CZK million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Fixed assets	16,385	15,897	18,279	21,006
Current assets	16,600	16,848	14,421	13,405
<b>Total assets</b>	<b>33,158</b>	<b>32,940</b>	<b>32,700</b>	<b>34,411</b>
Trade and other receivables	3,813	4,050	5,306	4,822
Trade and other payables	4,823	4,502	4,464	5,834
Current liabilities	5,461	5,054	5,935	7,089
<b>Total Debt (Liabilities)</b>	<b>5,489</b>	<b>5,122</b>	<b>7,460</b>	<b>8,764</b>
Stockholder's equity	27,669	27,818	25,240	25,647
<b>Income Statement (CZK million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total revenues	28,904	27,816	25,140	24,072
Total operating expenses	19,929	19,224	18,360	18,268
EBITDA	12,259	11,912	10,878	10,026
Depreciation, Amortisation	3,284	3,320	3,346	3,448
EBIT	8,975	8,592	7,532	6,578
Interest expense	1	1	69	63
Profit before taxation	9,160	8,663	7,525	6,590
Net Profit	7,311	6,952	6,059	5,325
<b>Operational Indicators</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of employees (x 1000)	2,944	2,847	3,362	3,168
Number of customers (x 1000)	5,381	5,498	5,831	6,000

Source: T-Mobile CZ Annual Reports 2011-2014; Own processing.

## Appendix 17 – O2 Czech Republic Financial Statements (2011-2014)

<b>Balance Sheet (CZK million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Fixed assets	73,100	67,835	62,460	63,370
Current assets	15,881	11,364	11,489	10,920
<b>Total assets</b>	<b>88,982</b>	<b>79,199</b>	<b>73,949</b>	<b>74,920</b>
Trade and other receivables	8,273	7,732	7,062	7,194
Trade and other payables	12,882	12,235	12,199	10,135
Current liabilities	16,015	12,303	12,303	12,375
<b>Total Debt (Liabilities)</b>	<b>19,885</b>	<b>18,625</b>	<b>18,200</b>	<b>20,137</b>
Stockholder's equity	69,097	60,574	55,749	54,153
<b>Income Statement (CZK million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total revenues	52,409	50,534	47,895	44,689
Total operating expenses	31,106	31,251	30,274	29,274
EBITDA	21,790	19,781	18,477	16,010
Depreciation, Amortisation	11,651	11,437	11,032	10,736
EBIT	10,139	8,344	7,445	5,274
Interest expense	224	160	67	63
Profit before taxation	10,008	8,156	7,264	5,178
Net Profit	8,684	6,776	5,695	3,998
<b>Operational Indicators</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of employees (x 1000)	6,890	6,365	5,607	4,892
Number of customers (x 1000)	4,942	5,083	5,102	5,069

Source: O2 CR Annual Reports 2011-2014; Own processing.

## Appendix 18 – Evaluation of External Strategic Factors

O/T	Rank	External Strategic Factors	Weight	Rating	Weighted Score
<b>OPPORTUNITIES</b>	1.	Political stability.	0.03	3	0.09
	2.	The predicted growth in GDP and growing economy.	0.05	3	0.15
	3.	Decreasing unemployment rate.	0.03	2	0.06
	4.	Construction of NGMN.	0.10	5	0.50
	5.	Developing trends in ICT, M2M, Big Data, and OTT.	0.11	4	0.44
	6.	Growing interest in the Internet.	0.09	5	0.45
	7.	Increasing market penetration of new technologies.	0.08	3	0.24
	9.	Life style consumer preferences.	0.02	3	0.06
	10.	Entry barriers into market.	0.03	4	0.12
	<b>THREATS</b>	1.	Regulations by CTO, EU.	0.07	3
2.		The abolition of roaming charges.	0.03	3	0.09
4.		Decreasing prices in the telecommunications market.	0.11	2	0.22
5.		Mature market – A limited demand of customers.	0.05	4	0.20
6.		Aging of the population.	0.01	3	0.03
7.		Lack of technical people in the labour market.	0.02	4	0.08
8.		Competition among firms.	0.08	3	0.24
9.		Threat of new entrants.	0.05	3	0.15
10.		Low buyers switching costs.	0.04	2	0.08
<b>Total Weighted Score</b>			1.00	-	<b><u>3.41</u></b>

Source: Own processing.

## Appendix 19 – Evaluation of Internal Strategic Factors

S/W	Rank	Internal Strategic Factors	Weight	Rating	Weighted Score
<b><u>STRENGTHS</u></b>	1.	Goodwill and reputation.	0.05	3	0.15
	2.	Network coverage – fixed, mobile infrastructure.	0.08	5	0.40
	3.	Broad portfolio of services.	0.04	5	0.20
	4.	Single operator of public payphones.	0.02	2	0.04
	5.	Market position in fixed line, corporate segment.	0.06	4	0.24
	6.	Fastest growing provider of IPTV.	0.06	5	0.30
	7.	Business growth of O2 Slovakia.	0.06	5	0.30
	8.	Strong investments.	0.08	4	0.32
	9.	Leader in innovations.	0.08	4	0.32
	10.	Integration into PPF Group.	0.03	2	0.06
	11.	Skilled, talented employees.	0.03	3	0.09
	12.	Decreasing OPEX.	0.05	3	0.15
	13.	Low level of indebtedness.	0.03	3	0.09
<b><u>WEAKNESSES</u></b>	1.	Declining consolidated revenues.	0.05	1	0.05
	2.	Decline in profitability.	0.06	1	0.06
	3.	Long-term decline in market share in the mobile market.	0.05	2	0.10
	4.	Decrease in the number of fixed lines.	0.03	2	0.06
	5.	A fluctuating total number of residential customers.	0.03	3	0.09
	6.	Lower loyalty of residential customers.	0.05	2	0.10
	7.	Occasional network failures.	0.03	3	0.09
	8.	Low liquidity.	0.03	2	0.06
<b>Total Weighted Score</b>			1.00	-	<b><u>3.27</u></b>

Source: Own processing.