

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Economic analysis of selected e-shop with children's accessories**

**Kristýna Skokánková**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Kristýna Skokánková

Business Administration

Thesis title

Economic analysis of selected e-shop with children's accessories

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### Objectives of thesis

The objectives of thesis are to research economics information about selected e-shop and evaluate it. Based on this economic analysis, recommendations and proposals to improve economic performance will be done.

### Methodology

Bachelor thesis is divided into two main parts theoretical and practical part.

For the theoretical part are used methods such as extraction of information, study of documents, synthesis, induction and also deduction is used.

In the following, practical part, the theoretical knowledge is applied in the design of specific e-business solutions. Also are used basic statistical method such as average, median, minimum and maximum and methods such as analysis of market and product analysis.

The proposed extent of the thesis

40 pages

Keywords

online shop, e-shop, e-business, e-commerce, profit and loss, cash flow

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Recommended information sources

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The Bachelor Thesis Supervisor

Ing. Petr Procházka, Ph.D., MSc

Supervising department

Department of Economics

Electronic approval: 28. 2. 2017

prof. Ing. Miroslav Svatoš, CSc.

Head of department

Electronic approval: 3. 3. 2017

Ing. Martin Pelikán, Ph.D.

Dean

Prague on 07. 03. 2017

### **Declaration**

I declare that I have worked on my bachelor thesis titled "Economic analysis of selected e-shop with children's accessories" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on

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### **Acknowledgement**

I would like to thank my supervisor Ing. Petr Procházka, MSc, Ph.D. for useful advice and support during my work on this thesis.

# Ekonomická analýza vybraného e-shopu s dětským zbožím

## Souhrn

Bakalářská práce se zaměřuje na ekonomickou analýzu vybraného e-shopu. Tento e-shop se zabývá prodejem dětského zboží. Nejprve je zde analyzováno okolí podniku, jak vnější, tak i vnitřní. Hodnocení e-shopu na základě ekonomické analýzy je vytvořeno v letech 2010-2016. Dále se v práci sleduje podvědomí zákazníků o e-shopu pomocí vyhledaných statistik na srovnávači.

Teoretická část obsahuje důkladnou literární rešerši zaměřenou na e-commerce a subjekty, se kterými se můžeme setkat v e-commerce. Dále se tato část zabývá ekonomickou analýzou, návratností investic a také analýzou poptávky a nabídky. K získání informací pro tuto část byla použita, jak klasická knižní literatura, tak i elektronické zdroje.

V praktické části jsou shrnuty základní informace o analyzovaném e-shopu. A na základě získaných informací z teoretické části byla vytvořena ekonomická analýza, tedy analýza okolí podniku, vnější i vnitřní. Tato analýza byla provedena pomocí PEST analýzy a Porterova modelu pěti sil. Následně pak vznikla SWOT analýza, kde byly zjištěny silné a slabé stránky podniku. Pomocí ukazatele ROI byla vyčíslena návratnost investice do reklamy na Internetu. V závěru práce jsou shrnuty nejdůležitější informace a výsledky celé práce.

**Klíčová slova:** online obchod, e-shop, ekonomická analýza, ROI, návratnost investic, poptávka, nabídka, swot analýza, e-commerce, e-business

# **Economic analysis of selected e-shop with children's accessories**

## **Summary**

Bachelor thesis is focused on the economic analysis of the selected e-shop. The analyzed e-shop is engaged in sale of children's equipments. First, there is analyzed environment of the company, both external and internal. Evaluation of e-shop on the basis of economic analysis is made in the years 2010-2016. Further work follows the subconscious of e-shop customers by means of searched statistics on the grader.

The theoretical part includes a thorough literature search focused on e-commerce and other entities with whom we may meet in e-commerce. Furthermore, this section deals with the economic analysis, return on investment and also an analysis of supply and demand. To obtain information for this section was used classic literature, and electronic resources.

The practical part summarizes basic information about the analyzed e-shop. And based on the information obtained from the theoretical part was created an economic analysis, the analysis of company environment, both external and internal. This analysis was done by using PEST analysis and Porter five forces model. Subsequently was founded SWOT analysis, which has been identified strengths and weaknesses of the e-shop. Due to the indicator ROI was calculated return on investment from advertising on the Internet. In conclusion was summarized the most important information from the thesis and results of the entire work.

**Keywords:** e-shop, e-commerce, e-business, demand, supply, swot analysis, ROI, economic analysis, return on investment, online shop

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# 1 Introduction

The subject of this thesis is the economic analysis of the specific e-shop. For this analysis, was chosen e-shop with children's accessories Méd'aBéd'a.cz.

Méd'aBéd'a.cz company was founded in 2003 and focuses on the sale of children's products. The main advantage of the online shop and the differences from the competitors is the cooperation with trustworthy suppliers and kindergartens. E-shop Méd'aBéd'a.cz has a really wide range of strollers, over car seats, up to various baby accessories.

Economic analysis will be carried out during the period 2010 - 2016 on the basis of publicly available information and annual reports of the company from the perspective of external users. The main goal of economic analysis is a clear appreciation of their business and serving for easier decisions on financing and investing company. It provides important information for lenders and owners. This analysis is based primarily on the results of past years and tries to explain the causes of phenomena that occurred in the company.

The bachelor thesis is divided into six parts, which are introduction, objectives and methodology, theoretical part, practical part, conclusion and resources. The theoretical part explains first what e-business as a whole is, where will be also explained the concept of e-commerce and e-shop concept. After that the economic analysis of the company will be focused on. In the penultimate chapter the analysis of the return of investment will be made. And finally analysis of supply and demand will be created, where attention will be paid to external factors, which can affect move of supply and demand curve.

The main goals of this work belongs to assess the company's economic situation Méd'aBéd'a.cz in 2010-2016 and based on the outcomes of the economic analysis suggest ways to promote a better market position. Another objective is to compare the status of the company on the market with the largest competitors in the market to the companies selling the same or similar product.

## **2 Objectives and Methodology**

### **2.1 Objectives**

The main objectives of thesis are to research economics information about selected e-shop and evaluate it. For further objective of this work is to determine whether potential customers are aware of this e-shop and compare them with other e-shops of the same industry. There will also be taken into great consideration the financial savings while maximizing conversion ratio. Will be detected ROI, return on investment, of each advertisement on the Internet. Towards the end will be found, why there are moves in supply and demand and what factors influence these curves.

### **2.2 Methodology**

Bachelor thesis is divided into two main parts theoretical and practical part. For the theoretical part, are used methods such as extraction of information, study of documents, synthesis, induction and also deduction. In the following, practical part, the theoretical knowledge is applied in the design of specific e-business solutions. Also are used basic statistical method such as average, median, minimum and maximum and methods such as analysis of market and product analysis. It was also used indicator ROI that was used to determine return on investment. For the processing of all data I used MS Word and MS Excel. Individual information was always categorized and then converted into tables and graphs.

### 3 Theoretical part

#### 3.1 E-business

Electronic business is a concept that refers the use of information and communication technologies (ICT) and the benefits of the Internet in business. The origins of e-business have emerged already in the 80s and 90s of last century, mainly due to the large expansion of corporate information systems development of the Internet. In 1996, in terms of a marketing campaign of IBM, was used for the first time the concept of e-business. This term is experienced and is used to this day. The main objective, which is most important for e-business is the improvement of business processes and the associated quality of customer service thanks to the use of ICT and the Internet. (Combre, 2012)

**Figure 1 - Parts of electronic business**



Source: (Suchánek, 2012)

Electronic business still presents two more large independent groups, which are e-commerce and e-shops. As we see in the figure above (figure 1) both of these groups are subsets of e-business. (Suchánek, 2012)

According to the book Introduction to e-business (Combre, 2012) “electronic business can be defined as the use of the Internet to network and empower business processes,

electronic commerce, organizational communication and collaboration within a company and with its customers, suppliers, and other stakeholders.”

A bit differently e-business can be defines by the book Beyond E-business: Towards networked structures (Grefen, 2015) as “Electronic business is conducting core business activities in a way that is enabled by the integrated use of information technology for processing and communication of information.”

Both of these definitions can be classified similarly, but there is something different. In both of definitions is the foundation of the business objective, which is achieving and maintaining profit. Thus, in order to achieve this profit and fulfil their business objective, so both definitions give us information that is important to the entire circulation also involve several other aspects which may include cooperation with a partner, communication with customers etc.

Most of us under the term e-business imagine only an Internet shop, booking system, etc., but these are only activities that we call just electronic commerce (e-commerce), which is one of the subset of the entire e-business. E-business as such has a much broader meaning, which includes many activities, aimed mainly to support and maximize business processes, both internal and external. According to the Internet business are founded on the same level businesses and companies, but also ordinary users who are on one side of the target group in terms of implementation of electronic transactions, but on the other hand, use the Internet and its services for entertainment or education or for example for work purposes. Basic activities that belong to electronic trading at the level of trade and production, we could include:

- Customer Relationship Management
- Marketing
- Sale
- Control Orders
- Payments
- Invoicing
- Packaging
- Transportation
- Storage
- After Sales Service
- Communication Tools
- Information Systems
- Human Resource Management

- Managing relationships with business partners
  - Financial Management
  - Development of technologies
  - Control Technology
  - Product Development
  - Production
  - Production Management
  - Resource Management
  - Management know-how
  - Senior Management
  - Legislation
- (Suchánek, 2012)

### 3.1.1 E-commerce

Electronic commerce is nowadays standard and very suitable alternative for the realization of business activities between the various entities. The exact definition of e-commerce sounds: “E-commerce refers to the use of electronic means and technologies to conduct commerce (sale, purchase, transfer, or exchange of products, services, and/or information), including within business, business-to-business, and business-to-customer interactions. Delivery of product or service may occur over or outside of the Internet.” (Whinston, Choi, & Stahl, 1997)

Mr. Suchánek (2008) defines main business models that exist in e-commerce:

- E-shop – is the main online marketing tool for company or store. The main aim is the presentation and marketing of goods or services with the possibility of ordering. Another important goal is to increase demand and reduce the cost of marketing and sales. It's a cheap way to showcase the global market.
- E-procurement – mediates the supply of goods and services online. Creates a market for suppliers and customers, which reduces their costs for the offer. The goal of electronic exchange is to reduce the cost of securing these commitments.
- E-mall – There is a system of electronic commerce, which covers one institution. When specialization on a particular segment then this electronic shopping centre becomes a hub for the entire industry. Revenues are expected from advertising, membership fees and commission of the underlying transactions.
- Virtual communities – value is created for members (customers, partners) of the community, who add their information into an environment that will provide provider.



This community can be an important complement to other marketing activities provider. Income comes from advertising and membership fees (less used option).

We can say that in e-commerce therefore falls within the direct sales to end customers realized online, which involves a range of goods and their subsequent order. Furthermore, this can include various types of payment such as the various forms of e-banking or payment on delivery. Finally, there can also include establishing and maintaining business contacts through electronic channels, negotiate business and mutual provision of business information between business entities.

#### 3.1.1.1 Subjects of e-commerce

In electronic communication we can encounter many subjects; it is not only businesses and consumers. All these entities create many combinations that represent a variety of business relationships in the field of electronic business. To identify individual subjects we used the initial letters of the each names of these entities. (Manzoor, 2010)

In e-commerce, there are the following entities:

- B (Business) = company, firm
- C (Consumer) = end consumer

Entities that are already part of the e-business are as follows:

- A (Administration) = public body
- E (Employee) = employee
- G (Government) = state government, institutions

##### 3.1.1.1.1 B2B (Business to business)

B2B is an indication of business relationships and communication between the two businesses, which is the oldest component of electronic commerce. "There are two primary components of B2B market: E-infrastructure and E-markets. E-marketplace is an online electronic market where buyers and sellers meet to exchange goods, services, money, or information. E-infrastructure is the architecture of B2B which primarily consists of logistics, application service providers, outsourcing of functions in the process of e-commerce." (Manzoor, 2010)

It's very challenging and extensive process, which is based mainly on constant mutual communication and exchange of information. Among the companies there is a negotiation about the terms of a specific business case, about sending inquiries, orders, invoices and other documents. Electronic version of these documents can help reduce costs, automate the entire process and increase its speed. (Manzoor, 2010)

Important communication channel between companies gradually became Internet, which was increasingly important for the B2B segment. In the beginning, they were using to mutual communication e-mail correspondence. Over time the Internet started use to searching a variety of information, ordering promotional materials for companies and many other activities. It also became an important means of trading. This new form of communication for both sides, suppliers and customers, was beneficial. Therefore, the first model of e-commerce, which has developed very rapidly, was the form of bilateral trade, i.e. trade 'one to one'. (Manzoor, 2010)

In this process, there are often trade changes. Subscribers changing their supplier and seek more advantageous offers. And on the supply side changes occur too. In connection with this fact we are talking about the creation of electronic marketplaces that are higher level B2B and whose task is brokering. (Manzoor, 2010)

On electronic marketplaces meet suppliers with buyers. Through these marketplaces they are traded together, negotiate business conditions, order goods and services, and many others. (Manzoor, 2010)

The most complex B2B systems behave as a communication and distribution network, used primarily to control the already established business relationships. Often these systems are directly connected to other programs within the software structure of the selling company. This connection brings savings and increased efficiency throughout the sales process. (Manzoor, 2010)

#### 3.1.1.1.2 B2C (Business to consumer)

This model is associated with the concept of e-shop. It has been the most widespread model of electronic trading at our country. It expresses the relationship between businesses and consumers. It includes direct sales to end customers, and unlike previous B2B segment, on B2C market encounters larger number of subjects. The volume and value of goods is lower. (Manzoor, 2010)

Implementation of the B2C segment primarily takes place through web applications and virtual shops located on the Internet. The main component of B2C services is to provide information about products. Websites, which are offered us such information, constitute a kind of brochure or electronic catalogue. (Manzoor, 2010)

The aim of the B2C is an effort to attract and retain customers. For this purpose is very important feedback of the final consumers, which represents a higher level of B2C. Feedback can be obtained through interactive forms or discussion forum. Online stores themselves represent the highest level of this segment that offer to their customers' immediate payment of the goods ordered. (Manzoor, 2010)

B2C can also be divided according to how they use the Internet to their activities. In the first case the sale and distribution takes place completely through the Internet. Through this way we can listen to music or read electronic books on the Internet. Furthermore, this method is used e. g. to sell or lease the software or to publish information in different electronic newspapers, exchange messages, and more. Another option is to order and pay for products via the Internet, the distribution itself, however, is already mediated by courier or classically by post office. (Manzoor, 2010)

#### 3.1.1.1.3 Other subjects

In addition to the classic segments of B2B and B2C, in e-business we will also meet with other combinations of individual subjects. (Manzoor, 2010)

#### B2A (Business to Administration)

This applies to business relationships between businesses and public institutions. It is closely related to the B2G segment. The difference between these two is that under B2A are meant rather relationships of lower levels of government, such as local government. B2G refers to the state as a whole. (Manzoor, 2010)

#### B2E (Business to Employee)

It represents the relationship between a company and its employees. This includes also the communication between the employees themselves together. It includes services based on the Internet standards and protocols. The aim of B2E is mainly to improve awareness and knowledge of employees, increasing their motivation and productivity. (Manzoor, 2010)

#### B2G (Business to Government)

This area includes the business relationship between the company and the public sector. It is subset of B2B segment. It includes products and services provided by government institutions. Relations between the company and the government are mostly made on the basis of an exchange of structured data. (Manzoor, 2010)

#### B2R (Business to Reseller)

It is sales through the member of distribution chain that buys goods for resale. B2R is the communication between the company and its sales representative. During this communication structured data are primarily exchanged, therefore we meet with various forms of extranet, which represents an intermediate step between traditional web and intranet. (Manzoor, 2010)

#### C2A (Citizen to Administration), C2G (Citizen to Government)

These two concepts are already less common forms of electronic commerce. It represents the relationship between citizen and state. They represent a subset of e-government, a sort of "electronic government". It includes electronic filing of tax returns and property tax. (Manzoor, 2010)

#### C2B (Consumer to Business)

In this relationship decisions are made by the end customer. For example, they indicate the price at which they are willing to buy goods or services provided by the company. It depends on the company whether this price will be accepted or not. (Manzoor, 2010)

C2C (Consumer to Consumer)

It expresses business relationships and communication between two customers. In this particular case, it is the participation in the auction system used to sell used goods or services. To sell these used goods there are various advertising services, second-hand goods e-shop, exchanges or specialized auction systems. Communication in C2C takes place without the participation of the business entity. It is not therefore usually subsumed into the e-business services. (Manzoor, 2010)

### **3.1.2 E-shops**

The notion of electronic shop poses some business through electronic tools, which represent the information and communication resources. Electronic commerce includes not only sales of products and services, but also all the steps that they relate to trade, from advertising, contracting, links to after-sales customer service. (BusinessInfo.cz, 2017)

WTO (World Trade Organization) under electronic shop includes both products that are sold and for which it paid throughout the Internet but delivered in a tangible form, as well as products that are distributed digitally after payment.

According to the book E-commerce: An Introduction we can define electronic shop as: “An e-shop can be an online store with a static catalogue or an online store with extended functionality e. g. interactive catalogue, mailing lists, and customers reviews. An e-shop is setup by a single company. E-shop provides facilities whereby customers can purchase products offered at e-shop.” (Amir Manzoor, 2010)

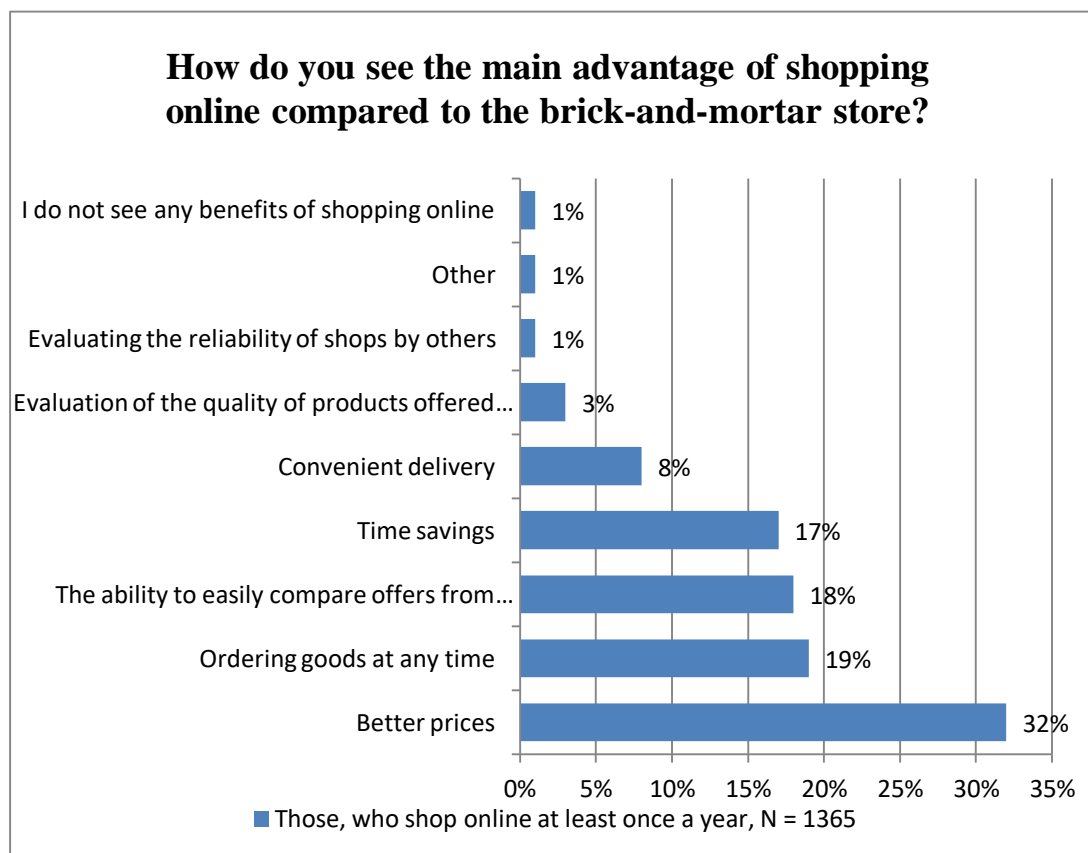
In the Czech Republic regulates electronic commerce many laws, which covered primarily regulation of European Parliament and Council Directive 2000/31 / EC of 8 June 2000. This is mainly on these two main laws: the law no.480 / 2004 Coll. information society services, as well as the Act 40/1995 Coll., on the regulation of online advertising. (Businessinfo.cz, 2017)

Due to its complexity and difficulty cannot be e-shops viewed as standard web pages, but as a web application, sometimes used the concept of a web portal. This application is used primarily for the presentation of goods, which is easy to locate specific products, the

possibility of comparison, offer similar and related products, together with the actual implementation of the order. Owners and operators of these online stores can then be e. g. commercial or manufacturing firms, brokers, dealers, owners of these stores, which together with the stone-run business Internet commerce and suppliers. (Suchánek, 2012)

Association for Electronic Commerce (APEK) in 2013 published the results of its research that interested in what compels consumers to make their purchases realized just on e-commerce.

**Figure 2 - Advantages of e-shop compared to the brick-and mortar store**



Source: Lupa.cz, 2016

The measured results (Chart 2) show that a major aspect of why Czech consumers prefer shopping online is offer competitive rates, according to the association, this trend has lasted longer. The hinge is then ranks the possibility of ordering goods at any time, the ability to easily compare offers individual shops and saving time. These four elements make up for a long time advantage over brick-and-mortar stores and is also reflected in the very consumers looking for e-commerce, which is cheap, fast (without complicated registration), and who

offers some advanced product comparisons, along with time-saving . On the other hand, people are worry about the misuse of credit cards, no possibility of the goods in advance to get a feel, do not have an opportunity to consult anyone about buying and fear of complaints. (Lupa.cz, 2016)

## **3.2 Economic analysis**

Economic analysis pursues an economic phenomenon, which is further decomposed into smaller parts and those undergoing research and evaluation. The aim of this investigation and assessment is to identify improvements. The difference between financial and economic analysis is that the financial analysis focuses only on the evaluation of financial indicators, while the economic analysis includes additional analysis primarily non-economic type. It can be made for the company, but also e. g. for its various departments. Economic analysis includes, inter alia, evaluation of results and new proposals variants, which in the future will lead to improvement of existing results (Synek, 1999).

### **3.2.1 Analysis of company environment**

Every business is surrounded by environment. For company environment can be considered anything the company itself can affect or is affected by all the things. Surrounding forcing businesses set goals and ways of achieving them. Activity area has great influence enterprise, while the company does not have many options for how it could affect their surroundings. (Synek and Kislíngerová, 2010)

For the creation of the strategy and strategic goals it is important to do the analysis of the environment because it provides information about where the business is located. In the context of increasing globalization have on the company and influence events about which it is possible to say that the enterprise in question has nothing to do. (Sedláčková and Buchta, 2006)

Strategic analysis involves two basic areas, analysis focused on the external environment of the company and analysis focused on its internal environment. The surroundings are not insulated from each other, they are interconnected. Analysis of the environment of the company is engaged in "the identification and analysis of enterprise environmental factors

that influence its strategic position and the creation of 4 potential opportunities and threats for his work." This analysis focuses on the factors around the company, which influence or possibly could in the future affect his position. The analysis focuses on the individual components of the macro and micro environment, their relationships and connections. The importance of the surroundings for the company is increasing with the development of science, engineering, technology, business, communications and information systems. Surrounding the company is made up of government, legislation, financial institutions, customers, competitors and for example suppliers. (Sedláčková and Buchta, 2006)

### 3.2.1.1 The Macro environment

Corporate surroundings can be divided into internal and external. External environment is created microenvironment and macro environment. The company has the opportunity to influence the effects of the micro environment. (Dvořáček and Slunčík, 2012) Whereas the effects of the macro environment the company has not the possibility to influence. Into this environment, according to the opinion of Mrs. Sedláčková and Mr. Buchta (Sedláčková and Buchta, 2006) includes a "general political, economic, social and technological framework within which companies operate."

To analyze the macro environment PEST analysis is used. Individual shortcuts letters are factors political-legislative (P), economic (E), socio-demographic (S) and technical-technological (T). This gradually leads to expansion of the original name of other factors and are formed PESTLE analysis or PESTEL (political, economic, socio-demographic, technical and technological, legal and environmental factors) (Dvořáček and Slunčík, 2012).

#### **Political/Legal factors**

Political and legislative factors determine conditions for businesses to operate. Into political factors we can include, for example:

- "Policies of political parties
- Activism of regulatory agencies
- Presence of property protection laws
- Ability to influence political decision-making
- Voting rates and trends
- Nature power and decision-making structures



- Public opinion” (Babette E. Bensaoussan, Craig S. Fleisher, 2012)

### **Economic factors**

Into economic factors can include, for example:

- “GDP growth rates
- Exchange reserves
- Rate of inflation
- Income distribution levels and bands
- Interest rates
- Small business lending levels
- Balance of payments” (Babette E. Bensaoussan, Craig S. Fleisher, 2012)

### **Social factors**

Into social factors can include, for example:

- “Ideological characteristics
- Types of union organizations
- Income gaps among social segments
- Percentage of population in economic and social segments
- Value systems for social classes
- Cultural background of citizens
- Birth and death rates” (Babette E. Bensaoussan, Craig S. Fleisher, 2012)

### **Technical and technological factors**

These factors are the utilization of science and technology in the business. These factors can include, for example:

- “Patent held
- R&D budgets
- Number of colleges and universities in a region
- Pace of technology change
- Presence of technology clusters
- Pace of process or product improvements
- Bandwidth capacity” (Babette E. Bensaoussan, Craig S. Fleisher, 2012)

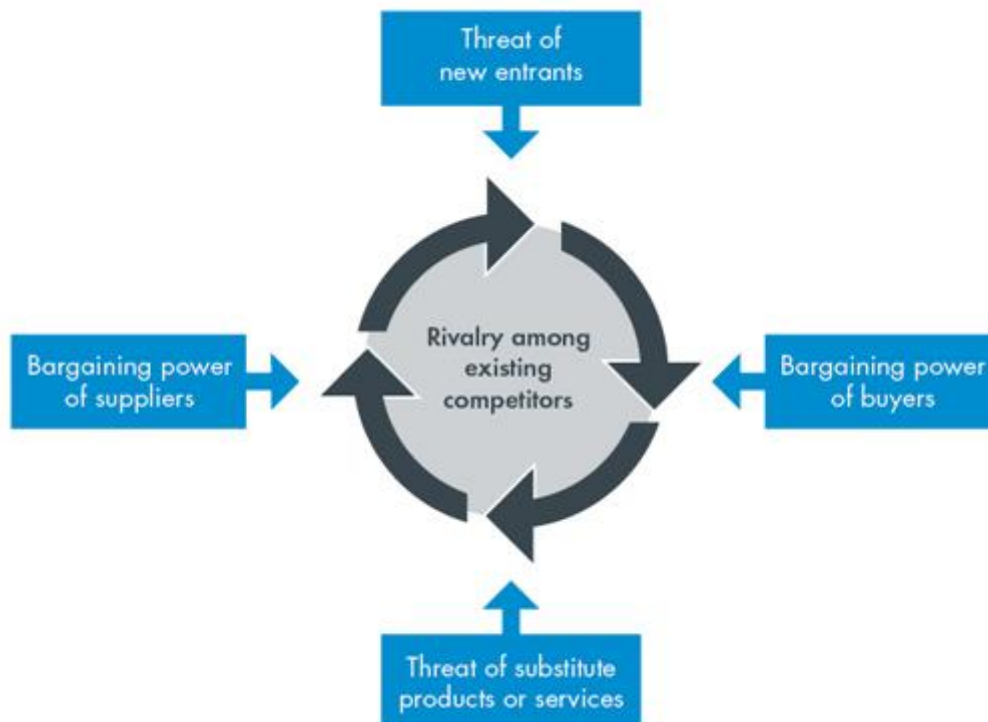
### 3.2.1.2 The Micro environment

As was explained in the preceding paragraph, the effects of micro environment can influence the e-shop or company.

#### **Porter's five forces model**

Porter's five forces model analyzes the competitive environment. Social and economic impacts are also important. On the setting of competitive rules has affect industry structure. An important task is to cope with the effects of external factors that affect the company in the industry. According to Porter, the degree of competition in the industry depends on five basic competitive forces: the impact on customers, suppliers, potential new competitors on the threat of replacement or new products and rivalry among existing firms. These forces and their action potential determine the final profit industry (Michaux, Cadiat and Probert, 2015). Porter's five forces model is shown in the figure attached below.

**Figure 3 - Porter's five forces of competitive position analysis**



Source: (CGMA, 2017)

### 3.2.1.3 SWOT analysis

In addition PEST analysis there are other methods for the analysis of the macro environment. This is e. g. a SWOT analysis that examines the internal and external environment of the company. SWOT is an acronym around four factors:

- strengths
- weaknesses
- opportunities
- threats

Inside the environment is associated with strengths and weaknesses, then the external with opportunities and threats (Dvořáček and Slunčík, 2012)

The essence of this analysis is the division factor into two parts which are influenced by internal and external influences. Internal influences do include strengths and weaknesses. Among the external influences include opportunities and threats. To perform this analysis, it is possible to obtain important data from competitors. Other input data can be analysis and interviews. (Dvořáček and Slunčík, 2012)

Using the strengths of the company achieves its intended objectives. Strengths should represent the company a competitive advantage. As well as strong, and weaknesses are internal in nature. These, it is difficult to achieve the stated objective, it is appropriate to eliminate weaknesses. Opportunities for the company mean way e. g. to achieve growth. First it will be necessary to identify these opportunities - if used effectively, they can be turned strengths. Threats are changes around the company, which may cause the stated objectives, will not be achieved. Removing these items is important; otherwise the threat may adversely affect the company. (Dvořáček and Slunčík, 2012)

## 3.3 Return on investment

Evaluation of return on investment in e-business environment is used in two ways. The most common is the evaluation of period for return on investment in the project and expressing the ratio of earned money to the money invested in advertising. (J. Phillips, 2012)

Indicator ROI (return on investment) is estimated to future project. This indicator is crucial before the implementation of the web because it clearly demonstrates that the investment will pay off. From the results of calculation of monthly income, we get by a simple calculation, how long the initial investment will pay off. (J. Phillips, 2012)

The formula for calculating the monthly profit of CZK:

- $ROI (CZK) = (\text{visit rate monthly} * \text{conversion rate in \%} * \text{average profit from one order}) - \text{web costs monthly}$  (J. Phillips, 2012)

### **3.3.1 Conversion rate**

Conversion ratio in the formula indicates the ratio between the number of visitors and orders implemented through the web. For operating web conversion rate can be calculated accurately, and for future projects, we can estimate. (J. Phillips, 2012)

Outside the statistical information, conversion ratio reflects success of the website. If a competitor has achieved higher conversion rates, it is a signal to make changes on the design or in content of web. According to Jack J. Phillips is relatively no matter how many visits the web has, the most important is the conversion rate. (J. Phillips, 2012)

### **3.3.2 Return on investment in PPC advertisement**

Expressing the ratio of earned money to the money invested in advertising is one of the basic marketing factors on the Internet. Costs and benefits from PPC advertising are precisely quantifiable and expression of their relationship, we find immediate benefit for the company. (J. Phillips, 2012)

The formula for calculating:

- $\text{Costs for PPC} = \text{monthly visits} / \text{number of orders per month} * \text{price per click}$  (J. Phillips, 2012)

## **3.4 Supply and Demand**

### **3.4.1 Demand**

Demand is a function that shows the dependence of the quantity of demanded product on its price. It tells us how many products will be demanded at a given price. Demand curve derives

from a budget line and essentially follows the curve of marginal utility. Demand for the same goods is different in the short and long term, because for us in the short term is more difficult to substitute product with increased price with other product than in a long term. The demand curve is steeper in the short term than in the long term. (G. Lipsey, Harbury, 1992)

#### 3.4.1.1 Terms related to demand

Market demand is the total sum of demands of individual consumers. Therefore, the market demand curve is a sum of the individual demand curves. Aggregate demand is a total sum of market demands at all sub-markets. Individual demand is demand of a single buyer or a demand for the production of a single producer. Partial or market demand is a demand for one product. (Mankiw, 2016)

Income effect causes an increase in the price of products, while the nominal income is unchanged, which refers to a decline in real income and a decrease in a quantity of demanded products. Substitution effect causes an increase in the price of the product X, respectively, to increase its relative price with regard to the product Y. This will lead to a decrease in quantity of demanded product X and shift demand into demand of product Y. The resulting effect of price's change is the sum of the income and substitution effect. (Mankiw, 2016)

Substitutes are commodities that are interchangeable. The rising price of one leads to an increase in demand for the other. Complements are commodities that are mutually complementary. The rising price of one product leads to a decrease in quantity demanded of both goods. (Mankiw, 2016)

#### **3.4.2 Supply**

Supply is a function that shows the dependence of the quantity of offered products on its price. Early on, it is necessary to decide if we talk about supply in the long or short run. (G. Lipsey, Harbury, 1992)

### 3.4.2.1 Supply in the short run

A short period is the period when the company still is not considering leaving the market. The company is even willing to take short-term loss. This implies that in the short term will not change the number of companies on the market for the product. The companies do not leave the market, but also they do not enter. Supply curve of the company in the short term is identical with part of the marginal cost curve of the firm. The starting point of the supply curve is a minimum curve of average variable cost. In the short term the producer is willing to bear the loss, but the maximum is amount of fixed costs. If the price falls below average variable cost, company stops operating. (Mankiw, 2016)

### 3.4.2.2 Supply in the long run

In the long term the company is leaving the market if they have an economic loss. And at the same time the new firms enter the market if they reached a profit. Supply curve in the long term changes in a single point of supply. Long-term balance of the company settle down when its marginal costs equal marginal revenue, and simultaneously the company reaches zero economic profit. This situation is the balance of the company and also market equilibrium. Firms are trying to cut costs in order to reach a profit. In the end the largest benefit will have consumers, because it can afford to buy more and more goods. (Mankiw, 2016)

### 3.4.2.3 Terms related to supply

Market supply is the sum of the volumes of certain goods that are willing to offer at different prices, all manufacturers of this product. It is therefore the sum of the individual supply curves. Graphically, the market supply is a horizontal sum of all individual supply curves. Aggregate supply is the sum of all goods in the economy; manufacturers are willing to offer at different price levels. Elasticity of supply is a different intensity in change of offered quantity depending on the change determining factor. Price elasticity of supply is expressed as

$$E_s = \frac{Q_2 - Q_1}{(Q_2 + Q_1):2} ; \frac{P_2 - P_1}{(P_2 + P_1):2}$$

EC is the coefficient of price elasticity of supply, Q1 is the quantity offered before the change and Q2 is after the change, P1 price before the change and P2 is price after the change. Factors influencing the price elasticity of supply are particularly options and storage costs. The storage is more difficult and more expensive, the lower the elasticity is. Furthermore, it is

the characteristics of the technology and manufacturing process. The production is difficult, the smaller elasticity. Supply elasticity increases with lengthening of the time horizon. (Malkiw, 2016)

### **3.5 Perfect and Imperfect markets**

Economic theory distinguishes between two types of markets. Perfect market is pure abstraction and in practice we usually cannot meet it. Imperfect markets can be found in textbooks, but also we can meet them in everyday life. (Tewari, 2003)

#### **3.5.1 Perfect market**

The prerequisite are absolutely equal conditions for all its participants. It means: free entry into the industry, the same level of foreknowledge of all economic entities in the market, many manufacturers in the market, completely homogeneous production, the company can not affect the market price. The aim of the company in a perfect market is to maximize profit. This can be achieved mainly by cutting costs and looking for savings. Perfect market forces manufacturers to maximize cost reduction. If the price is constant, the total revenues depend only on the volume of production, so it is  $TR = P * Q$ . There is the constant price so there are constant average incomes and also are constant the marginal revenue. The condition of equilibrium firm in a perfectly competitive market is the golden rule of profit maximization  $MC = P$ . (Tewari, 2003)

#### **3.5.2 Imperfect market**

On an imperfect market conditions are not met the perfect market. Imperfect the market occurs when the firm produces a differentiated product. It's a market where there is at least one vendor that can affect the market price. (Tewari, 2003)

The main causes of imperfect markets are:

- Cost conditions - or economies of scale,
- entry barriers into the industry,

- legal restrictions - trademarks, patents, copyrights; ownership of restrictions gives owners exclusive rights to produce and implement the product, which can gain a large market share,
- product differentiation - each manufacturer comes to the market with a production that differs from production of their competitors; not depends just on the product itself, but also depends on services provided with product,
- insufficient information of the market entities,
- ownership of an important factor in the hands of one company,
- state intervention in the market mechanism,
- political circumstances. (Tewari, 2003)

Types of imperfect markets:

- Monopolistic competition - a large number of producers, one product moderately differentiated, free entry into the industry. Prices for individual products may vary. (Tewari, 2003)
- Oligopoly - few manufacturers, the same product, limited access to industry because of the considerable economic power of the oligopoly companies, prices are higher than in conditions of perfect or monopolistic competition. Oligopolistic producers can influence the price by limiting supply. A special case is a contractual oligopoly. Oligopolistic producers agree on a price, so as to not weaken each other and everyone realized profit. Then each such producer behaves in its market as a monopolist. Another case is oligopoly with dominant company. There is one strong company and several small companies which can not jeopardize the one great. (Tewari, 2003)
- Monopoly - absolute imperfection, absolute power over the consumer, the only manufacturer, monopoly can dictate the conditions, the maximum price is given by the purchasing power of demanders. It is the actual destruction of the competition on the supply side. (Tewari, 2003)

### 3.5.2.1 The balance of the company in the imperfect market

The company is in the balance, if makes such production volume at which maximizes profit. Profit is maximized at such a volume, when there is the biggest difference between total



revenue and total costs. Features income is significantly affected by competition. Total revenue may rise or fall. (Tewari, 2003)

## **4 Practical Part**

### **4.1 Introduction**

Brief characteristics of the company will mainly serve to external users for a better understanding of the activities of the e-shop with children's equipment. E-shop Med'aBed'a.cz is operated by Flash Partners, s. r. o.

Company name: Flash Partners, s. r. o.

Date of establishment: February 26, 2003

Head office: Holečkova 789/49, Smíchov, 150 00 Praha 5

Legal form: Limited Liability Company

Identification number: 03840361

Share capital 240 000, - CZK

Executive head: Yveta Skokánková

The main business activity: production, trade and services not specified in the annexes 1 to 3 of the Trade Act

- Brokering services,
- wholesale and retail,
- providing software, consulting in information technology, data processing, hosting and related activities and web portals,
- entertainment facilities, organization of cultural and entertainment events, exhibitions, fairs, shows and special events.

The company Flash Partners, Ltd was registered on February 26, 2003 (indexical court in Prague) and hence carries out its activities without interruption.

The company, Flash partners, operates in addition to e-shop Méd'aBéd'a.cz also other e-shops with various assortments.

Initially, the company operated only one e-shop, which was focused on the trading in erotic goods. During its development, has gradually developed into a company that has gained the

trust of the customer thanks to its fast and respectable negotiation. The company Flash Partners has created or invested capital in other e-shops, which are currently dedicating oneself to various sectors of trade. One of them is being analyzed Méd'aBed'a.cz e-shop, which is exclusively dedicated to the sale of children's accessories. Other e-shop, operated by Flash Partners, is for example Maxisale.cz.

To ensure the highest quality and the best selling product on the market, e-shop Méd'aBéd'a.cz works with other e-shops and nurseries or kindergartens. These partners include miminko.org, tehotenstvi-kojeni.cz, kocarky-autosedacky.org and Maxik's kindergarten. Through this collaboration, e-shop is able to provide customers everything what they need and answer all questions during the purchase.

According to data that have e-shop carefully recorded is an annual turnover approximately 1 million, monthly visits is about 1 500 visitors and in September 2016 shop scored 20 000th order since its existence. Online store has only one store, where is possible personal takeover and it is located in Prague.

#### **4.1.1 The range of products and services**

Section of baby items in the online store offers more than 300 products. The range of products and brands is very wide and covers almost all areas of children's facilities. The only category of goods, the offer is missing is plastic and wooden furniture, which was recently withdrawn from sale because the sale of these goods were not too high. On the other hand, we can find almost everything what parents need for their children. Overall, the range of products can be described as very good.

#### **Delivery methods of goods**

Shop offers standard options of delivery, namely: post office, DPD and personal taking at the storeroom in Prague. The only thing missing from the e-shop is to use some of the modern branch network for personal taking (e. g. HeurekaPoint, Uloženska, Zásilkovna etc.). This can be considered as quite serious defect which may deter some customers from larger cities who are accustomed to use these services.

### **Payment options**

Payment options are also standard: cash on delivery, bank transfer or cash. As a disadvantage I would show the lack of the ability to pay through a payment gateway directly by credit card. Here, then, there is an advantage to the competition, where you can pay by credit card through payment gateway.

### **Other services**

Méd'aBéd'a.cz offers several advantages in the section of guarantee and benefits. It is worth to mention guarantee of exchange of goods. If the delivered goods customer does not like or is damaged due to delivery, e-shop guarantees the exchange of goods, or even a refund. E-shop special functions, such as sales promotion, discount program for regular customers. These services significantly improve the company's image.

#### 4.1.2 Pricing policy and target customers

The important information for a potential entrant to the market is knowledge of the pricing policy of shop Méd'aBéd'a.cz. Therefore table 1 presents 10 products selected with using of leader boards on the web Heureka.cz and with regard to the diversification of products and brands. For these products were found price in the e-shop Méd'aBéd'a.cz and compared with competitors. When creating tables were not taken into account loyalty discounts or any other discounts provided only to certain customers.

**Table 1 - Compare the price of children's equipment, 31st January 2017**

Product	The lowest price	The average price	Méd'aBéd'a.cz price
Römer Kidfix SL SICT 2014 Black Thunder	3990	4140	4090
Pallas M Autumn Gold 2015	6490	6990	6990
Britax B-Agile 3 Cool Berry 2013	4390	5140	5490
Hauck Malibu Disney 2013	3500	3699	3899
Babypoint Sally red	2290	2290	2290
Newbuddy Peggy green	990	1090	1190
Sofa for kids Nellys 67R	1555	1791	1759
Chair for kids Nellys - Sovy	610	699	699
Newbuddy Relax blue	1150	1190	1230
Delta Diffusion multifunctional pad	1434	1532	1490

Source: Own data processing according to Heureka.cz

The table above shows that prices in the e-shop Méd'aBéd'a.cz are average with regard to oriented e-shops, but sometimes prices are a little higher, and sometimes much more higher than the lowest price on the market. Thus the pricing policy of e-shop is rather conservative and certainly not cost-oriented. Targeted customers are probably customers who prefer the quality, credibility and service shop before lowest price.

## **4.2 Economic analysis**

### **4.2.1 Analysis of company environment**

Analysis of company environment is important because, on the basis of its results, the company may decide on its future strategy.

#### 4.2.1.1 The macro environment

As I mentioned in the theoretical part, examining the effects of the macro environment for business will be done by using PEST analysis, which includes political and legal, economic, social and technological factors.

#### **Political and legislative factors**

In 2016, the political situation can be considered as stable. The government is formed by the coalition party CSSD, KDU-CSL and the movement ANO 2011. The head of government is the Prime Minister - Bohuslav Sobotka, who is also chairman of the CSSD. Each party coalition has different priorities, even though we are talking about the most stable government in recent years. In the years 2010-2014 Czech political scene has experienced several Prime Ministers:

Jan Fisher      8. 5. 2009 – 13. 7. 2010,

Petr Nečas     13. 7. 2010 – 10. 7. 2013

Jiří Rusnok     10. 7. 2013 – 29. 1. 2014

Bohuslav Sobotka    29. 1. 2014 – up to now

The government of Jan Fischer after the parliamentary elections in May 2010, resigned. Often referred to as bridging government (composed of experts) and developed after censure the government of Mirek Topolánek in March 2009. The caretaker government of Jan Fischer had initially operated only till autumn 2009, but the Constitutional Court canceled the early elections; for this reason, the mandate of this government extended more than twice (Vláda, 2010).

The government of Petr Nečas was based on the results of parliamentary elections held in May 2010. The government coalition consisted by civic democrats, TOP 09 and Public

Affairs. The main objective of this government was to stop indebtedness of country and reduce corruption (Vláda, 2010).

In June 2013 the government of Petr Necas ended due to the intervention of the Department for Combating Organized Crime. During this operation has been detained head of the Cabinet, three ex-deputies of ODS and people from military intelligence. Based on these facts prime minister filed resignation, but the coalition wanted to continue with the new Prime Minister, which should be Miroslava Nemcova, ODS. President Milos Zeman, however, refused to name her. Instead he named the new Prime Minister Jiri Rusnok, economist, along with him president also appointed new ministers (Aktuálně, 2010).

In the autumn of 2013 were held early elections, which have given the coalition of CSSD, ANO and the KDU-CSL. Prime Minister has become Bohuslav Sobotka. Within five years, the Czech Republic experienced four prime ministers; each Government had different priorities. Some of them were targeted left-wing and other right-wing, which is reflected in the adopted laws and other regulations. This situation is not favorable for any company because it has impeded planning, changing tax rates etc.

In terms of legislation, 1<sup>st</sup> of January 2014 began to be valid two new laws that greatly interfere with the "life" of companies. It was the Business Corporations Act and the Civil Code. Business Corporations Act (no. 90/2012 Coll.) replaced the Commercial Code. Other important laws are the laws in the field of accounting and taxation. E.g. act no. 563/1991 coll., about accounting, act no. 586/1992 coll., the income tax, act no. 235/2004 coll., the value added tax, act no. 593/1992 coll., about reserves for determining the tax base, and more. From the table below, which shows the progress of tax rate on corporate body income, shows that between 2010 and 2016 corporate income tax rate is at the same level of 19%.

**Table 2 - Progress of tax rate on corporate body income**

2010	2011	2012	2013	2014	2015	2016
19%	19%	19%	19%	19%	19%	19%

Source: danarionline.cz

Another important tax, which refers to the analyzed company, is a value added tax. Since 2015, this tax has three rates, namely; basic, reduced, and a second reduced. Analyzed company covers only the basic rate of tax, and the progress of this tax is shown in the following table.

**Table 3 - Progress of value added tax**

2010	2011	2012	2013	2014	2015	2016
20%	20%	20%	21%	21%	21%	21%

Source: ucetnikavarna.cz

### Economic factors

Progress of each economic indicator affects every business. The table below shows GDP growth rate between 2010 and 2015. In 2010 and 2011, the GDP growth rate increases, in 2012 and 2013, the decline occurs. In 2014 the GDP growth rate is 2% and in 2015 it is 4.3%. Forecasts for next year are talking about the decline in GDP. For example, for the second quarter of 2016 the annual growth rate was 2.5%. (czso.cz)

**Table 4 - GDP growth rate**

2010	2011	2012	2013	2014	2015
2,2%	1,7%	-1%	-0,9%	2%	4,3%

Source: kurzy.cz

Another important economic indicator is inflation. In 2010 and 2011, inflation is around 2%. In 2012, inflation increased to 3.3%. The cause is to be found in the higher VAT rate, which increased by 4%, which resulted in an increase in food prices. In 2014, inflation is at 0.4%. This low inflation did not prevent foreign exchange intervention by the Czech National Bank, which has intervened mainly from fears of deflation. Progress of average annual inflation rate is clearly illustrated in the following table.

**Table 5 - Progress of average annual inflation rate**

2010	2011	2012	2013	2014	2015	2016
1,5%	1,9%	3,3%	1,4%	0,4%	0,3%	0,7%

Source: czso.cz

Unemployment rate in all years is around 5-7, 3%. This fact shows the attached table below. In 2013 changed the methodology of calculating the unemployment rate. If unemployment is at a high level, people do not have enough money so they can buy the products of the company.

**Table 6 - The unemployment rate**

2010	2011	2012	2013	2014	2015	2016
7,3%	6,7%	7%	7%	6,1%	5%	5,5%

Source: czso.cz

In November 2013 Czech National Bank started to intervene on foreign exchange markets. CNB strives to prevent strengthening of the koruna, and the rate holds at around 27 crowns per euro. Strengthening domestic currency CNB prevents unlimited intervention (selling and buying foreign currencies). If the koruna depreciated over 27 crowns per the euro, the central bank let develop the course according to supply and demand in the foreign exchange market. Foreign exchange intervention was used because of the possibility of deflation, which would lead to a reduction in salaries and investments. In the beginning, the central bank intervened several days and at that time bought foreign currency for 200 billion crowns. After that the exchange rate of koruna against the euro, which was above the 27 crowns per the euro, kept the market (Ekonomika iDNES, 2015).

During one day there was a reduction of koruna from 25.80 to 27 crowns per euro. With this step many economists, businessmen and politicians disagreed. And how the foreign interventions of the central bank watch companies in the Czech Republic? Weakening of the Czech koruna evaluates domestic entrepreneurs mostly positive. According to them, the improved profits of exporters, and the increase in production, decreased unemployment and increased wages. Intervention, however, is criticized by companies that have courses secured against collapse. Enterprises are now hoping that there will be no sudden change in course, they would prefer a gradual easing. Zero impact has foreign exchange interventions on businesses, which are making both purchases and sales only in euro. (Ekonomika iDNES, 2015)

The negative impact has interventions on companies which, although buy in euro, but sales realized in the koruna and in such a case is analyzed e-shop Méd'aBéd'a.cz. There is the purchase of goods from abroad in euro and the sale itself on the e-shop is realized in koruna. The following table shows the trend in average annual exchange rate of the Czech koruna against the euro in the specific period.

**Table 7 - Progress of average annual exchange rate CZK/EU**

2010	2011	2012	2013	2014	2015	2016
25,29	24,58	25,14	25,97	27,53	27,28	27,03

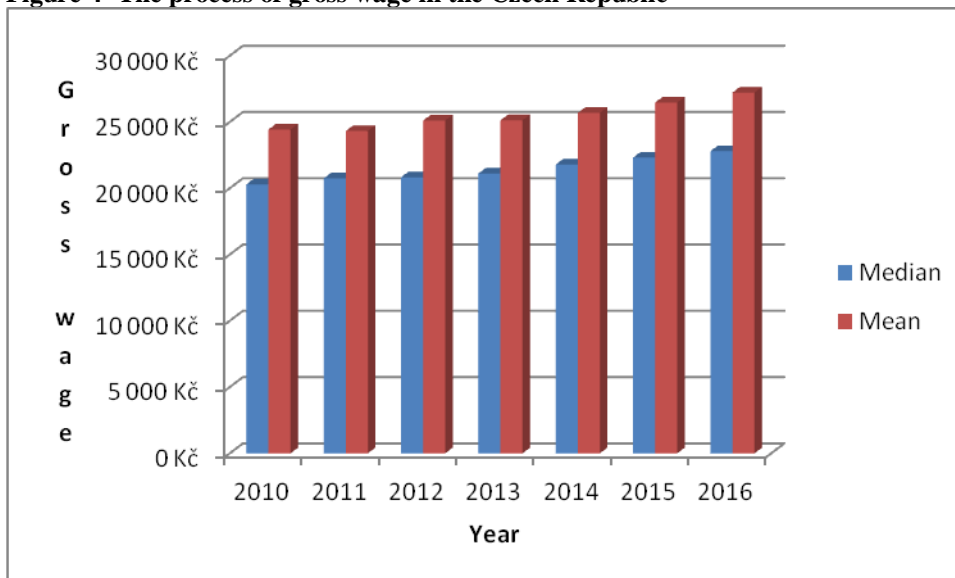
Source: kurzy.cz



## Social factors

Into social factors we can include e. g. the average wage. The process of average monthly wage is important for businesses: the higher the average wage, the workers have more money for shopping. However, it is necessary to take into account the monthly cost of each employee, which can increase because of an increase in average wages. Gross wages in the e-shop Méd'aBéd'a.cz are around 35 000 CZK. Therefore, it is higher than the average gross wage in the Czech Republic; however, the question is what the median gross wage is in the analyzed company. In the Czech Republic, the median gross wages are around 21 000 CZK, i.e. that half of employees have salaries above this level and half below it, which can be seen from the chart below.

Figure 4 -The process of gross wage in the Czech Republic



Source: Own data processing according to czso.cz

## Technological factors

E-shop Méd'aBéd'a.cz deals with the sale of children's products on the Internet, so the only technological factor is an online store.

Research of Association for Electronic Commerce shows, that only 3% of active Internet population has never been bought anything through the Internet. Representatives of this group often act like that, because of fear of trouble with the claim or the fear of abuse of personal data. Important information for e-shops may also be the proportion of customers who do not purchase through the Internet because they do not want to pay shipping. This group makes up

nearly one-fifth of presented 3%. Equally important information is the fact that 15% of this group matters need to register for purchase. The latter aspect, however, from the online stores are gradually disappearing. (APEK, 2016)

By the side of e-shop's customers we can also bring interesting data. E.g. 80% of people from time to time governing by reviews of other consumers, and only 4% of consumers never used graders of prices (e.g. Heureka.cz, Srovnanicen.cz etc.). Important information for e-shop Méd'aBéd'a.cz is also included in customer relations to certain businesses. The customer is usually attends first those stores that are its favourites. Compared with a brick-and-mortar and online store, then it clearly shows the current trend data, which asserts that only 29% of customers prefer shopping in brick-and-mortar stores.(APEK, 2016)

#### 4.2.1.2 The micro environment

Factors affecting the company in its microenvironment are also an important part of the analysis around the business. In this chapter we will focus on sectors in which the company operates. Using Porter's five forces model will be research whether there is a risk of entry of new competitors into the industry, what is the rivalry among existing firms, contractual power of buyers, suppliers and the existence of substitution products.

#### **Porter's five forces model**

By using Porter's five forces model were analyzed competitive forces around the selected business.

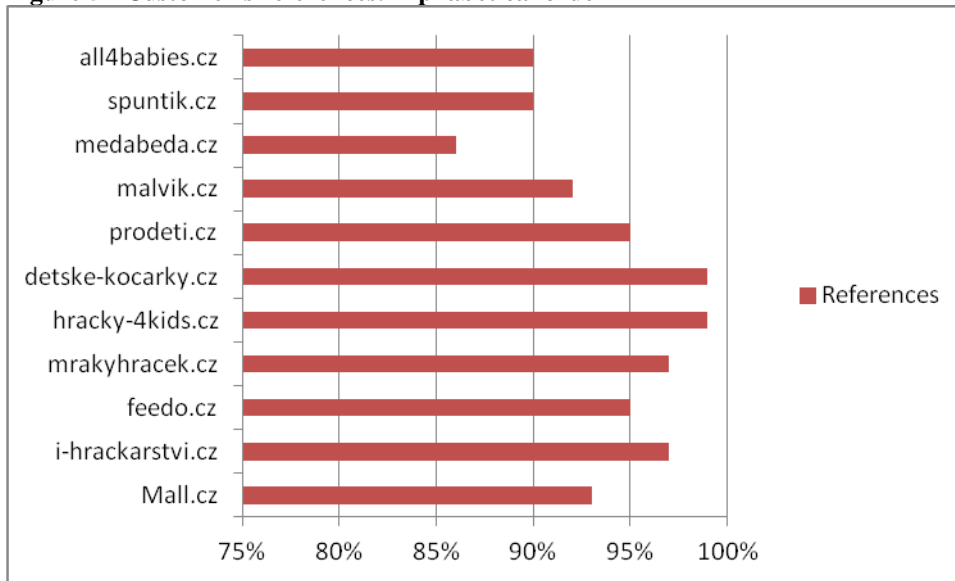
##### The rivalry among existing competitors

Currently, the largest competitor is e-shop Mall.cz, which is not focused only on the sale of children's products, but despite this has the widest offer of children's products. Mall.cz is popular by customers due to several dispensing sites in Prague, where you can pick up the goods by yourself, but also due to the already long-standing tradition in the market. The second largest competitor is a specialized e-shop Maxíkovy-hracky.cz, which offers a truly wide range of children's products, from toys to strollers. The e-shop is also popular due to several stores throughout the Czech Republic.

### Threat of new entrants

On the market with children's goods, there are several hundred companies. Among the three largest e-shops with children's goods include the already mentioned Mall.cz, Maxikovy-hracky.cz and feedo.cz. For new competitor it is therefore quite difficult to enter this market and gain the trust of customers who already trust established e-shops. Among the other competitors, I would also have to include, for example, Aukro.cz auction portal, where it offered a huge amount of children's products of different brands at good prices.

**Figure 5 - Customer's references. Alphabetical order**



Source: Own data processing according to Heureka.cz

### Bargaining power of buyers

Customers are final consumers, therefore non VAT payers. The main target group of the company, whether by the type of selling goods, are people from 18 to 35 years, mostly women with small children. Geographical factors, due to the way of sale, are not necessary to be solved. Currently, products and services are offered to customers according to their needs and wishes. I assume that in the time it has been business operates has built a loyal clientele. In my opinion, everyone should follow businessman Tomas Bata motto: "Our customer - our master."

### Bargaining power of suppliers

In this business there is not large bargaining power of suppliers. It is mainly because of good-quality suppliers of children's equipment is countless. Currently, the e-shop provides products

for own store in two ways. It is providing by purchasing goods from foreign distributors, as already mentioned in the previous chapter. And for sure, e-shop MedaBeda.cz collaborates with domestic manufacturers of children's products.

#### Threat of substitute products

One of the threats of substitute products could arise from the brick-and-mortar stores, where customers can inspect the product and possibly try straight. On the other hand, those brick-and-mortar stores are not a threat to e-shops, because they usually have higher prices. Higher prices are due to higher storage costs and higher costs for rental stores. But the biggest threat could be stores that have both e-shop and brick-and-mortar store. By being sold online and in-store they generate competitive advantage.

#### 4.2.1.3 SWOT analysis

SWOT analysis will evaluate the strengths and weaknesses of the company Méd'aBeda.cz. The following will be the opportunities and threats, whereby the company can face over the next years.

**Table 8 - Swot analysis**

S - Strengths	W - Weaknesses
<ul style="list-style-type: none"> <li>• One owner</li> <li>• High-quality and fashionable baby products</li> <li>• Reasonable prices</li> <li>• Selection of price categories</li> <li>• Internet sales</li> <li>• Cooperation with kindergartens</li> <li>• Zero indebtedness</li> <li>• Customer service</li> <li>• High-quality website</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of brick-and-mortar store</li> <li>• Inability to test the product by the customer by themselves</li> <li>• Weak promotion</li> <li>• Long delivery time</li> <li>• Weaker reviews from customers on grader (Heureka.cz...)</li> </ul>
O - Opportunities	T - Threats
<ul style="list-style-type: none"> <li>• Favourable economic development</li> <li>• Decline of unemployment</li> <li>• Growing demand</li> <li>• The growth of Internet users and Internet shopping</li> <li>• The growing popularity of e-shops</li> <li>• Expand of the product's range</li> </ul>	<ul style="list-style-type: none"> <li>• Entry of new competitors</li> <li>• Increasing competitive pressures</li> <li>• The power of customers (e.g. the customer does not accept delivery)</li> <li>• Wider offer of products of competition</li> <li>• Tax reform, government regulation</li> </ul>

Source: Own data processing

#### Strengths

As the strongest factor of e-shop, is considered business ownership by one owner. Due to this factor can all future strategies and measures implement quickly and efficiently.

Due to heavy competition in the industry, it is a quality assortment of goods considered as a very strong point. According to the owner opinion, the most products are sold from older seasons. In contrast, the products of the new season each year account for only about 15% of whole sales.

E-shop MedaBeda.cz offers goods at reasonable prices considering the quality, as has been shown in the table in the previous chapter. Due to different price categories of e-shop will satisfy the most demanding customer and also ordinary consumers.

In recent years, people favour shopping throughout the Internet. For example, Internet sales are growing annually by 15%. (APEK). Therefore, the sale through the website is an advantage and ranks among the strengths.

The strengths would definitely include various e-shops cooperation with kindergartens. MedaBeda.cz cooperates with a kindergarten “Maxíkova školka”, where provide some children’s items such as baby sofas or chairs and other toys. So parents here can directly verify whether the items are for their babies interesting and straightway can order via e-shop.

Finally, it is important to mention quality and most transparent websites. Nowadays a lot of e-shops choose a modern look, which is not always a plus. If the customer in the e-shop do not find in a short time what is looking for, its purchase surrender and instead go to a competition. It is also important not to extend the order form. It must be brief and mostly clear. Best should be concluded with a summary of the order.

#### Weaknesses

Among the weaknesses belong mainly the absence of brick-and-mortar stores and with it the inability to inspect products and try it beforehand. Unfortunately, this fact many customers discourage from buying, as they fear that they would not like the product and would have to incur the time and expense reimbursement.

In the future, the financial situation of the company would have a significant impact weak promotion. The owner invests small amounts into marketing, so there is plenty of scope for creating a marketing mix that would support the company to greater profitability.

Weaker reviews from customers on Heureka.cz, is impact of very long delivery times. The weakness in this evaluation discovered this factor due to lower ratings than the competition may deter customers from buying. Often reduces the credibility of the e-shop.

## Opportunities

The improving economic situation should support the measure, which makes MedaBeda.cz to increase profitability. Hand in hand with the decline in unemployment should support the increase in sales of product on e-shop.

To the opportunities we can also add the increasing convenience of customers who are accustomed to shopping from the comfort of home, thus increasing purchases through the Internet. Internet is constantly evolving, and with it grows various type of advertisement. Another opportunity is to expand the range of products, assigning new items to the e-shop's offer, which could attract existing as well as potential customers.

## Threats

The biggest threat in this environment is obviously competition, which is in this industry very large, and therefore not easy to succeed. The key to success is primarily a way to differentiate themselves from their competitors.

Another threat in the case of Internet sales is a customer's power when a customer orders product that is paid by cash on delivery. If this customer changes mind about the purchases during the delivery, the customer may not pick up the shipment at the post office. E-shop has extra costs, both for the delivery of the shipment at the post office, as well as to return the product back to the storage of e-shop.

As was already mentioned MedaBeda.cz shop has a good-quality assortment, but quite narrow. In fact this might be a reason, why customers leave to a competitor, which has a wider range.

The threats also include constantly changing legislation, which may cause lower profits, or cause indebtedness of the e-shop.

### **4.3 Return on advertisement investment**

Significance analysis of return on investment increases proportionally with the size of investment in the entire analyzed project. In case of realization of e-shop is monitored period for which this investment returns. But there will be count only the current monthly operating

costs of e-shop (the cost of web hosting and paid advertising in the catalogue heureka.cz, seznam.cz and google). From the results of the analysis ROI there will be determine, what number of orders is the minimum, which will ensure the profitability of a e-shop.

Part of the calculation of the return on investment, is to determine the conversion rate. The average of the good webs is 1% - 2%; at best it is over 10%. I counted in calculations with a very optimistic variant of conversion ratio of 10%, to 0.5% below average.

### **Return on investment from advertisement on Seznam.cz and Heureka.cz**

The average monthly visits, I figured out from accurate data, which e-shop carefully marking.

**Table 9 - Monthly visits of MedaBeda.cz**

Month	Visit rate
Září 2015	681
Říjen 2015	1433
Listopad 2015	1388
Prosinec 2015	2035
Leden 2016	1860
Únor 2016	1480
Mean	1479,5

Source: Statistics of e-shop MedaBeda.cz

Monthly expenses include the cost of web hosting and advertising campaign on the portal seznam.cz and heureka.cz.

**Table 10 - An estimate of monthly profit with different conversion ratios**

Average visits per month	Conversion ratio	Number of orders monthly	Average profit from orders through the Internet in CZK	Web hosting costs monthly in CZK	Advertisement costs seznam.cz in CZK	Advertisement cost Heureka.cz in CZK	Monthly profit CZK
1479	10%	147	500	225	1026	981	<b>71 718 Kč</b>
1479	5%	73	500	225	1026	981	<b>34 743 Kč</b>
1479	3%	44	500	225	1026	981	<b>19 953 Kč</b>
1479	1%	14	500	225	1026	981	<b>5 163 Kč</b>
1479	0,5%	7	500	225	1026	981	<b>1465,5 Kč</b>

Source: Own data processing



Monthly running costs of e-shop are together (after adding web hosting and advertisement on seznam.cz and heureka.cz) 2,232 CZK. The average profit from one order is about 500 CZK. A simple calculation ( $2232 \div 500 = 5$  orders after rounding) we come to the fact that the operation of the online business is profitable from 5 orders per month. Table no. 16, we can observe the different results of operations depending on the levels of conversion rate.

### Return on investment from advertisement on Google.com

A second analysis of the ROI, I will use to express effectiveness of resources expended on the advertisement on Google.com. In the analysis I focused on quantifying the ROI indicators for key words "dětské zboží" and "prodej dětského zboží".

**Table 11 - Price per click according to key word**

Key word	Price per click in CZK
Dětské zboží	16,09
Prodej dětského zboží	11,77
Dětské zboží prodej	11,66
Dětský e-shop	8,58
Dětský obchod	7,85
Dětské zboží praha	6,71
Kojenecké zboží praha	2,93
Kojenecké zboží	1,6
Obchod s dětským zbožím	1,6
Obchod pro miminka	1,6
Prodejna kočárků	1,6

Source: Own data processing

**Table 12 - The estimation of ROI for key word "dětské zboží"**

The average profit from one order in CZK	Price per click in CZK	Visits per month	Conversion ratio	Number of orders monthly	Conversion ratio absolutely	PPC costs on one order	Profit after deducting the costs of PPC	ROI in %
500	16,09	1000	10 %	100	10	160,9	339,1	<b>210,7%</b>
500	16,09	1000	5 %	50	20	321,8	178,2	<b>55,4%</b>
500	16,09	1000	3 %	30	33	536,3	-36,3	<b>-6,8%</b>
500	16,09	1000	1 %	10	100	1609	-1109	<b>-68,9%</b>
500	16,09	1000	0,5 %	5	200	3218	-2718	<b>-84,5%</b>

Source: Own data processing

The table shows that even with a good conversion rate of 3% is ROI in negative numbers. Advertisement pays off when the size of indicators is higher than 100%. This event occurs

whenever a profit after deducting the cost of PPC advertising higher than the cost per order. This occurred only for a very good conversion rate of 10%. The conversion ratio expressed absolutely represents, how many visitors of e-shop will make the order.

**Table 13 - The estimation of ROI for key word "prodej dětského zboží"**

The average profit from one order in CZK	Price per click in CZK	Visits per month	Conversion ratio	Number of orders monthly	Conversion ratio absolutely	PPC costs on one order	Profit after deducting the costs of PPC	ROI in %
500	11,77	1000	10 %	100	10	117,7	328,3	<b>324,8%</b>
500	11,77	1000	5 %	50	20	235,4	264,6	<b>112,4%</b>
500	11,77	1000	3 %	30	33	392,3	107,7	<b>27,4%</b>
500	11,77	1000	1 %	10	100	1177	-677	<b>-57,5%</b>
500	11,77	1000	0,5 %	5	200	2354	-1854	<b>-78,7%</b>

Source: Own data processing

From the table above we note that choosing keyword "prodej dětského zboží" contextual, we achieve much better results of ROI.

From the analysis it can be seen that it is profitable to invest now in advertising, where is a low cost per click, especially in the context of the fact that we still do not know the exact number of conversion ratio. If I get a high proportion of orders for clicks (conversion rate), I increase price per click for each keyword so I will try to stay on high ROI value. Now I will invest in advertisement up to CZK 2 per click.

### **Comparison of Google.com ft. Seznam.cz and Heureka.cz**

Analyses above show that advertising on seznam.cz and heureka.cz is still very convenient. The existing monthly average attendance, produced jointly with Seznam.cz and Heureka.cz is 1,479 people. The cost of this advertisement is 2232 CZK per month so than cost per click equals to CZK 1.5. Advertisement on Google.com makes sense if you achieve high ROI, because unlike catalogue advertising on Seznam.cz and Heureka.cz is paid per click, rather than a flat rate per year.

## 4.4 Supply and Demand analysis

In the following chapter I will deal with analysis of supply and demand. Specifically, I will discuss the factors that may affect supply and demand.

### 4.4.1 What factors affect demand?

There are several factors that could affect the demand, but I will focus only on two of them. As I already mentioned, e-shop MedaBeda.cz deals with sales of children's accessories. One of the factors, which may affect the demand, is the birth rate in the country. If the birth rate increase so symmetrically with that also increases the demand for children's products. In the table below we can notice that the birth rate from 2010 to 2013 decreased significantly. While from 2014 to the present, the birth rate increases.

**Table 14 - Birth rate in the Czech Republic**

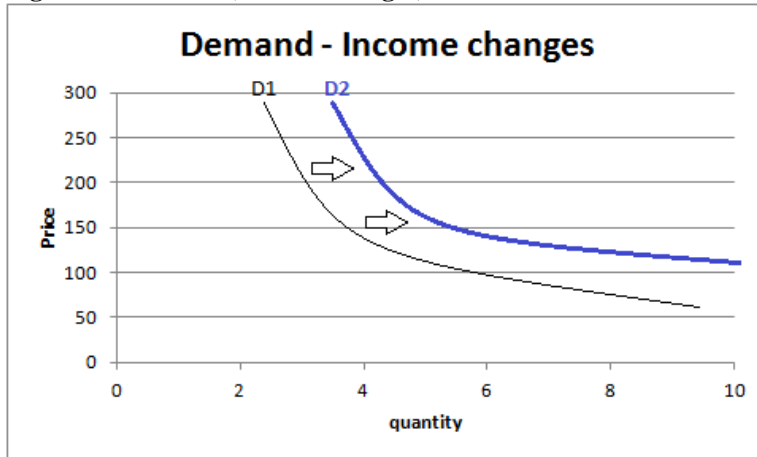
Year	2010	2011	2012	2013	2014	2015	2016
Birth-rate (thousands)	117,1	108,6	108,5	106,7	109,9	110,8	113,8

Source: Own data processing according to czso.cz

In the graph demand curve would be shifted to the right with an increase in birth rate, and with a decreasing birth rate, demand curve would be shifted to the left. So we can say that sales are proportionally increase or decrease with increasing or decreasing birth rate. Also otherwise, the higher number of children is the more customers, families, buy products on the analyzed e-shop.

Another factor that could influence the demand is, of course, income of customers. Based on the processed data in a table number 10, you may notice that the gross wage since 2010 continues to increase, as has been shown in the previous chapter in the graph number 1. We can say that if families with children have more financial resources, as well they buy more in our e-shop and demand curve is shifting to the right. In other words, customers are willing at the same price buy more accessories for their children. This curve shift can be seen in the chart number 3 below.

Figure 6 - Demand (Income changes)



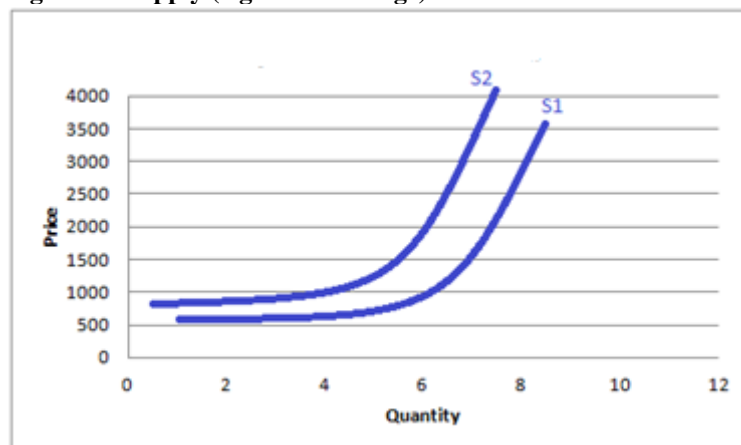
Source: Own data processing

#### 4.4.2 What factors affect supply?

There are several kinds of factors that could affect the supply. These factors can be external character, such as government regulations, legislative changes or natural disasters, for example. And then it also can be internal factors such as cost of substitutes, new technologies or market structure.

As an example, was chosen one of the external factors so it is legislative change. In the year 2006, there was a new law on child seats. This means that almost all families with children had to buy a new car seat that will suit the new regulations. In this case, the e-shop MedaBeda.cz increased its offer and as we can see from the chart number 4, the supply curve shifts to the right. This means that the analyzed e-shop is willing at a given price offer more quantity of products.

Figure 7 - Supply (legislative change)



Source: Own data processing

As a second example will be specify change that affected one of the external factors. In the year 2015, a German supplier of wooden furniture for kids raises the price of individual items. This change in price was due to an increase in production costs. There was a change in price of one of the basic input materials, wood. The e-shop MedaBeda.cz wants to keep customers so it decides to sell furniture still at the same price, but at a lower quantity. On the basis of later calculations, this furniture was excluded because of the zero profit from the sale.

According to this example, at first may be said that with the rising costs of production declines supply, and therefore, the supply curve shifts to the left. This means that the analyzed e-shop is willing to sell at that price less quantity of wooden furniture. And then, when sales had no profit, the offer was completely abolished.

## 5 Conclusion

The aim of this study was to set up an economic analysis of the e-shop MedaBeda.cz in the years 2010-2016 and assess its economy situation and achieved results. This analysis was based on the analysis of the microenvironment and the macro environment. As the further goal, was to create an investment analysis in advertisement, which stated aim to determine whether the investment is profitable.

In the next chapter, PEST analysis is used for an analysis of the macro environment. For a company are important legislative factors, particularly from a tax perspective and the progress of average gross wages. The greater the average gross wage, the more the customer buys. Another part was devoted to analyzing the microenvironment. This analysis was implemented by using Porter model competing forces. Based on these tools were defined competitors of the company and the status of the e-shop MedaBeda.cz on the market. One of the objectives, that defined low awareness of the company, was confirmed by the low number of customer's reviews on the grader Heureka.cz. In addition, external analysis methods helped to identify opportunities and threats examined in the SWOT analysis.

Subsequently, there was made a SWOT analysis, which helped identify the strengths and weaknesses of the company. The strengths include, in particular high quality and fashionable products at a reasonable price, cooperation with kindergartens and high-quality website. The weaknesses include the lack of brick-and-mortar stores, the inability to test the product in advance and weak advertisement. As the biggest opportunity is here seen a boom of shopping through the Internet, continuous growth in demand due to the ever increasing birth rate and declining unemployment. Under threats we may consider the entry of new competitors, increasing competitive pressures and power of customers.

The thesis also included the ROI, or return on investment in terms of run an e-shop and investment in Internet advertising. In an analysis of ROI was used indicator of the success of the web, the exact number of conversion ratio. With this indicator, they found that advertising on the browser Seznam.cz and grader Heureka.cz is profitable even at the lowest attendance when the conversion rate equals 0.5% and profit is 1,465 CZK. But advertising on Google.com browser, where you pay per click of each term, is profitable from the higher border of the conversion rate.

In the final chapter, was made an analysis of demand and supply on the basis of practical examples. Among the factors influencing the decline or growth of demand, was ranked birth-rate in the years 2010-2016. According to the processed data, it was found that the birth rate has increased since 2013 and with that demand for children's products increased. In this case also, the demand curve shifted to the right. Conversely, among the factors that affect supply was included the change in the production costs of foreign manufacturers, and subsequently an increased price of given product. This trade was not profitable for e-shop MedaBeda.cz, because it offered smaller amount of products for the given price, so the supply curve shifted to the left. Eventually, this product was due to low profitability, completely excluded from the e-shop.

The work can deduce several important conclusions. To achieve success in e-business, it is necessary to perform repeated analyzes, not only economic but also a ROI analysis or financial analysis.

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