

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Management**



**Diploma Thesis**

**Crisis management**

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## DIPLOMA THESIS ASSIGNMENT

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### Objectives of thesis

The thesis aims to apply the methods of crisis management on the company's selected business processes and then develop the anti-crisis measurements for this company, focused on a diversification strategy.

### Methodology

The theoretical part is based on the study and analysis of professional literary sources relating to modern methods of crisis management. The knowledge from the first part will be used in the following design part of the diploma thesis. The practical part will include the analysis of the situation of the selected company and the definition of the risks. In the next part, the evaluation will be performed using the methodology described in the theoretical part. Possible ways of solving the crisis and remedying the situation focused on diversification strategies will be proposed for the selected company.

1. Introduction. 2. Objectives and methodology. 3. Theoretical part. 4. Practical part. 5. Evaluation of the results and recommendations. 6. Conclusion. 7. References. 8. Appendix

## The proposed extent of the thesis

50-70 pages

## Keywords

crisis management process, crisis management approach, diversification strategy

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## Recommended information sources

BOIN, R A. *Crisis management*. Los Angeles: SAGE Publications, 2008. ISBN 9781847870889.

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### **Declaration**

I declare that I have worked on my diploma thesis titled "Crisis management" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31. March 2022

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# Crisis Management

## Abstract

At present, we clearly see the so-called coronavirus crisis, which has affected many companies around the world. However, it is clear at first glance that some companies are able to turn the crisis into an opportunity. The current situation, which is accompanied by various measures to alleviate the COVID-19 pandemic, is very difficult for many gastronomic companies. The main aim of the thesis was to apply the methods of crisis management on selected business processes of the Manifesto Market, and then to develop the anti-crisis measurements for this company, focused on a diversification strategies. Methods of the STEP analysis, Porter's model and internal sources analysis are applied for the business environment evaluation. The check-lists of crisis symptoms were conducted as a part of the consultation with the manager of Manifesto. The most important factors are detected: measures during the Covid-19 pandemic, increasing prices and wages, growing attention from the city administration and investors to the development and innovation of public spaces (competition risk), increase in debt, risk of insolvency. The assessment of crisis factors signals the need to develop an alternative business development plan, which includes diversification of product portfolio.

**Keywords:** crisis, crisis management, risks, diversification, diversification strategy, coronavirus restrictions

# Krizový management

## Abstrakt

V současné době je jasně vidět tzv. koronavirovou krizi, která zasáhla mnoho společností po celém světě. Na první pohled je ale zřejmé, že některé firmy dokážou krizi proměnit v příležitost. Současná situace, kterou provázejí různá opatření ke zmírnění pandemie COVID-19, je pro řadu gastronomických společností velmi složitá. Hlavním cílem diplomové práce bylo aplikovat metody krizového řízení na vybrané podnikové procesy Manifesto Market a následně vyvinout pro tuto společnost protikrizová měření zaměřená na diverzifikační strategie. Pro hodnocení podnikatelského prostředí jsou aplikovány metody STEP analýzy, Porterův model a analýza interních zdrojů. Kontrolní seznamy krizových symptomů byly vytvořeny v rámci konzultace s manažerem Manifesto. Jsou detekovány nejdůležitější hrozby: opatření během pandemie Covid-19, zvyšování cen a mezd, rostoucí pozornost vedení města a investorů k rozvoji a inovaci veřejných prostorů (riziko konkurence), nárůst dluhů, riziko insolvence. Vyhodnocení krizových faktorů signalizuje potřebu vypracovat alternativní plán rozvoje podnikání, který zahrnuje diverzifikaci produktového portfolio.

**Klíčová slova:** krize, krizový management, rizika, diverzifikace, diverzifikační strategie, koronavirová opatření



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# 1 Introduction

There are different types of business crises: for example, crises in management (a great example – the decline of Corporate Governance in the US companies Enron and Worldcom), crises caused by damage to the company's reputation (eg Diesel Gate Volkswagen), industrial disaster (Bhopal disaster – in chemical plant Union Carbide), economic and financial crisis (examples – debt crisis of many companies affected by the global crisis in 2009).

At present, we clearly see the so-called coronavirus crisis, which has affected many companies around the world. However, it is clear at first glance that some companies are able to turn the crisis into an opportunity. This situation in the days of coronaries is evidenced by the growth of companies in the e-commerce segment (Amazon, Alza, Zalando and other large e-shops), delivery services and logistics (food delivery services such as DámeJídlo, Wolt, Bolt, rental of logistics space for e-shops), pharmaceuticals (manufacture of protective equipment, vaccines), IT (software development for distance communication, home office and e-learning).

The negative effects of COVID-crises are recorded by companies in the services segment, which were most affected by the restrictions. The tourism, catering, personal care, sports services sectors – many businesses, both large and small, in these areas are unable to survive the current crisis. Some companies have tried to solve the crisis through a timely diversification strategy. For example, tourism companies have moved from foreign markets to domestic markets. Sports clubs have started to organize online competitions (example – SK Slavia). Probably every clothing manufacture began selling designed face masks (both the luxury brand as Louis Vuitton, both mass brand as H&M). Wedding agencies stopped organizing large wedding ceremonies in foreign countries and began to organize smaller events such as picnics, birthday parties, romantic date for residents, etc.

Examples of how companies deal with crisis situations are very inspiring and encourage interest in deeper research.

## **2 Objectives and Methodology**

### **2.1 Objectives**

The thesis aims to apply the methods of crisis management on selected business processes of the Manifesto Market, and then to develop the anti-crisis measurements for this company, focused on a diversification strategies.

### **2.2 Methodology**

The theoretical part is based on the study and analysis of professional literary sources, relating to modern methods of crisis management. The knowledge from the first part will be used in the practical part of the thesis.

The selected company for the own research is Manifesto Market. It is a modern company, based in Prague, which focuses of the gastronomic and cultural services.

The practical part of the thesis is based on the following working hypothesis:

The industry of the selected company (Manifesto Market) was significantly affected by the coronavirus crisis. Weather is the second most important factor threatening the company. The product diversification strategy will help the company eliminate the risk of reduced sales and customer outflows caused by the coronavirus pandemic and the weather.

Research question: What steps the selected company must implement as part of a diversification strategy in order to mitigate the impact of the identified crises? How much will it cost for the company to implement these steps?

The practical part will include the analysis of the situation of the selected company and definition of the risks, caused crisis. In the practical part, the analysis will be performed using the methodology described in the theoretical part of the thesis:

- the analysis of the sources of crisis will be made: the analysis of the internal and external environment of the company (STEP analysis, Porter's model, analysis of the internal resources, see chapter 3.1.2),
- the check-lists of the crisis symptoms (see chapter 3.2.3) will be filled based on the consultation with the manager of the selected company,

- crisis evaluation – the crisis barometer tool will be used (see chapter 3.3). The crisis will be evaluated in relation to probability factor and crisis impact value. Then the crisis will be identified, to which the most attention must be paid,
- crisis strategy planning – the proposition for the suited strategy will be made, the diversification strategy will be proposed using the model of marketing mix 4P, calculation methods.

### **Interview with the manager and evaluation of check-lists of crisis symptoms**

Searching for potential respondents for the interview was done in two ways. First, messages were sent to the e-mails listed on the Manifesto website. However, no reply was received. Secondly, Manifesto employees and managers were searched through the LinkedIn social network. Messages were sent to potential respondents through this network. The interview was approved only by one manager – Senior Site Manager from Manifesto Market (hereinafter referred to as M.). At the beginning of the interview, M. was asked to provide basic information about his practice at Manifesto. He stated that since March 2020 he has been working as a Senior Site Manager. Prior to that, he worked as a Restaurant and Bar manager and began his career as a line administrator.

Furthermore, M. was asked to evaluate 2 check-lists of crisis symptoms. He assessed his degree of agreement with the fact that the given symptom is characteristic of the current situation of the company. The results of the evaluation, conducted in December 2021, are used in the practical part of the work. Unfortunately, it was not possible to improve the quality of the assessment based on the opinions of other managers of the firm (since no one else from other managers wanted to participate in the interview).

### **Definition the sector of the company's activity**

Porter's model concerns the analysis of industry forces. It is therefore important to start by defining the sector in which the Manifesto operates. Within the classification of economic activities CZ-NACE, which is uniform for the European Union, catering and hospitality is assigned the number 56 in section I – Accommodation, catering and hospitality, which is further divided into (CZSO, 2008):

56.1 Catering in restaurants, stalls and mobile homes,

56.2 Provision of catering and other catering services (including catering) in company kitchens, school facilities and canteens),

56.3 Hospitality (sale of beverages).

Financial statements of the company were searched through the online portal of eJustice.cz. The search for information on the portal allows us to conclude about a number of organizational changes that took place in 2020, which are related to the opening of a new Manifesto on Amdel and the closure of the previous branch. Limitation of the analysis is worse transparency of financial data, published by the Manifesto on the eJustice portal.

### 3 Literature Review

In the process of business management, crisis management serves as an additional tool for solving complex and non-standard situations. In order to understand the essence and purpose of crisis management, it is necessary to identify the concept of a crisis.

#### 3.1 Definition of crisis

The word crisis has its origin in the ancient Greek word “krino”, which means to choose, decide, judge or separate. From the “krisis” then an English “crisis” emerged. It was a relatively wide-used concept in law, theology and medicine in Antiquity. It means a choice or a decision between two opposite variants – e.g. right or wrong, life or death. The clearest understanding of the concept is given by the medicine:

*“In the case of illness, crisis refers both to the observable condition and to the judgment (judicium) about the course of the illness. At such a time, it will be determined whether the patient will live or die. This required properly identifying the beginning of an illness in order to predict how regular its development will be.”* (Koselleck, 2006, p. 360).

The medical concept of crisis was dominant for a long time, but this word also expanded into the sphere of politics, economy, history. According to Koselleck (2006, p. 363) the general use of the term in many languages began around the turn of the 18<sup>th</sup> century.

Based on the analysis of the literature, Shmeleva (2009, p. 64) notes that the peak of “popularity” of the word “crisis” was the first decade of the 21<sup>st</sup> century: it was the time, then *“the word crisis reveals an explosive frequency.”* No less important is the remark of Bashkova (2009, p. 69) that in the 21<sup>st</sup> century, the attitude to the crisis has changed. The crisis was presented as an object of possible influence and the models of managing the crisis were appeared.

There are some definition of crisis similarly to medicine: *“a crisis is a fluid and dynamic state of affairs containing equal parts danger and opportunity. It is a turning point, for better or worse.”* (Fink, 2013, p. 7). In this definition, it is important to perceive the crisis as a transitional state, a turning point that can be followed by both deterioration and improvement. Therefore, crisis can be seen both as a threat (threat to future success, reps. survival) and as an opportunity (to achieve an improved state). Similarly as a critical



condition of a patient requires the increased attention of doctors, the crisis in the economy and the crisis in the company need maximum attention, given by management.

With all the variety of scientific approaches to the concept of “crisis”, the following characteristic features of this state can be distinguished (Zuev, 2003, p. 99):

- crisis presupposes the presence of interaction between the object and the subject,
- flows inside a particular system,
- characterized by an intensification of contradictions,
- is a transitional state,
- the resolution of the crisis presupposes the modification, development of the system, or the breaking of the links that form it.

The crisis is associated with almost all spheres of human society, as well as with a person's personal life.

In the context of the company management, crisis is, first of all, an unplanned, undesirable process that can significantly interfere or even make impossible the functioning of an enterprise. Crisis influences the organizational legitimacy, profitability and viability of the company (Gao, Alas, 2010, p. 9). Curtin et al. (2005, p. 28) state, that a badly managed crisis has significant impact on the company's brand and reputation: *“Handle it badly and one risks losing the company; handle it well and your reputation is enhanced, sales increase and the brand is stronger than ever.”* (Curtin et al., 2005, p. 28). How to manage a crisis properly is a very important skill. It is also necessary to be able to identify the causes, resp. factors that cause or may cause a crisis. Crises are diverse in their forms, causes and consequences.

### **3.1.1 Types of crises**

Enterprises are threatening by different crisis. Zhu Lei (2004 in Shen, Wang, 2018, p. 12) offered to classify the most common business crisis in this way:

- product crisis,
- financial crisis,
- human resources crisis,

- credit crisis,
- pollution crisis,
- sudden crisis (e.g. man-made accident).

It is obvious that the defined types of crises in the company are associated primarily with poor use of resources (financial, human) and also under the influence of external forces (pollution, demand).

Bernstein (2011, p. 2) divides crisis into three general categories, in terms of their intensity and duration of influence:

- creeping crises,
- slow-burn crises,
- sudden crisis.

Examples of global creeping crises are: the accumulation of personal data by private companies and government bodies, the growing use of social media and internet, the climate change (Boin, Ekengren, Rhinard, 2020, p. 117). First two examples are connected with the hacking and safety treats. Government activities of keeping the personal data cause declining trust in government. Social networks are non-controlled media and cause a spread of disinformation. Climate change is the factor of natural disasters, forest fires, has unexpected impacts on the agriculture. These are type of situations, when some significant treat factors are “creeping” and spreading to many other areas. There may be situations where local problems (eg smaller armed conflicts in individual regions) become a spark for firing up a large-scale conflict and crisis in relations between different actors and countries.

In the context of business, an example of a creeping conflict can be a failure in one section of the company that fundamentally disrupts the activities of other divisions, affiliates, partners, customers and other stakeholders. For example, Wolkswagen's deception about the environmental performance of diesel engines had a creeping effect, triggering litigations around the world and causing serious repercussions for the entire concern of Wolkswagen (the co called “Dieselgate crisis”).

Boin, Ekengren and Rhinard (2020, p. 116) state, that creeping crisis is a deep challenge to academics and practitioners, because they remain ill-defines and understudied. According to authors, the COVID pandemic is also an example of a creeping crisis.

Slow-burn crises gives some warnings for a long time before the real damage and impacts appear (Bernstein, 2011, p. 2). For example, a negative review of a product or brand published by influencer on its social profile will be seen by more and more people over time. This will damage the brand image and in the long run reduce its attractiveness when choosing customers.

The opposite of the slow-burn is the fast-burn crises. It is characterized by the fast onset and also fast closure (Boin, Ekengren, Rhinard, 2020, p. 119). It is also called as sudden crises (Bernstein, 2011, p. 2). Examples of the sudden crises are the sudden death or serious illness of a significant manager, key employee, or an owner, a discharge of hazardous chemicals, an unexpected job action or strike, a failure of the important manufacturing machines etc. (Crisis Management Curation, n/d). The damage of the crises will get worse the longer it takes to react (Bernstein, 2011, p. 2).

The crisis of the company can also be divided according to the degree of seriousness into two categories (Smejkal, Rais, 2006, p. 25):

- serious crises which threaten the very existence of the firm, and
- crisis less serious – they threaten the basic goals of the company in the long run.

The assessment of crises according to the degree of seriousness for the company is one of the important criteria used in the analysis within crisis management. It is talked about more in the chapter 3.2.3.

### **3.1.2 Sources and causes of the crisis**

A company's crisis arises due to an imbalance between the company and its environment or a dysfunction between the company's internal subsystems. The imbalance is therefore the primary cause of the company's crisis. In the relationship of the company to its surroundings and in the company's own activities, there are a large number of threats as future sources of imbalances and dysfunctions.

In 1991 the examination of crisis around seven different sources was organized by Small (in: Gilpin, Murphy, 2008, p. 15):

- natural,
- technological,

- crises of confrontation,
- crises of malevolence,
- skewed management values,
- deception,
- management misconduct.

A similar approach was taken by Lerbinger in 1997, but he defined only four categories of crisis sources (Gilpin, Murphy, 2008, p. 15):

- technological (flaws in equipment design, major accidents at industrial facilities, transportation disasters etc.),
- societal (ranging from kidnapping to war and sabotage),
- natural disaster (storm, earthquake, floods),
- managerial or systemic type (plant shutdowns, worker layoffs, business rumors etc.).

This division of sources of crisis into four categories is most commonly used in the modern literature. It is stated, for example, by Kubičková and Ráje (2012, p. 41), Smejkal and Ráje (2006, p. 26). It is clear that this classification contains both external and internal factors.

Useful classification of crises is according to the origin of the source – inside or outside the company. This division helps to divide the process of potential risk analysis into the external and internal environment. Typical sources of crisis inside and outside the company are listed in Table 1.

Table 1 Sources of crisis – inside and outside the company

Inside the company	Outside the company
Material crisis Crisis in production Financial crisis Personnel crisis Crisis know-how	Sales crisis around the company Rapid and significant changes in the pricing policy of suppliers Legislation allowing unfair competition (eg sale of product plagiarism on the market) Mechanical application of EU bureaucratic rules Customer crisis

Source: Smejkal and Ráje, 2006, pp. 25-26

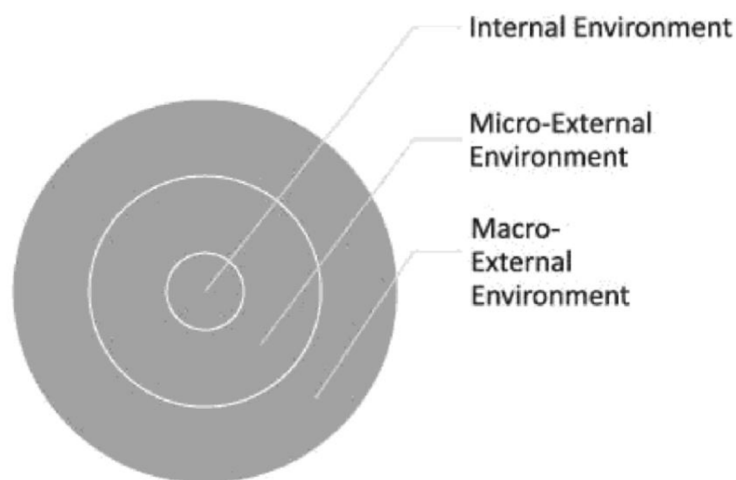
### 3.1.3 Analysis of the environment

No company is isolated from the influence of its surroundings and the influence of changes in it. The influences can represent a danger, but also an opportunity. The sources of crisis outside the company can be analysed from the two point of view:

- macro-environment,
- micro-environment.

Schematically, the structure of the business environment is shown by the Figure 1.

Figure 1 Structure of the business environment



Source: Mellor, 2019, p. 115

From the macro environment, the company is mainly affected by changes that are caused by (Zuzák, Königová, 2009, pp. 41-46):

- political and legal factors, such as changes in government, legislation and business rules,
- economic factors, the most important of which are changes in gross domestic product growth, inflation, exchange rate, tax rate,
- social factors, such as population preferences, lifestyle and consumer decisions,
- factors caused by the development of science and technology, which not only change production technologies, but also cause the emergence of new industries, the demise of existing industries and the speed of product change among customers.

These factors are the subject of PEST (or STEP) analysis.

Micro-environment includes different business entities and it is possible to analyze it based on the Porter's model. According to it, the company is endangered (Schermerhorn, 2009, p. 146):

- its competitors operating in the same business sector,
- new entrants – other companies that are planning to enter the industry because it is attractive,
- suppliers, who may create risks for the company through worsening of conditions or by their monopoly position,
- customers, who can endanger the company by easily transition to the competition, by changing preferences etc.,
- manufacturers of potential substitutes who could outperform existing customers because substitutes better meet their needs.

There are different approaches to the classification of the factors of the internal environment. According to Pilinkienė et al. (2016, p. 356), these factors include internal processes, human resources, customers, financial resources.

Sahai and Lall (2008, p. 69) divided factors of the internal environment to 5 groups: raw material, production/operation, finance, market, human resource. It is clear that some foreign authors consider customers to be an element of the internal environment. Czech authors (eg Jakubíková, 2013, p. 109; Kozel et al., 2011, p. 43) consider customers as one of the key subjects of the external environment – the so-called microenvironment. Kozel et al. (2011, p. 43) examine the following company's sources within the internal environment:

- management resources (qualifications, competence of managers, organizational structure, corporate culture, etc.),
- financial resources (sources of financing, equity, availability of external resources, debt ratio, profitability, productivity, etc.),
- human resources (number and structure of the workforce, qualifications and experience, interpersonal relations, mobility, staff satisfaction, etc.),

- capacity resources (availability of materials, raw materials, machinery, equipment, technology, etc.),
- innovation resources (know-how, research and development, licenses, patents, specific experience),
- information sources (information systems, quantity and availability of internal and external information sources, market research, etc.).

Based on the analysis of theories and empirical researches the most often internal causes of the crisis in the company were indicated: “*misrepresented development goals, defective strategic planning, poor quality of work and products, inadequate change management, poorly chosen means of achieving the objectives of the organization, low level of management skills, wrong development policy of the organization, faulty organizational structure, disruption to the organization's communication, leadership and organizational culture weak in partnership with the client, low customer status in the organization's life.*” (Jasińska, Hab, 2019, p. 2). It is clear, that the dominant part of these stated reasons are overflowed from the management quality. Zelek (2003 in: Jasińska, Hab, 2019, p. 2) also writes, that every crisis outside the company can be transformed into a chance, thanks the strong management and right decisions.

Financial resources can also be considered a very important factor that helps the company respond effectively to the crisis. A special chapter is devoted to the methods of financial resources analysis.

### **3.1.4 Analysis of the financial resources**

Data from the company's financial statements (balance sheet, income statement, cash-flow statement) can be analyzed using methods of the horizontal and vertical analysis.

Horizontal analysis is conducted to evaluate trends in the financial situation of the company. Absolute and percentage changes of the items of the financial statements can be calculated as follows:

$$\text{Absolute changes (CZK)} = \text{Item}_t - \text{Item}_{t-1} \quad (1)$$

$$\text{Procentage changes (\%)} = (\text{Item}_t - \text{Item}_{t-1}) / \text{Item}_t * 100 \% \quad (2)$$

where  $Item_t$  is the value of the indicator in the selected period,  $Item_{t-1}$  is the value of the same indicator in the previous period.

Vertical analysis helps to evaluate the structure of assets and sources of its financing, the structure of sales and costs of the company. Its principle consists in calculating the shares of individual items of the statement in the selected unit (usually total assets (or liabilities), total sales):

$$\text{Share on the total assets (\%)} = \text{Item of the balance sheet}_t / \text{Total assets}_t * 100 \% \quad (3)$$

$$\text{Share on the total revenues (\%)} = \text{Item of the incpme statement}_t / \text{Total sales}_t * 100 \% \quad (4)$$

Horizontal and vertical balance sheet analysis can be applied simultaneously, as they complement each other and help to conduct a deeper study of accounting data, which allows you to see the growth rate of the company and the dynamics of its development.

Analysis of the ratios is another part of the company financial analysis. Ratio analysis are divided to the different groups, such as liquidity ratios, activity ratios, profitability ratios, leverage ratios (Bohm, 2008, p. 3).

### **Profitability ratios**

In practice, profitability indicators are among the most monitored indicators, as they provide information on the effect achieved by the capital invested.

ROA (Return on total invested funds) characterizes the ratio of EBIT (earning before interest and taxes) to total assets, expressed as a percentage. ROA is used not only to comprehensively assess earnings as a whole, but also to evaluate the results of work achieved in internal components. The higher the value of this indicator, the more favorable the situation of the monitored company.

$$\text{ROA} = \text{EBIT} / \text{total assets} * 100 \% \quad (5)$$

ROE assesses the return on capital invested in the company by its shareholders or its owners. It is one of the basic indicators in measuring the performance and efficiency of the company. Return on equity refers to the ratio of net profit after tax (EAT) to



shareholders' equity. It is the rate of return per unit of investment of ordinary shareholders, expressed as a percentage:

$$ROE = EAT / total\ equity * 100\ \% \quad (6)$$

The indicator ROS (return on sales) measures the share of profit per CZK 1 of sales. It is very good for business comparison.

$$ROS = EBIT / total\ sales * 100\ \% \quad (7)$$

### **Debt ratios**

Debt ratio measures the amount of debt as a proportion of total assets (Dili, 2017):

$$Debt\ ratio = Total\ liabilities / total\ assets \quad (8)$$

Debt to equity ratio is used to define, how high the company debt is compared to the capital of shareholders (Dili, 2017):

$$Debt\ to\ equity\ ratio = Total\ liabilities / Shareholder's\ equity \quad (9)$$

### **Activity ratios**

Activity ratios show how active the business is in using its assets or resources to cover assets. Turnover ratio of turnover period can be calculated both. Turnover ratio expresses the number of turnovers and turnover period shows how many days does the renewal of the assets take (Voborová, 2013).

$$Turnover\ period = Selected\ item\ of\ assets\ or\ liabilities / (Annual\ sales / 360) \quad (10)$$

$$Turnover\ ratio = Annual\ sales / Selected\ item\ of\ assets\ or\ liabilities \quad (11)$$

Changes around and inside the company are risky for companies that are not prepared for them. The ability to be prepared for change in advance means eliminating risk and creating a crisis. Predictive management is focused on active problem prevention, risk management and crisis management (Antušák, Vilášek, 2016, p. 15).

## 3.2 Crisis management

Crisis management can be applied to psychological issues, to social problems and to business situations. But the term „crisis management“ was first used in 1962 in connection with the weapon crisis in the Caribbean, when the conflict between East and West (USA and USSR) resulted due to the covert deployment of nuclear missiles on the island of Cuba. At that time, J. Kennedy organized a group of people called „crisis management“, whose task was to reduce the risks leading to mutual confrontation (Rozanov et al., 2020, p. 11). Later, the term crisis management was adopted and its meaning evolved. It has been used primarily in the areas of politics, defense, and efforts to maintain and alleviate tensions between countries.

A significant milestone in the change of approach to the concept of “crisis management” was the year 1991. In November 1991, NATO published a Declaration on Peace and Cooperation (“The Rome Declaration”). This meant reorganizing and simplifying political and military structures and procedures, reducing armed forces, improving the readiness of forces to carry out new tasks and crisis management, and maintaining peace while maintaining collective defense (NATO, 1991, upd. 2020). However, the reduction of the threat of war provoked the interdependence of the world's economies. This growing dependence has made individual countries more sensitive, prone to unexpected crises, which could take the form of financial or economic crises, natural disasters, famines, epidemics, pandemics, pollution and plundering of people (Antušák, Vilášek, 2016, p. 13). Thus, the original designation for crisis management exceeded the limits of military-security character in its meaning, and the term crisis management thus became a universal term for designating processes associated with crisis management of both natural, socio-social, economic and business character.

As with classical management, there are a number of definitions of crisis management. It depends on the approach, professional perspective or directly to the school of management.

For example, the definition based on the Czech law (§ 2 of the Act No. 240/2000 Coll., on crisis management) is: crisis management is a set of management activities of crisis management bodies focused on the analysis and evaluation of security risks and the planning, organization, implementation and control of activities performed in connection

with (1) preparing for and resolving crisis situations, or (2) critical infrastructure protection.

Definitions in the managerial literature (Antušák, Vilášek, 2016, p. 15) state, that crisis management is:

- a set of specific approaches, methods and tools used by managers to ensure the functionality of the entity under the conditions of adverse effects, caused by the escalation of threats of a certain type,
- a tool in the hands of managers that allows them to use a number of methods and procedures in their decision-making process, which are specific only to crisis management,
- a specific form of management that managers use in cases where their current competencies and common (available) resources are not enough to manage a crisis situation (crisis).

Given that crisis management is a specific form of general management and a form of predictive management, it is recommended to define crisis management in the context of corporate management as follows: crisis management is a comprehensive set of theoretical approaches, practical recommendations and methods used by managers mastering specific activities while minimizing the sources (causes) of crisis situations or (in case the crisis has already occurred) reduce the extent of damage and minimize the duration of the crisis (Antušák, Vilášek, 2016, p. 15). Part of crisis management is also the elimination of the consequences of the effects of negative crisis factors, the restoration of the system and its return to a new (improved) normal state (Antušák, Vilášek, 2016, p. 15-16). It is therefore a matter of eliminating the threat and risk in such a way that the company is able to influence its future and development more.

The above definition shows a number of activities that fall into the field of crisis management. They can be divided into individual phases, resp. steps, and crisis management can be understood as a process.

### **3.2.1 The process of the crisis management**

Crises in companies may have different causes and forms, but their development is usually similar and several basic stages can be defined in it. The literature describes

various models of the development of the corporate crisis, which differ in the degree of detail in defining the various stages. For example, the simplest three-stage model includes pre-crisis, crisis and post-crisis stages (Pan, Meng, 2016, p. 95). The four-stage model includes prodromal, breakout, chronic and resolution (Fink, 1984 in: Otieno et al., 2010, p. 1). Five-stage model includes signal detection stage, prevention stage, damage control stage, recovery stage and learning stage (Bhaduri, 2019, p. 554). In this thesis is argued, that these models are not excellent because they don't focus on the most prominent parts of crisis management. The three- and four-stage models are very simple, the five-stage model focuses mostly only on the pre-crisis and post-crisis phases.

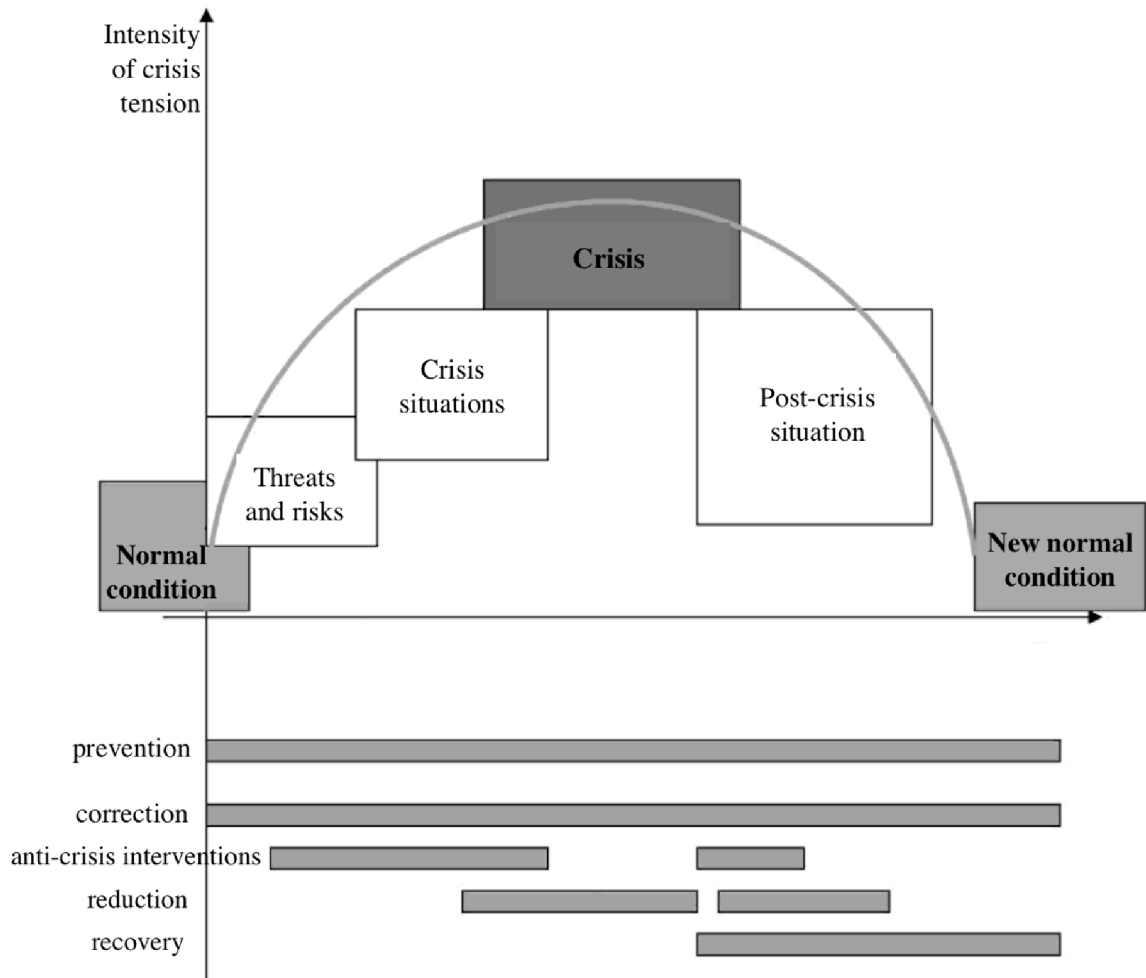
Another five-stage model includes five main functions (activities) of the crisis management (Antušák, Vilášek, 2016, p. 18):

- prevention,
- correction,
- anti-crisis interventions,
- reduction,
- recovery.

The difference between this model and the previous ones is that some activities are carried out at the same time and their intensity varies depending on the stage of the crisis. Figure 1 illustrates the process of the crisis and the interaction of the basic functions of crisis management.

Prevention consists in organizing and preparing the organization for the implementation of activities to prevent the transformation of threats into crisis situations and crises, to reduce the impact of their harmful and destructive factors on the elements of the organization or the organization as a whole. It is carried out in the whole continuum of the crisis environment (Antušák, Vilášek, 2016, p. 19).

Figure 2 The interaction of the main stages of the crisis proces and the crisis management functions



Source: Antušák, Vilášek, 2016, p. 19

The correction consists in the adoption of such legal, economic and other standards or measures that will create the conditions for minimizing the sources of crisis situations and ensure readiness to deal with various possible crisis situations. Grocki (2019, p. 3-4) writes about these types of restrictions, that can be developed in the correction stage:

- financial resources restrictions,
- personal restrictions,
- material restrictions,
- organizational restrictions,
- technical restrictions,
- legal norms restrictions.

The decision about the right restrictions and their application can be limited by some factors, such as less of time and quality of information (Grocki, 2019, p. 5-10).

The activities of prevention and correction are carried out in the whole continuum of the crisis environment (Antušák, Vilášek, 2016, p. 19). According to Grocki (2005 in: Walas-Trębacz, Sołtysik, 2014, p. 92), the activities carried out in the first two stages, ie prevention and correction (preparation), should constitute over 85 % of all activities in the crisis management system.

Anti-crisis intervention includes proactive measures aimed at preventing the emergence of a crisis situation or at least escalating it, stabilizing the situation and gradually returning to normal, without the detrimental effects of harmful and destructive crisis factors.

The reduction consists in the active implementation of crisis plan measures, the implementation of economic rescue measures for crisis situations, the use of material and personal assistance of legal and natural persons, etc. It is applied in times of crisis and post-crisis period.

Recovery is characterized by the elimination of the consequences of harmful and destructive factors of the crisis, the prevention of secondary and tertiary crisis situations and the use of available and newly acquired resources to bring the system to a new (improved) normal state.

Five-stage model is used also by Shen and Wang (2018, p. 14). They described 5 periods of crises process and specific characteristics of the business operation in each phase. These detailed characteristics of the each stage are given in the Table 2.

Table 2 The specific characteristics of the each stage of the crisis

<b>Crisis stage</b>	<b>Specific characteristics</b>
Latency period	The emergence of crisis factors
Precursor period	Fluctuations in business operations, managers need to keen awareness and judgment in conditions of the high uncertain
Occurrence period	The enterprise doesn't function properly, management is out of control
Summary period	Enterprises may through the dangerous stage, but there are still threats in internal and external environment
Recovery period	Business activities and production carried out in an orderly way

Source: Shen, Wang, 2018, p. 14

The first two phases are key in terms of prevention and the possibility of creating timely preventive measures, or measures that will mitigate the negative effects of the crisis. In these first stages, the symptoms (signals) that the operation of the system becomes unstable and that “something” is happening are more or less clear. It is a warning period or a kind of “pre-crisis stage”. The nature of the symptoms allows managers to overlook and ignore the crisis at this stage, but at the same time it allows us to notice it and prepare properly in time for its further course. In some cases, the course of the crisis can be stopped at this stage and the crisis itself can be averted. Much more often, however, it happens that these first phases of the symptoms of the crisis is completely unnoticed and the management indicates everything much later, only when the crisis breaks out in the acute phase.

During the occurrence period, the enterprise doesn't function properly, sometimes the management is also out of control. It is the most difficult, acute phase of the crisis. Over time, the “acuity” of the crisis is reducing and only on the quality of crisis management depends, how serious the effects of this situation are in business. The difficulty and length of the recovery period also depends on it.

It is important to recognize, that experience in crisis management is useful for a company. Jasińska and Hab (2019, p. 1) wrote, that the crisis opens new horizons for people, shows opportunities, accumulates an optimism. The research by Baporikar (2021, p. 424) showed, that for 30 % of entrepreneurs, the skills of interacting with banks, developing new marketing and financial strategy, cost optimization, as the experience in COVID-crisis management became important.

### **3.2.2 Crisis forecasting and crisis scenarios**

In the context of a crisis forecasting – its early detection, the management must be able to know answers to the question such as: What the worst can happen? In that case the company is prepared for the crisis and knows how to mitigate its negative effects.

Forecasting has appeared in 1940<sup>th</sup> in USA. The classic forecasting method was a prediction of future development trends using mathematical models (statistical extrapolation of the trend). The lack of trend forecasts was the frequent attempt to predict the future course of the situation from its current and last development and the assumption

that there is only one correct answer to the strategic question (Zuzák, Königová, 2009, p. 83).

Later, in 1960<sup>th</sup> the scenarios have been appeared. Zuzák and Königová (2009, p. 83) describe the scenario as following: it is a description of situational sequences over time, a description of events, situations, planned procedures or the way of acting. The scenario describes the predicted future situation or sequence of future events and uses the views of experts from various fields. It is therefore not an accurate prediction of future development (as in forecasting based on the extrapolation of the trend), but its possible and variant development based on current information about the phenomenon.

According to the created scenario of the crisis, it is possible to evaluate its potential impacts, calculate the costs that this crisis will cause for the company, create anti-crisis measures, create a budget for them and a detailed plan of actions.

In order to be able to “create” and thus predict different model situations of the crisis, it is necessary to have people (well-coordinated team) who are able to model these situations, have some experience with them and are mainly able to provide answers to specific questions about the worst scenario. This team is called crisis team. The task not only of the crisis team, but also of the managers of the individual divisions of the company, middle and top management, is to estimate the damage now within the current parameters.

### **3.2.3 Crisis identification**

Crisis management includes not only the prediction of possible crises, the creation of scenarios and the estimation of crisis consequences, but also an important area of early identification of the onset of a crisis. In general, if a company has experienced a serious crisis in the past or was able to observe it in its environment, it should react quickly to the minor symptoms that accompanied it. Different symptoms can signal the onset of the crisis – there are many of them and they are specific to each company and industry.

There are a number of classifications of crisis symptoms, which can help with the crisis identification. Each of these classifications emphasizes different aspects. According to Kislingerová (2001) they are connected with measurable financial data. Pollak (2003) pays attention to the soft non-financial factors, Goldston (1992) – combines both, but emphasizes the factors in the manufacturing company. It should be understood, that



services are playing a bigger role in the modern global economy, so this important area cannot be forgotten.

Kislingerová (2001) sees the symptoms of the crisis in several stages. The first phase is characterized by a decrease in the volume of production. In the second there is a decrease in profitability, in the third – an increased need for working capital, in the fourth – the setting of the capital structure gradually gets worse and finally there is a permanent insolvency, ie insufficient liquidity of the company.

In contrast, Pollak (2003) rejects the search for initial problems in the financial statements and focuses more on the problems of the company's management. According to him, the symptoms are seen in management for several years before they were recorded in the financial statements. However, the company's management has been trying to keep these problems in a secret for a long time, and this can cause irreversible damage. Pollak talks about unskilled or unbalanced management, which harms the company by its decisions.

Another problem is looking back at the past and the own successes. Management suppresses messages that are contrary to his beliefs. This selective perception causes ignoring of the serious problems and changes of the environment. The company loses the ability to innovate and although it still maintains a good market share, it is creating a problem for the future. The third symptom of the crisis in the company is problems in communication. A large number of reports, directives and regulations circulate in the company. However, accurate and essential information about its condition is missing (Rudolf, 2006, p. 46).

Goldston (1992) finds 11 basic symptoms of the crisis:

1. declining operating profit,
2. year-on-year decrease in market share,
3. quality managers leave the company,
4. the company's confidence in itself decreases,
5. there is a risk of production cessation and quality standards are falling,
6. the company generates little cash or consumes it quickly,

7. the volume of stored finished products grows and their structure does not correspond to demand,
8. there is a reduction in costs for development, introduction of new products and advertising under market average,
9. the product is stopping to be the preferred brand,
10. newly introduced products prosper to detriment of the existing products,
11. only 60 % of the production capacity is used and the contracted volume of production is below 10 % of current annual production.

Based on the evaluation of the different approaches, the basic symptoms of the crisis according to individual business activities were summarized (see Table 3). Based on these symptoms a special check-list can be created, which will be used in the regular review of the company's state in the context of crisis identification. It is important that the evaluation of the company for the presence of the given symptoms should be performed by an independent person – independent of the evaluation of the management, the owners, from whom no positive / negative reviews are expected etc.

Table 3 Check-list of basic symptoms of crisis for the crisis identification purpose

<b>Company's management</b>	<b>Production</b>
<ul style="list-style-type: none"> <li>• outflow of quality management</li> <li>• stuck in internal communication</li> <li>• loss of confidence in the company's ability                             <ul style="list-style-type: none"> <li>• creation of a latent control structure</li> </ul> </li> <li>• increasing position of unformal leaders</li> <li>• loss of invention and long-term goals</li> <li>• orientation on historical results</li> </ul>	<ul style="list-style-type: none"> <li>• decrease in quality</li> <li>• reduction of machine repairs to the most necessary production                             <ul style="list-style-type: none"> <li>• production capacity is low used</li> </ul> </li> <li>• an increasing number of failures</li> <li>• increase in accidents at work</li> <li>• poor continuity of processes</li> </ul>
<b>Buying</b>	<b>Marketing</b>
<ul style="list-style-type: none"> <li>• tied supply and distribution within the company</li> <li>• unwillingness of suppliers to provide services and goods on credit                             <ul style="list-style-type: none"> <li>• rising input prices</li> </ul> </li> <li>• increasing administration and restrictions on purchases of ordinary work equipment</li> <li>• growing stocks, in an often unsuitable structure</li> </ul>	<ul style="list-style-type: none"> <li>• decline in sales and market share, loss of product position in the customers perception                             <ul style="list-style-type: none"> <li>• sales are driven by discounts</li> </ul> </li> <li>• unsuitable mix of products and goods in stock</li> <li>• unwillingness of customers to buy goods due to the bad situation of the company                             <ul style="list-style-type: none"> <li>• loss of good name among stakeholders</li> </ul> </li> <li>• introduction of products that prosper to detriment of the current products                             <ul style="list-style-type: none"> <li>• decrease in marketing costs</li> </ul> </li> </ul>
<b>HR</b>	<b>Finance</b>
<ul style="list-style-type: none"> <li>• loss of people's motivation</li> <li>• growing abuse of employee benefits</li> <li>• outflow of know-how to competition</li> <li>• growing passivity of employees and striving to last as long as possible with low performance</li> <li>• work on private projects during working time                             <ul style="list-style-type: none"> <li>• outflow of key employees</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• rising cost of capital</li> <li>• decrease in liquidity                             <ul style="list-style-type: none"> <li>• increase in debt</li> </ul> </li> <li>• decrease in profitability</li> <li>• reduction of asset turnover</li> <li>• decrease in cash flow generation and company value</li> </ul>
<b>Investments</b>	<b>Informational systems</b>
<ul style="list-style-type: none"> <li>• creation of a large number of projects without their implementation</li> <li>• decrease in costs for research and introduction of new products and services</li> <li>• maintaining loss-making projects for activity reporting</li> </ul>	<ul style="list-style-type: none"> <li>• growing data misuse                             <ul style="list-style-type: none"> <li>• stopped investments in new solutions</li> </ul> </li> <li>• problems are solved only by temporary fixation                             <ul style="list-style-type: none"> <li>• increasing errors</li> </ul> </li> <li>• restriction of some activities by system limits</li> </ul>

Source: Rudolf (2006, pp. 49-50)

### 3.3 Crisis barometer – the tool for crisis impacts and probability evaluation

Different evaluation methods and approaches are used to measure the possible impact of the crisis within the forecasting and also are used to measure the effects of the crisis, that have already happened. One of them is Crisis barometr, developed by Steven Fink (2002). It makes it possible to classify knowledge about possible crises, the probability of their outbreak and their impacts.

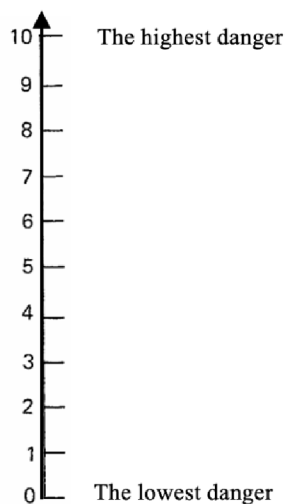
#### 3.3.1 Crisis Impact Value

The part of the evaluation approach is a quantification of the crisis impacts. It means to match a numerical value to each situation – weight, the degree of impact of the crisis. To do this, it is possible to use a ten-point scale (see Figure 2) – Crisis Impact Value (Fink, 2002):

value of “0” – means the lowest danger,

value of “10” – means the highest danger.

Figure 3 The scale for the evaluation of the crisis impact



Source: made by author

This scale expresses how harmful a crisis can be if there is no intervention against the crisis. If the crisis breaks out and the company doesn't do anything to atop, defend or at least control the situation, the Crisis Impact Value scale will give us a reasonable, adequate estimate of impacts, consequences and costs.

Based on the creation of a set of questions, to which answers are then sought, it is possible to determine the degree of seriousness of the crisis. The questions can be focused on the following five areas (Fink, 2002):

1. **Degree of intensity:** how intense is the crisis, how fast is it changing, is it growing? What degree of intensity can a company withstand and for how long? Who is able to regulate and change the intensity of the crisis? Etc.
2. **Influencing business through media pressure and government:** How long will the impact of the crisis still be in the hands, supervision, control of the company? How can this be influenced by the media, government regulations, etc.?
3. **Disruption of normal business operations, processes:** How much could the crisis affect the normal business operations? Will it affect the ability to get a product to market on time? Will the crisis have a major impact on stocks? Is it possible that dealing with the solution of the crisis would take so long that it would not be left for other important activities of the company? Etc.
4. **Threat to the company due to a change in the opinion of the stakeholders.** There are crises in which the company appears as a victim, but there are also crises in which it is in the position of the culprit, and therefore it must ask itself which side it is on. Knowing the difference between these positions will help the company to determine whether it faces a threat to the public's negative view of the company or whether it enjoys its constant affection.
5. **The impact of the crisis on the economic result:** And finally – how much was the overall economic result of the business changed?

Each of the above points must be rated 0 to 10 points according to the degree of danger (seriousness) for the company. The result is then divided by 5 (five question areas) and we get a value on the scale Crisis Impact Value, which shows us the danger of the situation.

Another authors offer different quantitative scales or verbal scores to evaluate the crisis impact. For example, impacts of the crisis are considered as “negative”, “threatening the existence” or “devastating” (Zapletalová, 2012). According to personal opinion, the use

of a numerical scale (e.g. Crisis Impact Value by Fink (2002)) is better and allows a more accurate assessment to be made. If necessary, the name “negative impacts” can be used for crisis with the score from 1 to 3, name “threatening the existence” – for the score from 4 to 6, “devastating crisis” – for the score from 7 to 10.

### 3.3.2 Probability Factor

In case, it is about a crisis forecasting, next, it is necessary to estimate the probability that the crisis will actually occur. It is determined by subjective judgment and therefore contains certain inaccuracies. But even a 30% deviation in accuracy is a significant help in crisis classification (Rudolf, 2006, p. 33).

According to Fink (2002) the percentage scale (see Figure 3) will help the company to do this:

0 % - represents the impossibility of the crisis,

100 % - on the contrary, the certainty of the crisis.

Figure 4 The scale for the evaluation of the probability factor



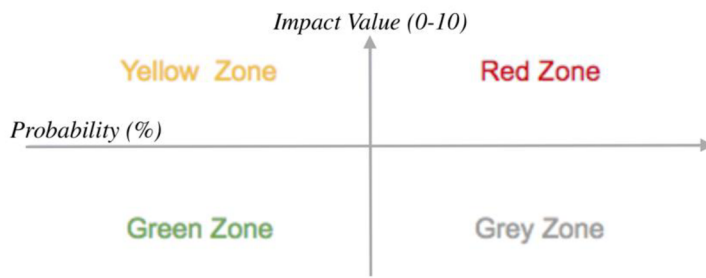
Source: made by author

Of course, other rating scales can also be used – for example, again a 10-points scale, where „10“ corresponds to the very high probability of a crisis, „0“ – the absence of the probability factor.

### 3.3.3 Drawing the Barometr and the Matrix

The drawing of all potential crises, taking into account the Probability factor and Impact value, makes it possible to create the following diagram (Figure 4). This drawing creates 4 basic crisis zones: yellow, red, green and grey. If the company is located in the red zone, ie in the zone with a high impact and probability, it must prepare a plan for its elimination or possible mitigation before it breaks out. Then the company gradually work with other zones. Scenarios do not have to be prepared for crises in the green zone, it is enough to watch this quadrant if a new threat appears here.

Figure 5 Crisis barometr

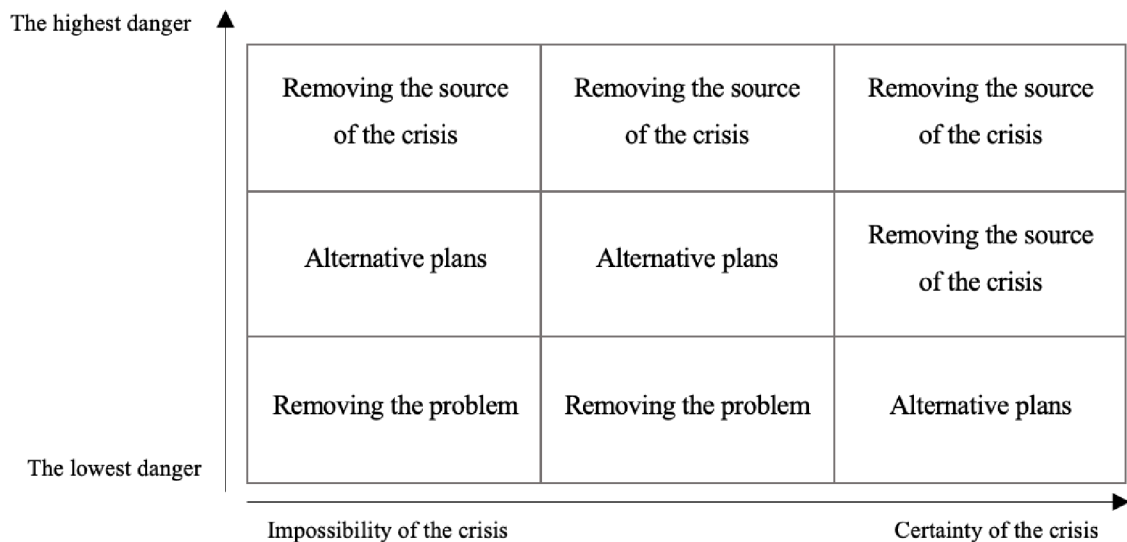


Source: made by author based on Goebel (2018)

The crisis barometer is constantly changing and this crisis can gradually gain its weight.

Results of the evaluation of the probability factor and impact value of the crisis can be also used for the creation of the Crisis matrix (see Figure 5) – a tool, which helps to choose the basic direction of the company's further steps in crisis management.

Figure 6 Crisis matrix



Source: made by author based on Zapletalová et al. (2012)

The matrix places the crisis in one of 9 quadrants, which corresponds to a certain degree of the impact and degree of the probability. The crisis strategy is chosen accordingly to the quadrant from the following variants (Zapletalová, 2012):

- alternative plans,
- removing the problem,

- removing the source of the crisis.

Removing the problem is realized in case of the rather unlikely and only lightly serious crises. The company will deal with the crisis situation thanks to its good image and flexibility, ie flexible and fast response.

Alternative plans mean, that the company will prepare plans for dealing with the crisis situations, that are rather unlikely on an average likely and can relatively seriously affect the company. Rapid realization of the alternative plans helps the company to mitigate crisis impacts.

Removing the source of the crisis is needed in case of very dangerous crises, which can be completely devastating for the company, regardless of the probability factor. The strategy includes additional investments or, conversely, leaving the products or processes threatened by crises (Zapletalová, 2020).

Understanding the basic direction of the future crisis management, that is allowed due the crisis matrix must, is essential. However, this knowledge needs to be further developed in specific crisis strategies and plans.

### **3.4 Crisis strategies**

There are a number of crisis strategies and approaches to their choice. For example, Slavík (in: Zapletalová, 2020) distinguishes crisis strategies from the nature of goals that are pursued by crisis management:

- strategies of the revitalization and
- reduction strategies.

These strategies are connected with the stages of the business life cycle.

Revitalization strategy leading to the renewal of a declining corporate portfolio. They are suitable in situations where the cause of the company's crisis is incompetent management, excessive expansion, insufficient financial control, new competition, reduced demand, etc.

Reduction strategies are the result of a long-term inefficient activity of the company, which ends the business activity. They are connected with the divestment (the sale of an



asset or a business to another entity) or with the liquidation of the company (Zapletalová, 2020).

It is obvious that every entrepreneur tries to deal with an unfavourable situation and therefore revitalization strategies are more attractive for him. However, it should always be remembered that the sale of assets and the closure of businesses on time can be sometimes less painful for entrepreneurs, as they will prevent the emergence of new debt, liabilities and problems that will affect other entities. So, business strategy must depend on resources and capabilities, the owner / manager's perception of threats and opportunities, and broad organizational, market, institutional and cultural contexts (Whitley, 2007).

Sergienko and Patlasov (2015, p. 171) offers to classify strategies according to the areas of impact on crisis sources: marketing, production, personnel and management, finances.

Marketing strategy is focused on the changes of the marketing mix (product, price, distribution, promotion methods) depending on changes in the external and internal environment. The crisis state of the organization from the point of view of marketing means its non-competitiveness. So-called competitive generic strategies include: overall low cost leadership strategy, broad differentiation strategy, focused low-cost strategy, broad cost provider strategy, focused differentiation strategy (Hiriyappa, 2012).

Anti-crisis production strategy includes reorganization of a company in the areas of termination of operations that do not contribute to covering the fixed costs of the company; stopping of production of unprofitable products; searching for new sources of funding; analysis of lease agreements etc. The main task is to provide support for the required organizational and technical level of production, aimed at stimulating the development of market relations that ensure the exit of the company from a crisis state. The way is the development of strategies of improving product quality, company's restructuring, changing in the range of products, increasing the economic efficiency of production (Sergienko. Patlasov, 2015, p. 171).

Anti-crisis personnel / management strategy includes measures to improve personnel potential: new priorities of personnel policy, staff motivation, adaptation programs, career programs and plans of the retraining etc. These measures are implemented through strategies for enhancing the personnel potential of the enterprise, introduction of new

management methods, reorganization of enterprise management (Sergienko. Patlasov, 2015, p. 171).

Anti-crisis financial strategy is aimed at building an effective financial management system, which helps to solve the strategic and tactical tasks of the company. Changes are focused on the optimization of the capital structure, growth in the assets value, improving the system of accounting and cost control, creating the investment attractiveness.

Some strategies (such as cost reduction strategies and marketing strategies) can complement each other and be implemented at the same time.

Due to the chosen focus of the thesis, one of the strategic options for solving the crisis and preventing the negative impacts of future crises – diversification – is described in detail. The following chapters will describe the benefits of diversification, which explain why this particular direction of crisis strategies is chosen.

### **3.5 The concept of diversification**

As already mentioned, modern business practice allows a large number of strategic alternatives for the development and growth of firms, one of which is diversification.

Since the economic literature contains a significant number of definitions of diversification, a fairly general definition of diversification should be adopted. Diversification – in a broad sense is a strategic focus on the creation of a diversified production or portfolio of stocks (Belov, Grishpun, Manokhina, 2012, p. 23). This once confirms the opinion that diversification is the expansion of the sphere (types) of company's activity.

From an economic point of view, diversification (latin “diversus” – different and “facere” - to do) is the parallel development of several or many non-connected technological types of production and (or) services, expansion of the range of manufactured products and (or) services (Belov, Grishpun, Manokhina, 2012, p. 23).

Ansoff (in: Jiang, Zhihui, Chan, 2005, p. 2) defines diversification as “*the strategy to explore new market with new products.*” He introduced diversification as one of the main generic company's strategies.

The reasons for diversification may be different. Ansoff (in: Belov, Grishpun, Manokhina, 2012, p. 23) believes that the main reason for the deployment of the

diversification process is the inadequacy of the required level of productivity and efficiency. All the reasons for diversification are united by one goal to increase the efficiency of the enterprise, not only in the current period or in the near future, but also in the long term. Thus, it can be stated, that diversification is strategic in its nature.

Based on the above mentioned statements, diversification is associated with the variety of applications of the products manufactured by the company. The essence of diversification determines the benefits of its use in crisis management.

### **3.5.1 Main benefits and risks of the diversification strategy**

As a rule, diversification is used to improve production efficiency, obtain economic benefits (profit, increase in the value of the enterprise) and prevent bankruptcy (Belov, Grishpun, Manokhina, 2012, p. 23). Studies have shown that diversification has impacts on firm profit and is connected with better resource management (Macák, Hron, Jadrná, 2020, p. 1).

Product diversification makes the company's performance independent of the life cycle of an individual product. Secondly, diversification helps to ensure company's survival and sustainable growth in a crisis period (Belov, Grishpun, Manokhina, 2012, p. 23).

The usage of the product diversification strategy is correlated with the improvement and utilisation of important managerial skills (Likewise, Bettis, 2002 in: Macák, Hron, Jadrná, 2020, p. 1).

Diversification strategy creates a safety measure. Even if one of the lines of business fails, the rest will be able to support it. Or a change in the vector will keep the company afloat when the crisis covers the main activity. For example, many restaurateurs during the pandemic switched to the delivery and manufacture of semi-finished products, this helped to survive and increase sales. Diversification can also reduce the company's dependence on the seasonal factor.

Not only with benefits, diversification can be associates. Some risks connected with the introduction of diversification in business must be mentioned:

- low brand awareness and decreasing brand confidence in case of introducing new products,

- the creation of a new brand and products means, that it is needed to go through all the stages of brand building,
- retraining of employees, buying of new equipment are needed. It represents financial and time costs,
- the main type of business “gives loans” to the additional one business branches.

### **3.5.2 Types of the diversification strategies**

There are these types of the diversification strategies (Chernyakov et al., 2016, p. 41):

- horizontal diversification: when a similar business joins in order to increase the output;
- vertical: direct integration (the organization expands its own capabilities);
- concentric: the organization occupies areas similar to the main production of the company. For example, the rocket and space plant begins to produce airplanes;
- conglomerate: buying of the unprofitable enterprise in order to develop it under its own brand, a contribution to a promising direction;
- international: buying a foreign company.

### **3.5.3 Process of the planning of the diversification strategy**

It is important to maintain main areas and steps in process of the diversification strategy planning:

1. Analysis of the state of the existing enterprise. A clear understanding of what resources the company has, whether it is possible to use it for expansion or, conversely, a part of the business should be liquidated, etc.

2. Choose the direction of diversification based on the conclusion of analysts. To follow fashion or someone else's example in this matter is superfluous. Just numbers and statistics.

3. Calculate all risks, profitability, identify the target audience that will use new services / products.

4. Re-analysis of the portfolio of the company, taking into account the presence of a new direction. The condition will at least remain stable, ideally improve.

The industry to diversify is chosen to provide a return on investment. The transition costs should be commensurate with the planned profit, the new area should have a positive effect on the available resources and the main business. In addition to production, measures are taken in relation to suppliers, capital, risks, brand, etc., depending on the needs of the company.

### **Summary**

Business diversification requires professional strategic planning. In a crisis, this measure helps to preserve the main direction, capital and bring profit, if the strategy and the industry are chosen correctly, taking into account the possible risks. In some cases, this is the only right decision to keep the company and avoid bankruptcy.

The diversification strategy is sometimes the only possible solution of the crisis solving. Recent events in the world have shown that some types of business are simply unable to survive in conditions of restrictions, restructuring is necessary, the search for new directions. The crisis also opens up many new niches, into which stable companies enter in order to strengthen their position among competitors. Such a step can reduce production costs and transfer resources to other areas of activity.

## 4 Practical Part

### 4.1 Characteristics of the selected company

Manifesto Market was founded in 2018 in Prague with a desire to show how thoughtful design can affect the perception of space and turn it into a dream place where people feel safe and comfortable. It is a concept of design markets, which offer places to sit and consume food and drinks from different restaurants (mostly street food) in one place.

Manifesto Market is presented as a flexible concept, and this is not the case for restaurants, bistros and bars, which change depending on their functionality, popularity with customers, but also seasonality (Manifesto Market, 2021).

The company provides such a description of its concept: *“Manifesto is a next-generation food market hall brand, at the intersection of food & beverage, real estate, technology, and culture. We create, design and operate food hubs with ghost kitchens admired as stylish places that provide a variety of gastronomic experiences -in-market and online- for people who want to enjoy cool, exciting vibes, culture and high-quality customer experience.”* (ManifestoMarket, 2021).

Logo of the company is shown by the figure 6.

Figure 7 Logo of the Manifesto Market



Source: Manifestomarket.com (2021)

In just nine days, in June 2018, reSITE, led by Martin Barry, built a so-called container town in this untapped place that aroused fear and resentment among passersby. Martin Barry managed to find potential in a place that absolutely lacked him. *"We want to prove that by combining culture and selected gastronomy you can get life in some place and give people a reason to go there"* (Ondráčková, 2018 cit. Medková, 2018). The outdoor gastronomic and cultural project, which is to be a temporary use of a forgotten corner of Prague, was named Manifesto Market. The project is to be temporary because the land on which Manifesto stands belongs to Penta Real Estate, which plans to build a large

administrative complex here in the future according to Zaha Hadid Architects (Medková, 2018; Manifesto Market, n.d.).

The company currently operates two markets: Manifesto Florenc and Manifesto Anděl. The Anděl branch near the Na Knížecí bus station (see Figure 7) replaced the more cozy branch in Smíchov, which was located on 14. října Square.

Figure 8 Manifesto Market (Anděl)



Source: ManifestoMarket (2021)

In the Manifesto, visitors can taste both fast food and various types of dishes that smell like exotics. Restaurants and bistros will satisfy those who just want something small and those who want to have lunch or dinner with everything. At the same time, Manifesto also thinks of vegetarians and vegans. Of course, there is also a range of alcoholic and soft drinks and cafes. There are also containers offering desserts or ice cream in the warmer months.

It should be noted that in the case of Manifesto Market, this is not a public space in the true sense of the word, but the correct name for this place is pseudo-public space. This term defines a place that is accessible to the public, but at the same time it is a private land where there are certain rules of conduct. *"We have never presented the Manifesto as a public space, we claim that it is a space that we have made available to the public. We are on private land, where certain rules apply, such as at any festival."* (Ondráčková, 2018 cited Medková, 2018).

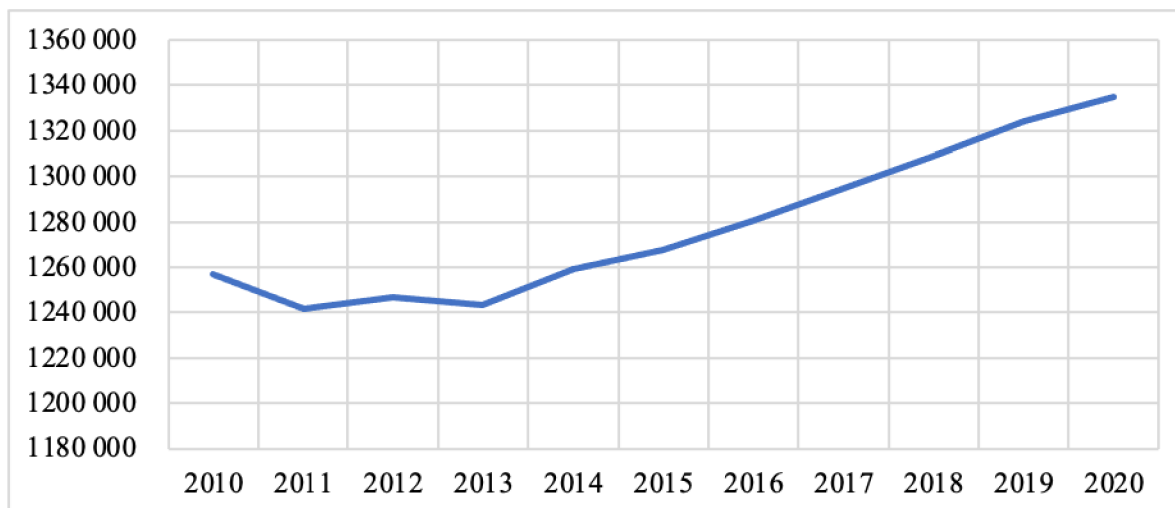
## 4.2 Analysis of the external environment – STEP analysis

The analysis of the external environment is performed in order to identify opportunities and threats, especially the factors that may cause the crisis of the company. STEP analysis needs to identify social, technological, economic and political-legal factors that may be the source of the crisis.

### 4.2.1 Social factors

The market in which the company operates – the capital city of Prague – can be evaluated very positively in terms of size. Prague is the city with the largest population (1,335 millions of people in 2020 according to CZSO (2021)) and a positive growth rate, especially since 2014 (see Figure 9).

Figure 9 Population in Prague (number of persons), 2010-2020



Source: own processing based on CZSO (2021) data

Prague is an attractive destination for foreigners, both in terms of quality of life and career opportunities. These are not only workers from EU Member States, but also from other countries, such as Ukraine, Serbia and the Philippines (Součková cit. Kopecký, 2019). From the point of view of companies, this can be assessed as a positive fact – both in terms of the growth of the potential customer market and the possibility of employing foreign labor.

Tourists form a large group of potential and actual visitors to the gastronomic establishment, which offers experience and opportunities for communication and leisure. Prague is the most visited tourist destination in the Czech Republic – it attracts domestic



and foreign tourists. However, the restrictions on the movement of people associated with the coronavirus pandemic since 2020 have had a very negative effect on the number of tourist arrivals. In the whole of 2020, a total of 2 178 267 guests were accommodated in Prague, of which 1 446 945 were foreign (66,4 %). This was a year-on-year decrease of - 73 % (CZSO, 2021).

In terms of age structure, different segments of the population are important for restaurant businesses. It is necessary to draw attention to the trend, which consists in the growth of the group, including people aged 18-34 – they are the so-called millennials, people aged 18-34. Research (Thompson, 2018) shows that millennials are gaining more and more purchasing power, which is good news for restaurants, as this demographic group consumes 20 percent more than any other generation. In fact, 53 percent of this group goes out to eat once a week, compared to 43 percent of the general population. Millennials are more likely to eat in large groups than other age groups, which is also an advantage for gastronomic companies.

Other important research findings (Thompson, 2018) relate, for example, to the fact that millennials mostly rely on word-of-mouth about the restaurants in well-known cities and online reviews when traveling to another city. About 65 percent also consider discussions they've seen on social media when choosing a restaurant. 32 percent check the menu from their smartphone in advance.

In April 2019, the Ipsos agency conducted research within the group of consumers in restaurants in the Czech Republic. According to this research, a third of the people plans to consume more plant products while reducing the consumption of meat and animal products: 27 % of people plan to include more legumes in their diet next year. Almost half of the people think that the offer of plant products in restaurants and cafes is growing (Adaptee Gastro, 2020). In connection with these trends, there is a need to include healthy food, “vegan” or “no meat” meals, etc. in the menu of gastronomic establishments.

The such reasons as work from home, limited tourism and lack of funds during the covid pandemic, caused changes in the consumer behaviour, especially the trend that people are much more likely to order food at home, search for recipes on the Internet, and watch chefs' free webinars, courses, and streams on Instagram (Datinská, 2021).

It can be noted, that today's society is characterized by a number of conflicting tendencies and directions, which at first glance are essentially mutually exclusive. It's globalization vs. emphasis on locality, fast food vs. slow eating trend, convenience of ready meals vs. own, homemade dishes, quality beef vs. veganism (Svět HG, 2018). This means that companies have a lot of room for creativity and different opportunities to be in trend.

#### **4.2.2 Technological factors**

##### **Research and development**

Expenditures on research and development (R&D) in the Czech Republic reached a record 113,4 billion crowns in 2020, but their growth rate slowed down significantly. The increase in the number of employees in R&D has almost stopped. After 2016, R&D expenditures in the Czech Republic increased significantly. They grew by an average of more than 10 percent every year. Absolutely from 80,1 billion in 2016 to 111,6 billion in 2019. The high growth rate in 2020 could not be maintained. In 2020, R&D expenditures increased by 1,8 billion crowns, which meant a year-on-year increase of less than 2 %. However, due to the decline in the performance of the Czech economy last year, expenditure on R&D in relation to GDP reached a record 1,99 % in 2020. The Czech Republic has thus approached the European Union average, which in recent years has been just above 2 % of GDP (CZSO, 2021).

However, the catering sector contributes very little to R&D expenditure in the Czech Republic. The share of the group “Other service sectors”, which include the catering sector, accounted for only 1,4 % of total R&D expenditures in the Czech economy in 2020. In absolute terms, this amounted to 994 million crowns. Compared to 2019, this is a -7% decrease in spending in this sector.

From the above, it can be noted that R&D in the Czech Republic is generally developing positively, but the catering sector contributes to it very little.

##### **Information and communication technologies**

Further digital boom and the development of technologies such as applications that analyze guest preferences and improve the ordering system, delivery and quality of delivered meals are expected (Datinská, 2021).

In addition to the demand for the food delivery, which is becoming a regular service, the number of so-called “ghost kitchens” – virtual kitchens, where only takeaway meals are prepared, without service and places for guests, will probably increase (Datinská, 2021).

Contactless ordering via a mobile application or website and contactless payments via mobile phone or a card are becoming more and more popular. For example, every second Mastercard payment in the store in Europe is contactless today (MasterCard, 2021). 77 % of people in the Czech Republic pay with a debit card in the store and 20 % with a credit card, but still a large share 70 % use cash (ČBA, 2020). In addition, the people's positive attitude towards payment innovations was supported by the coronavirus pandemic, during which Czechs began to resort to cashless and contactless payments (ČBA, 2020).

### **Development in the design**

Gastronomy do not avoid the trends in design. Individualized design has become a clear trend for dining and food presentation (Svět HG, 2018). White colours, black and white combinations are currently dominates in the design (Vaření je umění, 2021). Although white plates and service are a classic the restaurant can always rely on, dark colours add more pronounced and fuller flavours to dishes (Svět HG, 2018). In fashion are plates of atypical shapes, all types of squares, but also shape of tears, waves or leaf (Vaření je umění, 2021).

The next trend, so called “frontcooking”, when the dishes are prepared in front of the guests’ eyes (Vaření je umění, 2021), causes need in the changes in the design and layout of restaurant premises.

### **4.2.3 Economic factors**

#### **Overall economic situation in the Czech Republic**

The basic macroeconomic indicators describing the overall economic situation in the Czech Republic are given in the table 4. Economic growth, reflected by the GDP indicator was expected for 2020, but the world was hit by a coronavirus pandemic and there was a sharp decline. Overall, the year-on-year decline in GDP of 5,8 % was in 2020. There is a noticeable decrease in household consumption (-6,9 % in 2020), as well as a decrease in foreign trade (-6,9 % decrease in exports, -6,8 % decrease in imports). Rising inflation is particularly threatening for businesses, because it means rising costs for them – energy,

fuels, raw materials, rent, etc. A slight strengthening of the domestic currency can cause a growth of interest of foreign investors.

Table 4 Key macroeconomic indicators, Czech Republic, 2010-2020

Indicator		2010	2015	2019	2020
GDP	CZK bn, current p.	3 992 870	4 625 378	5 790 348	5 694 623
GDP per capita in PPS	PPS/capita, curr.p.	21 016	24 376	29 101	28 089
GDP	%, y/y, real terms	2,4	5,4	3,0	-5,8
Household consumption	%, y/y, real terms	1,4	3,9	2,6	-7,1
Exports of goods and services	%, y/y, real terms	14,8	6,2	1,5	-6,9
Imports of goods and services	%, y/y, real terms	14,9	7,0	1,6	-6,8
ILO general unemployment rate	%, avrg.	7,3	5,0	2,0	2,6
CZK/EUR	avrg.	25,3	27,3	25,7	26,4
CPI	%, y/y, avrg.	1,5	0,3	2,8	3,2

Source: own processing based on the CZSO (2021) data

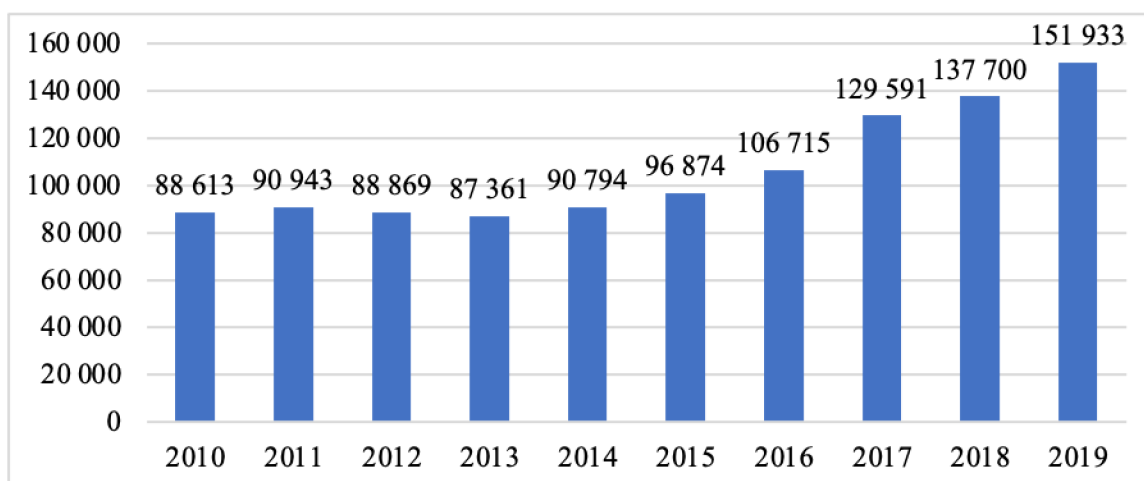
The further development of the Czech economy will be determined primarily by the government's measures and restrictions in the fight against the pandemic, vaccinations, rising unemployment, the development of foreign demand and follow-up support in the form of government programs. Other key factors are confidence in the economy and the associated willingness to continue doing business. The Czech Republic will probably not reach the values before the pandemic until 2023 (Deloitte, 2021).

### **Economic situation in the sector CZ-NACE 56 Food and beverage service activities**

The economic situation in the surveyed catering sector is reflected in the help of monitoring the development of several indicators – such as total sales in the sector, value of consumed materials, energy and services (costs of enterprises) and average wages (another important part of costs). Unfortunately, data for the sector for 2020 are not yet available.

In terms of sales (see Figure 10), it can be concluded that companies as a whole are doing well. Since 2016, their value has exceeded 100 billion crowns, in 2019 sales reached a record level of over 150 billion crowns.

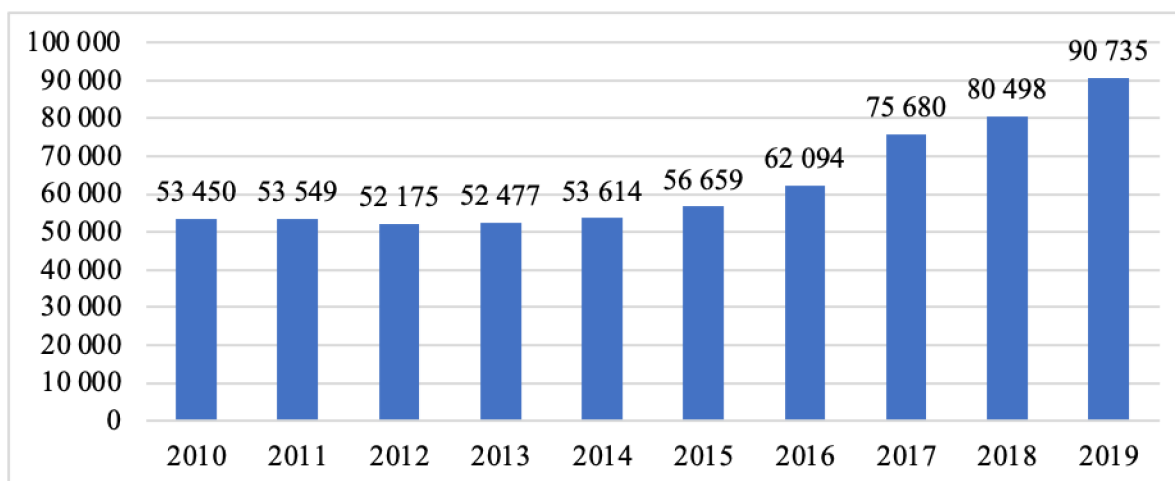
Figure 10 Sales (sector CZ-NACE 56 Food and beverage service activities), 2010-2019, mil. CZK



Source: own processing based on the CZSO (2021) data

Along with sales, operating costs of companies also increase. In 2019, the consumption of materials, energy and services reached 90,7 billion crowns, while by 2016 it was relatively unchanged and did not exceed 57 billion crowns.

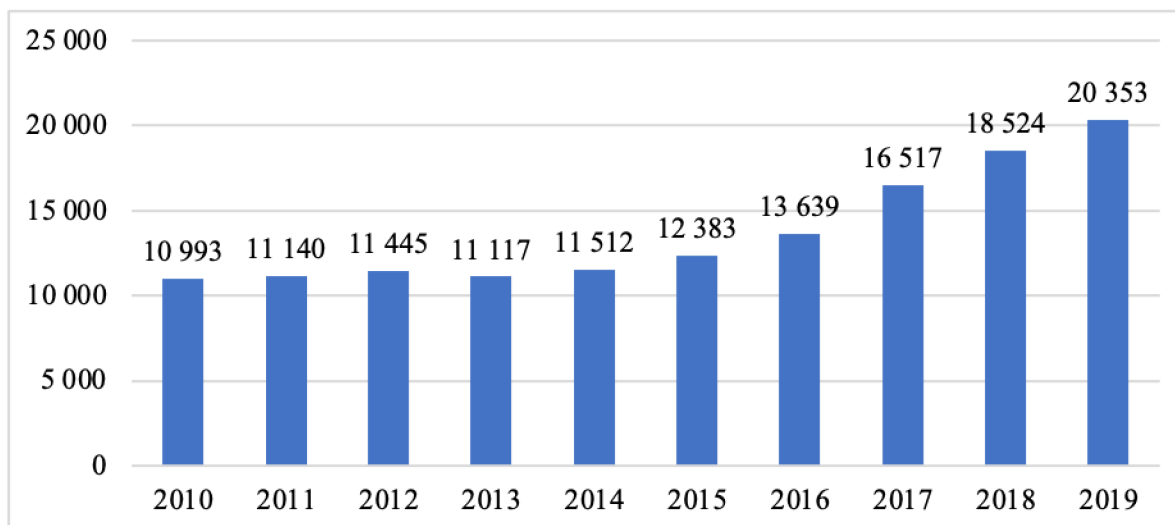
Figure 11 Consumed materials, energy, and services (sector CZ-NACE 56 Food and beverage service activities), 2010-2019, mil. CZK



Source: own processing based on the CZSO (2021) data

A significant amount of costs in the sector are personnel costs. They are especially important for the analysis due to the very low unemployment during the period of economic growth in 2017-2019. In 2019, the average wage in the sector was 20 353 crowns, which places the sector among the lowest wage sectors of the economy. From the point of view of companies, this is a positive fact. However, average wage growth has been evident in recent years (see Figure 12).

Figure 12 Average wages (excl. Other personnel expenses) (sector CZ-NACE 56 Food and beverage service activities), 2010-2019, CZK



Source: own processing based on the CZSO (2021) data

#### 4.2.4 Political and legal factors

The political environment that directly affects the company's activities is, for example, political unrest, the country's internal stability and many other aspects.

At the beginning of 2020, a global pandemic crisis associated with Covid-19 broke out, which also affected the Czech Republic in March 2020. With the advent of the crisis, there were two lockdowns in the Czech Republic during the year and an overall threat to the country's stability. The country's political environment was tense, with differing views from political parties in dealing with the pandemic crisis.

The President of the Association of Hotels and Restaurants of the Czech Republic, Václav Stárek, stated that with the introduction of coronavirus infectivity controls, up to 70 percent of companies record a decrease in guests by more than 30 percent. However, according to him, the restorers do not want to question the measures due to the growing number of coronavirus infections (Očenášková, Adamcová, 2021).

In 2016, the parliament approved the introduction of electronic sales records (EET). For entrepreneurs, this meant equipping their establishments according to Act No. 215/2005 Coll. on Cash Registers and on Amendments to Certain Acts (the Cash Register Act) by the Cash Register. The restaurant thus incurred additional expenses associated with state legislation.

Doing business in the Czech Republic is governed by Act No. 455/1991 Coll. on Trade Licensing (Trade Licensing Act). The company must constantly monitor the laws that affect its business and in particular: the Road Tax Act, the Income Tax Act, the Accounting Act, the Civil Code, the Labor Code, the Personal Income Tax Act and the Consumer Tax Act. taxes.

#### 4.2.5 Summary of the STEP analysis

A summary of the performed macro-environment analysis is given in Table 5. Environmental factors are evaluated in terms of the possible impact on the company – positive, negative or neutral.

Table 5 Summary of the STEP analysis

<b>Social factors</b>	<b>Impacts</b>
population growth in Prague	+ customer market growth
attractiveness of Prague in terms of foreign workers	+ availability of workforce
Prague – an attractive travel destination	+ growth of the customer market
decrease in the number of visitors to Prague due to measures during the coronavirus pandemic	– decrease in the customer market
growth of the purchasing power of the millennials	+ customer market growth
growing customer focus on word of mouth and online social networking	+ opportunity for effective communication – threat from competitors who also use it effectively
changes in consumption preferences with an increasing emphasis on healthy and vegan meals	+ opportunities to extend offering by the healthy food, “vegan” or “no meat” meals
changes in consumption preferences associated with the possibilities of preparation and delivery of food	+ opportunities of product and service innovations
<b>Technological factors</b>	<b>Impacts</b>
development of research and development in the Czech Republic, but a small share of the catering industry in it	– less available R&D results for business innovation
growth of cashless and contactless payments	0 the need to meet customer requirements for the payment methods
digitalization in different areas	+ opportunities of product and service

	innovations
<b>Economic factors</b>	<b>Impacts</b>
decrease in consumption	- demand reduction
high inflation	- growth of prices
strengthening of the domestic currency	+ opportunity of growth interest of foreign investors
rising unemployment	+ opportunity to find a human resources
increasing of average wages in the sector of food and beverage service activities	- growth of personnel costs
<b>Political and legal factors</b>	<b>Impacts</b>
government's measures and restrictions, connected with the Covid-19	- demand reduction, decrease in facility attendance, + growth in demand for takeaway food and order food delivery
European and Czech laws	0 the company must constantly monitor the laws that affect its business
The introduction of electronic sales records (EET)	- additional expenses associated with state legislation

+ means positive impact, – negative impact, 0 – neutral impact.

Source: own processing based on the previous conducted analysis

The results show that the social environment has the most positive effects on the company. On the contrary, the political environment and the order of economic faculties have many negative effects.

### 4.3 Analysis of the external environment – Porter’s model

The subchapter deals with the analysis of the external marketing microenvironment of the company, which can include an analysis of the industry and Porter's model of five competitive forces.

#### 4.3.1 Competitors

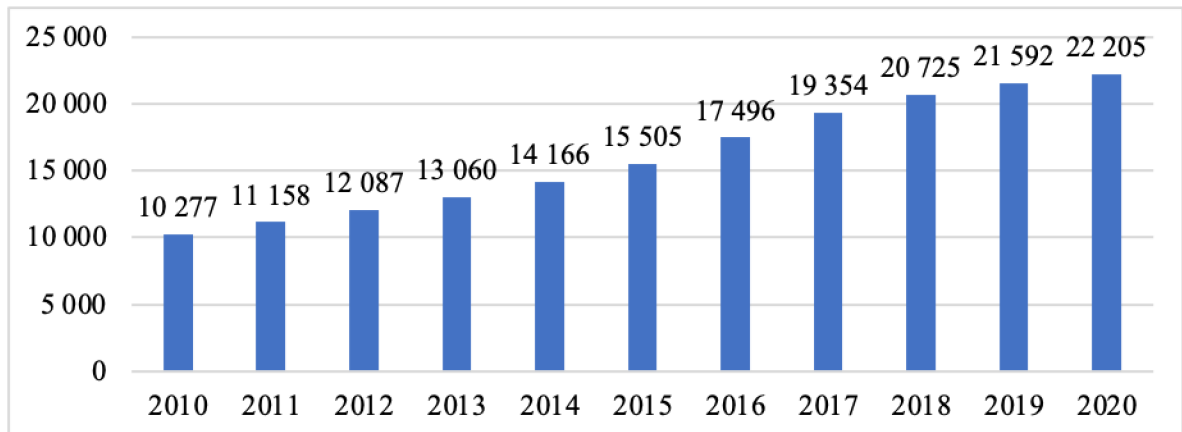
The gastronomic sector always faces high competition in the industry – competing with both the customer and the employee (Aviko, 2021).

The number of companies (a.s. and s.r.o.) with the subject of catering and hospitality activities (NACE 56) in the years 2010 to 2020 (until 30 August) is shown by the Figure



13. The chart shows a growing number of players in the industry, which may lead to increased competition.

Figure 13 Number of companies in NACE 56, 2010-2020



Source: own processing based on the CZSO (2021) data

Due to the unique Manifesto Market concept, there are no significant direct competitors in Prague. However, there are some gastronomic establishments near the Manifesto markets (Smíchov and Florenc) that have similar features:

- offer modern fast food products,
- various national cuisine,
- menu of vegan dishes,
- the presence of a design garden for sitting,
- wide range of soft and alcoholic drinks,
- music, live music, concerts.

### **Competitor no. 1: Radlice Culture Sports Hall**

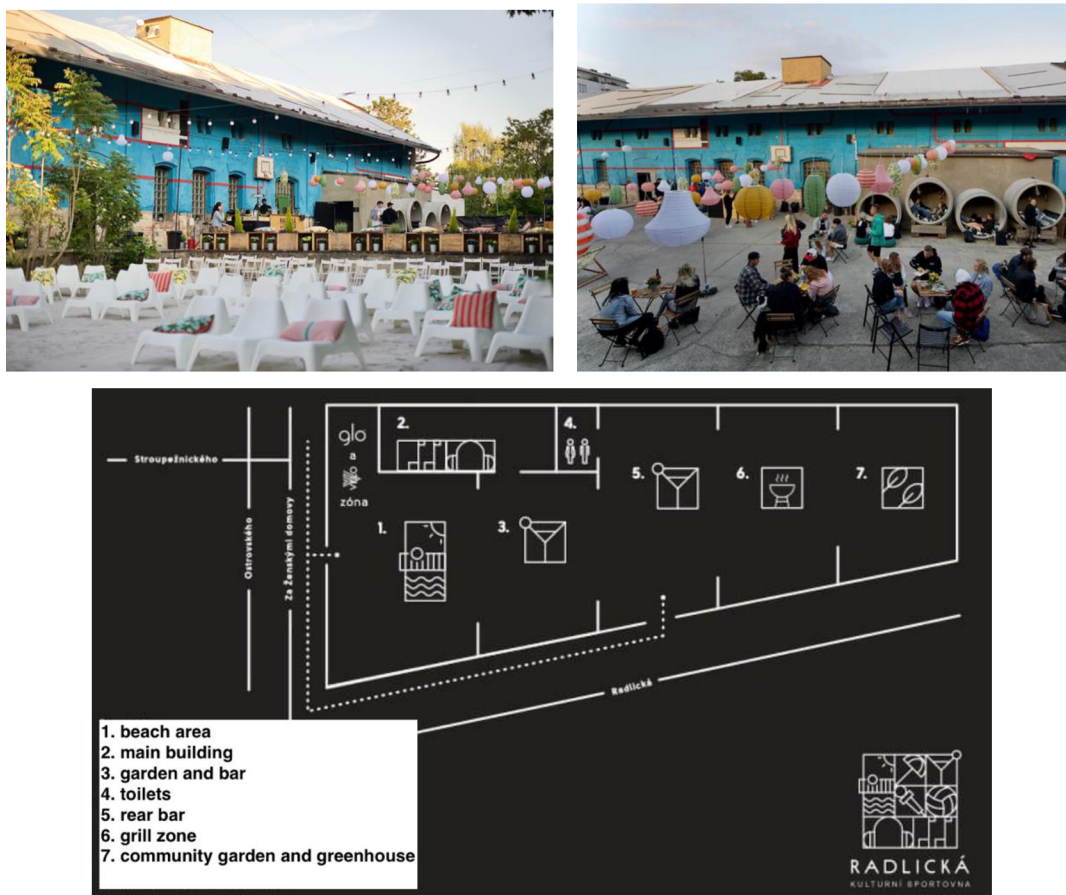
The most important competitor, whose strength is high due to its presence in the immediate vicinity of the Smíchov Manifesto, is Radlice Cultural Sports Hall (Radlická Kulturní Sportovna, see Figure 14).

Address: Za Ženskými domovy 125/5, Prague 5

Opening hours: 14:00 – 22:00, every day in the summer season,  
variable opening time in winter.

The Radlice Cultural Sports Hall is the first joint project of Lukáš Žďárský, Jakub Zajíc and Kateřina Šandová. From the former freight building, they created a place where people can meet, have fun or play sports. The Radlice Cultural Sports Center has undergone interesting changes in 2020 and offers interesting program – cultural and student events, Drink evenings, Beerpongs, PubQuizzy, concerts, grill parties, outdoor films etc. It is opened every day during the summer till the September. In the winter season and in cold weather, it has variable opening hours – the current schedule is usually published on Facebook and Instagram. In the last year, the inner area was opened in the winter – it was the older building, where concerts are usually held, there is also a smaller bar and toilets.

Figure 14 Radlice Cultural Sports Hall



Source: Pražská Drbna (2020)

Furthermore, the advantages and disadvantages of the Radlice Cultural Sports Hall compared to the Manifesto Market are defined.

### **Advantages**

- + convenient location near Smíchov
- + quite large area
- + rich program of events
- + sand area (like the beach)
- + outdoor cinema
- + comfortable places to relax (hammocks, deck chairs, etc.)

### **Disadvantages**

- smaller snack menu
- less seating
- outdoor areal is opened only in summer and September
- quite standard offer of drinks (nothing special)

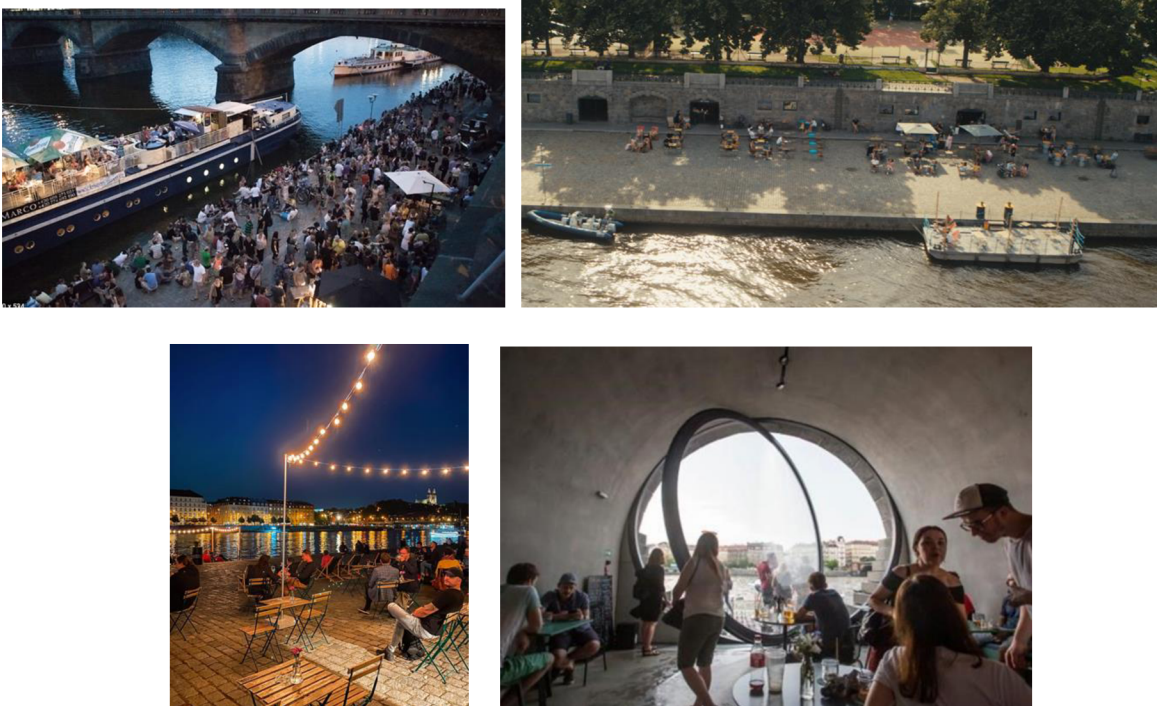
It can be said that Radlice Cultural Sports Hall is, in contrast to the Manifesto market, more likely a place to meet friends, drink and participate in various outdoor events from the program. In terms of this offer, the Radlice Cultural Sports Hall has an advantage over the Manifesto. But the gastronomic supply is very limited here, which is why Manifesto has a clear competitive advantage in terms of catering services.

### **Competitor no. 2: Prague embankment**

Prague embankments (Pražské náplavky, see Figure 15) are important in the life of the capital. It forms part of the Prague Monument Reserve and is currently widely used not only for shipping, but also for leisure activities and for organizing cultural, gastronomic, sports and other events. Prague's embankments form one of the most attractive parts of the city in terms of panorama and connection to the city center. With regard to the interest of the City of Prague on the development of the Prague embankments, the Concept of the Prague Banks was prepared by the Institute Planning and Development (IPR Prague) and issued in 2014. The embankment manager (Trade Centre Praha, a.s.) and the authorities perceive and try to develop the potencial of Prague embankments.

- Adress:
- Rašínovo embankment (Rašínovo nábřeží, Praha 2)
  - Smíchovská embankment (Hořejší nábřeží, Praha 5)
  - Dvořáková embankment (Dvořákovo nábřeží, Praha 1)
  - Masaryk embankment (Masarykovo nábřeží, Praha 1)
  - Embankment of Ludvík Svoboda (Nábřeží Ludvíka Svobody, Praha 1)

Figure 15 Prague embankments



Source: Kudy z nudy (2022), Prague.eu (2022)

Especially in the last few years, the Prague embankment have begun to be developed and used for the purpose of organizing cultural events and offering catering services.

Rašínovo embankment is currently the most attractive, most valuable and socially lively area on the banks of the river in the central part of Prague. Visitors have a beautiful view of the Hradčany skyline, which is so often sought after by tourists. On the Rašín embankment, visitors can visit such activities as the (A)VOID boat together with the Café (A)VOID, Bajkazyl, Party Grill Boat, Tyrš boat or the Tajemství boat, where theatrical performances are realized. Every Saturday, except in exceptional situations, popular Farmers' Markets are held in the embankment area.

It is important to mention the opening of restaurants on the Smíchov embankment, which is a significant competitor for the Smíchov Manifesto. These restaurants offer indoor and outdoor seating, provide warm-up in winter weather, live music events, barbecue parties, arts and crafts workshops. Each restaurant on this embankment has its

own style, making them stand out from the competition. The disadvantage compared to Manifesto is the less diverse menu of meals.

However, markets, fairs and festivals are held on the Smíchov embankment, as well as on other embankments in Prague. Examples are the regular markets on Saturdays and Sundays on the Smíchov and Rašínovo embankments, street food festivals, festivals of Mediterranean, Asian, Mexican and other cuisines, beer and prosecco festivals, which take place mainly in the warm season.

### **Advantages**

- + easy accessibility and visibility
- + stealing views
- + rich and diverse offer of food, drinks and events from many service providers
- regular and one-time events (festivals, concerts, fairs)
- + attention to the development of the place by the city government

### **Disadvantages**

- too many people in the summer, lack of places
- bikes and scooters that create trouble for pedestrians
- it is a less cozy place

From the above, it can be noted that the most important advantage of embankments is easy access for residents of Prague and tourists. This place does not need advertising, such as Manifesto market or other facilities, located directly in the city, because everyone can see it. Attention by city authorities to the development and modernization of embankments should be considered a significant threat to other businesses offering outdoor catering and activities. The diverse menu and events on the embankments are also significant threats.

However, the embankments are a very busy place in warm weather, it is difficult to find a cozy place to sit. Cyclists and scooters can mind a comfortable walk and relax of some people. There are always many tourists and young people.

### Competitor no. 3: Foodtruck point on the Prague Market Holešovice

The Prague Market (Pražská tržnice) is located in Prague Holešovice in the historical area of the former slaughterhouse. There are the largest vegetable market with year-round operation, shops and services, cultural activities and gastronomy. Since 2020, there is a Foodtruck point – a rest area in the alley between halls 13 and 17 of the Prague Market. It has a diverse offer of modern gastronomy and evening entertainment. The current Foodtruck Point program on Facebook.

Address: Bubenské nábřeží 306/13, Prague 7  
Opening hours: Monday-Thursday, Sunday 16:00-22:00  
Friday and Saturday 10:00-22:00  
Individual food trucks may be open earlier

Figure 16 Foodtruck point on the Prague market



Source: Prazska-trznice.cz (2022)

There are located for example the following gastronomic enterprises: Špejle (meat, shrimp and vege specialities on a stick), Salut on the Wheels (snack bar), Café Čurifinda (coffee, chocolate, natural syrups and home baking), Únětický pivovar and Permanent Craft beers. Different events, concerts and festivals are realized there (e.g. MktFest, Octoberfest event, Art&Beer fest).

### **Advantages**

- + considerable development in recent times
- + greater offer of gastronomy than, for example, Radlice Cultural Sport Hall
- + various events

### **Disadvantages**

- location
- awareness and image
- smaller offer than Manifesto

Foodtrack point represents a less significant competitor in terms of location for Smíchov Manifesto. However, it is located relatively close (on the other side of the river) from Florence Manifesto, so it can probably attract visitors from this part of town.

The disadvantage of the Foodtrack point is the lack of awareness and image. There are still often opinions that the Prague Market is primarily a market with cheap goods and vegetables. No one expects there to find enough modern and design space that will provide a pleasant sitting and comfort.

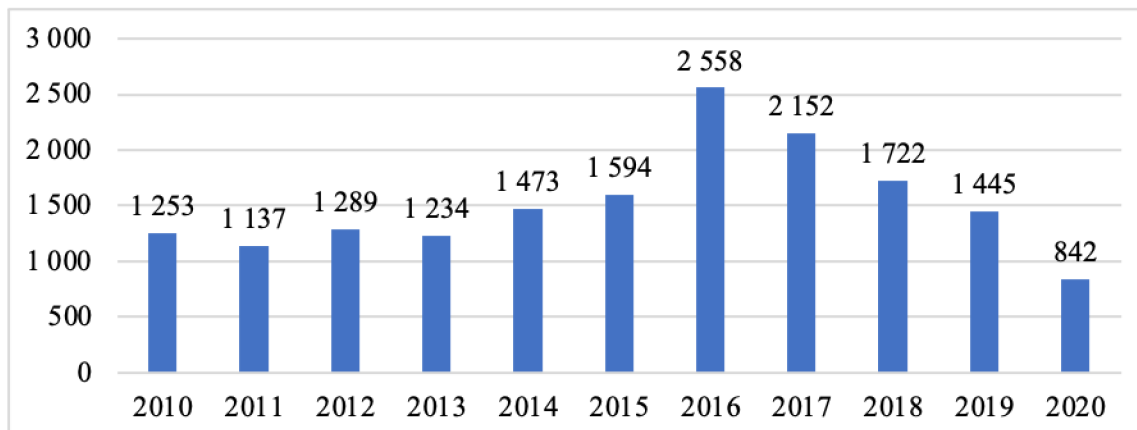
The offer of food and drinks is quite rich (compared to eg Radlice Cultural Sport Hall), but it is smaller than in Manifesto. The company, as well as competitors, does not miss organizing events.

### **4.3.2 New entrants**

Gastronomic facilities in Prague have difficult times due to the coronavirus pandemic. Nevertheless, 842 new companies operating in the catering and hospitality industry were established in 2020, and the total number of companies in this segment exceeded 22 000 (BusinessInfo.cz, 2020). However, a more detailed analysis has shown that fewer new businesses are being set up than in previous years.

According to the CZSO (2021) the number of new companies with the subject of catering and hospitality activities were declining since 2017 (see Figure 17). The year on year decline of this number was 16 % in 2020, while the decline of the total number of newly established companies across all business sectors was 11% (year on year) (BusinessInfo.cz, 2020).

Figure 17 Number of new companies with the subject of catering and hospitality activities (NACE 56)



Source: own processing based on the CZSO (2021) data

Great attention is always paid to the development of the capital city of Prague. The construction and innovation of public spaces, as well as the expansion of the range of services for residents and tourists, is usually part of the development plans of the city and individual city districts. The strategic goals of the Prague development plan include, for example, building of the prosperous and creative metropolis (IPR Praha, 2022). It can therefore be assumed that the new ideas, which will create interesting areas that are attractive to residents and tourists, will be supported by the city. Therefore, the risk of entry of new and strong competitors is quite high.

### 4.3.3 Suppliers

Companies like the Manifesto Market do not usually depend on a single supplier. On the contrary, they use products and services from many suppliers. Companies should ensure friendly and solid relationships with suppliers, comply with invoice due dates, etc.

Following modern trends and the Manifesto concept, the company pays attention to the quality of the raw materials it uses to prepare meals. Suppliers of local raw materials, organic raw materials, food of the highest class – are important for the company.

With suppliers of gastronomic services – such as individual brands of restaurants or bars, located in Manifesto market, the company prefers long-term contracts that reduce the risk of unexpected departure from the company and loss of rental income.



#### **4.3.4 Customers**

There are many catering establishments on the market, so customers can choose from an inexhaustible number of different restaurants focusing on different world cuisines. However, there are few facilities to choose from that provide the same range of services as Manifesto. Restricting the choice of service provider is therefore a factor that reduces the power of customers.

The Manifesto thinks about its customers and focuses on every moment that the visitor spends in the Manifesto. The Manifesto team takes their comfort, experience and inspiration into account when creating a design, brand, program or offer, but also when communicating. According to Martin Barry, creating the goal for people, looking at their opinions and wishes is also the goal of the company, under which Manifesto was originally established, and whose project fulfills these goals (reSITE, 2021).

#### **4.3.5 Substitutes**

The company does not have specific substitutes, but it is possible to include similar dishes, that the customers can prepare by themselves as the substitutes. The restaurant is able to compete with the supermarkets and grocery shops with guaranteed quality of meat from its own farm, or from proven local suppliers, excellent cooking. It is up to each customer and his experience which type of eating to prefer. However, the strength of the substitute can be generally assessed as low.

#### **4.3.6 Summary of the Porter's model**

From the analysis of the existing competition, it can be said that Manifesto Market does not have significant competitors in Prague due to its unique concept. However, in the city you can find facilities that offer visitors similar services and satisfaction of similar needs – entertainment, relaxation, socialization, gastronomic experience, sitting outdoors and attending events. The following companies were identified as competitors in this respect: Radlice Cultural Sport Hall, Prague embankments and Foodtruck in Holešovice Prague market. These facilities are characterized by dynamic growth and efforts to modernization and development, thus strengthening the threat of competition for Manifesto Market. However, they have the following shortcomings compared to Manifesto:

- Radlice Cultural Sport Hall – limited and variable opening hours, much smaller and less interesting offer of food and drinks, smaller capacity,
- Prague embankments – very noisy and busy place in season,
- Foodtruck – insufficient reputation and image, smaller capacity.

However, the company must monitor the development of these competitors, the innovative transformations of other facilities in Prague and the emergence of new competitors. This is especially important due to the trend of street food, vegan food, outdoor gastronomic and entertainment events. The emphasis of the government of Prague and the city districts on the development of a creative and pleasant space increases the risk of establishment of new and innovative companies as like the Manifesto markets.

The strength of suppliers is not high from the company's point of view, because the company is not dependent on one supplier. However, they must pay attention to the reliability of suppliers, contracts and compliance with deadlines, quality of the products.

The strength of customers is high due to the possibility to choose from a wide range of catering facilities in Prague, but it is reduced due to the fact that Manifesto has few competitors with a similar range of services.

The strength of substitution is considered as low in the gastronomy segment.

## **4.4 Analysis of the internal environment**

This part of the analysis is focused on the internal sources of the Manifesto Market. They are divided into the five groups: financial, tangible, human, organizational and intangible resources. The summary of strengths and weaknesses is provided at the end of the subchapter.

### **4.4.1 Financial resources**

Financial resources are a very important factor that can affect the company's operations, its behavior in crisis and the implementation of plans for the future. Nevertheless, it is quite difficult to analyze the company's financial situation due to limited information sources. The company also rejected the possibility of using its company data, especially relating to finance.

Only Manifesto Group s.r.o. financial statements are publicly available for the period 2009-2015 (eJustice.cz, 2016). They relate to a period when Manifesto Markets has not yet been launched and therefore an analysis of the financial situation from that time does not make sense. At that time, the company worked with minimal financial resources – for example, total assets at the end of 2015 amounted to only 140 thousand crowns, the result from 2014 -60 thousand crowns (eJustice.cz, 2016).

For other companies that are associated with the operation of Manifesto Markets (Manifesto Holding s.r.o., Manifesto Andel s.r.o., Manifesto Hospitality s.r.o., Manifesto Smíchov s.r.o.), only founding documents and notarial records from 2019-2020 are available (eJustice.cz, 2020).

However, an important document – the voucher agreement from the Capital City of Prague to Manifesto Holding s.r.o. within the operational program Prague – Growth Pole of the Czech Republic was published on the internet (KlidnýAnděl.cz, 2020). This agreement covers a grant for coaching and mentoring, which should be used for the development of Manifesto Markets.

### **Grant for the Financial mentoring for the Manifesto Holding project**

Total amount of aid is 420 750 CZK, which corresponds to the 85 % of the total financing of the project – Financial mentoring. Project start date: 1.10.2019, end: 1.4.2020. Evaluation of project implementation results is not available.

Harmonogram of the project (total duration is 6 months) includes:

- creating of the process of the financial reporting according to Czech and international standards (1<sup>st</sup>-2<sup>nd</sup> months),
- creating and control of the budget in the company (1<sup>st</sup>-6<sup>th</sup> months),
- creating of the company's price lists (5<sup>th</sup>-6<sup>th</sup> months),
- definition of the financial strategy (3<sup>rd</sup>-4<sup>th</sup> months),
- financial due-diligence for the new locations (3<sup>th</sup>-6<sup>th</sup> months),
- definition and realization of the clients programs (2<sup>nd</sup>-5<sup>th</sup> months).

Thanks to the submitted project, the applicant Manifesto Holding, through cooperation with G. Adam Skork, unifies the financial processes, reflects the business activities in the plan and better prepares for growth through the franchise method. The CEO receives mentoring support for the company's financial management. A. Skorek has extensive experience in his own business, financial management and mentoring for start-ups (CzechInvest) (Manifesto Holding, s.r.o., 2020, p. 10).

### **Investment of the fund Orbit Capital**

Another important fact related to the company's financial resources concerns the large-scale investment. A total of two million euros (about 50 million crowns), was sent to the Manifesto by the domestic fund Orbit Capital, which specializes in venture debt investments. The borrowed funds will give the Manifesto the necessary time to complete a large investment round, in which the company plans to get 8 to 12 million euros (200 to 300 million crowns) and wants to complete it until the end of the year. Initially, the investment was supposed to come sooner, but the pandemic postponed everything.

Excerpt from an interview with the owner of Manifesto for CzechCrunch (cc.cz):

*"The pandemic struck just as I started the investment round, when I heard advice from an investor. Sometime in March 2020, he told me: 'Martin, you have a really solid investor presentation, growth metrics and a great response. But honestly, your segment is in the center of the hurricane. My only advice is, don't ask for an investment at the moment. Survive, then come back. Investors will put money in your pockets. It's one of the few pieces of advice I heard and I took a break.'" (CC.cz, 2020).*

### **Changes in margin and sales during the Covid-19**

Assessment, how restrictions at the time of Covid-19 affected the financial situation of the Manifesto can be conducted based on the interview with the founder of the company M. Barry realized for the Forbes magazine in May 2021 (Mertová, 2021).

*"As the greatest success is considered that none of Manifesto restaurants ended during the pandemic. In Florence, a delivery service was launched; it allows to buy food from different companies in one order, which was very successful. And lately, the take-away service has also been demanded, with people coming to the Manifesto to pick up the food by themselves," says Barry (Mertová, 2021).*

However, the take-away service could not completely compensate for the loss of income during the closed gastronomic companies, and sales of the Manifesto year-on-year fell by about a third in 2020. On the contrary, the net profit rose by about 4 percent (Mertová, 2021). *"This is due to the fact that we have changed the way we operate, increased efficiency and we provide a number of services ourselves instead of outsourcing. We managed to increase the margin by about twenty percent."* (Barry cit. Mertová, 2021).

#### **4.4.2 Tangible resources**

The company leases the land, where the Manifesto markets are located. However, the company owns the equipment and materials it uses for the creating the areal of markets. These resources are valuable for a specific area and it is difficult for a company to use them on other areas or for sale. Some equipment – for example payment terminals and cash registers, kitchen and bar equipment, can be used in any market of Manifesto. Due to high inflation and rising building prices, the purchase of materials for new market equipment is becoming very expensive for the company. At the time of planning to open new markets and attracting investments, the company may not have predicted as high inflation as it currently is.

One of the advantages of the Manifesto market is the arrangement of all points of sale by card payment terminals. For this sales experience that Manifesto provides to its visitors, the company received the Mastercard award as the best salesman of 2018 (KlidnýAnděl.cz, 2020). The well-thought-out concept, exceptional approach and customer orientation were confirmed when Manifesto won the main prize (reSITE, 2021).

Under normal circumstances, the capacity of the Manifesto in Florence is up to 1 500 people and in Smíchov about 800 people. However, in order to keep the gaps during the Covid-19, the number of places in both localities was reduced by about half (Barry cit. (Mertová, 2021). Government regulations have the effect of reducing the capacity of the premises Manifesto.

#### **4.4.3 Human resources**

The company is constantly looking for new employees. However, due to the recent rise in unemployment, it can be assumed that finding new employees will be easier than before at a time of almost full employment.

The growth of wages and prices of outsourcing services complicates the intention to reduce costs in times of crisis, when there are certain restrictions and demand is lower.

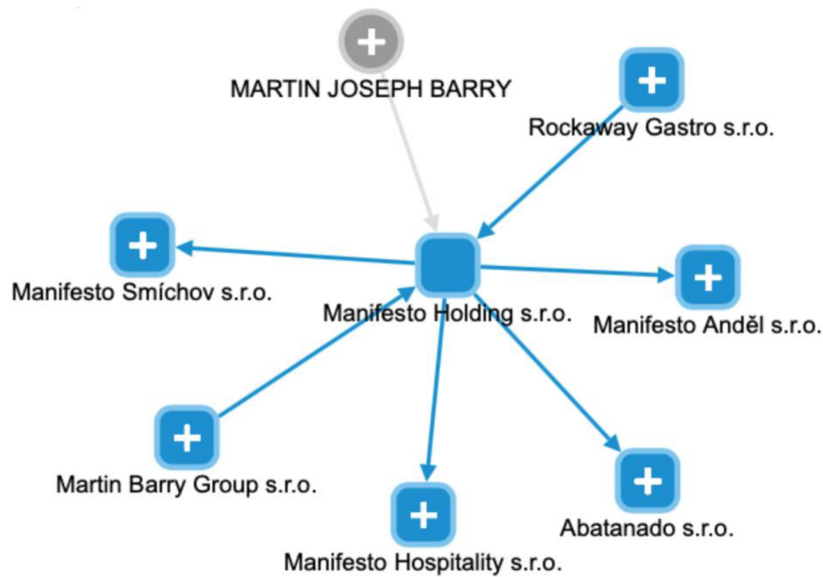
The team atmosphere is one of the priorities in the field of human resources management at Manifesto. It helps to create good relationships in the workplace, support the motivation and performance of employees.

Sick leave and quarantine in the event of contact with the infected create a shortage of staff and the need to always have compensation for employees in the event of illness or quarantine.

#### **4.4.4 Organizational resources**

Manifesto has a rather complex organization structure, which consists of a large number of business entities, links and relationships between them. Martin Barry Group, s.r.o. (company of the founder and CEO of Manifesto – Martin Barry), Manifesto Holding, s.r.o. (company that invests in the construction and operation of Manifesto Markets), Rockaway Gastro, s.r.o. (investor who finances the latest Manifesto expansion projects) play a central role in this arrangement. In 2020, in connection with the expansion of business, new companies were established – Manifesto Hospitality, s.r.o. and Manifesto Anděl, s.r.o. Schematically, the links of the participating companies in the operation of Manifesto markets are shown by the Figure 18.

Figure 18 Relationships of the business entities, connected with the Manifesto business



Source: made by the online tool Kurzy.cz (2021)

As already mentioned, CEO of the Manifesto is Martin Joseph Barry. He is a founder and initiator of Manifesto Market. Mr. Barry is a landscape architect from New York. He began to visit Prague in 2011, until he remained there for a long time. He is dedicated to improving public space, winner of the prestigious ASLA international award for landscape architects. As CEO of Manifesto Holding, Martin Barry is responsible for the overall direction and management of the organization, the creation of the overall strategy, the policy to meet the set goals and the financial management of the company. He decides on the business and marketing policy of the organization and strategically manages business processes (Manifesto Holding, s.r.o., 2020, p. 11).

Most of the activities of the Manifesto Holding and individual Manifesto Markets are provided by suppliers, these are: project management & site management, PR, communication and marketing (including digital marketing), sales department (private events, sponsorship relationship management), technology (web, mobile applications, payment system), resource management (suppliers), development and management of property, architecture and design ((Manifesto Holding, s.r.o., 2020, p. 3).

#### 4.4.5 Intangible resources

The important part of the intangible resources of Manifesto Market is its communication with its customers and fans. Manifesto Market mainly uses digital media, social networks and PR activities for communication, and to a lesser extent these channels are complemented by cinema or outdoor advertising. In addition to its own website, Manifesto also has a profile on Facebook, Instagram but also on Youtube. Through these channels, Manifesto regularly communicates with its fans, visitors, as well as potential customers and informs them about current events in both Manifestos, as well as various news regarding the offer or program. New posts are added to the Market's Facebook and Instagram profiles on a daily basis; in the case of Instagram, posts are further diversified with frequent entries within Instagram stories (MediaGuru, 2019; Instagram, 2021).

The key indicators of the Manifesto marketing communication are listed in the Table 6. The large number of users who search for and work with Manifesto Market content proves its effectiveness, especially in working with online media. The results conclude that the company has a strong position in this area.

Table 6 Key indicators of the online marketing communication of the Manifesto Market

Indicator	Value
Total reach via social networks	4 300 000
Facebook followers	22 119
Facebook likes	21 007
Evaluation on Facebook (max. 5)	4,3 (based on 139 reviews)
Instagram followers	33 300
Number of unique website visitors	More than 159 000
Number of Manifesto Market searches via Google Maps	More than 500 000
Number of views of Manifesto Market photos on Google	More than 1 700 000
Number of published articles, interviews and media mentions	More than 340

Source: own processing based on Manifesto Holding s.r.o. (2020), Facebook (2022), Instagram (2022)

Manifesto Market actively cooperates with domestic and foreign media for the purpose of publishing advertising and PR articles. Local media include Česká televize, Seznam Zprávy, Forbes, iDnes, Aktuálně.cz, Novinky.cz, Blesk, Reflex, E15, Hospodářské noviny. Foreign media are The New York Times, Monacle, Designbook, Lonely Planet, TimeOut, Evening Standard.



According to Barry (owner of Manifesto), marketing and communication are an integral part of a 360-degree strategy that encompasses everything from design, through curatorial activities to which retail and retailers are subject, as well as user experience and technology (MediaGuru, 2019; Manifesto Market, n.d.).

#### 4.4.6 Summary of the internal analysis

Strengths	Weaknesses
<b>Financial resources</b>	
<ul style="list-style-type: none"> <li>+ Margin growth of 20% in 2020</li> <li>+ attracting investor capital</li> <li>+ subsidy of the Capital of Prague on financial mentoring and thus improving the quality of the company's financial organization</li> </ul>	<ul style="list-style-type: none"> <li>– decline of sales in 2020</li> <li>– high indebtedness (inflow of foreign capital)</li> <li>– low transparency of financial data</li> </ul>
<b>Tangible resources</b>	
<ul style="list-style-type: none"> <li>+ the benefits of the scope of the market network and the possibility to use the equipment within the network</li> <li>+ card payment terminals in every selling place</li> </ul>	<ul style="list-style-type: none"> <li>– the reduction of the market capacity due the restrictions (gap between the visitors)</li> <li>– land is for rent (risk that the landlord will terminate the contracts)</li> </ul>
<b>Human resources</b>	
<ul style="list-style-type: none"> <li>+ rising unemployment can positive affect the process of finding of human resources</li> <li>+ team atmosphere</li> </ul>	<ul style="list-style-type: none"> <li>– sick leave and quarantine (need to always have compensation for employees)</li> <li>– increasing wages</li> </ul>
<b>Organizational resources</b>	
<ul style="list-style-type: none"> <li>+ instead of outsourcing, the company took over some important services and activities</li> </ul>	<ul style="list-style-type: none"> <li>– non-compliance with the planned opening dates of the branch at Anděl</li> </ul>
<b>Intangible resources</b>	
<ul style="list-style-type: none"> <li>+ brand of Manifesto Market</li> <li>+ business ownership – websites, profiles on social networks (relatively high level)</li> <li>+ cooperation with local and foreign media</li> </ul>	<ul style="list-style-type: none"> <li>– absence of mobile application</li> <li>– absence of online reservation system</li> </ul>

Source: own processing based on the previous analysis

## 4.5 The check-list of crisis symptoms

In this part there is an evaluation of two check-lists of crisis symptoms, described in the theoretical part of the work. The evaluation is conducted in an interview with the Senior Site Manager of the Manifesto in December 2021.

The first check-list includes 11 symptoms (see Table 7).

Table 7 Check-list of basic symptoms of the crisis according to Goldston

Basic symptoms of the crisis	Manifesto Market
1. declining operating profit	Disagree
2. year-on-year decrease in market share	Strongly disagree
3. quality managers leave the company	Strongly disagree
4. the company's confidence in itself decreases	Disagree (from the point of managers' view). Agree/disagree (employers have different opinions)
5. there is a risk of production cessation and quality standards are falling	Disagree
6. the company generates little cash or consumes it quickly	Agree (during the 2020-2021)
7. the volume of stored finished products grows and their structure does not correspond to demand	Disagree / Agree (some restaurants face this problem)
8. there is a reduction in costs for development, introduction of new products and advertising under market average	Strongly disagree
9. the product is stopping to be the preferred brand	Agree (changes in the consumers behaviour during the time of restrictions)
10. newly introduced products prosper to detriment of the existing products	Disagree
11. only 60 % of the production capacity is used and the contracted volume of production is below 10 % of current annual production.	Agree

Source: own processing based on Goldston (1992) and interview with the Manifesto market manager (2021)

The second check-list (Table 8) is filled also based on the consultation with the manager of the Manifesto. Table includes only factors, that are considered as factors, that are expected to affect the business. The factors that, in the opinion of the manager, are most characteristic of the company are highlighted in the table. However, the manager added that this list creates a very bad picture of the company, while not everything is as bad as it turns out.

Table 8 Check-list of basic symptoms of crisis according to Rudolf

<b>Company's management</b>	<b>Production</b>
<ul style="list-style-type: none"> <li>• orientation on historical results</li> </ul>	<ul style="list-style-type: none"> <li>• an increasing number of failures</li> <li>• poor continuity of processes</li> </ul>
<b>Buying</b>	<b>Marketing</b>
<ul style="list-style-type: none"> <li>• tied supply and distribution within the company</li> <li>• unwillingness of suppliers to provide services and goods on credit</li> <li>• rising input prices</li> <li>• increasing administration and restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• decline in sales, loss of product position in the customers perception</li> <li>• sales are driven by discounts</li> <li>• decrease in marketing costs</li> </ul>
<b>HR</b>	<b>Finance</b>
<ul style="list-style-type: none"> <li>• loss of people's motivation</li> <li>• growing passivity of employees and striving to last as long as possible with low performance</li> <li>• work on private projects during working time</li> <li>• outflow of employees</li> </ul>	<ul style="list-style-type: none"> <li>• decrease in liquidity</li> <li>• increase in debt</li> </ul>
<b>Investments</b>	<b>Informational systems</b>
<ul style="list-style-type: none"> <li>• creation of a large number of projects without their effective implementation</li> <li>• maintaining loss-making projects for activity reporting</li> </ul>	<ul style="list-style-type: none"> <li>• growing data misuse</li> <li>• increasing errors</li> <li>• restriction of some activities</li> </ul>

Source: own processing based on Rudolf (2006) and interview with the Manifesto market manager (2021)

From the performed evaluation it can be concluded that the situation has certain factors signaling the crisis. However, their significance and potential impact need to be assessed.

## **5 Evaluation of the results and recommendations**

The synthesis of the results of the company's own analyses of the external and internal environment (PEST, Porter's model, internal factors) and check-lists, fulfilled by the manager of the Manifesto, is used to compile a list of the most important crisis and risk factors.

### **5.1 Crisis evaluation**

The crisis barometer tool (probability factor and crisis impact value) is used in this subchapter.

Results of the previous analysis of external and internal environment, as well the results of the check-lists, were processes and the following main crises factors were identified:

1. measures during the Covid-19 pandemic (decrease in the demand and changes in consumer behavior, decline in sales, additional costs, problematic inventory management, problems in the HR management),
2. increasing prices and wages (increasing operational costs of the company, threat for the business plans and the need to re-value their profitability),
3. growing attention from the city administration and investors to the development and innovation of public spaces (competition risk),
4. increase in debt, risk of insolvency.

The first factor of the state restrictions connected with the Covid-19 pandemic has the extensive impact on the company and the whole market.

Furthermore, these four most important factors are evaluated in terms of 5 criteria (they were described in the theoretical part of the work according to Fink (2002)) and using a 10-point scale (see Table 9).

Table 9 Evaluation of the crisis impact

Crisis factor	Criterium					Impact value*
	1. Degree of intensity	2. Influencing business through media and government pressure	3. Disruption of normal business operations, processes	4. Change in the opinion of the stakeholders	5. The impact on the economic result	
1. measures during the Covid-19 pandemic	10	9	10	8	9	<b>9,2</b>
2. increasing prices and wages	7	2	3	5	7	<b>4,8</b>
3. growing attention from the city administration and investors to the development and innovation of public spaces	5	6	2	6	5	<b>4,8</b>
4. increase in debt, risk of insolvency	5	3	3	2	6	<b>3,8</b>
<b>Total**</b>	<b>6,75</b>	<b>5</b>	<b>4,5</b>	<b>5,25</b>	<b>6,75</b>	

\*Impact value = The total sum is divided by 5 (five question areas)

\*\*Total = the total sum is divided by 4 (four crisis factors)

Source: own processing based on Fink (2002) and interview with the Manifesto market manager (2021)

It should be emphasized that the manager who assessed the crisis symptoms may be wrong. Since it was not possible to get and compare the opinions of other managers of the firm (no one else agreed to participate in the work), managerial error is the next risk that can affect the results of work.

The results of the crisis factor assessment indicate the need to create alternative plans in case the company is again negatively affected by measures against the pandemic. It is clear that a serious risk problem is the growth of the company's costs due to rising prices and the need to repay debt. The company must create an alternative source of revenue so that it can still gain market demand in the event of government restrictions and generate revenue to cover costs.

## 5.2 Proposal for diversification strategies

In times of uncertainty, many companies (existing and potential new competitors Manifesto) decide to set back their expansion plans and choose the path of caution and saving. This creates an opportunity for the company to occupy the market when the strength of competition is subdued. Furthermore, proposals are made for the diversification of the Manifesto product portfolio.

Following the identified social trends in the STEP analysis, the next proposal is made: Take & Bake kits. Domestic preparation of beverages is gaining popularity, and people are more interested in coffee, natural wines and other products that they had to procure themselves during the crisis. The restaurants may also include beverage kits.

### Product – Take & Bake kits

The restaurants of the Manifesto Markets will innovate packages with ingredients and recipes and improve Take & Bake kits – pizza, bread, soups and other dishes that customers will bake or cook in their own kitchen.

The process of preparing a meal kit involves slicing the ingredients, packing them (see figure 19), and creating a simple preparation guide and allergen list. Some ingredients can be pre-cooked or roasted, which shortens the preparation time for the customer. According to the customer's requirements, the package can also contain a description of the energy values of the ingredients.

Figure 19 Packaging of the Take & Bake kits



Source: Dinnerlab (2022)

## Price

The table 10 includes the calculation of the production price of one kit – on the example of lasagna. The costs of preparing 10 servings is 469,09 CZK. The production price of one serving including packaging is 56,91 CZK. If the selling price of the meal is 229 CZK, margin is 75 % (172 CZK).

Table 10 Calculation of the production price

	Weight		Price (per kg/l)		Price (per weight)	
Ground beef meat	1	kg	218	CZK/kg	218,00	CZK/kg
Tomatoes	0,3	kg	49,9	CZK/kg	14,97	CZK/kg
Cheese	0,5	kg	340	CZK/kg	170,00	CZK/kg
Onion	0,8	kg	16,8	CZK/kg	13,44	CZK/kg
<b>Lasagna leaves</b>	<b>1,5</b>	<b>kg</b>			<b>27,96</b>	
<i>Water</i>	<i>0,39</i>	<i>l</i>	<i>0</i>	<i>CZK/l</i>	<i>0,00</i>	<i>CZK/l</i>
<i>Extra fine flour</i>	<i>1,05</i>	<i>kg</i>	<i>18,9</i>	<i>CZK/kg</i>	<i>19,85</i>	<i>CZK/kg</i>
<i>Egg</i>	<i>2,25</i>	<i>pieces</i>	<i>34,9</i>	<i>CZK/10 ks</i>	<i>7,85</i>	<i>CZK/10 ks</i>
<i>Salt</i>	<i>0,03</i>	<i>kg</i>	<i>8,9</i>	<i>CZK/kg</i>	<i>0,27</i>	<i>CZK/kg</i>
<b>Sauce bechamel</b>	<b>700</b>	<b>kg</b>			<b>16,34</b>	
<i>Butter</i>	<i>0,035</i>	<i>kg</i>	<i>223,6</i>	<i>CZK/kg</i>	<i>7,83</i>	<i>CZK/kg</i>
<i>Water</i>	<i>0,63</i>	<i>l</i>	<i>0</i>	<i>CZK/l</i>	<i>0,00</i>	<i>CZK/l</i>
<i>Onion</i>	<i>0,034</i>	<i>kg</i>	<i>16,8</i>	<i>CZK/kg</i>	<i>0,57</i>	<i>CZK/kg</i>
<i>Extra fine flour</i>	<i>0,035</i>	<i>kg</i>	<i>18,9</i>	<i>CZK/kg</i>	<i>0,66</i>	<i>CZK/kg</i>
<i>Cream</i>	<i>0,035</i>	<i>l</i>	<i>115,26</i>	<i>CZK/l</i>	<i>4,03</i>	<i>CZK/l</i>
<i>Spice</i>	<i>0,004</i>	<i>kg</i>	<i>312</i>	<i>CZK/0,4 kg</i>	<i>3,12</i>	<i>CZK/0,4 kg</i>
<i>Salt</i>	<i>0,014</i>	<i>kg</i>	<i>8,9</i>	<i>CZK/kg</i>	<i>0,12</i>	<i>CZK/kg</i>
Spice	0,001	kg	312	CZK/0,4 kg	0,78	CZK/0,4 kg
Salt	0,015	kg	8,9	CZK/kg	0,13	CZK/kg
Green	0,004	kg	186,6	CZK/0,1 kg	7,46	CZK/0,1 kg
<b>Price (10 servings)</b>					<b>469,09</b>	<b>CZK/10 servings</b>
<b>Price (1 serving)</b>					<b>46,91</b>	<b>CZK/1 serving</b>
<b>Packaging</b>					<b>10</b>	<b>CZK/1 serving</b>

Source: own processing

Prices of the meal kits will be the same, as the price of prepared meal in the Manifesto, but customers can get some benefits. Among them are:

- discount when ordering several portions of the same meal (in this case the company saves on packaging),
- every 5th portion of food is sold with a 50% discount (support of larger and repeated orders),
- ordering meals according to a pre-set program (eg one week in advance) is advantageous for the company (it can plan its stocks, time, sales) as well as for the customer (he will be offered a discount according to the length of the selected program, number of meals in the program).

## **Distribution**

Customers will be offered the opportunity to order meals separately or use regular food delivery according to the set program. In the future, a nutritionist can be involved in the preparation of these programs to help create a tasty and balanced diet.

Direct and indirect routes will be used for distribution. Ordering will be possible directly at the Manifesto premises and online help of the Manifesto website. The food delivery services used by Manifesto at present (Bolt, Wolt, DámeJídlo) will also be delivered by Take & Bake kits.

## **Promotion**

Promotion of the kits will be realized with this message:

*„You get a whole box of groceries for the selected meal. It includes a simple list of steps how to prepare a meal. Our products are sourced from the best suppliers, accurately measured and securely packaged. Everything is of the highest quality. You will get a taste of food that you know well from the Manifesto. Create our atmosphere at home!“*



Marketing communication will be implemented in the following stages:

- phase before the introduction of a new product: notification of customers on the website and on social networks about the news, its benefits and the expected date of launch, sale of discounts for the first orders, the possibility to subscribe to the newsletter.
- product launch phase: use of mass communication, aimed not only at existing Manifesto customers, but also at new markets. Flyers in office centers, promotional offer in Wolt and Bolt Food, paid advertising on the Internet,
- growth phase: advertising contribution for bloggers with product reviews, building a relationship with customers (loyalty program, notice of discounts for repeat orders, intensive promotion of adjustable programs to order food a week in advance, discounts for recommending the program to a friend)
- stabilization phase: reminding customers of the benefits of the product, presentation of new meals on the menu, videos on social media with food preparation instructions, useful advice and cognitive videos (on soil ingredients, food history, health value, etc.),
- the downturn phase (intensive development and promotion of new meals, delivery methods, packaging, etc.).

The estimated budget for the marketing communication is given in the table 11. There are also mentioned responsibilities for performing all activities. Some activities can be carried out by IT and marketing by Manifesto on their own, some activities must be ordered from external specialists. For example, video and photo shooting.

Production of the video includes scenario preparation, communication, team coordination etc. The price of the filming day include 8 hours of filming and the work of cameraman and director.

The cost of PPC advertising is determined as a monthly budget (the price can be adjusted according to needs and results).

Table 11 Budget for the marketing communication of the Také & Bake kits

<b>Tool / activity</b>	<b>Responsibility</b>	<b>Costs</b>		<b>Total</b>	
<b>Edits on the web</b>	<b>IT team Manifesto</b>	<b>0</b>	<b>CZK</b>	<b>0</b>	<b>CZK</b>
<b>Writing posts for social media</b>	<b>Marketing team Manifesto</b>	<b>0</b>	<b>CZK</b>	<b>0</b>	<b>CZK</b>
<b>Video shooting</b>				<b>35000</b>	<b>CZK / total</b>
<i>production</i>	External specialists	<i>5 000</i>	<i>CZK</i>	<i>5 000</i>	<i>CZK</i>
<i>1 filming day</i>	(VideoAnimace)	<i>20000</i>	<i>CZK/day</i>	<i>20000</i>	<i>CZK/day</i>
<i>Video Editing</i>		<i>10000</i>	<i>CZK</i>	<i>10000</i>	<i>CZK</i>
<b>Photo shooting</b>				<b>5000</b>	<b>CZK / total</b>
<i>Photo for Instagram</i>	External specialists	<i>250</i>	<i>CZK /piece</i>	<i>3750</i>	<i>CZK/15 pieces</i>
<i>Photo for printed advertising</i>	(Produktová Fotka)	<i>250</i>	<i>CZK /piece</i>	<i>1250</i>	<i>CZK/5 pieces</i>
<b>Flyers Printing (400 pieces)</b>	External workers	<b>499</b>	<b>CZK/total</b>	<b>499</b>	<b>CZK/total</b>
<b>Distribution of flyers</b>		<b>160</b>	<b>CZK/hour</b>	<b>3200</b>	<b>CZK/20 hours</b>
<b>PPC advertising</b>	Marketing team Manifesto	<b>20000</b>	<b>CZK/month</b>	<b>20000</b>	<b>CZK/month</b>
<b>Total</b>				<b>63699</b>	<b>CZK</b>

Source: own processing, prices according to ProduktovaFotka (2022), VideoAnimace (2022).

The marketing communication of the new product will cost for the company 63 699 CZK. If we take into account that the margin on sales of one kit is 75 % and the average order will be 500 CZK (ie the company earns 375 CZK on each order), it can be easily calculated that the marketing costs will be covered by selling 169,9 average orders .

## 6 Conclusion

The main aim of the thesis was to apply the methods of crisis management on selected business processes of the Manifesto Market, and then to develop the anti-crisis measurements for this company, focused on a diversification strategies.

The current situation, which is accompanied by various measures to alleviate the COVID-19 pandemic, is very difficult for many gastronomic companies. Some of the restaurants and bars are so endangered that they are forced to close their business. Conversely, other companies (like Manifesto) choose the path of significant investment to try to fill competitors' positions and gain more share in the weak market. This path is very risky, and as the analysis of the internal environment of Manifesto has shown, the company is highly indebted, attracts foreign investors and pursues very ambitious plans. The market analysis shows various trends that have a rather negative effect on the fulfillment of these plans – falling demand, rising prices, changes in consumer behavior, etc.

Various methods of identifying faculty that could cause a crisis in the company were used in the work. As part of the consultation with the Senior Site Manager Manifesto, checklists from the basic symptoms of the crisis were completed. The most important factories are four: measures during the Covid-19 pandemic, increasing prices and wages, growing attention from the city administration and investors to the development and innovation of public spaces (competition risk), increase in debt, risk of insolvency. Nevertheless, results also show, that the combination of quality gastronomic services, design and client experience is the main competitive advantage of Manifesto Markets on the market. In the opinion of the interviewed manager of the Manifesto, the situation is not as risky as it follows from the own analysis of the environment performed in this work (STEP, Porter's model, analysis of internal resources). However, the assessment of crisis factors signals the need to develop an alternative business development plan.

The literature research clearly demonstrates the benefits of diversification strategies for companies in uncertain environments. Therefore, a product portfolio diversification proposal was prepared for Manifesto. Specifically, it is an offer of Take & Bake kits – meals that the customer can order at home (individually or according to a pre-set program, eg weekly) and prepare separately according to the instructions. The calculation shows that the average margin from the sale of one meal in the kit is 75 %. The proposal contains

recommendations for individual tools of the 4P marketing mix. New product marketing communication tools are offered for individual development phases (before product introduction, in product introduction phase, in growth phase, etc.). The marketing communication budget showed that it is necessary to take into account the costs of 43 699 CZK (one-off) and 20 000 CZK (monthly). These costs can be covered from the sales margin of 169,9 orders (if their average value is 500 CZK), which is quite realistic from the company's point of view.

In order for the diversification strategy to fulfill its goals – to provide an additional source of income for the company at a time when the standard work of restaurant facilities is reduced and demand is reduced (due to changes in consumption habits, development of competition, etc.), the effective marketing communication is essential. Failure in this area may therefore reduce the benefits of the diversification strategy.

Significant limitations of the research in this work result from the difficulty in obtaining internal company data Manifesto. For example, the company's financial statements are not available on the eJustice.cz portal and the company did not provide them for work purposes. Recently, the company has also undergone significant organizational changes due to attracting foreign investors, so it is not possible to describe situations without direct experience with financial management Manifesto. The proposals for further research therefore concern a detailed financial analysis.

A further limitation of the work is that only one manager of the firm agreed to be interviewed and assessed for crisis symptoms. The assessment in this work is therefore based only on the opinion of this manager and personal subjective opinion based on the analysis of available data. A certain risk, therefore, is the fallacy of the manager's opinion. For further research, it is recommended to obtain the opinions of various managers of the firm.

The contribution of the work will be the creation of inspirational proposals and the calculation of their implementation, which the company can use in its crisis management and the application of diversification strategy.

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