

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Diploma Thesis

**Foreign trade of the Czech Republic - Case study of
import parts and components from Asia to Škoda Auto**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Dominika Dubská

Economics and Management

Thesis title

Foreign trade of the Czech Republic – Case study of import parts and components from Asia to Škoda Auto

Objectives of thesis

The objective of the theoretical part of the thesis is to introduce the actual situation of the automotive industry in the Czech Republic. The description of the foreign trade, its significance and conditions, which are connected with making a business with foreign suppliers.

The main aim of the practical part is to conduct a methodology for cooperation with potential suppliers from the Asian market. The methodology is drawn up for the company ŠKODA Auto a.s. The first part of the process is dedicated to the possible ways of finding new suppliers of the mentioned market. The most important part is to compile all requirements for new suppliers that must be fulfilled for the successful cooperation. Suggestion of criteria for evaluation of the suppliers is an inseparable part of the process. Using the outcome of this thesis in the company ŠKODA Auto, the efficiency of the purchasing department should increase when meeting a potential Asian supplier and reduce workload.

Methodology

Comparative and descriptive methods will be used in the thesis. The theoretical knowledge and data will be gained from the literature, electronic sources and intern sources of the company ŠKODA Auto a.s. The cooperation with the department of Procurement Investment, Production of cars ŠKODA Auto and consultations with the specialists in the field of trade enable me to look into the practical process when communicating and trading with suppliers. This knowledge will be used in the practical part of the thesis.

The actual situation of the selected Asian countries will be described using PEST analysis.

The part of the thesis will be a creation of a flow chart for the whole process of starting a business with Asian suppliers.

The gained data will be analytically elaborated and the outcome will be a suggestion of a standardized process of getting Asian suppliers.

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Keywords

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Declaration

I declare that I have worked on my diploma thesis titled "Foreign trade of the Czech Republic - Case study of import parts and components from Asia to ŠKODA Auto" 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 30 November 2016

Dominika Dubská

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Foreign trade of the Czech Republic - Case study of import parts and components from Asia to ŠKODA Auto

Summary

My diploma thesis focuses on proposing a series of steps for the acquisition of new suppliers recruited from Asian market for the company ŠKODA Auto a.s. The acquisition process consists of four main steps, including preparing a list of standardized requirements that ŠKODA Auto places on its new suppliers. Although I was enabled to put some of the steps described into practise during my internship at the company's purchasing department, this thesis conceived as a theoretical proposal for future communication and cooperation with prospective Asian suppliers. The estimated time for the realization of all steps of standardized process is one year. Once all steps are completed, the successful candidates will be invited to become a regular supplier of parts and components required for the manufacturing of ŠKODA cars.

The thesis also includes a proposal for creating a database of all companies participating in the competition, which will serve as an overview and will contain information as in which part of the process a particular supplier currently is. After its implementation in practise, the data presented in this thesis should contribute to improving communication with prospective Asian suppliers.

Keywords: International trade, C3 Sourcing, ŠKODA Auto, Asian market

Zahraniční obchod České republiky –případová studie dovozu dílů a komponentů z Asie do ŠKODA Auto a.s.

Souhrn

Tato diplomová práce se zabývá sestavením procesu získávání nových dodavatelů asijského trhu pro firmu ŠKODA Auto a.s. Celý proces se skládá ze 4 hlavních kroků, jejichž součástí je vyhotovení standardizovaných požadavků, které jsou kladeny na nové dodavatele ze strany ŠKODA Auto. Ačkoliv mi bylo během mého praktikantského pobytu na oddělení nákupu umožněno aplikovat některé kroky do praxe, tato práce je psána jako teoretický návrh pro budoucí komunikaci a spolupráci s potenciálními asijskými dodavateli. Odhadovaná doba na splnění jednotlivých kroků standardizovaného procesu je jeden rok. Po úspěšném absolvování všech stupňů bude dodavateli umožněno stát se stálým dodavatelem dílů nebo komponentů potřebných k výrobě automobilů značky ŠKODA.

Práce obsahuje také návrh na vytvoření databáze kontaktovaných firem sloužící jako přehled a kontrolu, v jaké fázi procesu se daný dodavatel nachází. Obsah této práce by měl po zavedení do praxe usnadnit práci nákupčím firmy ŠKODA Auto a zefektivnit komunikaci s potenciálními asijskými dodavateli.

Klíčová slova: mezinárodní obchod, C3 Sourcing, ŠKODA Auto, Asijský trh

Table of content

1	Introduction.....	12
2	Objectives and Methodology	13
2.1	Objectives.....	13
2.2	Methodology	13
3	Literature Review.....	14
3.1	Foreign trade	14
3.1.1	Theories of international trade	14
3.1.1.1	Mercantilism.....	14
3.1.1.2	Classical theories of international trade	15
3.1.1.3	Neoclassical theories of international trade.....	18
3.1.1.4	Alternative theories of international trade.....	20
3.1.2	Importance of foreign trade	22
3.1.3	Trade policy	23
3.2	Customs in foreign trade	24
3.2.1	Customs in the EU	25
3.3	Delivery conditions	26
3.3.1	INCOTERMS 2010	27
3.4	Risks in the foreign trade	29
3.4.1	Market risks	30
3.4.2	Commercial risks	31
3.4.3	Logistic risks.....	33
3.4.4	Territorial risks	33
3.4.5	Currency risks	33
3.4.6	Responsibility risks.....	34
3.5	Purchasing process of foreign trade	34

3.5.1	Situation analysis	35
3.5.2	Purchasing strategy and goals determination.....	35
3.5.3	Needs identification	37
3.5.4	Analysis and selection of the market	38
3.5.5	Analysis and selection of the suppliers.....	42
3.5.6	Demand and the evaluation of the offer.....	42
3.5.7	Negotiation and the evaluation of the supplier	43
4	Practical Part.....	44
4.1	Automotive industry in the Czech Republic	44
4.2	ŠKODA AUTO a.s.....	45
4.2.1	History of ŠKODA AUTO a.s.	46
4.2.2	Purchase department of ŠKODA AUTO a.s.	47
4.3	The process of getting new suppliers	48
4.3.1	Analysis of the market	48
4.3.1.1	South Korea	49
4.3.2	Reaching the market	64
4.3.3	Contacting the suppliers.....	66
4.3.4	Requirements	68
4.3.4.1	Basic supplier information	68
4.3.4.2	The standardized process.....	70
5	Results and Discussion.....	73
6	Conclusion.....	75
7	References	76
8	Appendix.....	81

List of figures

Figure 1. Analysis process and needs identification.....	38
Figure 2 Pre-selection of a supplier	43
Figure 3. Plants of ŠKODA AUTO	45
Figure 4. Economic results of ŠKODA Auto a.s.	46
Figure 5. Political stability of South Korea	52
Figure 6. Political corruption in South Korea.....	53
Figure 7. BMI Logistic Risk Index	61
Figure 8. Occurance of disasters in South Korea.....	63
Figure 9. The standardized process.....	72

List of tables

Table 1. An example of the absolute advantage	16
Table 2. An example of comparative advantage.....	17
Table 3. Country overview – South Korea	49
Table 4. Economic data for South Korea.....	54
Table 5. Sociological data for South Korea	55
Table 6. The Automobile Production, Domestic Sales and Foreign Trade in South Korea	57
Table 7. Export Volume in South Korea	58
Table 8. Statistical Data by Makers in South Korea.....	59

Table 9. BMI Logistic Risk Index	61
----------------------------------------	----

Table 10. Overview of Natural Disasters from 1980 until 2010	63
--------------------------------------------------------------------	----

List of appendix

Appendix 1. Flow chart	81
------------------------------	----

Appendix 2. Questionnaire SUNGWOO HITECH 1/2	82
----------------------------------------------------	----

Appendix 3. Questionnaire SUNGWOO HITECH 2/2	83
----------------------------------------------------	----

Appendix 4. Questionnaire Viney Corporation Limited 1/2	84
---------------------------------------------------------------	----

Appendix 5. Questionnaire Viney Corporation Limited 2/2	85
---------------------------------------------------------------	----

Appendix 6. Questionnaire CNI 1/2	86
-----------------------------------------	----

Appendix 7. Questionnaire CNI 2/2	87
-----------------------------------------	----

Appendix 8. An example of the database 1/3	88
--------------------------------------------------	----

Appendix 9. An example of the database 2/3	89
--------------------------------------------------	----

Appendix 10. An example of the database 3/3	90
---------------------------------------------------	----

Appendix 11. Asian countries overview	91
---------------------------------------------	----

1 Introduction

The international trade is a part of most of the companies in the world. Besides other things, globalization offers new possibilities and expands the market. Nowadays, there is an effort to eliminate or at least reduce trade barriers and ease entrepreneurs of the obstacles connected with the foreign trade. There arise regions called free trade area encompassing member states that have signed a free trade agreement. It is instrumental in acceleration and efficiency improvement in delivering goods and services across the countries.

With the aim to cut costs, there is a trend to move production into Asian countries or have an Asian producer of supplied goods. Even ŠKODA Auto a.s. would like to extend its database of suppliers. The area they are interested in is Asia. Asian manufacturers are able to produce parts and components in the same quality as manufacturers in Europe. ŠKODA Auto has very good experience with the Asian suppliers and some of them are regular suppliers until the present time. However, the communication and sharing requirements has not been easy. For that reason, there was demand from ŠKODA to compose a process which would be more efficient, faster and easier. I was working on the written proposal during my internship at purchasing department of ŠKODA Auto. Since I have had an opportunity to communicate with Asian producers, to arrange meetings with them and to participate in the meetings, it enabled me to be a part of the business process. With the help of more experienced employees of purchasing department and the experience gathered during my internship, I elaborated the whole process of getting new suppliers and prepared standardized process containing individual steps for potential suppliers to accomplish. When applying into practise, it should simplify the work of the purchasing officers and make the communication with potential Asian suppliers more efficient.

2 Objectives and Methodology

2.1 Objectives

The objective of the theoretical part of the thesis is to introduce the actual situation of the automotive industry in the Czech Republic followed by the description of the foreign trade, its significance and conditions, which are connected with making a business with foreign suppliers.

The main aim of the practical part is to conduct a methodology for cooperation with potential suppliers from the Asian market. The methodology is drawn up for the company ŠKODA Auto a.s. The first part of the process is dedicated to the possible ways of finding new suppliers of the mentioned market. The most important part is to compile all requirements for new suppliers that must be fulfilled for the successful cooperation. Suggestion of criteria for evaluation of the suppliers is an inseparable part of the process.

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2.2 Methodology

Comparative and descriptive methods will be used in the thesis. The theoretical knowledge and data will be gain from the literature, electronic sources and intern sources of the company ŠKODA Auto a.s. The cooperation with the department of Procurement Investment, Production of cars ŠKODA Auto and consultations with the specialists in the field of trade enable me to look into the practical process when communicating and trading with suppliers. This knowledge will be used in the practical part of the thesis.

The actual situation of the selected Asian countries will be described using PEST analysis. The part of the thesis will be a creation of a flow chart for the whole process of starting a business with Asian suppliers. The gained data will be analytically elaborated and the outcome will be a suggestion of a standardized process of getting Asian suppliers.

3 Literature Review

3.1 Foreign trade

Foreign trade can be simply defined as an exchange of goods or services across international borders. As the history indicates, trading started in a form of barter, which means goods for goods. With a development of trade, barter stopped to be a sufficient compensation. Therefore, the rare metal, especially silver and gold, became the exchanged unit for goods. However, the physical weight of the equivalent was not ideal for foreign trading. For that reason, paper money and bills of exchange came after. (SVATOŠ, 2009) There are two main parts of the foreign trade – import (Im) and export (Ex). The relationship of these two is expressed as a trade balance. There is a simple formula to calculate the balance (X):

$$X = Ex - Im$$

When trading three situations might occur:

- Export > Import, this situation is called active trade balance, it might reduce the unemployment in a particular country, because there are more goods or services that were provided in comparison with an utilisation of imported products;
- Export < Import, the passive balance of trade, the usage of imported goods or services is higher than the export of local product of a country;
- Export = Import, the trade balance is equal to zero.

3.1.1 Theories of international trade

3.1.1.1 Mercantilism

The mercantilist perspective of trade was dominant from 16th to 18th centuries. The main idea was to support export and have the lowest possible import. They perceived the international trade as a possibility to weaken other countries owing to the inflow of their gold and silver as an exchange for the goods. Mercantilists believed that the quantity of precious metal in a country symbolized the national wealth. The more of silver and gold the country had, the richer and more powerful the country was. The strictest form of

mercantilism, called bullionism, dated at the beginning of the era. During this period, it was forbidden to export precious metal from a country. Later Thomas Mun, the representative of mercantilism, began to understand that an active balance can increase the national wealth and the ban on exporting metals was harmful to the economy. He claimed that the active balance can increase the quantity of the precious metals in a specific country; it means the higher amount of money in the national economy. (NEUMANN, 2010) (SVATOŠ, 2009) (ŠTĚRBOVÁ, 2013)

The general idea of mercantilism claimed that the international trade was a game with zero sum. In other words, if one country earns thanks to a realized trade, the other country must lose. Later, this theory was disputed by the representatives of classical model and their calculations proved that the international trade increased the wealth of all involved countries. (SVATOŠ, 2009) (ŠTĚRBOVÁ, 2013)

3.1.1.2 Classical theories of international trade

The rise of the classical approach rose on the opposition to the mercantilist theory – unlike them they proved that the international trade is beneficial to all involved countries. Compared to mercantilism the national wealth is not measured by a quantity of precious metal/money in the country, but the benefits of international trade result from the division of labour among the countries.

Theory of absolute advantage

The author of the theory of absolute advantage was a Scottish philosopher and pioneer of political economy Adam Smith. The theory is described in his work “*An inquiry into the Nature and Causes of Wealth of Nations*” from the year 1776. Smith criticized mercantilist view on the foreign trade. He pointed out that the national wealth should not be measured by the quantity of precious metals, but by the well-being of the citizens. His theory explains that the advantages of trading lie in division of labour. Workers should focus on those phases of production they can do the best. The efficiency of a production should increase in this case when compared with the workers who are responsible for the whole production. The same applies to countries; each country should concentrate its production on products, which have lower production costs compared to other countries. These

products should be then exported to the countries where the production of a specific product is more expensive. (SVATOŠ, 2009) (ŠTĚRBOVÁ, 2013)

This theory can be shown on a following example:

Table 1. An example of the absolute advantage

Commodities	Unit costs of production in terms of labour	
	In England	In Portugal
Cloth	4	6
Wine	8	3

Source: Gandolfo, G. International Trade Theory and Policy, p. 10

England has lower production costs on cloth, only 4 units in comparison with Portugal and its 6 units. On the other hand, England has higher production costs on wine – 8 units in comparison with 3 units in Portugal. According to the absolute advantage theory, England should produce cloth and exchange it for Portuguese wine. It follows that Portugal should specialize in wine production and exchange it for cloth from England. Therefore, each country focuses on a field of production they are better at. (GANDOLFO, 1998)

Theory of comparative advantage

English political economist David Ricardo defined theory of comparative advantage. He described his thoughts in the book “On the Principles of Political Economy and Taxation”. Ricardo claimed that foreign trade could bring an advantage to a country even though the country did not have an absolute advantage in a production of specific goods. The advantage should not be measured by the lowest production cost but by the lowest opportunity costs. (GANDOLFO, 1998) “*Comparative cost can be defined in two ways: as the ratio between the (absolute) unit costs of the commodities in the same country, or as the ratio between the (absolute) unit costs of the same commodity in the two countries.*” (GANDOLFO, 1998 p. 10)

The theory can be explained on the following example:

Table 2. An example of comparative advantage

Commodities	Unit costs of production in terms of labour	
	In England	In Portugal
Cloth	4	6
Wine	8	10

Source: Gandolfo, G. International Trade Theory and Policy, p. 11

If one country does not have an absolute advantage in any of goods, it does not mean that there is no opportunity for international trade. In this example, England has an absolute advantage in both commodities; therefore its comparative advantage is in the item where the absolute advantage is relatively the highest. Portugal does not have an absolute advantage in the production of any of these commodities. Therefore, its comparative advantage lies in the item which has relatively the lowest absolute disadvantage. We calculate as follows: the relative price of cloth is determined by wine production as $4/8$ in England, and $6/10$ in Portugal. The production of cloth is relatively cheaper in England. On the other hand, the production of wine is relatively cheaper in Portugal; therefore England concentrates on the production of cloth, Portugal on wine according to their relative comparative advantage. (GANDOLFO, 1998)

International exchange value

English philosopher and economist John Stuart Mill was concerned with the theory of reciprocal demand. His theory affirms that international exchange value affects an advantage that a country receives from foreign trade. The quantity of national demand of importing goods has the biggest impact on the value. A country with superior national exchange value in comparison with the international exchange value will have a higher profit from international trade. (ŠTĚRBOVÁ, 2013)

Since, the exchange value can be derived from the size and level of development of a particular economy, there is an assumption that the national exchange value of bigger countries will be closer to the international exchange value. Therefore, the small countries

might have a bigger advantage in the realized international trade. The countries would benefit similarly from the international trade in the case when the international exchange value is found in the middle of the national exchange values' interval. (ŠTĚRBOVÁ, 2013)

3.1.1.3 Neoclassical theories of international trade

Neoclassical theories extend or change the theories of the classical approach. The most significant theory is Heckscher - Ohlin model later extended by Stolper – Samuelson Theorem, Factor – Price equalization Theorem, and Rybczynky effect. These theories include not only the factor of labour, but also capital in the models of international trade.

Heckscher-Ohlin Model

The Heckscher-Ohlin Model works with the assumption that each country differs with the relative quantity of the production factors. The price of the production factors depends on the demand in a specific country. Therefore, the price of capital in a country with its relatively high ratio will be lower than in the countries with the low ratio of capital. Such a country should focus on the production of products which are capital-intensive. On the other hand, the countries where the labour is cheaper should focus its production on the products which are labour-intensive. (NEUMANN, 2010)

If we assume that the country A has a higher capital ratio (C) and the country B has a higher labour ratio (L), the relation can be put as (NEUMANN, 2010)

$$\left(\frac{C}{L}\right)_A > \left(\frac{C}{L}\right)_B$$

Stolper-Samuelson Theorem

The Heckscher-Ohlin model assumes that the increase in the price of the capital-intense commodity causes the increase in the price of the capital and vice versa. The rise of the price of capital-intense goods will lead to intensified production at the expense of labour-intense commodity. The demand for the capital will increase; the demand for labour will decrease. This situation will impact the conditions in each country differently. The country which focuses on the capital-intense production will have an opportunity to expand the

product portfolio leading to higher export or better exchange prices. The countries focused on the labour-intensive commodities will detect the reduction in the production which is connected with the lower international trade. (NEUMANN, 2010)

Factor – Price Equalization Theorem

This theorem is an extension of the Heckscher-Ohlin model. It adds the influence of the international trade on the prices of the production factors. It explains that the countries which have a high capital ratio should produce the capital-intensive commodities. The labour-intensive goods on the other hand should be imported from the countries where the production of such commodities is cheaper. (NEUMANN, 2010)

The countries with abundant capital have a lower price of the capital-intensive commodities; therefore there is a high supply for these products. The labour-intensive commodities in such countries will be expensive due to the low labour ratio, and the supply will be low. So, high supply of one factor will cause the increase in its price – here the capital-intensive commodities, and low supply, for the labour-intensive goods, causes the decrease in the price. (NEUMANN, 2010)

The theorem claims that the international division of labour leads to the increase in the consumption in a country. Alongside, there is a change in other structure of division of income. (NEUMANN, 2010)

Rybczynskyeffect

Rybczynsky effect deals with the situation when significant changes in the capital and labour ratios in a particular country occur. We can name several examples: change in workers' preferences an outflow of citizens because of epidemic or emigration, etc. The opposite situation can be caused by the inflow of people or capital.

The increasing of the ratio influences the prices of the production factors – the price of capital will relatively decrease; the price of labour will relatively increase. This should lead to the changes in structure of the domestic production with benefits for the capital-intensive commodities. (NEUMANN, 2010)

Leontief and his paradox

Even though, the Heckscher-Ohlin model was an approach which was accepted among the international trade theories, it was tested. The world known test is called Leontief and his paradox.

Leontief used data of foreign trade of the United States of America from the year 1947 to verify the model. The hypothesis was established as follows: the capital-intense goods are exported and the labour-intense commodities are imported, because the USA was capital-oriented country. The results proved the opposite. The USA exported the labour-intense products; the capital-intense products were imported. (NEUMANN, 2010)

The explanation which was announced by Leontief himself affirms that even though, the USA has a high capital ratio, the labour productivity is three times higher compared to the other countries. It was caused by the higher education and more experience that people had in comparison with other nations. (NEUMANN, 2010)

Other explanations can be the barriers in the international trade, or the mutual substitution of the production factors. (NEUMANN, 2010)

3.1.1.4 Alternative theories of international trade

Besides the classical and neoclassical theories, there are several alternative theories which can argue with some opinion of the previous ones. There will be mentioned four of them.

Friedrich List and the Infant-Industry Theory

This theory was created by the German economist Friedrich List. He argues that the country should firstly become “mature”, meaning competitive, before it enters the international market. According to his theory, it is impossible to build the domestic industry when there is foreign countries competition. Therefore, the developing industries should not attend the international trade until they are able to compete and they should be legally protected. (NEUMANN, 2010)

This opinion might work theoretically. However, practically, it is not easy to decide which industries should be protected. The government has limited access to information to make

a qualified decision. Moreover, the companies in the protected industry are not motivated to work on their ability to compete especially in case when they are able to affect the government decision to prolong the industry protection. Naturally, the companies are interested in being protected from the foreign competition because the prices of their goods and services can be higher. (NEUMANN, 2010)

Jagdish Bhagwati and Immiserizing Growth

Indian economist Jagdish Bhagwati studied the impact of change in world prices on developing countries. He discovered that these countries behave in the opposite way than the neoclassical theories assumes. When there is a lower world price, the volume of production and export in these countries increases. The reason is that the producers would like to have at least the same amount of profit as before the world prices changed. However, the increasing of the production and export leads to the further decrease of the world price. (NEUMANN, 2010)

Raul Prebisch and Centre and Periphery Theory

Economist with Argentinean origin researched the developing economies. He noticed that the prices of basic foods and materials with the low value added grow slower than the prices of the industrial output with the high value added. (NEUMANN, 2010)

Prebisch termed developing countries as periphery and the developed countries as centre. He affirms that the products with low value added have a significant position in the export of periphery, and the export of centres is created by the products with high value added. The income elasticity of the demand for the high value added products is higher than the income elasticity of the demand for the low value added products. The result is an increasing in the prices of required products. (NEUMANN, 2010)

Increasing return on scale

The constant return on scale is an assumption for the classical and neoclassical theories. However, the increasing return on scale is more common in practise. If there are a twice more inputs, there might be three times more outputs. It means that there is a decreasing in unit costs. (NEUMANN, 2010)

Increasing return on scale is a significant part of the international trade. It leads to the competitiveness among the multinational companies. It creates barriers for entering the market for the small entrepreneurs. (NEUMANN, 2010)

3.1.2 Importance of foreign trade

The foreign trade can be evaluated from the three points of view:

- Effectiveness – the country wants to be competitive on the international markets, therefore it focuses on the export of the products which can achieve a maximum savings. Research, development, marketing, etc. is centralized on these products. The smaller and more open the economy is, the more it should concentrate on the competitive exportable products. (BENEŠ, 2004)
- Proportionality –there are not many countries which are self-sufficient covering all domestic needs. Several countries import resources or products because they do not have the domestic access to them, or there is a limited quantity. However, there are several countries such as USA, China, or India which are fully self-sufficient, but they still participate in the international trade. (BENEŠ, 2004)
- Demonstration effect – the export shows the level of the production in the country. On the other hand, the import shows the problem with the proportionality. It demonstrates the global technical, design, and fashion trends which can cause the economic or social development. Moreover, there is an effort to transfer the trends such as the ecology, safe work environment, new packaging, sustainability of resources, etc. (BENEŠ, 2004)

The influence of these factors differs among the countries. The bigger the country is, and the more citizens it has, the lower is the economic dependency on the economic relations.

The importance can be also explained on the economic relations among countries. The closer cooperation the countries have, the more stable the relations are. Therefore, the foreign trade contributes to their cooperation and decrease in the conflicts. Besides, the education level is also enhanced by the foreign trade. Due to the export-oriented attitude, the exporters are forced to reflect the technological innovations, new forms of business, or strengthen languages capabilities. (BENEŠ, 2004)

3.1.3 Trade policy

The trade policy is the set of tools, strategies, measures, and agreements which are applied on the foreign trade by the government. The entrepreneur's environment can be regulated with the aim to provide for a competitive development of the domestic economy. The trade policy might be also the tool for the allocation of the production resources and redistribution of the profit. (KALÍNSKÁ, 2010)

Theoretically, there are two types of the trade policy. However, it can be hardly find in these forms in the practise. Usually, there is a combination of those two types, because both of the kinds have pro and cons. Therefore, each country needs to find the proportion which suits its economy the best. (KALÍNSKÁ, 2010)

- Liberalism stands for the free trade without trade barriers. The country opens the access to the all domestic sectors and the foreign entrepreneurs can freely make their business. The tools for supporting the export are eliminated. In the other words, the state does not regulate the foreign trade. It brings the opportunity or threats in the influencing the domestic economy by the foreign system. It changes the production, increases the competitiveness on the domestic market, enables the realization of the comparative advantage, decreases the consumer prices and salaries, eliminates of the inflation, increases the unemployment, etc. The domestic economy might become dependent on the import and be monopoly dominated by the foreign supplier. (KALÍNSKÁ, 2010)
- Protectionism is characterized by the protection of domestic economy from the foreign markets' influence. The trade is fully regulated by the government. The extreme part of the protectionism is called autarky. The country refuses to involve in foreign trade. It is a closed economy, where it is not possible to import, as well as it is not allowed to

export any products or resources. An example of such economy can be the North Korea. Another form of protectionism is localization of markets. It protects and supports the production for domestic market, usually the agriculture production. There is a restriction to export those products to have the sufficient amount of them for the domestic market. None of those two forms apply the absolute or comparative advantages. (KALÍNSKÁ, 2010)

Even though, the globalization has a significant position in today's world and the international trade is a common part of the economy, many of the governments support the export by the subsidies, concessionary loans, or insurances while the import is restricted. The importer might be discouraged by the customs, quotas, technical and medical norms, quality certifications, etc. (NEUMANN, 2010)

3.2 Customs in foreign trade

Custom duties are the financial tool which controls the movement of goods in the world. The import of goods from the countries which is liable to this duty makes the particular product disadvantaged in comparison with the domestic products. (DYNDA, 1994)The reason is simple – the price of a product moves upwards because of the paying the custom duty. The customs have the protective function of particular industries in a specific country. Customs is responsible for the decision of the goods will be admitted to the suggested custom regime. The tariff and non-tariff tools need to be applied. (MACHKOVÁ, 2014)

The amount of the custom duty depends on the character of the product and the country where the product is exported from or imported in. There are customs tariffs that calculate the amount that needs to be paid. There might be a higher amount when speaking about the ecological customs duty. It refers to the materials, raw materials, or finished products that might have a negative influence on the environment or the health of the citizens when manufacture it or using it. (MACHKOVÁ, 2014)

The first international trade and customs agreement is GATT (General Agreement on Tariffs and Trade) that came into force in 1948. The main objective of this agreement was to reduce or eliminate barriers in the international trade. The process took 8 rounds of

negotiations and as a result, WTO (World Trade Organisation) was established in the year 1994. (MACHKOVÁ, 2014)

WTO deals with the liberalization of the trade; it looks into the policy of the member states, and finds solutions for the international business disputes. (KALÍNSKÁ, 2010) Currently, it has 164 members. 117 members are developing countries or separate customs territories. *“The WTO's founding and guiding principles remain the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members, and a commitment to transparency in the conduct of its activities.”* (WTO, 2016)

Another international organisation that has a significant part in the customs is World Customs Organisation – WCO with the seat in Brussels and 171 members. The history of this organisation goes back to the year 1947. However, it was named WCO in 1994. (KALÍNSKÁ, 2010)

The objective of WCO is to create the effective global customs system which will be simple, modern, and harmonized. There is a Harmonized Commodity Description and Coding System for the harmonization of the international customs processes. Customs Data Model developed by WCO, serves as a information system among the customs offices about the traded goods. (KALÍNSKÁ, 2010)

United Nations Conference on Trade and Development – UNCTAD created a system called TRAINS (Trade Analysis and Information System) that informs about the trade barriers in around 140 countries. The similar system is also ASYCUSA (Automated System for Customs Data), which is the base for the information such as the business procedures and it generates the data for the electronics exchange of data among the business partners and customs authorities. It can be used in around 80 countries. (KALÍNSKÁ, 2010)

3.2.1 Customs in the EU

Since the Czech Republic is a member of the European Union, in this chapter the customs in the EU will be described. The customs area of the EU is delineated in the Customs Codex. It is almost the same as the political area of the EU. (MACHKOVÁ, 2014)

When the goods are imported, there must be paid the import duty, import fee which was applied within the common agriculture policy, value added tax, consumption tax, and other indirect taxes. When the goods are exported, the export duty, and the export fee which was applied within the common agriculture policy must be paid. (MACHKOVÁ, 2014)

There is a customs tariff TARIC (Tarif integer communautaire) which is actualized according to the current need of the Union. It is a system with two basic data – number of goods and customs duty. There are several general categories marked with the Roman numerals which are divided into subcategories with four-figure numbers, and further with six-figure numbers. (MACHKOVÁ, 2014)

3.3 Delivery conditions

Delivery conditions are inseparable part of a business agreement. It defines the way, place and moment of consignment delivery and transferring the responsibility for the consignment. (MACHKOVÁ, 2014)

There is an internationally recognized and most used delivery standard International Commercial Terms, called INCOTERMS. International Chamber of Commerce established these terms in the year 1936. The terms have been updated according to an actual market situation. The last update is from the year 2010. However, updating does not cancel the previous conditions. Therefore, when using INCOTERMS, the parties have to clarify the set of terms used for delivery. However, these rules are not a legal document, for that reason, it is necessary to refer on them in the business contract to be valid. They can be used for the international or domestic trade when speaking about sales of products. (MACHKOVÁ, 2014)

The International Chamber of Commerce has an interest on using INCOTERMS worldwide and broadening the standard to the countries such as USA. The rules Uniform Commercial Code or Revised American Foreign Trade Definitions are still used in USA. (MACHKOVÁ, 2014)

Even though, the choice of the right condition depends on the agreement between a supplier and a buyer, the factors that influence the decision might be varied. (MACHKOVÁ, 2014)

3.3.1 INCOTERMS 2010

INCOTERMS 2010 came into force on January 1st, 2011. This standard has 11 rules in comparison with INCOTERMS 2000, which has 13 rules. There were made few changes. Four of the rules were eliminated – DAF (Delivered at Frontier), DES (Delivered Ex Ship), DEQ (Delivered Ex Quay), and DDU (Delivered Duty Unpaid). Two rules were added – DAT (Delivery at Terminal), and DAP (Delivered at Place). (MACHKOVÁ, 2014)

The rules are divided into two groups – the rules for any mode or modes of transport and the rules for sea and inland waterway transport. The individual items are as follow:

The rules for any mode or modes of transport

- EXW (Ex Works) – A seller is responsible for the availability of a product in a buyer's premises. Besides that, all the responsibility falls within the competence of the buyer. The buyer must organize all the technicalities connected with the export and import of goods. When it is not determine other way (EXW loaded on), the buyer is responsible even for the loading of goods. (MACHKOVÁ, 2014) (ICC, 2016)
- FCA (Free Carrier) – A seller delivers cleared goods to a carrier who delivers the consignment to the buyer's premises. The place of handover of the goods must be clearly specified to avoid discrepancy in the responsibility. After delivering the goods to the carrier or other person who was nominated by the buyer, the risk passes to the buyer. (MACHKOVÁ, 2014) (ICC, 2016)
- CPT (Carriage Paid To) –The sellers responsible for the delivering the goods to the agreed place of destination, thus he pays a carrier and all other expenses connected with the delivery. Moreover, the seller must organize all the technicalities connected with the export and import of goods. After the delivery to the buyer's carrier, the buyer is responsible for the consignment and covers all the other expenses. (MACHKOVÁ, 2014) (ICC, 2016)

- CIP (Carriage and Insurance Paid To) – The conditions are the same as in the previous rule CPT. But besides that, the seller is obligated to take out shipping insurance. The insurance is taken out on a minimum cover. It should cover 110% of the consignment – it means the full price of goods and 10% more. (MACHKOVÁ, 2014) (ICC, 2016)
- DAT (Delivered at Terminal) – Terminal means places such as quay, container yard, train terminal, airport, etc. A buyer must organize technicalities connected with the transport of goods. A seller is responsible for the expenses and risks connected with the delivery to the destination. (MACHKOVÁ, 2014) (ICC, 2016)
- DAP (Delivered at Place) – A supplier is responsible for the expenses and risks connected with the delivery. These responsibilities pass to a buyer at the prearranged place. The buyer arranges the unloading of goods. (MACHKOVÁ, 2014) (ICC, 2016)
- DDP (Delivered Duty Paid) – A supplier is responsible for all risks and expenses, including the costs of cleared goods for export and import, value added tax, and all other payment connected with the delivery. (MACHKOVÁ, 2014) (ICC, 2016)

The rules for sea and inland waterway transport

- FAS (Free Alongside Ship) – A supplier delivers the goods to the alongside of a vessel in the prearranged port of shipment. In this moment, the all responsibilities and risks pass to a buyer. (MACHKOVÁ, 2014) (ICC, 2016)
- FOB (Free On Board) – A supplier is responsible for loading and unloading the goods on/from a ship board, and for the clearance of goods. A buyer is obligated to pay all the cost connected with the maritime transport. (MACHKOVÁ, 2014) (ICC, 2016)
- CFR (Cost and Freight) – The risks and costs pass at the different moments of transport. Risks pass on a buyer when the consignment is loaded. The expenses pass to a buyer when the goods is delivered to the prearranged destination. (MACHKOVÁ, 2014) (ICC, 2016)
- CIF (Cost, Insurance, Freight) – The conditions are the same as at the previous rule CFR. But besides that, the seller is obligated to take out shipping insurance. The insurance is taken out on a minimum cover. It should cover 110% of the consignment – it means the full price of goods and 10% more. (MACHKOVÁ, 2015) (ICC, 2016)

3.4 Risks in the foreign trade

Risk can be defined as “*the chance that an unexpected event can harm an organization.*” (WATERS, 2011 p. 14)

Starting a business in new markets brings opportunities to a particular company. On the other hand, there are also risks, which cannot be omitted. The risks occur in general because of future uncertainty, when speaking about entrepreneurship. However, there are some specific risks when starting a business on foreign markets or with foreign suppliers. (SANGROVE, 2005)

Risk can be divided into several categories according to the type of comparison. There will be two categories mentioned.

The first division is according to the main areas where a risk can occur. There are four types:

- Operational risks – connected with the operations and production in a particular factory including e.g. faulty raw materials or receivership;
- Strategic risks – connected with the future plans of the company consisting of strategic planning at the board level;
- Compliance risks – arise from higher requirements on reporting and risk management in public companies from government;
- Financial risks—the risk of losing the profit, the unexpected adverse change of exchange rate causing the lower export. (SANGROVE, 2005)

The second division is according to the relationship of a company to risks defined by Peter Drucker. There are four types as well:

- The risk one must accept, the risk that is built into the nature of the business
- The risk one can afford to take
- The risk one cannot afford to take
- The risk one cannot afford not to take. (DRUCKER, 1968 p. 232)

Therefore, it is necessary to analyse and evaluate all the impacts that can affect the business to know which of them are bearable. This active attitude is called risk management. Practically, it is not possible to eliminate all the risks, but there is a possibility to curtail, avoid risks, or transfer a particular exposure to another subject. (MACHKOVÁ, 2014)

The risk is perceived as a negative influence on a business. However, there are cases of positive influence on the result. Some of the cases are e.g. risk of price movement, exchange rate, and interest. These uncertainties are known as speculative risks. (MACHKOVÁ, 2014)

The six main risks in the foreign trade will be discussed in the following subchapters.

3.4.1 Market risks

Market risks arise from the changes in a market. These changes influence the economic results of a particular business action either negatively or positively. It can have an impact on the short-term trades; however, the main operations involved are the long-term trades. Therefore, a delivery with the long production and business cycle are the most endangered by this risk. There are situations that might need making a decision which affects a company in the long term. It includes the investment decisions as well. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

Nevertheless, the causes of the market changes are extensive. In the following list of the causes are mentioned only few of them.

- Economic recession in a specific foreign country,
- decrease in demand for a particular product,
- changes in consumers' preference,
- the strong competition to enter the market,
- changes in the competitive position of the suppliers/customers in the market,
- changes in purchasing/buying of the suppliers/customers,
- changes in technology,
- seasonal variations. (MACHKOVÁ, 2015 p. 41)

The market risk and its causes have consequences in a form as follow:

- changes in prices,
- an increasing of costs,
- unmarketability of particular products,
- losing distribution networks, etc.

Naturally, there are certain ways how to avoid or eliminate this kind of risk and its impact on the economic situation of the company. One of them is a systematic and continuous analysis of the market of interest; it is directly related with the flexible reaction to the actual needs of the customers. The optimal applications of the marketing mix, strengthening of relationship with the customers/suppliers, or opportune innovations might also bring a positive result in the elimination of the market risk. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.4.2 Commercial risks

Commercial risks are connected with a breach of contract either on the part of a supplier or on the part of a customer. In either case, the impact on business is usually negative. Therefore, it is highly important to follow the right process of choosing the foreign business partner and get the most information related to the chosen company. There might be differences in social and culture perception, as well as in legal basis or business techniques. For that reason, it is necessary to conclude a contract with the terms, which are a summary of the interest of both business partners. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

As already mentioned in previous risk, the systematic and continuous analysis of the foreign market should be a part of trading. Without the familiarization with a particular market and its processes, it is even harder to predict factors that might change the situation and position of the business partners on the market. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

The commercial risk might occur in the following cases:

Firstly, a business partner withdraws from a contract without a compelling reason. It might cause problems on the both side of trading. The customer would not receive the ordered items, which might block the further production or process. On the other hand, the cancelation from the customer's side could cause a lost to the supplier in the case when the supplier already financed the production for the export. Therefore, the withdrawal from contract should be defined properly in the contract itself. These conditions should include also the payment. There is no exception to require a deposit or bank guarantee. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

Second example occurs when s customer does not take over a consignment without a compelling reason. This situation might increase costs on the part of supplier. There are additionally expenses on logistics or storage of the items. Moreover, there could be the profit loss for the reason of selling the product for lower price to another customer. The measure to eliminate these expenses and costs might be a proper establishment of payment and the proper check of the quality of supplied goods. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

Thirdly, a supplier does not meet the condition established in a contract or there is a faulty performance of the contract. The damage arises on the part of a customer. The measure to eliminate this risk is the careful selection of a reliable supplier. There is also a possibility to take out bank guarantee or a certification of a quality and quantity of production. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

The last but not least case, which will be mention and might occur, is when a debtor is not able to pay his/her liabilities. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

As it was mentioned a few times, the careful selection of a reliable supplier is one of the main parts of avoiding or eliminating any type of the commercial risk. To obtain more information about the potential foreign supplier from other than the public source, there are organizations, which are paid to obtain detailed information about a particular foreign company. They are also able to provide e.g. a detailed analysis. One of the examples of this agency is CzechTrade. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.4.3 Logistic risks

Logistic risk results from transportation of products. Such situations occur when an item is damaged or lost during the transportation. Besides, the customer left without the ordered product; the detriment is on an account of a responsible person. There are four possibilities for the responsible subject: a customer, a supplier, a shipping company, or a forwarder. Providing transportation and taking over all the logistic risks should be established in a sales contract. The usual conditions used in the contract are INCOTERMS. However, one should properly insure the international transportation. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.4.4 Territorial risks

Territorial risks encompass the economic and political situation in a particular country. This kind of risk includes also natural disasters, trade embargo etc. One can hardly predict these types of situations. The continuous collection of information about a country is one of the methods how to reduce these risks; however, it is not possible to eliminate them. Usually, these occurrences cause problems to the future business plans; the business might become unrealizable. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

The politically unstable countries are a big risk to take when speaking about trading. The future situation and the political decisions are unpredictable. Some cases can lead to a termination of a business that is followed by unpaid receivables, impossibility to manage a property in a country, invalidation of a contract, etc. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

The economically unstable countries pose a threat to a foreign business partner in a form of establishment of administrative measures. These measures might lead to foreign trade restrictions or complete interdiction. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.4.5 Currency risks

The currency risk results from the changes in exchange rates, inflation, interest rate, etc. This risk might not have only a negative impact. The motion of the mentioned changes may be also to the benefit of a company. The positive movement would bring an

improvement in the economic results of a particular organization in comparison with the expectation. On the other hand, the negative changes would have an inverse influence on the results. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

When starting a business on a foreign market, one of the terms of a contract is the specification of the currency that will be used for the business. Naturally, for a supplier would be profitable making a business in a strong currency; for a customer would be advantageous making a business in a weak currency. The widest currencies for international trading are Euro and American Dollar. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.4.6 Responsibility risks

The responsibility risk is connected with the safety of a particular product. The producer is responsible for an injury, which is caused by a producer's product. The prevention is insurance and the quality check of the sold products to the foreign markets. (MACHKOVÁ, 2015) (MACHKOVÁ, 2014)

3.5 Purchasing process of foreign trade

To purchase means that it is necessary to provide the production material, equipment, and services for the intern customers in the production process, the research, etc. It covers the analysis of the needs of the employees, the searching for potential suppliers, evaluation of the suppliers, effort to create the long-term positive relationship with the suppliers. The purchasing department is also responsible for the intern issues in the company such as the planning of the possibilities, the negotiation of the delivery terms, management of stocks, etc. (TOMEK, 2007)

The process of the tasks of the purchasing departments can include the specification of needs, the determination of the delivery terms, the searching for the suppliers, the choosing of the supplier, the issuance of the order, the control and clearing of the delivery, storage, removal from the storage, monitoring the consumption. (TOMEK, 2007 p. 273)

3.5.1 Situation analysis

This analysis results as an evaluation of the possibilities and situations that are the base for the purchasing strategy. It provides the adaptation of the purchasing activities to the current circumstances. It helps to identify the opportunities that might be taken and the threats that might be reduced or eliminated. However, this is not the question only of the external factors, the internal factors should be also analysed as they influence the operations inside the company. In other words, it can be done as SWOT analysis which identifies the threats and opportunities in the external and internal environment of the company. (TOMEK, 2007)

The strategy establishes the conditions and measures for the individual purchasing decisions, and the objectives that should be achieved. The goals can be focused on a product, service, payment conditions, communication, or other things. It is also able to analyse the company's potential in every field of the process. It contains the following steps: (TOMEK, 2007)

- the description of the current situation,
- determination of the potential (personnel, organization, material, financial, image),
- the requirements on the purchasing potential – according to the set objectives (as the result should be the proposal of the quantitative and qualitative changes)
- analysis of the suggested changes and its influence on the input/output of the company,
- a plan of particular measures.

3.5.2 Purchasing strategy and goals determination

When talking about the purchasing strategy, there should be a concord of the purchasing activities and its objectives with the company strategy and company goals. Therefore, the purchasing targets are related to the company objectives. However, there are other factors that influence the goals setting: (TOMEK, 2007)

- discovering the potential,
- the possibility of achieving of the long-term goals,
- competitive advantage,

- minimization of the uncertainty.

The purchasing department can behave actively when it comes to the realization of the strategy, which means that it leads to the achieving the goals and it applies the conditions of the strategy onto the purchasing decisions. They can also behave passively, which means that there is just an attempt. (TOMEK, 2007)

The purchasing strategy involves also the choosing the sources and its relations to the company. There are the sourcing strategies which can be divided in the following sections according to: (TOMEK, 2007)

Geographical location (the distance of the suppliers)

- Global sourcing – the making use of the globalization and the opportunity to find the best supplier in the international markets. This type of sourcing can also contribute to lower expenses of the company, because the suppliers can be found in the countries with the lower production costs or lower salaries. This type is called C3 Sourcing (Cost Competitive Countries Sourcing). It might be a tool for reaching the cost targets not only for new projects but also for the current projects with the same quality standard. However, there can be problems with logistics, communication, 24-hours support, etc. (VOLKSWAGEN, 2009)
- Local sourcing – the domestic supplier whose biggest advantage is the speed of the delivery. (TOMEK, 2007)

The number of the suppliers

- Single sourcing – the number of the suppliers is reduced; the main focus is on the increasing of the quality of deliveries. (TOMEK, 2007)
- Multiple sourcing – there are at least two suppliers for the one type of material. (TOMEK, 2007)

Volume of the supplied output

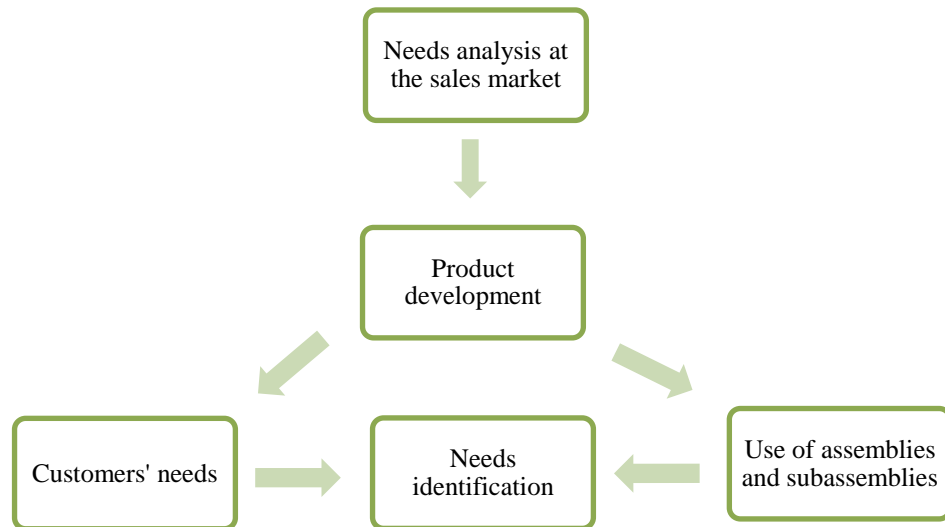
- Component sourcing – the suppliers for the constructions. (TOMEK, 2007)
- Modular sourcing – the suppliers which are chosen for the each part of the production. (TOMEK, 2007)

These two types of sourcing require the direct relation to the plan and cooperation with the supplier. It makes the customer's work easier, because there is no need to have the incessant attention to the construction or other parts of the production process. The supplier is responsible for that. (TOMEK, 2007)

3.5.3 Needs identification

The needs should be specified in the way to become the base for identification of the market and supplier. The process of needs identification does not include only the determination of the usage of material from the previous purchasing experience, but also the participation in the process of production of a new product. If there are new requirements in purchasing the material, constructions, etc., the needs identification has to start from the beginning – from the analysis of the sales market to the usage of the material. (TOMEK, 2007)

Figure 1. Analysis process and needs identification



Source: TOMEK, G. Řízení výroby a nákupu, 2007, p. 282

Each step is discussed as follows:

- Needs analysis at the sales market—impulse to the production initiative, analysis of the market, evaluation of the competitors from the fulfilment of customers' requirements point of view, determination of the market aim, analysis of the product, understanding all the customers' wishes. (TOMEK, 2007)
- Product development – conception, technical project, preparation of the each phase of the technical production. (TOMEK, 2007)
- Division of used assemblies and subassemblies - according to the purchasing volume and risk insurance: basic products, strategic products, products in uncritical conditions, in short supply goods. (TOMEK, 2007)
- Needs identification – determination of the new needs, the sum of all requirements for new needs. (TOMEK, 2007)

3.5.4 Analysis and selection of the market

Before entering new markets, it is necessary to make analyses to identify the potential places for the particular business. There are several factors which should be researched.

The results should show also the risks and opportunities that the new market brings. Each entrepreneur needs to evaluate the results and decide if enter or not enter the market.

One of the analyses that show the market situation is PEST analysis.

PEST analysis

- **Political factors**

The political and legal factors are the important part of the whole analysis. It is a factor which has a significant position in decision-making. A political stable country creates better conditions for the business. On the other hand, unstable political situation pushes the country into the economic isolation which is a high risk for the entrepreneurs to enter the market. (MACHKOVÁ, 2015)

The specific factors that are researched within the political analysis are as follows: political system, political stability, the membership of the country in the international or national associations, the relations to the other countries, corruption, the importance of the interest groups and their influence on the government decisions, the general legal conditions for the foreign entrepreneurs, etc. (MACHKOVÁ, 2015)

- **Economic factors**

There are several factors which can contribute to the economic analysis of a country, such as economic policy, foreign trade policy, monetary and currency policy, basic macroeconomic indicators, the attitude to the foreign investors, etc. (MACHKOVÁ, 2015)

Foreign trade policy is a set of state activities and tools which affect the foreign trade of the country. The tools can be divided into contractual trade tools which are specified in the international agreements and autonomous trade tools which are in competence of each state and it follows from the economic policy of the country. The tools of the economic policy can be tariff or non-tariff. Tariff policy is custom duties and non-tariff is for example the technical barriers of trade such as certificates, etc. (MACHKOVÁ, 2015)

The monetary and currency policy influence all the international entrepreneurial activities. There are two types of this policy – floating and fixed rate. The instability of exchange

rates leads to wrong calculations and it increases the costs which are connected with the currency risks. It can influence the competitiveness as well. On the other hand, devaluation of the currency can support the export policy. (MACHKOVÁ, 2015)

The macroeconomic indicators are development and growth rate of GDP, inflation rate, unemployment rate, balance of payment, investments, etc. Moreover, there can be analysed also the demographic factors and indicators of consumption and standard of living. (MACHKOVÁ, 2015)

- **Social-cultural factors**

Social-culture factors help to understand the milieu. It is important when creating a marketing campaign. In each part of the world, people believe in different things. Therefore, it is necessary to analyse this environment before entering the market. What works in one country, does not have to work in other country. (MACHKOVÁ, 2015)

The culture is the thing that a group of people have in common; it is social norms, values, knowledge, behaviour, etc. It is learnt and it is transmitted from generation to generation. It is influenced by the family, education, religion, ethnic groups, etc. For that reason, it can change in any way during the time. The elements of culture can be the language, non-verbal communication, religion, the style of dressing, eating habits, symbols, rituals, etc. (MACHKOVÁ, 2015)

According to Geert Hofstede, the national culture can be characterized by five basic dimensions:

- Power distance - In the countries, where there is a low power distance, the children usually become self-reliant earlier than in countries with high level of power distance. These self-reliant young people are a target group of many marketing campaigns because they have a right to decide which goods will be bought. (MACHKOVÁ, 2015)
- Uncertainty avoidance – It is determined by the unwillingness to risk and relation to the norms and standards. It is shown even in the consumption. When people do not

want to risk, they buy new things of the brand they trust. When people are willing to risk a bit, they try new things and new brands. (MACHKOVÁ, 2015)

- Individualism/collectivism – In some countries, there is a high level of individualism (e.g. USA). People are more independent in the decision making and they are responsible for that. In the countries such as China, there dominates collectivism. (MACHKOVÁ, 2015)
- Masculinity/femininity – There are different values in the countries. When masculinity dominates, the preferred values are success, efficiency, competitiveness, etc. When femininity dominates, the preferred values in the country are the standard of living, protection of environment, taking care of weaker individuals, etc. (MACHKOVÁ, 2015)
- Long-term orientation – This orientation prefers planning, saving, the rational behaviour, etc. (MACHKOVÁ, 2015)

Religion can be of significance in some countries. There are countries where the values are highly influenced by the religion. It can influence or give laws, standards and there sanction for not observing. It can also affect the consumption. Some of the religions prohibit the consumption of alcoholic drinks, consumption of meat, etc. (MACHKOVÁ, 2015)

- **Technological factors**

The technological factors determine the technological level of development in a particular country. The development of technological factors creates new market opportunities. (KOTLER, 2007) The international indicators for comparison of the countries are GERD (Gross Domestic Expenditure on R&D) and BERD (Business Enterprise Expenditure on R&D). It shows the total expenditures on the domestic research and development in the business sector. Other indicators can be the number of scientists, the number of internet users, etc. (MACHKOVÁ, 2015)

The development of the information and communication technologies provides the fast data processing and its transmission to the foreign countries on none or minimal costs. (MACHKOVÁ, 2015)

3.5.5 Analysis and selection of the suppliers

Another part of the whole purchasing process is the analysis and selection of the suppliers. It is an import step; the purchasing department is forced to choose the best supplier for the particular need. (TOMEK, 2007)

The information that might be gotten from the analysis are as follows:

- the basic supplier information – type of ownership, financial information, production program, qualifications and certificates; (TOMEK, 2007)
- the specific information about the purchased material – the qualitative parameters, production volume, quality system, cooperation with sub-suppliers, reliability; (TOMEK, 2007)
- the service policy of the supplier – price, payment conditions, delivery conditions, preparation of the material, delivery terms, 24 hours support; (TOMEK, 2007)
- the current customers. (TOMEK, 2007)

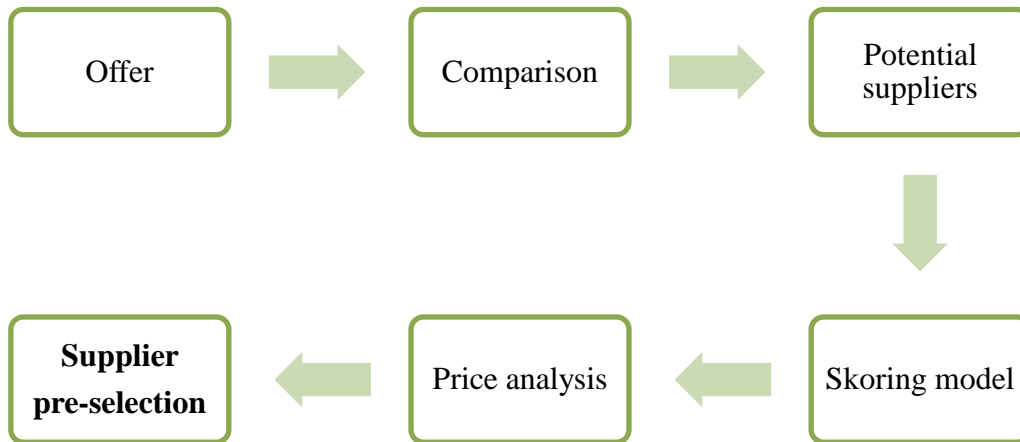
The selection of the supplier is made according to the three basic conditions such as product qualification (it fulfils the customer's requirements), business verification of the supplier, checking the managerial system. As the result of this analysis is the list of potential suppliers who are able to deliver the products/materials in the required quality, required time, according to the technical standards, etc. (TOMEK, 2007)

3.5.6 Demand and the evaluation of the offer

There are several items that are required for the specification of the demand. This list includes the information such as the desired material and its quality and characteristics, the volume of delivery, the material processing, the expected services and guarantees, the desired packages, delivery and payment conditions, discounts or rebates, delivery time, other information connected with the material, the drawings, the responsible person, purchasing officer contacts, etc. (TOMEK, 2007)

The offers are then compared and selected according to several conditions such as the price guarantee, the reliability of deliver, the quality and the services. (TOMEK, 2007)

Figure 2 Pre-selection of a supplier



Source: TOMEK, G. Řízení výroby a nákupu, 2007, p.288

3.5.7 Negotiation and the evaluation of the supplier

The negotiation part depends on the character of the purchasing officer. The aspects of the personality, abilities and motivation determine the level and results of negotiation. (TOMEK, 2007)

The negotiation is usually composed of the following points:

- Definition of the topic – aims, content, priorities;
- Discussion – the information gathering and presentation of ideas;
- Suggestions – conditions determination, etc.
- The conclusion of the negotiation
- The result of the negotiation – the conditions must be acceptable for both customer as well as supplier. (TOMEK, 2007)

The procuring of the delivery is not the end of the purchasing process. The purchasing department should seek for the long-term relationships with the supplier. Therefore, it is necessary to evaluate the services, communication, reliability, quality and other items of the suppliers. If there is a satisfaction with the supplier services, the supplier should be added to the list for the upcoming orders. (TOMEK, 2007)

4 Practical Part

4.1 Automotive industry in the Czech Republic

Automotive industry is one of the most significant industries in the Czech Republic. It is a key sector in the economic situation of the country as well as it improves the employment situation since this industry creates the most of the job positions. (KOZELSKÝ, 2015)

The Czech Republic is listed on the 16th place of the car production in the world. The annual production is more than 1 million cars. The year 2014 brought 1.278 million vehicles produced. The production expressed in the currency value was 991 billion CZK. There was an increase by 14.7% in comparison with the year 2013. The export was 845 billion CZK and it created the share 23.4% from the complete Czech export. The share of the complete production was almost 25% and 7.4% on GDP of the Czech Republic. The automotive sector employs more than 150 000 people. (KOZELSKÝ, 2015)

The increasing of the car production forces to buy a new vehicle. The number of registration of new vehicles exceeded 5 million. One third of the registered cars is the brand ŠKODA AUTO with 43.663 cars. The following ones are Volkswagen with 14.616 cars and Hyundai 10.939 cars. These numbers are for the period January-July 2015. (KOZELSKÝ, 2015)

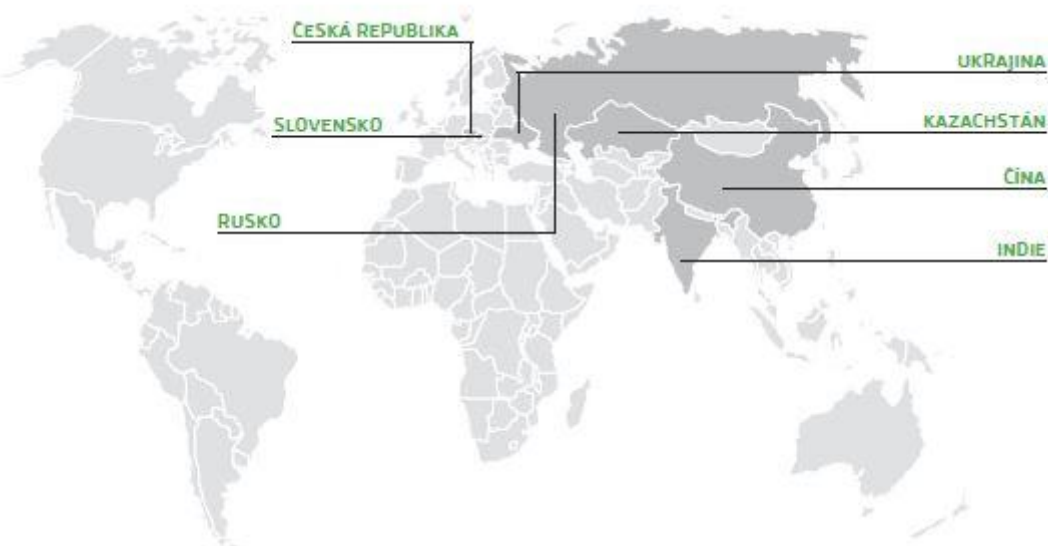
There are three big car producers in the Czech Republic which are the members of the multinational companies – ŠKODA AUTO, Hyundai Motor Manufacturing Czech, Toyota Peugeot Citroën Automobile (TPCA). (KOZELSKÝ, 2015)

The main export partner is Germany. The export of vehicles from the Czech Republic to Germany creates one third of the whole export. The other important markets are France, Slovakia, Russia, the United Kingdom, and other European countries. The significant non-European partner is Israel. (JEDLIČKA, 2013)

4.2 ŠKODA AUTO a.s.

ŠKODAAUTO, a.s. belongs to one of the most significant industrial companies in the Czech Republic. With a history of 121 years, ŠKODA AUTO is one of the oldest companies in the world. The main factory is located in Mladá Boleslav. There are two more plants in the Czech Republic – Kvasiny and Vrchlabí. The production of ŠKODA cars can be also found in China, India, Russia, Slovakia, Ukraine, and Kazakhstan. (ŠKODA AUTO, 2016)

Figure 3. Plants of ŠKODA AUTO



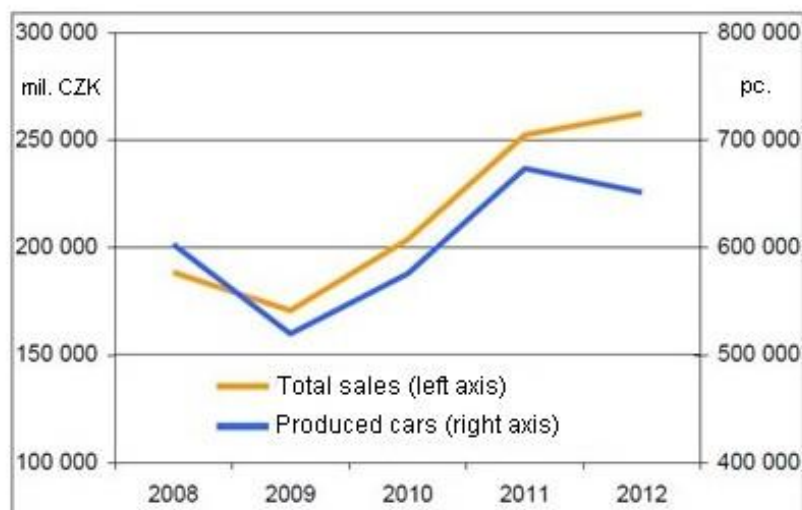
Source: Výroční zpráva 2010.

The company is a part of concern Volkswagen more than 20 years. During this period, the product portfolio has become bigger. The actual products are as follow: ŠKODACitigo, ŠKODA Fabia and ŠKODA Fabia Combi, ŠKODA Rapid and ŠKODA Rapid Spaceback, ŠKODA Octavia and ŠKODA Octavia Combi, ŠKODA Roomster, ŠKODA Yeti, ŠKODA Superb and ŠKODA Superb Combi, ŠKODA Kodiaq. (ŠKODA AUTO, 2016)

In the year 2015, the company employed more than 25 000 people. The year 2015 was a turning point. It was the most successful year from the financial point of view in the history of the company. The record sales, revenue, operating profit, net cash flow and liquidity were achieved in the mentioned year. (ŠKODA AUTO, 2016)

The sales revenue reached 314.9 billion CZK. In comparison with the year 2014, this figure increased by 5.2%. (ŠKODA AUTO, 2016)

Figure 4. Economic results of ŠKODA Auto a.s.



Source: JEDLIČKA, J. a spol. 2013. Analýza automobilového průmyslu, p. 14

4.2.1 History of ŠKODA AUTO a.s.

The history of the company ŠKODAAUTO goes back to the year 1895 when Václav Klement and Václav Laurin established a company to produce bicycles and motorcycles in Mladá Boleslav in the Czech Republic. The company got the name Laurin&Klement. The first initiative came from Mr. Klement. The dissatisfaction with a quality of his bicycle and the answer from the producer from Ústí nad Labem, who was not willing to communicate in other language than German, led to an establishment of the new company. (NACHTMANN, 2011)

There are some historical milestones during the company operation:

- In December 1895 started a production of bicycles branded Slavia.
- The year 1905 was a year when started the production of cars. The model of the first car was Voiturette A.
- After 20 years in the year 1925, the company merged with the ŠKODA Plzeň. The factory become Concern ŠKODA and the name Laurin&Klement was not used anymore.

- The period from the year 1925 until the year 1945 brought modernization of the factory, new car models and even the new markets. Concern ŠKODA was one of the biggest producer in Europe.
- In the year 1936, Concern ŠKODA got on a peak in the Czechoslovakia automotive market.
- After the end of the Second World War, at the turn of the years 1945 and 1946, the factory was nationalized. It lasted until the year 1989.
- The year 1964 brought a change in the production. It was a beginning of production of cars with an engine situated in the back of the car. This type of cars was produced until the year 1990.
- In the year 1991, there was a joint venture with Volkswagen. VW owned 30% of the company.
- In the year 2000, Volkswagen owned 100% of the company and ŠKODA become a part of VW group. (NACHTMANN, 2011)

4.2.2 Purchase department of ŠKODA AUTO a.s.

The purchase department of ŠKODA AUTO a.s. is responsible for the providing the production materials, indirect materials, services and the investments to the entire company. There are several subdivisions which deal with the different types of the goods that need to be purchased. However, the internal division of the purchasing department is into the production and general purchase. (Intern source, 2016)

The production purchase covers the purchasing of the production materials; it means components and parts for the car production. The general purchase organizes the purchasing of the rest of the needs that have to be fulfilled; it means the services, the investments and the indirect materials. (Intern source, 2016)

There is a subdivision of the purchasing department and each of them deals with the specific area of the production or general purchase. The specific abbreviation determines the purchasing field. There are sub-departments which purchase with the chemical materials which are used in the exterior or interior of a car (BX chemistry, BI chemistry), the metallurgical materials and semi-finished products (BM metal), electric and electronic

devices (BE electro), engines and transmissions (BMP aggregates), materials for the new projects (BN project purchase), original parts and original accessories (BS), industrial facilities, constructions and tools, spare parts for the machines and robots, and other non-production items (BA investments), and services and logistics (BAD). (Intern source, 2016)

4.3 The process of getting new suppliers

The process of getting new suppliers requires several steps to take. It starts with the analysis of the markets we are interested in with purpose to identify regions with potential in automotive industry. Choosing countries is followed by getting contacts on new potential suppliers. Some of the ways are mentioned in the following chapters. Contacting the suppliers includes sharing requirements of ŠKODA Auto and negotiations.

I have contacted three different companies from three different countries – South Korea, India and Thailand. I got the contacts from two different sources – one of them was the contact in the country, so I was given two contacts – company in India and company in Thailand. The second source was the initiative of the supplier from South Korea who contacted ŠKODA Auto. I communicated with all of them in order to check their response out. However, in the moment the meeting was able to arrange with only one of them. Therefore, for the purpose of the thesis, I chose to analyse South Korea and company coming from that country owing to more experience with them in the whole process.

4.3.1 Analysis of the market

Analysis of the market is the first step in the whole process of getting a new supplier. First of all the general information about the country should be available. The following analysis is more detailed; it is called PEST analysis which is focused on political, economical, sociological and technological factors of a particular region. The necessary part is research in automotive industry. The hypothesis says, if there is a high amount of produced cars, there are suppliers. Last but not least is analysis of foreign trade risks. When making a business with a foreign country, it is beneficial to consider risks that might be connected with the business. The commercial, logistic, and territorial risks of South Korea are described in the following chapters.

4.3.1.1 South Korea

After five years of occupying Korean Peninsula, in 1910, Tokyo formally annexed the entire Peninsula. As an independent country, the Republic of Korea was established in the year 1945. As presidential republic, it creates the right opposite to its communist peninsula's neighbour North Korea. Since the peninsula was split into two countries, there remains the political suspense and hostility between both countries. South Korea was able to become one of the top producers of electronics in the world. Its automotive industry is also highly developed. For that reason, it might a good opportunity finding new suppliers there. ŠKODA Auto already has had an experience with Korean producers; some of them remain repetitive suppliers. The quality corresponds with the European standards. (CIA, 2016)

4.3.1.1.1 General information

Table 3. Country overview – South Korea

Area	99,720 sq km (CIA, 2016)
Location	Eastern Asia, southern half of the Korean Peninsula bordering the Sea of Japan and the Yellow Sea (CIA, 2016)
Population	50,617,045 (y. 2015) (World Bank, 2016)
Population growth rate	0.4% (y. 2015) (World Bank, 2016)
Capital city	Seoul (9.774 million, y. 2015) (CIA, 2016)
Other large cities	Busan 3.216 million; Incheon 2.685 million; Daegu 2.244 million; Daejon 1.564 million; Gwangju 1.536 million (y. 2015) (CIA, 2016)
Member of EU	No
Government type	Presidential republic (CIA, 2016)
Legal system	Mixed legal system combining European civil

	law, Anglo-American law, and Chinese classical thought (CIA, 2016)
Chief of state	President PARK Geun-hye (y. 2016) (CIA, 2016)
Unemployment rate	10% (age 15-24, y. 2014 est.) (CIA, 2016)
GDP (USD)	1,377 trillion USD (y. 2015) (World Bank, 2016)
GDP annual growth (%)	2.6 % (y. 2015) (World Bank, 2016)
Currency	South Korean Won (KRW) 1 EUR = 1238.63 KRW (21/10/2016) (ECB, 2016)
Major language	Korean (CIA, 2016)
Religions	Christian 31.6% (Protestant 24.0%, Catholic 7.6%), Buddhist 24.2%, other or unknown 0.9%, none 43.3% (y. 2010) (CIA, 2016)

Source: mentioned in the table

4.3.1.1.2 PEST analysis

Political factors

The Republic of Korea was established in 1945 after the end of the Second World War. The democratic-based government was set up in the country. South Korea seeks to build friendly and cooperative relations with other countries. It entered into diplomatic relations with 189 countries in July 2012. The country operates permanent embassies in 112 countries. (Korea.net, 2016)

South Korea is a member of several international associations such as UNESCO, IMF (International Monetary Fund), APEC (Asia-Pacific Economic Cooperation), IAEA (International Atomic Energy Agency), ISO (International Organization for Standardization), OECD (Organization for Economic Cooperation and Development), UN

(United Nations), WCO (World Customs Organization), WTO (World Trade Organizations), and many others. (CIA, 2016)

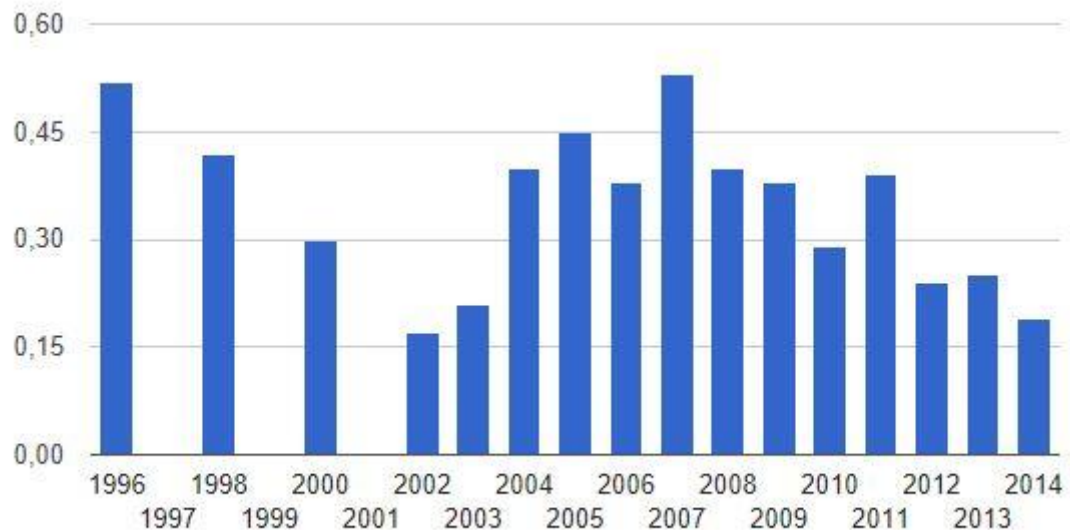
Since the founding of republic of Korea, the political situation has been rather stable with one exception– the relations with its northern neighbour. After the Second World War the Korean peninsula was divided into two countries – North and South Korea. South Korea became the ally of the US; North Korea came under Soviet-sponsored communist control. In the year 1948, North Korea was established as Democratic People's Republic of Korea (DPRK) with the communist regime. (CIA, North Korea, 2016) Two years later, DPRK attacked South Korea with the aim of unification of the countries. This conflict called Korean War lasted from 1950 until 1953. It ended by the signature of Armistice Agreement which needed to be fully respected by both countries. (Aktuálně.cz, 2013)

Despite the armistice, the countries never signed a peace treaty, i.e. they have been more than 50 years in a state of war. Between the countries tension persists escalating in some periods of time because of the North Korean nuclear programme. Even though, DPRK signed the Treaty on the Non-Proliferation of Nuclear Weapons in the year 1985, International Atomic Energy Agency discovered incongruity in North Korean's nuclear program. It elicited the first nuclear crisis in the Korean peninsula. The second one came in the year 2012. One year later, DPRK withdrew from the Treaty. Since then, there have been tests of nuclear weapons in the peninsula. In the year 2010, the North Korea bombarded South Korea. It was a gross violation of the Armistice Agreement. United Nations responded with the tightening of sanction. North Korea withdrew from the Agreement. The border crossing was closed and the communication between both countries was restricted. The tension continues to be present. South Korea might feel threaten by its northern neighbour. (Aktuálně.cz, 2013)

“Although Korean democracy is successfully consolidated, it is far from effective. Koreans’ expectation of government is high but the government appears unable to deliver what the public wants. There are profound generational cleavages over various national issues, including economic and social policies, policies toward North Korea and national defence, and attitudes towards the United States and China.” (East-Web Center)

The political stability of a country is measured by the Political Stability Index. The weakest point can reach -2.5, the strongest point is 2.5. The average of the political stability in South Korea was 0.35 for the period from 1996 until 2014. (The Global Economy)

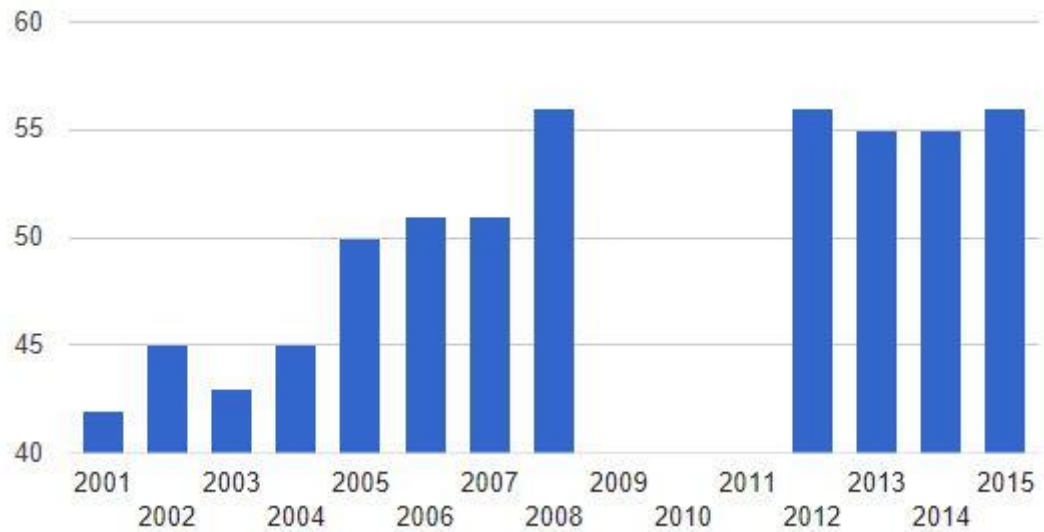
Figure 5. Political stability of South Korea



Source: The Global Economy, South Korea: Political stability

Corruption Perceptions Index developed by Transparency International measures the corruption in a country based on the opinions of the survey respondents. 100 mean no perception of corruption in the country. The average value of political corruption in South Korea is 50.42 for the period from 2001 until 2015. (The Global Economy)

Figure 6. Political corruption in South Korea



Source: The Global Economy, South Korea corruption perceptions

Economic factors

Global integration and economic growth in South Korea have demonstrated an incredible improvement over the past four decades to become a high-tech industrialized economy. The government promoted the import of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption. (CIA, 2016)

Republic of Korea has eight agreements about free trade (with Chile, Singapore, India, Peru, EFTA, ASEAN, USA and EU). It is the ninth biggest business partner for the EU. The signed Free Trade Agreement (FTA) might be a factor of the extensive cooperation. It is the first completed of the new generation of FTA launched by the EU in 2007. Global Europe argued that a comprehensive and ambitious FTA with South Korea, aiming at the highest possible degree of trade liberalization including far-reaching liberalization of services and investment, was clearly in the interests of both sides. It is applied since 1 July 2011. (Intern source, 2016)

The financial crisis which affected Asia in the years 1997 and 1998 left behind consequences for the economy of Republic of Korea. South Korea was able to start recovering at the turn of the year 1999 and 2000. The GDP increased by 9% in comparison with the year 1998 when GDP plunged by 7%. The republic adopted numerous economic

reforms following the crisis, including greater openness to foreign investment and imports. Growth moderated to about 4% annually between 2003 and 2007. However, the year 2008 hit South Korea again. Because of world financial crisis, mainly the export area was deeply affected. Nevertheless, the country was able to recover its export-focused economy in following 2 years. (CIA, 2016)

In the year 2011, the US and South Korea ratified the Free Trade Agreement effective from March 2012. Also since June 1 2011 the EU-South Korea Free Trade Agreement entered into provisional application. The impulse of trade liberalization with two major economic partners played a role in the stabilization of the economy and further growth – about 3% per year. The administration in 2015 faced the challenge of balancing heavy reliance on exports with developing domestic-oriented sectors, such as services. (CIA, 2016)

“The South Korean economy's long-term challenges include a rapidly aging population, inflexible labour market, dominance of large conglomerates (chaebols), and the heavy reliance on exports, which comprise about half of GDP. In an effort to address the long term challenges and sustain economic growth, the current government has prioritized structural reforms, deregulation, promotion of entrepreneurship and creative industries, and the competitiveness of small- and medium-sized enterprises.” (CIA, 2016)

The basic economic data are listed in the following table:

Table 4. Economic data for South Korea

	2011	2012	2013	2014	2015
GDP - Annual growth	3.7%	2.3%	2.9%	3.3%	2.6%
GDP per capita	\$24,155.8	\$24,454.0	\$25,997.9	\$27,989.4	\$27,221.5
GNI – Annual growth	4.1%	2.7%	2.6%	2.9%	2.8%
Inflation – consumer prices	4%	2.2%	1.3%	1.3%	0.7%

Export (goods and services)	\$670,3 bn	\$688.9 bn	\$703.4 bn	\$709.6 bn	\$632.5 bn
Import (goods and services)	\$652,3 bn	\$654.7 bn	\$638.4 bn	\$635.4 bn	\$536.6 bn
Trade Balance	\$18 bn	\$34. bn	\$65 bn	\$74.2 bn	\$95.9 bn
Unemployment rate	3.4%	3.2%	3.1%	3.5%	3.6%

Source: The World Bank, World Data Bank – World development indicators

Sociological factors

Table 5. Sociological data for South Korea

	2011	2012	2013	2014	2015
Birth rate (per 1000 people)	9.4	9.6	8.6	8.6	8.5
Death rate (per 1000 people)	5.1	5.3	5.3	5.3	5.5
Population ages 0-14 (% of total)	15.8%	15.2%	14.7%	14.3%	14.0%
Population ages 15-64 (% of total)	72.8%	72.9%	73.0%	73.0%	72.9%
Population ages 65 and above (% of total)	11.5%	11.8%	12.2%	12.7%	13.1%
Minimum hourly wage	\$3.7	\$3.9	\$4.2	\$4.5	\$4.8

Source: The World Bank, World Data Bank – World development indicators

The numbers in the table shows that South Korea has to deal with the issue of an ageing population. The population of 65 years and above is getting bigger each year. In the year

2013, the life expectancy was 81.3 years. On the other hand, the young population of 0-14 years old has been decreasing year by year as well as the birth rate.

The population in the productive age is quite stable. In the year 2013, there was almost 73% waged or salaried people. It was 1% more than the year 2012. People in South Korea are motivated to work and join industries in order to provide the continuous production with a consistent output. The one factors of their willingness might be the wages which are one of the highest in Asia. The minimum hourly wage in 2016 is approximately 5.2 USD. It has increased year by year.

Koreans accept the Confucianism values such as duty, loyalty, honour, filial piety, respect for age and seniority, and sincerity. The family is the most important part of their lives. The father is the head of the family and he is responsible for providing the food and other things that fulfil the human's basic needs. Children are raised to never repay their debt to their parents. (Commisceo Global, 2016)

Technological factors

“The Republic of Korea is one of the leading global research nations. From its humble beginnings in the 1960s as a poor nation until today, Korea has made impressive progress in quality of research. Korea is now a globally leading R&D power in areas of industrial research (IT, communication, transport, civil engineering). The Korean Government also invests heavily in R&D and its numerous public research institutes and universities constantly improve.” (Science and Technology, Office Seoul, 2015)

South Korea turned out to be world leader in patent activity, information and communication technologies, and electronics. Even though ICT industry focuses mainly on the hardware area, it creates about 30% to 40% of the total GDP growth. South Korea is ranked as the top of the high-speed internet penetration rate. (BAIK, 2011)

South Korea is the world fourth largest electronics producer with the output of more than 117 billion USD in the year 2014. South Korean electronics entrepreneurs are market leaders in products such as TVs, mobile phones and other household electronic devices. The one of the world largest technology companies of Korean origin is Samsung. In 2010, its revenue amounted to 120 billion USD and accounted for 8% of GDP. Today, South

Korea's Samsung and LG are the world's largest and fifth-largest producer of LCD TVs, respectively. (Thomas White, 2011)

4.3.1.1.3 Automotive Industry

The automotive industry plays an important role in the Korean economy. It contributes to the economic growth. In the year 2014, the industry exceeded a 10% share of the national economy in the areas of employment, production and export. (KAMA, 2014)

The production in 2013 slightly decreased due to the poor domestic sales and export. However, the country was ranked on the fifth position in the global production comparison with the 5.1% share of global production following China, the USA, Japan and Germany. (KAMA, 2014)

Table 6. The Automobile Production, Domestic Sales and Foreign Trade in South Korea (Unit: million USD)

Classification	2009	2010	2011	2012	2013
Production	3.513	4.272	4.657	4.562	4.521
Domestic sales	1.394	1.465	1.475	1.411	1.383
Export	2.149	2.772	3.152	3.171	3.089
Import	0.71	0.99 M	0.112	0.135	0.162

Source: KAMA, 2014

The production in South Korea decreased two years in a row by 0.9%. The cutting in production was caused by the labour strikes. The automotive industry in South Korea is export-oriented. About 68% of total production is designated for foreign markets. In the year 2013, the export fell by 2.6% in comparison with the previous year. The very important partner for export is Asia followed by North America. (KAICA, 2016)

Table 7. Export Volume in South Korea (Unit: Thousand USD)

Area	2011	2012	2013	2014	2015
Asia	8,447,940	8,843,028	9,537,918	9,936,796	9,430,713
Middle East	1,135,684	1,096,626	1,069,901	1,232,101	1,220,941
E.U	5,511,215	5,739,208	5,687,241	5,747,521	5,541,802
North America	5,231,350	5,871,228	6,399,544	6,878,468	6,796,656
Central and South	2,353,228	2,653,317	2,968,402	2,479,217	2,255,515
Africa	78,432	113,047	128,924	121,028	104,817
Oceania	329,767	293,036	287,112	240,108	202,103
Other	223	242	185	69	42
TOTAL	23,087,839	24,609,732	26,079,227	26,635,308	25,552,589

Source: KAICA, 2016

There are 5 car producers in South Korea

- Hyundai is dominating the competition, the biggest automaker in South Korea – market share 45%
- Kia Motors – market share 35%
- GM Korea (previously Daewoo) – market share 8%
- Ssangyong Motor Co. – market share 2,9%
- Renault Samsung Motor

Table 8. Statistical Data by Makers in South Korea (unit: ea)

Makers	Production		Domestic Sales		Export	
	2014	2015	2014	2015	2014	2015
Hyundai	1,876,408	1,858,395	685,191	714,121	1,195,412	1,156,448
Kia	1,712,485	1,718,467	465,200	527,500	1,226,521	1,157,055
GM Korea	629,230	614,808	154,381	158,404	476,755	462,729
Ssangyong	140,259	145,633	69,036	99,664	70,847	44,877
Renault Samsung	152,138	205,059	80,003	80,017	89,851	149,065
Other (Daewoo Bus, Tata-Daewoo)	14,412	13,595	10,082	9,687	3,818	3,940
Total	4,524,932	4,555,957	1,463,893	1,589,393	3,063,204	2,974,114

Source: KAICA, 2016

There are three automobile organisations in South Korea: KAMA (Korea Automobile Manufacturers Association), KAICA (Korea Auto Industries Coop. Association) and KAIDA (Korea Automobile Import & Distributors Association). According to (KAMA, 2014) hybrids and fuel-cell vehicles, automobiles are the next generation of the core industry. In fact, the share of cutting-edge electronic components in the automobile industry is expected to expand to 40% in 2015 and 50% in 2020.

4.3.1.1.4 Foreign trade risks

- **Commercial risks**

Making business with South Korea in automotive industry, there might arise barriers in the technology area. According to (European Commission, 2014), carmakers in the European Union have developed new safety functions and technologies for motor vehicles. These innovations use frequency bands, which Korea does not allow on their market.

The competitiveness might cause risk as well. There are 10 out of 12 major industry categories where South Korea is in close competition with China. The situation demands the development of new high value-added products and major industries. According to the research made by the Korean Institute for Industrial Economics and Trade (KIET), South Korea is ahead in the technology and quality, however, China has a leading position in price competitiveness. Moreover, China reaches the level of Korea with rates of 80% - 100% in several industries. The intensive competition between those two countries is in the following categories: general machinery, steel, oil refining, textiles, home appliances, and displays. More intense competition was also predicted for automobiles, shipbuilding, petrochemicals, and information and communications. (Kyu-won, 2016)

- **Logistic risks**

BMI Logistic Risk Index might measure logistic risks in South Korea. Three main factors are evaluated:

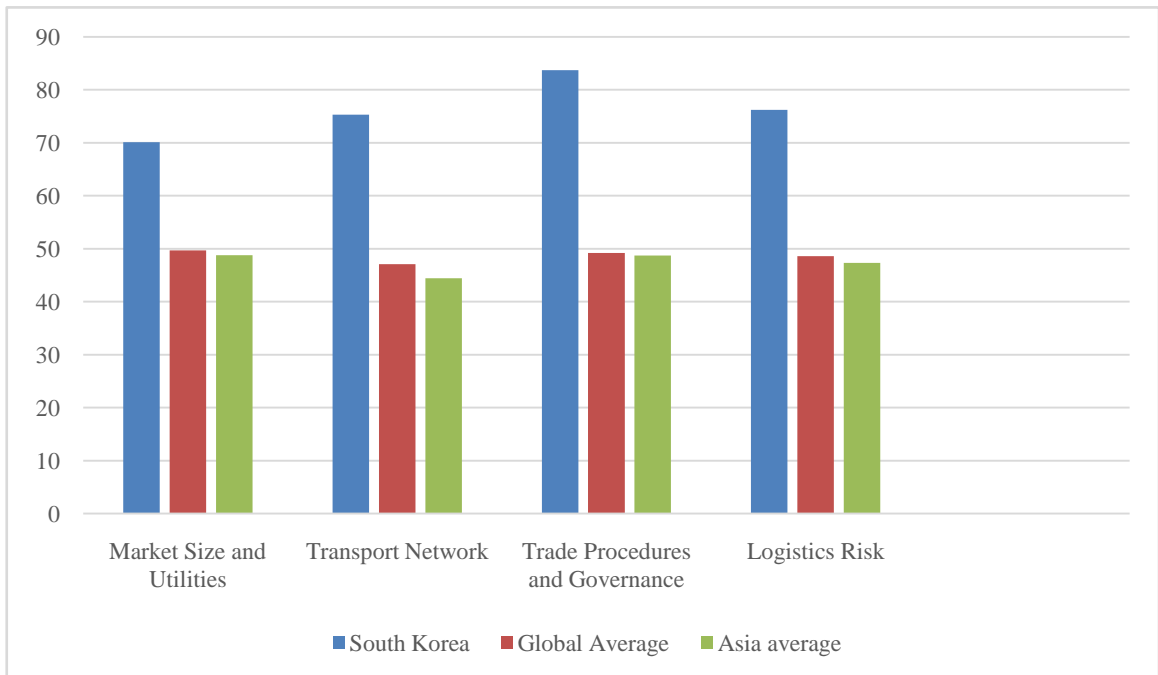
- **Market Size and Utilities** – South Korea has developed a reliable and extensive utilities network in order to meet the demands of a highly industrialized economy and large consumer market. However, the utilities might cause a risk due to the electricity and water shortages which has increased in recent years. The score of South Korea is 70.1 out of 100. (BMI Research, 2016)
- **Transport Network** – South Korea offers a well-developed transport network which provides extensive and high-quality internal links, as well as strong international connections. The international large distances are handled via air transport or maritime transport. Overland supply is led to the road network. Even though, the significant part of the transport is diverted to railways, there is still the risk of disruption due to traffic congestion. However, the score of South Korea is 75.3 out of 100. (BMI Research, 2016)
- **Trade Procedures and Governance** – Minimal trade bureaucracy, efficient turnarounds at seaports and airports and well-developed inland transport connections make South Korea one of the most attractive locations for trade in the world. Its score is 83.7 out of 100. (BMI Research, 2016)

Table 9. BMI Logistic Risk Index

	Market Size and Utilities	Transport Network	Trade Procedures and Governance	Logistics Risk
South Korea Score	70.1	75.3	83.7	76.2
Asia Average	48.8	44.4	48.7	47.3
Asia Position (out of 35)	4	5	2	1
Global Average	49.7	47.1	49.2	48.6
Global Position (out of 201)	16	26	15	12

Source: BMI research, 2016

Figure 7. BMI Logistic Risk Index



Source: BMI research, 2016

- **Territorial risks**

Since the Korean War never ended with a peace treaty, the biggest political risk to the South Korean economy is its friction with North Korea. There is the ongoing conflict that arises a threat of a war or nuclear tests by the North. However, these quarrels between both countries have little impact on South Korean business. Surprisingly, the third nuclear test of North Korea did not had any long-lasting consequences. Paradoxically, the impact on stock exchange had tapering of U.S. quantitative easing, and the weakening Japanese yen. It caused a significant drop in KOSPI (The Korean Composite Stock Price Index) in 2013, several months after the nuclear tests. Therefore, it results to a conjecture that the real political risk to the South Korean economy stems from international trade and financial decisions, not North Korea. (SORRI, 2014)

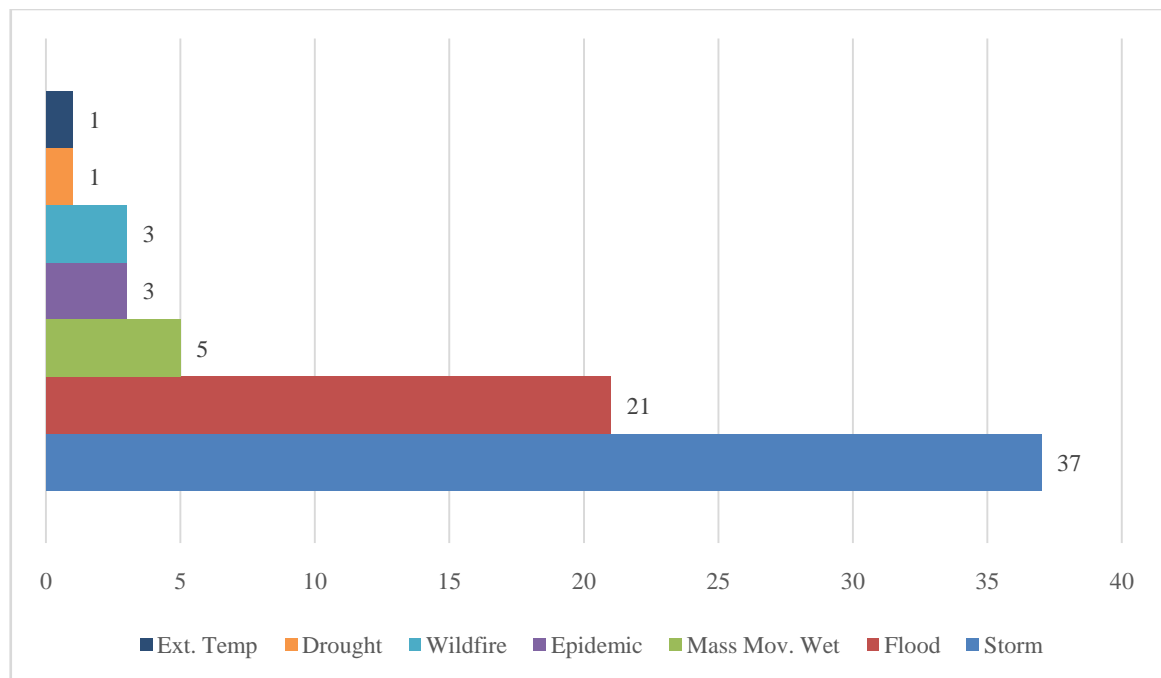
When speaking about the territorial risks, natural disasters might occur in South Korea. The first recurrent natural disaster is flooding following the typhoons which hit South Korea in the second half of the year. The heavy floods lead to the economic damages and the loss of lives. The other hazard causing the economic damages, death and injuries is fires. Even though, there are natural fires occurring in the forests, mountains, etc., the human mistakes or arsonists cause the most of the fires and it takes place in the populated areas. South Korea is also predisposed to the earthquakes and tsunami. The eastern coast of Korea has been hit by the tsunami in 1983 and 1993. Other hazards are the unfavourable weather such as drought, heavy snow, the yellow –dust phenomenon, etc. (National Institute of Disaster Management, 2015)

Table 10. Overview of Natural Disasters from 1980 until 2010

Number of events:	71
Number of people killed:	3,252
Average killed per year:	105
Number of people affected:	1,733,531
Average affected per year:	55,920
Economic Damage (US\$ X 1,000):	14,869,523
Economic Damage per year (US\$ X 1,000):	479,662

Source: National Institute of Disaster Management, 2015)

Figure 8. Occurance of disasters in South Korea



Source: National Institute of Disaster Management, 2015

4.3.2 Reaching the market

Planning of entering into partnership with a new supplier requires getting a contact in order to commence cooperation. There are several ways how to find or receive a contact in foreign country. In the following text, there are introduced some of the possibilities.

- Contact in the country – if ŠKODA Auto had a supplier in the country they are interested in, the supplier would be able to share other contacts which are associated with the automotive industry. Usually, producers have an overview about the firms in the same industry. However, they might not be inclined towards sharing the name of companies which produce the same products. One of such a help in South Korea might be H.I.T. Automotive which makes a business with ŠKODA Auto.
- Chamber of commerce – Chambers of commerce provide information about the foreign business and economic environments and companies. They are able to find business opportunities and arrange business meetings. The biggest advantage of this source is the association with the international environments and contacts on reliable entrepreneurs and producers. However, these services are chargeable. There are several chambers dealing with South Korea such as The Chamber of Commerce of the Czech-Korean Society, International Chamber of Commerce, Korea Chamber of Commerce and Industry, etc.
- Embassy –Embassies are specialized in the environment of their own countries. The aim of these institutions is the consolidation of the political, business and culture relationships and cooperation with other countries. Therefore, it is a great opportunity to avail of the reliable source which is oriented in the desired area. They are endowed with the contacts on companies and producers in their countries and they might be willing to hand them over with the purpose of helping to create business partners. There are two embassies - the Korean Embassy in the Czech Republic and the Embassy of the Czech Republic in Seoul.
- External consulting company– Paying an external consulting company saves time. They are able to elaborate an analysis of the desired market and prepare a list of potential producers for the company ŠKODA Auto. When using this source, there are service fees that company needs to count with. Even though it does not meet the description of external consulting company, there is a website FOURIN, which offers a

list of suppliers associated with automotive industry in South Korea. The sample is free. Getting the whole supplier list is chargeable.

- Importer – a person or a company responsible for import; organizes all the technicalities connected with the import of production parts and components. There is a low possibility that they would know about a new potential supplier, nevertheless they might have an overview about companies in the automotive industry in the region they work with.
- Initiative of the supplier – One of the ways of getting a contact on a new potential supplier is the case when the supplier contacts company ŠKODA Auto a.s. on its own initiative. The disadvantage of relying on this source is the fact that the supplier might not offer the products which the company is interested in. For that reason, this kind of source might not be as effective as the other ones.
- Marketing campaign – One of the costly projects might be an advertisement in trade journals or magazines. Besides that, marketing campaign offers a plenty of possibilities. Shooting a short spot to attract potential producers is one of them. The advertisement can be followed by an event to meet the potential suppliers and make clear what products the company ŠKODA Auto is interested in.
- Online trade directories – There are plenty of websites with the registered companies presenting their products. There are thousands of different products. Therefore, there is a high probability to find desired products. The biggest risk when making a business with a supplier found on these portals is the insufficient quality of the delivered products. Some of them might not meet the European quality standards. As the example are mentioned the following online portals: Alibaba.com, global sources, HKTDC.com, ebay.com, etc
- Public organization – There are several public organizations dealing with the research and analysis. They might be non-governmental and non-profit associations. The service fees might not be as high as the fees of private organizations.
- Recommendations and networking group – References play an important part in a process of choosing a supplier. Furthermore, the recommendations or online references are another opportunity of receiving a contact on reliable producers.

- Social media – An alternative way of searching for contacts is via social media. LinkedIn is the business –oriented social network. There are profiles of companies which might be associated in particular LinkedIn producers’ groups.
- Trade show – Very popular way of meeting new business partners is trade shows. Producers introduce and demonstrate their latest products. The customers acquire knowledge about new trends on the market and opportunity to take a look at the quality manufacturing and processing. The trade shows taking place in South Korea are for instance Automotive Testing Expo Korea, Automation World Show Seoul, Seoul Motor Show, Korea Automotive Industry Exhibition, etc.

4.3.3 Contacting the suppliers

When the company acquires contacts, the next step of the process is contacting the supplier. A letter is a traditional and formal way of approaching a potential supplier. However, there is a low possibility of having a control over the delivery. On the other hand, the official letter might be more trustworthy for the producers than the modern way of communication. Sending an email is a fast and soft form of approaching a producer. There is a risk of omission of an email in case when the producer is not familiar with the company ŠKODA Auto. As prevention, the first step of contacting might be via phone. The introduction of a situation followed by an email with the detailed information is one way of possible effective communication. Nevertheless, one of the most effective way might be the visiting the producer’s company by the ŠKODA Auto’s representatives to introduce and explain the visions personally. However, it does not solve the first contact problem. In case of meeting in person, there is a necessity to arrange the meeting first. Moreover, the distance might be another obstacle. Other form of contacting might be an online form on the producer’s website.

To make the communication as easy as possible, the standardized text for the first contact should be prepared. My proposal is as followed:

Dear Sir or Madam

I am contacting you on behalf of the company ŠKODA AUTO a.s. My name is *NAME* and I work at the purchasing department. I deal with searching and contacting new potential suppliers for the mentioned company. I received your address from *SOURCE*. Your product portfolio is attractive for us. We would like to check the possibility of cooperation with your company.

The company ŠKODA AUTO a.s. headquartered in Mladá Boleslav, is an industrial heavyweight in the Czech Republic and one of the world's oldest car makers. Its origins go back to 1895. The ŠKODA brand has been part of the Volkswagen Group for more than 20 years. ŠKODA AUTO runs production plants in the Czech Republic, China, Russia, India, Slovakia, Ukraine and Kazakhstan. In 2015, ŠKODA AUTO sales revenue increased year on year by 5.2% to CZK 314.9 billion.

Due to the productive and production expansion, the company ŠKODA AUTO is currently looking for new suppliers. In the case of interest even on your part, it is necessary to mention that as a new contractor, you would have to participate in tender process.

If you were interested in the cooperation with the company ŠKODA AUTO a.s., I would like to ask you to fill in an attached general questionnaire. Based on this questionnaire, we will provide all necessary information and materials to initiate business and technical negotiations.

More information about our company can be found at www.skoda-auto.com

We look forward to hearing from you.

Yours faithfully

4.3.4 Requirements

The establishment of relations with new suppliers requires several steps divided into two groups – Basic supplier information and Standardized process. The first group includes the questionnaire mentioned in the previous chapter. There is general information about the producer's company. I formed the questionnaire in the way of basic questions that are currently interesting for ŠKODA Auto. Receiving the filled-in questionnaire is a base for a database of approached potential suppliers which I suggested. The database will include the basic information about companies such as the name of the company, address, business type, general manager, contacts (phone, e-mail address, etc.), contact person, products, website, production volume and map. The questionnaire will be attached. The other part of the database will be the individual steps of the standardized process to easily control the level of company's movement to achieve the phase of cooperation.

4.3.4.1 Basic supplier information

The questionnaire is formed of 7 parts. Each section has few points with the informative character. The first section is Company information including company name, address (street, city, zip code, and country), D-U-N-S number, legal form, and year of establishment - basis information which are needed to know when starting a business. D-U-N-S number is one of the requirements of ŠKODA Auto. Therefore, it is important to know if the company has one. The year of establishment gives information of how long the company operates on the market. Even this point might be a key attribute when deciding if a particular company was the right business partner.

This section is followed by information about the contact person. It includes the name of the person, e-mail, phone number, and the company's website. This part is very important to know whether we want to discuss necessary steps of the integration process.

The third section is dedicated to certificates. The quality standard is a serious issue when it comes to the business. Since some companies might not have experience with making business in Europe, they also might not have issued the required quality certificates. Therefore, it plays a key role in choosing a business partner. If a company does not have the required quality certificates, there is high risk that the product quality is not acceptable.

The next part is the financial situation of the company. There are three items – annual turnover, operating income, and net income. The amounts are expressed in Euro and the information is surveyed of the latest 3 years.

Information about the customers and export is the fifth section of the questionnaire. The sales are expressed as a percentage according to the export to the whole world and specifically to the European Union. There is also an item of three main countries of export. This part shows the experience with the foreign trade and countries in Europe.

The last but one section is called Production program. The information about the produced product is found here as well as the annual production volume expressed in EUR. The numbers are shown for the latest three years.

The last part is the additional information. There are four questions inquiring the willingness of the company to fulfil some of ŠKODA Auto's requirements. The questions are focus on the willingness to register DUNS number, the partners in Europe and the willingness to find a partner in Europe in case they do not have any.

I have sent the questionnaire to three different companies in three different countries in order to check the response out. All of the questioned producers were open to communication and willing to fill in the form. Since the thesis elaborates South Korea, I would like to focus on some of the Korean company answers.

The company I communicated with is called SUNGWOO HITECH based in Gyeongsangnam-do, South Korea. It was established in the year 1977, so it operates almost 40 years. It is automobile components manufacturer specialized in all body parts, doors and bumpers. Its main customers are Hyundai, Kia, and General Motors Korea. The company has got issued three ISO quality certificates – ISO 9002, ISO 14001, and ISO/TS 16949. Its annual turnover was more than 1 billion EUR in the year 2015 – 160 million more than in 2014. The export to European Union creates 30% of the total sales of SUNGWOO HITECH. The main export countries are China (31%), The Czech Republic (25%), and Germany (5%). SUNGWOO HITECH has its manufacturing plants in the Czech Republic, Slovakia and Germany.

4.3.4.2 The standardized process

I suggested 10 steps for the process of inclusion in the tender with an estimation of the approximate time needed to finish each step. The stages will be listed one after another.

- Filling the questionnaire – as mentioned, the questionnaire will be attached to the contacting email. For that reason, it is the first phase that needs to be done. The estimated time was 14 days. However, the companies I contacted were able to send the filled questionnaire back within few days. SUNGWOO HITECH returned it very next day.
- Evaluation of the questionnaire – the received filled-in questionnaire needs to be evaluated by ŠKODA Auto. The responsible person should be able to review a situation and assess the possible continuance of the process. The evaluation should not take more than 14 days.
- Registration of D-U-N-S number – Data Universal Number System is a business credit file with references by lenders and potential business partners to help predict the reliability and financial stability of the company. (Dun & Bradstreet, 2016) ŠKODA Auto recognizes companies according their D-U-N-S number. Therefore, it is necessary that a company has one. My estimation for registration and getting D-U-N-S number is one month. Since SUNGWOO HITECH already has this number, they could move right to the next step.
- Presentation of the company in ŠKODA Auto – After registration of D-U-N-S number, the company should visit ŠKODA Auto in Mladá Boleslav to introduce the company in more details and present its products. To organize such journey might take around one month. This step was already taken by the company SUNGWOO HITECH. Since I communicated with the company, the meeting was organized by me. There were five people attended - a salesman of the company SUNGWOO HITECH, two representatives of tool shop, and two representative of purchasing department including me. The meeting started with an introduction followed by the presentation of the company SUNGWOO HITECH. After that, there was a time for questions from both participating parts. Currently, it has been a last phase.
- Visiting the company – In case ŠKODA Auto is still interesting in cooperation with the company, the representatives of purchase department and engineers will visit the

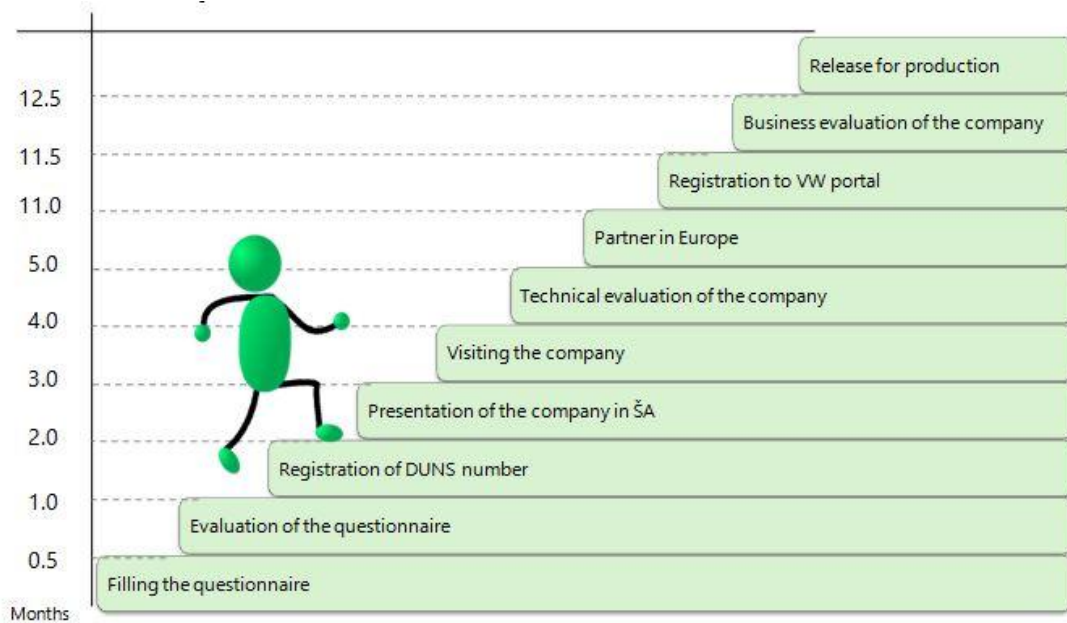
production plants of the company to experience the parts production and processing. The familiarization with the company's culture, facility and machine equipments is one of the most important aspects of the visit. Another considered issue is managing logistics. Besides, the condition and upkeep of the building make an impression of reliability or vice versa.

- Technical evaluation of the company – This stage plays a key role in the process. The producer should deliver produced parts or components for testing. During the testing process, the product processing, quality, used materials, concordance with drawing/documentation and other capabilities of the testing parts are evaluated. In case, the deliver is not possible, talking for example about production or assembly lines, the company should provide references and arrange the visit in plants where their lines are in operation.
- Partner in Europe – if the company is verified as technically compliant, probably the longest phase is following the process. The 24 hour support is very important when implementing the production parts into manufacturing process, and even after that. Spare parts need to be available. For that reason, there is a requirement to have a partner or subsidiary in Europe. The distance between the Czech Republic and Asia is too big to comply with these conditions. If a problem occurred, it would take time to send the part or component back and receive a new one or the one repaired; in all probability even the serviceman would not be able to be present apropos. The different time zone is other factor that complicates the communication. SUNGWOO HITECH has a big advantage with one of the plants located in the Czech Republic.
- Registration to VW portal – VW portal is B2B portal where all suppliers of VW Group can be found. To receive order proposals and technical specification, it is required to be registered in this portal where demands are shared.
- Business evaluation of the company- There are five items which are evaluated in the business: Price level - supplier's prices in comparison with his/her past offers and with the competitor's offer. The discount behaviour - the ratio of the offer price after the technical examination before the transaction to the award value. Price and cost transparency- if the submitted offers have been received without further formal notice in contractual period. Completeness of the offer and meeting demanded performance and quality requirements. Working with pricing models and estimating cost structures.

Change and project management transparency – providing an open, transparent communication and information policy during the process/ project. Voluntary and active providing information about changes or updates. Flexibility of response to the delivery or performance changes and adjustments. Innovation – the level of supplier’s effort to show potentials for further cost and process optimization. Commercial services and availability – the flexible and fast response to the requirements of ŠKODA Auto.

- Release for production

Figure 9. The standardized process



Source: created by the author

The estimated time of the whole process is one year in case when the potential supplier has not finished some of those steps earlier. If the producer already has D-U-N-S number or partner in Europe, the whole process might get shorter. On the other hand, complications in some of the stages might occur, and then the process would be probably longer than intended.

5 Results and Discussion

Asian market offers plenty of possibilities. In all probability, there is nothing which cannot be produced there. Besides that, the production costs are lower than the production costs in Europe. In many cases, it pays off even when the logistic costs are included. Therefore, some of the Asian countries are called cost-competitive-countries. When supplying goods from this area, it is called C3 Sourcing. The production in comparison with Europe is cheaper for several reasons. Firstly, the wages for work performance is considerably lower. It is followed by the lower expenses on rent of premises, machines, etc. Another advantage when producing in Asian countries is the technological advanced level in countries such as e.g. China or South Korea. A company does not have to invest into development of such technology in its own country. Nowadays, the competition is high and companies try to make their product the most attractive. One of the ways might be the lower prices than competition has. To have lower prices, it is needed to have lower costs. Therefore, the option of having suppliers from Asia or to product there is very popular.

ŠKODA Auto already has had experience with the Asian suppliers. They have regular Asian suppliers with the product quality comparable to the European one. Purchasing department of ŠKODA has a list of potential Asian suppliers obtained from different sources. However, only few of them are successful. Since the requirements on suppliers have not been written down, the control over the suppliers' movement is difficult. Besides, the different mentality requires different way of communication and negotiation.

The thesis is a first written proposal of the process of getting new suppliers for ŠKODA Auto from the diplomat point of view. Afterwards, it will be handed over to the purchasing department for applying into practise and to develop the project according the actual situation. Employees of purchasing department will make the potential changes in the process structure professionally. It derives from working experience in the stated area and verification of the model in practise.

The steps of the standardized process are adjusted for the Asian market. Since the way of thinking is different in those countries than in Europe, it is necessary to negotiate the visions before making a business. ŠKODA Auto's requirements are summarized in the

standardized process of the thesis. The individual steps will be shared with the potential suppliers in written form in order to control and manage their own movements. I recommend requiring feedback from the producers in the way of sending updates when finished a particular level. Part of the supplier database is the individual steps for checking the level and time estimation to reach the last phase of releasing for production.

The questionnaire as the first step of the standardized process needs to be evaluated when received filled-in back. In my opinion, it should be done by the department, which would work with the company. There should be a person who would deal with it professionally in order to estimate if the company would be acceptable for furthering with the process. However, the real potential can be found only when reaching other stages of process. Presentation of the company might engage ŠKODA's employees' attention. The visiting of the producer's production plant enable to look at the processing and the environment. However, what matters the most is the quality of the products which will be testing in the technical evaluation.

The company SUNGWOO HITECH would comply with ŠKODA's requirements and has potential to be a successful supplier. Even though, ŠKODA Auto produces several body parts, mainly the big ones, on its own, portfolio of SUNGWOO HITECH is more extensive. The trend in cutting costs results in the decrease in production depth. The less body parts the car manufacturer produces, the less costs, space, stockpiles and responsibility are necessary. When the body parts are supplied, the supplier should response flexible to the changes in production volume. Therefore, there is a potential for the company SUNGWOO HITECH in future.

6 Conclusion

The diploma thesis is a summary of the general steps of the process of getting new suppliers. Even though, ŠKODA Auto is interested in supplying some of parts and components from Asia, the requirements remains the same as for the European suppliers. Due to the different mentality, it is needed to prepare a different way of sharing the requirements. After the oral statement of the requirements, the success rate was very low. Since the way of making business in Asia is slightly different than in Europe, it might be confusing and vague. Moreover, there is a language barrier. Even though in most cases, the language for communication is English, there might be some ambiguities. For that reason, I prepared steps for the potential suppliers in written form.

However, the getting of new suppliers is not only sharing requirements, it is preceded by several steps which were generally described in the thesis. During my internship, I was able to apply some of the steps into practise. I chose a company from South Korea as a practical example for purpose of this thesis. Nevertheless, ŠKODA Auto would be interested also in other Asian countries. From the brief analysis of automotive industry in other Asian countries, there is a potential in countries such as China, India, the Philippines, Indonesia, Malaysia, Thailand, or Vietnam.

The internship at the purchasing department of ŠKODA Auto was a big benefit for me. I gathered experience connected with the business and purchasing process which was applied in the thesis.

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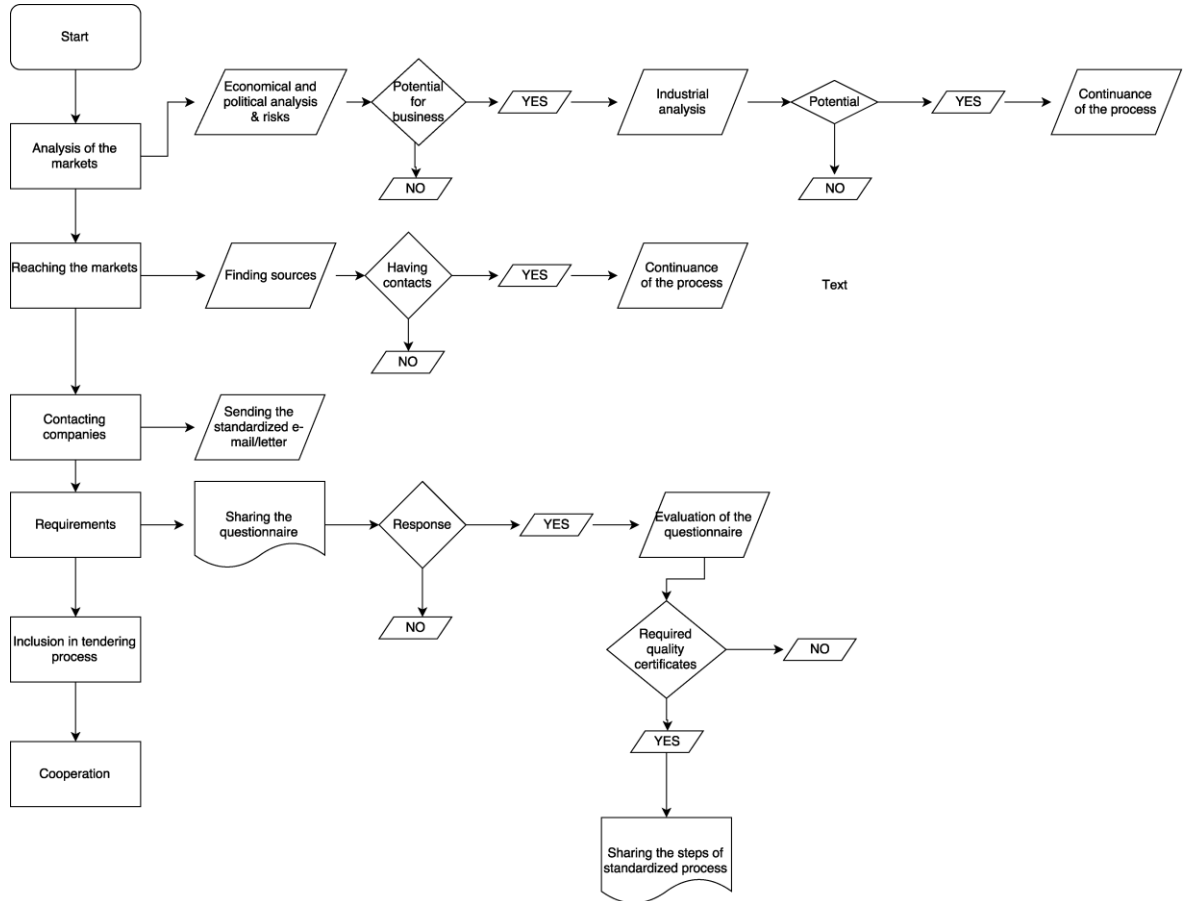
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8 Appendix

Appendix 1. Flow chart



Source: created by the author

Appendix 2. Questionnaire SUNGWOO HITECH 1/2

QUESTIONNAIRE – Company overview

Company information

Company name	SUNGWOO HITECH
Street	50, Sojugongdan 3-gil, Yangsan-si
City	Gyeongsangnam-do
Zip code	50511
Country	South Korea
DUNS	68-928-5091
Legal form	
Year of establishment	1977

Contact person

Name	WONSIK KIM(JEROME)
E-mail	Jerome@swhitehc.com
Telephone number	+82 10 5105 0171
Web	http://english.swhitech.com

Certificates

	Issued	Date of certification
ISO 9002	<input checked="" type="checkbox"/>	1996
ISO 9001:2000	<input type="checkbox"/>	
ISO 14001	<input checked="" type="checkbox"/>	1996
VDA 6.1	<input type="checkbox"/>	
QS 9000	<input type="checkbox"/>	
ISO/TS 16949	<input checked="" type="checkbox"/>	2004

QUESTIONNAIRE – Company overview

Financial information of the company (EUR)

	2015	2014	2013
Annual turnover	1,038,519,167	874,250,833	780,940,000
Operating Income	51,153,333	45,299,167	31,115,000
Net Income	78,901,667	89,965,000	80,696,667

Customers/ Export

	Export quota (in % of sales)		
Whole world	65%		
The European Union	30%		
Three main countries of export	China : 31%	Czech : 25%	Germany : 5%

Production program

	2015	2014	2013
Part/products	BIW	BIW	BIW
Annual volume in EUR	500,000	500,000	500,000

Additional information

In the case of not having DUNS number, would you be willing to register?

YES

NO

Do you have a subsidiary company or a partner in Europe?

YES

NO

In which European country the subsidiary/partner is?

Germany, Slovakia, Czech

In the case of not having European partner, would you be willing to find any?

YES

NO

Appendix 4. Questionnaire Viney Cooperation Limited 1/2

QUESTIONNAIRE – Company overview

Company information

Company name	Viney Corporation Limited
Street	Plot No 42 Sector 3 IMT Manesar
City	Gurgaon Haryana
Zip code	122050
Country	India
DUNS	650078160
Legal form	Public Limited
Year of establishment	1989

Contact person

Name	Rajesh Arora
E-mail	exports.del@vineycorp.com
Telephone number	+91 9871227855
Web	www.vineycorp.com

Certificates

	Issued	Date of certification
ISO 9002	<input type="checkbox"/>	
ISO 9001:2000	<input type="checkbox"/>	
ISO 14001	<input checked="" type="checkbox"/>	10.12.2015~20.04.2017
VDA 6.1	<input type="checkbox"/>	
QS 9000	<input type="checkbox"/>	
ISO/TS 16949	<input checked="" type="checkbox"/>	08.04.2016~14.09.2018

Appendix 5. Questionnaire Viney Cooperation Limited 2/2

QUESTIONNAIRE – Company overview

Financial information of the company (EUR)

	2015	2014	2013
Annual turnover	96 Million	102 Million	120 Million
Operating Income	9.7.	5.6 Million	3.9 Million
Net Income	5.8 Million	3.4 Million	3.1 Million

Customers/ Export

	Export quota (in % of sales)		
Whole world			
The European Union	18		
Three main countries of export	Europe	Latin Americal	

Production program

	2015	2014	2013
Part/products	Connectors	Connectors	Connectors
Annual volume in EUR	600 Million	510 Million	450 Million

Additional information

In the case of not having DUNS number, would you be willing to register?
 YES NO

Do you have a subsidiary company or a partner in Europe?
 YES NO

In which European country the subsidiary/partner is?

Italy

In the case of not having European partner, would you be willing to find any?
 YES NO

Appendix 6. Questionnaire CNI 1/2

QUESTIONNAIRE – Company overview

Company information

Company name	CNI ENGINEERING SUPPLY COMPANY LIMITED
Street	Klongnakhonneangkhet
City	Chachoengsao
Zip code	24000
Country	Thailand
DUNS	
Legal form	
Year of establishment	1988

Contact person

Name	Kingpetch Hempotirat
E-mail	kingpetch@cni-eng.co.th
Telephone number	+66818461181
Web	www.cni-eng.co.th

Certificates

	Issued	Date of certification
ISO 9002	<input type="checkbox"/>	
ISO 9001:2000	<input checked="" type="checkbox"/>	2005
ISO 14001	<input checked="" type="checkbox"/>	2008
VDA 6.1	<input type="checkbox"/>	
QS 9000	<input type="checkbox"/>	
ISO/TS 16949	<input checked="" type="checkbox"/>	2006

QUESTIONNAIRE – Company overview

Financial information of the company (EUR)

	2015	2014	2013
Annual turnover	16,200,000	15,390,000	
Operating Income			
Net Income			

Customers/ Export

	Export quota (in % of sales)		
Whole world			
The European Union			
Three main countries of export	USA 0.5%	INDONESIA 1.5%	JAPAN 0.8%

Production program

	2015	2014	2013
Part/products	32,000,000 PCS	29,000,000 PCS	
Annual volume in EUR			

Additional information

In the case of not having DUNS number, would you be willing to register?
 YES NO

Do you have a subsidiary company or a partner in Europe?
 YES NO

In which European country the subsidiary/partner is?

In the case of not having European partner, would you be willing to find any?
 YES NO

Appendix 8. An example of the database 1/3

The name of the company:

SUNGWOO HITECH

Business:

Automobile components manufacturers

General Manager:

MYUNGKEUN LEE

Phone number:

082-070-7477-5000

Contact person Asia:

WONSIK KIM (JEROME)

E-mail address:

Jerome@swhitech.com

Phone number:

+82 10 5105 0171

Product portfolio:

Bumber beam, door assembly, side inner, door frame, fender apron compete, centre food compete, hood assembly, rear side member complete, rear floor complete, dash complete, rear package-tray centre, front pillar inner lower, tail gate

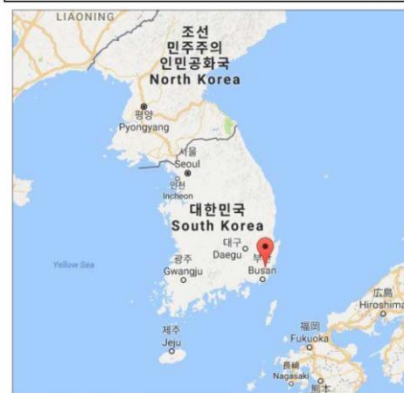
Production volume:

BIW – 500,000

Address:

**50, Sojugongdan 3-gil, Yangsan-si
Gyeongsangnam-do
50511
South Korea**

Website: <http://english.swhitech.com>



Appendix 9. An example of the database 2/3

Product portfolio photos:

<p>IMAGE 1 2 3</p> <p>BUMPER BEAM (ROLL-FORMING)</p>	<p>IMAGE 1 2</p>	<p>IMAGE 1 2</p> <p>SIDE INNER</p>
<p>BUMPER BEAM</p> <p>IMAGE 1</p> <p>DOOR FRAME</p>	<p>DOOR ASSEMBLY</p> <p>IMAGE 1 2</p> <p>CENTER FLOOR COMPLETE</p>	<p>SIDE</p> <p>IMAGE 1</p> <p>MEMBER ASSEMBLY & FENDER APRON</p> <p>FENDER APRON COMPLETE</p>
<p>IMAGE 1 2</p> <p>HOOD ASSEMBLY</p>	<p>IMAGE 1</p> <p>REAR SIDE MEMBER COMPLETE</p>	<p>IMAGE 1</p> <p>REAR FLOOR COMPLETE</p>
<p>IMAGE 1</p> <p>DASH COMPLETE</p>	<p>IMAGE 1</p> <p>FRONT PILLAR INNER LOWER</p>	<p>IMAGE 1</p> <p>REAR PACKAGE-TRAY CENTER</p>
<p>IMAGE 1 2</p> <p>TAIL GATE</p>		

2/3

Source: created by the author. Pictures taken from the official SUNGWOO HITECH website

Appendix 10. An example of the database 3/3

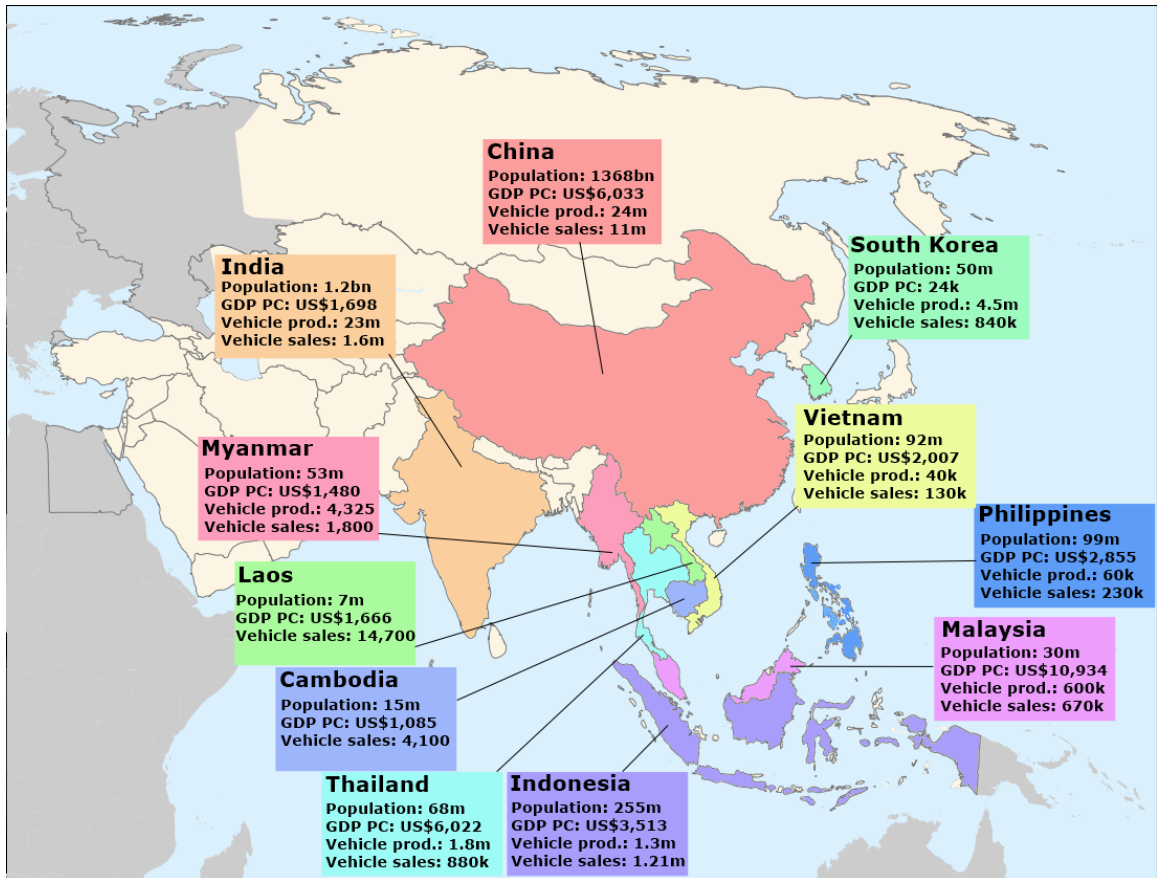
The standardized process

- Filling the questionnaire
- Evaluation of the questionnaire
- Registration of D-U-N-S number
- Presentation of the company in ŠA
- Visiting the company - production plant
- Technical evaluation of the company
- Partner in Europe
- Registration to VW portal
- Business evaluation of the company
- Release for production

3/3

Source: created by the author

Appendix 11. Asian countries overview



Source: <http://www.pwc.com/my/en/assets/publications/riding-southeast-asia-automotive-highway.pdf>