

ANNOTATION

In this master's thesis the issue of developing competitiveness within a small trading company is discussed. Within the theoretical review, strategy and competitiveness as well as the main strategical analysis frameworks are described. The analytical part consists of a strategical macro- and micro- environmental analysis as well as internal analysis of the company. The outcome of the analytical part defines the company's current position within the market and highlights relevant problematic issues which exist within the company. On the basis of a literature review and a strategic analysis, the conclusions and recommendations are elaborated on for the company with the intention to reduce found drawbacks and thus help the company to find a strategy which will enhance its competitiveness.

KEY WORDS

strategic planning, corporate strategy, business-level strategy, strategic management, strategic analysis, competitiveness, competitive advantage, competitive strategies, business growth options

ANOTACE

Diplomová práce se zabývá problematikou rozvoje konkurenceschopnosti obchodní firmy v Brně. V teoretické rovině je zaměřena na odborné poznatky a nejnovější trendy v oblasti strategie a konkurenceschopnosti. Na základě literárního průzkumu analyzuje a zhodnocuje stávající přístup k strategickému plánování v dané společnosti. V rámci analytické části je provedena strategická analýza firmy. Na základě literární rešerše a strategické analýzy je zpracován návrh strategie, který si klade za cíl přispět k efektivnějšímu řízení interních procesů, systematictějšímu přístupu ke strategickému plánování a v konečném důsledku k zvýšení konkurenceschopnosti firmy.

KLÍČOVÁ SLOVA

strategické plánování, strategie, strategický management, strategická analýza, konkurenceschopnost, konkurenční výhoda, konkurenční strategie

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DECLARATION

I hereby declare that this master's thesis is my own work and effort. All information sources used are properly cited including a complete reference to the original work.

Bc. Lucie Hořáková

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INTRODUCTION

“Tomorrow’s successful organizations will be those which embrace change today.”
(Smith, 2005)

One of the contemporary issues facing companies nowadays is the challenge to keep up with increasingly innovative and intensified competition. Many economies are deregulating and encouraging market forces to operate. The European Union is removing trade barriers among European nations and deregulating many previously protected markets. Multinationals are moving aggressively into the south-east Asian market and competing globally. The result is that companies have no choice but to be "competitive". They must start paying as much attention to tracking their competitors as to understanding their target customers. (21) There is a stronger need for flexibility, quick response to change and fast adaptation to the changing circumstances. As the world is becoming more interconnected, the organizations need to become more cooperative through their effective collaboration. In the globalization age where the world is turning into one huge market, there is a challenge for all: Can the processes be done more efficiently and how? How to find and sustain a competitive advantage? How to outperform the competitors and gain attention and loyalty from customers? How to ensure and maintain a stable position within the market in the long term?

The main purpose of a strategic analysis is to find the company’s competitive advantage which seems to be one of the essential ingredients to a company’s success. As the markets become increasingly turbulent, the responsiveness to external change also becomes increasingly important. Responsiveness involves anticipating changes that may affect the competitive advantage. As Robert Grant, the author of Contemporary Strategic Analysis textbook, states *“As an industry evolves, companies must adjust their strategies and their capabilities to shifting key success factors.”* Responsiveness to the opportunities arising from external changes requires information as a key resource and flexibility as a key capability. Firstly the opportunity has to be identified which requires environmental scanning. Here the market research and external environmental analysis are of the highest importance. Secondly, the company needs to find flexibility and adapt

to changing market circumstances in order to benefit from them. The faster the company is able to respond in, the more benefit it might gain. The emphasis on response speed as a source of competitive advantage is of vital importance in today's economy. In such a dynamic environment it is more difficult than ever to forecast the future.

However, there are also other sources of competitive advantage emerging from the internal change generated by innovation. Innovation should not be thought of just in its technical sense. As an example of another kind of innovation, the strategic innovation which is about new approaches to doing business, including new business models which help to make the internal processes more efficient and adding value has to be mentioned. Once established, the competitive advantage needs to be taken care of by the management in order to remain sustainable in the long-term. The company's management faces the challenge to protect the competitive advantage from being imitated by the competitors by developing so called isolating mechanisms. As Grant argues, *"the more effective these isolating mechanisms are, the longer competitive advantage can be sustained against the onslaught of rivals."* (13, p.209)

These are just some of the issues which the strategic managers are struggling with all over the world day after day. As Peter Fitzroy mentions in his book *"Creating Value in Turbulent Times"*, strategic management of a modern firm is a complex task and there are no easy solutions. While working in the turbulent environment, managers encounter complex, unstructured and non-routine problems. The vital task of strategic management is to ensure not only survival but also the long-term success and profitability of the company. This involves making the right decisions based on a deep understanding of company's situation as well as on the macro and micro environment within which the company operates. As there are more variables coming into account this task becomes increasingly difficult. Moreover, as the main aim of a firm, as an economic entity, is to create wealth there is a need to pay increased attention to its performance. The strategic management has to be aware of the impact which the financial markets have on the strategy because it not only puts pressure on the firm's performance but it also facilitates and constrains the strategy adopted by the firm. (8)

1. PURPOSE AND METHODS

1.1 Thesis Purpose

The purpose of this thesis is to recommend steps which will develop the competitiveness of a trading company in Brno. The thesis strives for its practical application in the company's day to day running. Therefore it attempts to adjust the thesis to the company's actual needs and requirements. As the management of the analysed company wished to have an elaborated theoretical overview on strategy as well, the thesis has been written accordingly.

Firstly, a literature review offers a theoretical insight into the main definitions on strategy and competitiveness as well as an overview of the main strategical analysis frameworks and strategic options. The analytical part consists of a strategical macro- and micro-environment analysis within the company as well as the analysis of the internal situation of the organisation. Analysis outcomes help to define the company's current position and highlight relevant deficiencies and problematic issues which should be resolved. On the basis of the literature review and strategic analysis outcomes the conclusions and recommendations are elaborated on. The purpose is to reduce drawbacks and help the company to develop its competitive advantage, find the strategic ways how to compete efficiently and become more successful in the market.

1.2 General Research Method Choice and Data Acquisition

The difference between the qualitative and quantitative method is how the data is presented, which means, if it is coded in numbers or expressed through words and pictures. In this thesis a mainly qualitative approach is used. This approach allows a deeper understanding of the subject since it is more detailed. Research enables mapping and studying of organisations. Accurate measurements and conclusions can be taken by using appropriate research methods. In open or unstructured research forms, the researcher is open to whatever people say. In pre-coded or structured research, the researcher is prepared for the most likely range of answers. Each research method can be used in an exploratory (open) or surveying (pre-coded) way.

Most of the data and information in this thesis has been collected from secondary sources and interviews as well as from personal experience while working for the company. *The main research methods* which I have used in this thesis are briefly described in the table below:

<p>→ <i>Analysis and Synthesis</i></p> <p>The general methods of analysis and synthesis are used. They belong to the basic and most often used scientific methods.</p> <p>→ <i>Documentary research</i></p> <p>Research based on the analysis of all available internal documents such as annual reports, booklets or catalogues is one of the most important secondary data analysis tools. At first all documents were analysed in an un-structured way in order to get a general overview of the company. Then, the most important documents were explored in a prepared and structured way which helped to focus on the most important issues.</p> <p>→ <i>Observation method</i></p> <p>Unstructured observation is a very open approach with a low degree of structure. While working for the company I had an opportunity to observe how operational processes were managed and how daily routines proceeded. It was a very valuable research tool. However, there is a need to avoid being subjective.</p> <p>→ <i>The interviews</i></p> <p>Personal interview is one of the most flexible and straightforward methods. In this thesis I have used mainly semi-structured interviews as a compromise between an unstructured (open) and structured interview. While interviewing, I have used a checklist to remind me of the main issues and topics that I needed to cover. Thus, the respondent had more space for his response. The interview was more flexible than in the case of a structured interview as it offered plenty of room for mutual discussion and expression of opinions. The interviewees were the manager of the company, two sales representatives, one technical worker and the manager of the marketing department.</p> <p>→ <i>Information from the company's Intranet and Web page</i></p> <p>The Intranet portal and Web page were sources of valuable information as well. The intranet has only recently been implemented in the company and serves as a tool for data and information sharing. The company's web page is one of the most important marketing tools when communicating with customers. The web sites of the main company's suppliers and competitors have also been used in order to gain valuable information for the analysis.</p>
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Table I: Research Methods used in the thesis
Source: author (on the basis of theory on research methods)

1.3 Methods Used in the Practical Part

The practical part of the thesis consists of a strategic analysis of a trading company in Brno. Theoretical frameworks and methods for the strategic analysis were chosen on the basis of theoretical knowledge, own experience while working for the company and the company's management requirements and needs.

Chapter 4 introduces the analysed company in more detail. A concrete analysis is elaborated within chapter 5. Firstly, focus is placed on the macro-environmental analysis. By means of the PESTEL analysis the external factors influencing the company from outside are defined. Later on, the micro-environmental analysis is divided into two sub-chapters examining the industry/sector and the competition through strategic tools such as Porter's Five Forces model, Critical Success Factors, Strategic Groups, Market Segments and Competition analysis. On the basis of Porter's model the competitive forces which influence the company are analysed. These forces are namely new competitors, suppliers, customers, substitutes and a competition ring. The objective of the competition analysis is to review which of the companies engaged in the pneumatic elements and industrial fittings market are the direct competitors and represent a potential threat for the analysed company. Finally, within the internal analysis, the company's internal environment and its current strategic position is analysed in more detail. With the help of SWOT analysis internal strong and weak points as well as external opportunities and threats are defined and analysed. The analysis process (chapter 5) is demonstrated in the Figure 14.

Within chapter 6, conclusions of the analytical part are drawn as well as analysed data evaluated. These conclusions will create a solid base for a convenient future strategy formulation. The main aim of the proposal part is to design such proposals and recommendations which will lead to the company's competitiveness development based on the improvement of its internal processes and strengthening its core competencies (chapter 7).

I. THEORETICAL PART

Theoretical part comprises of a literature review on strategy. Firstly it focuses on the definition of general terms on strategy and competitiveness. Later on, it summarises the theoretical frameworks of strategic analysis and defines types of competitive strategies.

2. GENERAL TERMS DEFINITION: Strategy and Competitiveness

In today's world, words such as "strategy", "strategical decisions" or "managing strategically" are used with a high frequency. The reason is that the environment is becoming increasingly competitive and speed-up changes make the organisations think about how to become more efficient and outperform the competitors. Within the limits of their resources and competences, organisations strive for a long-term direction which would enable them to find the competitive advantage and right position in the market.

Main purpose of a corporate-level strategy is to create a company's future direction through the definition of company's mission, strategic vision as well as goals and objectives. Following terms should be well developed in every company:

>Mission	>Vision (Strategic Intent)	>Goal
>Objective	>Strategic capability	>Strategy

Mission is the main company's purpose with regards to the values or expectations of stakeholders. A *strategic vision* helps the company to identify a desired future state, in other words, it is the aspiration about where is the organisation heading to. *Goal* is a general aim of purpose lying ahead of the company, while *objective* is a more precise statement of the goal (quantificated if possible). *Strategic capability* identifies the resources, activities and processes. Some of them are unique and provide a competitive advantage for the company. Developed in more detail within the next chapter, *strategy* is a long-term direction which enables the company to achieve goals and objectives and fulfill the vision or expectations of its stakeholders. (19)

2.1 Definition and Importance of Strategy

There are many definitions of strategy in the literature which vary according to different authors and different points of view. In general, strategy expresses general ideas about how the company's goals will be achieved. In other words, the strategy can be defined as *“the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.”* (19, p.3) This definition highlights the main *characteristics of strategic decisions* which are:

- ü The long-term direction
- ü The scope of and organisation's activities
- ü Advantage for the organisation over competition
- ü Appropriate positioning in the company's environment
- ü The organisation's resources and competences
- ü The expectations of stakeholders

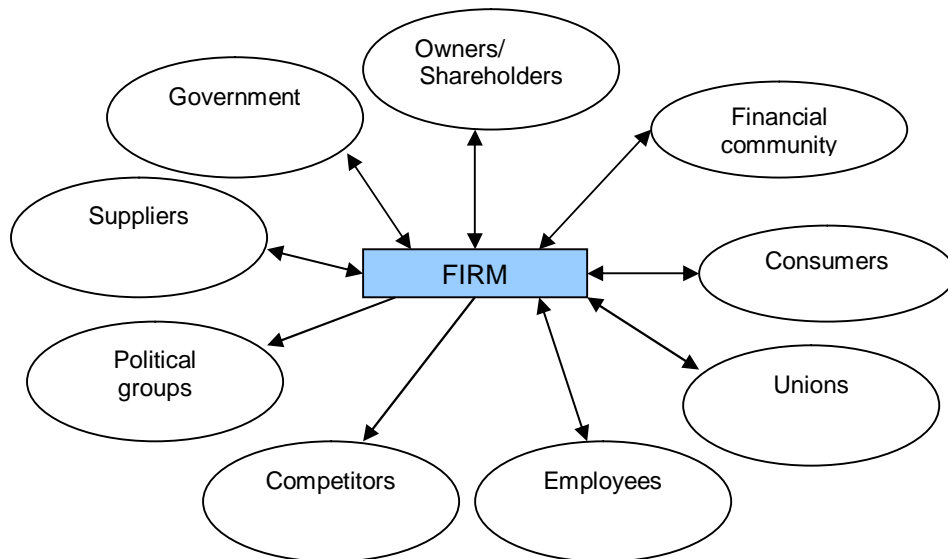
At this point it is important to be aware of the main objective of an organisation. The main aim of every company is to create a profit or, in other words, to create and maximize the company's value in order to meet the stakeholders' expectations. When looking for a successful strategy, there is a strong need to focus on the scope of activities the company wants to concentrate on. Then, the idea has to be made about what advantage over the competition will enable the company to become and remain successful. It will help the company to choose the right position within the environment which it operates in. As Michael Porter and other authors agree, a strategic fit with the business environment has a crucial role for the company's success. It means, the company needs to find the right position within the market by recognizing which part of the market needs to be fulfilled and subsequently focus its strenghts, resources and capabilities in this target market or customer. (19),(33)

The long-term direction of strategical issues is self-evident as it involves long-term decisions about company's nature, characteristics as well as their objectives and future.

Thus, the main task of a strategy is to exploit the strategic capability and within existing resources nad competences provide a competitive advantage and yield new opportunities. The other main purpose is to create value for the firm and its stakeholders. (8)

→ Who are the stakeholders?

Figure 1: Organisation's stakeholders



Source: (19)

Fitzgroy defines the strategy as the common theme underlying a set of strategic decisions. Later in his book he adds: “*Strategy is not just a good idea, it is making that idea happen*“. It means that “*firm performance needs both a strategy and the means to put that strategy in place*“. (8, p.31) In order to be successful there is a need to excell at both a strategy development and a strategy execution.

The most successful companies have always had adopted strategies that were “different“ from those of their competitors. Therefore the importance of strategy differentiation, which is perceived as one of the main success determinants, is emphasised. Strategy differentiation requires searching for new sources of advantage and looking for ways how to become unique and create wealth. (8)

The *strategy development routes* can be seen from the following illustration:

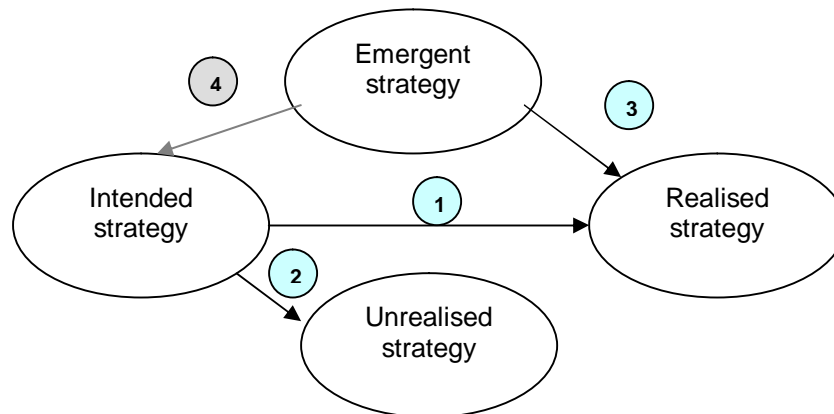


Figure 2: Strategy Development Routes
Source: (19)

→ Strategy as building competences

Regardless of how innovative a strategy is, it must be based on *building competences*. Competences are those skills and abilities of the firm in which the firm excels its competitors. Competences are not static, on the contrary, they have to be built to support the strategy. Consequently, a central element of strategy is building these competences faster and better than competitors. (8)

→ Dealing with complexity and uncertainty

When dealing with strategy, companies need to be tolerant to a high level of complexity and uncertainty which is inherent to strategy. As change is a crucial component of a strategy the company needs to be flexible in order to respond proactively to the environment. The task of strategic manager is to challenge this complexity and uncertainty by effective predicting of future trends and by getting the most of the opportunities which he or she encounters. This ability is highly dependent on both experience and strong knowledge of the strategical tools and frameworks as well as on a deep understanding of company's strengths and weaknesses and the way how to exploit them in order to benefit in the market. (8)

2.2 Levels of strategy

As strategies exist at various levels within organisation, it is essential to be able to distinguish among them. Main levels of strategy in the organisation are as following:

- ü Corporate-level strategy
- ü Business-level strategy
- ü Operational strategies



Figure 3: Levels of Strategy (19)

At the top level is a *corporate-level strategy* which is concerned with the overall purpose and scope of an organisation and how value will be added to different business units of the organisations. Corporate-level strategy involves decisions about the organisation as a whole. It is usually in the hands of owners or founders who determine company's purpose, vision and direction. Main purpose of the corporate-level strategy is to create a future direction of the organisation. (8),(19)

Business-level strategy is concerned with how to compete successfully in particular markets. Some sources define a business-level strategy as a “*competitive strategy*“ which expresses its nature more precisely. In the companies with several businesses, a clear link should be made between the strategies at a strategic business unit level (business-level strategy) and the corporate level. In simple organisations with just one business, corporate and business-level strategy are almost identical. (19)

The *operational strategy* deals with how effectively the component parts of an organisation deliver the corporate- and business-level strategies in terms of resources, processes and people. The operational level of strategy is very important as the most successful business strategies depend to a large extent on the decisions and activities taken at the operational level. (19)

2.3 Fundamentals of Strategic Management

"Plans are nothing; planning is everything" (Eisenhower). According to this quote, the process of strategic management is even more important than the documents it produces (such as strategies and strategic plans) as these might become obsolete even before its realisation due to the dynamic environment of nowadays. Strategical managers are those managers who decide, develop and implement the strategy. The major challenge of strategic management is to deal with the complexity arising of ambiguous and non-routine situations with organisation-wide rather than operation-specific implications. Strategic manager needs to be capable of taking a "helicopter view" of the company's situation which means to see a whole picture rather than just its parts. As the complexity of strategical issues is concerned, strategic manager needs to make decisions and judgements based on the conceptualisation of difficult issues as well as to develop a deep understanding of the strategic concept. (19),(20)

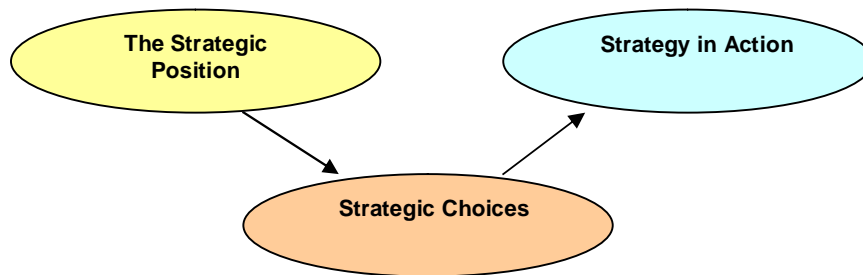
2.3.1 Strategic Management Process

The development of strategy may be undertaken in a variety of ways. The process of strategy development can be formal or informal, intuitive or analytical. As the strategic management face the challenge to create organizations that can generate value despite the turbulent world over a sustained period of time, there is a need to undergo a process from understanding the external and internal environment to developing a strategy as well as to implement it, understand its likely future performance, evaluate it and monitor. One of the models of strategic management process takes into account four main elements – context, strategy, implementation and performance. (8)

A different model, which will be further explained in this chapter, was presented by Johnson. Strategic management includes understanding the following (19):

- ü Strategic position of an organisation
- ü Making strategic choices for the future
- ü Managing strategy in action

Figure 4: Strategic Management Process



Source: (19)

The *strategic position* identifies the company's position within the environment it operates and the environment influence on the company. It also explores the organisation's strategic capability (its resources and competences) as well as the expectations of stakeholders and their influence on strategy. In other words, the strategic position defines and analyses the current position of the company.

Strategic choices involve the options for strategy in terms of both the directions in which strategy might move and the methods by which strategy might be pursued. Strategic choices are the decisions about next moves and directions which determine where the company desires to go in the future. A main goal of every company is to grow, be more competitive and increase its value. Organisations have to make choices about the methods by which they will implement their strategic goals.

Managing *strategy in action* is dealing with the implementation of the strategy which was decided in the previous step. In other words, it has to be ensured that the strategy is put in action and will work well in practice.

The above illustrated interconnected circles represent the own nature of strategy. Position, choices and action are closely related and have sense only if they are working through well together. However, strategic management of a modern firm is a complex task where easy solutions do not exist. Strategic management hardly occurs in tidy and logical ways in the company's practise. For the propose of this thesis the Johnson's logic was chosen in order to elaborate a logical analysis for the development of appropriate conclusions. (8),(19)

2.3.2 Who does strategy?

The responsibility for the *strategy at the corporate-level* is in the hands of the top management. It usually is the CEO (Chief Executive Officer) of the company who is in charge of developing the main direction of the company's future development. CEO's task is both manage for today and design the change for tomorrow. In modern firms there is a pressure put on encouraging the strategic thinking throughout the firm, which means searching for ideas among the people working for the company. This approach can be very beneficial as the CEO needs committed and courageous entrepreneurs as a source of innovative ideas. However, as said before, strategy is more than an idea, it is about making the idea happen. The role of the CEO is difficult as he has to, among others, act also as the communicator, decider, facilitator, teacher and mentor. (8)

2.3.3 Changes affecting strategic management nowadays

As the external environment is changing constantly, it pressures the strategic management to respond to the change and modify its strategy in accordance with the environment. It is desirable for the company to understand the environmental changes and make the best of them. Eventhough it might seem from the figure below that the influences are independent, they are actually all interdependent. Among the major influences affecting strategic management today belong:

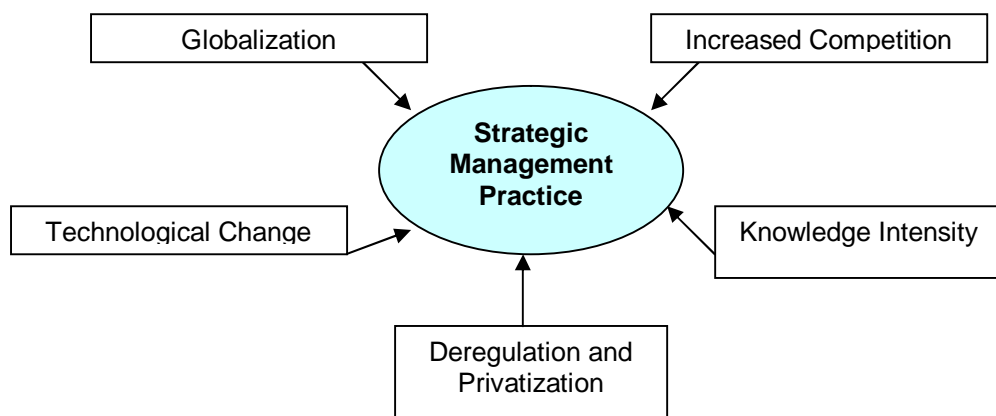


Figure 5: Changes affecting strategic management
Source: (8)

ü *Globalization*

Integration of the world financial markets has dramatically increased the competitiveness of the capital markets. As more capital is available, companies compete for it globally. New financial instruments such as derivatives have been developed. The complexity of financial decisions have increased. The world is becoming smaller as markets are increasingly inter-connected. There is an increasing number of cross-border mergers and acquisitions.

ü *Increased competition in product, capital and labour markets*

Competition is increasing and becoming stiffer than ever before. Competition based on price, quality and innovation characterizes many markets and puts pressure on continual cost reductions in order to stay competitive. “*Squeezed net margins and shortened product life cycles underling the need to innovate new competitive advantages and build required competences.*“ (8, p.22) There is more pressure put on flexibility of the companies to respond quickly to change and unpredictable discontinuities. “*Increased competition also means that successful strategies will have shorter lives*“ (8, p.22)

ü *Technological change*

The information revolution have affected all companies. Its widespread availability will have dramatic effects on decisions about which activities should be performed outside or inside of the company as the transaction costs will vary.

ü *Knowledge intensity*

Drucker describes advanced economies as “knowledge economies“ as they increasingly become less material intensive and more energy intensive. Knowledge intensity is increasing for most of the products.

ü *Deregulation and privatization*

Deregulation and privatization have occurred in many industries all over the world such as in electricity, gas, water supply, banking and finance, railways, telecommunications or airlines industries. (8)

2.4 Definition of Competitiveness and its characteristics

As results from the previous chapter, today's world is an exciting and challenging time for all organizations as they have to deal with a high rate of change reflected in a rapid globalization. The world is becoming smaller and thanks to the technological improvements companies are inter-connected all over the world. Increased competitiveness puts extreme pressure on governments and companies affecting their ability to survive. These changes mean both challenges and opportunities for the organisations. It depends on how the company will embrace the change and how it will challenge it for its own success.

→ The nature of competition

In general, competition can be defined as a very complex process of striving against others to win or achieve something. It exists where there is a choice. *Competitive rivals* are defined as organisations with similar products and services aimed at the same customer group. Companies are competing for scarce, limited and finite resources. Therefore the competition is affected by a disposable income and the extent to which the offerings are essential, desirable, non-essential, luxury or general. (19)

Competition is a variable, extensive and continuous process which is subject to both universal outside pressures, variation in their nature and level of those pressures. Organisations' managers need to have clear with WHOM they are competing, under which circumstances the competition is engaged as well as WHAT they are competing for. They need to develop a competitive strategy built on the company's core competences and strengths which will consequently help them to achieve and sustain competitive advantage. The capability to compete is essential for the business in order to gain customers and create value for shareholders. The company needs to be able to satisfy customers' needs and wants. It is the organisation's capability that persuades the customer to choose a particular product or service in preference to those offered by the competitors. (32)

The macroeconomical view on the theory of competition formulate following types of competition:

- *Perfect competition* (ideal situation: high number of competitors) and *non-perfect competition* (monopoly, oligopoly, monopolistic competition)
- *Price competition* (the competitive tool is the price - the company tries to attract buyers through price decrease) and *non-price competition* (the competitive tool is different than a price - methods such as quality, technical parameters and differentiation of the product, its design, image, offered services, etc. are used)

The competitiveness can be achieved by maintaining the dynamic balance among the components of the firm's potential (its strengths and weaknesses, opportunities and threats). Some authors present four basic internal attributes of the company's competitiveness: human, financial, process(technological) and commercial potential.(28)

→ Competitive advantage

Competitive advantage is "*an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices*" (21, p.421). The structure of a competitive advantage adapts to the growing complexity and dynamics of the business environment. Today's criterion for business competitiveness is an unique value of offered products which is a hardly defined factor that attracts customer demand. It is the orientation towards customers what determines the commercial success of the company. It means there is a need to exert a lot of effort in order to satisfy customers' needs, wishes and requirements (even those customers are not aware of yet) and to do so in the best and fastest way possible. The position-based view sees the external environment as the primary factor determining the competitive advantage while the resources-based view believes that it is under command of the company to find and sustain the competitive advantage.

Two possible ways how competitive advantage may emerge are demonstrated in the following figure:

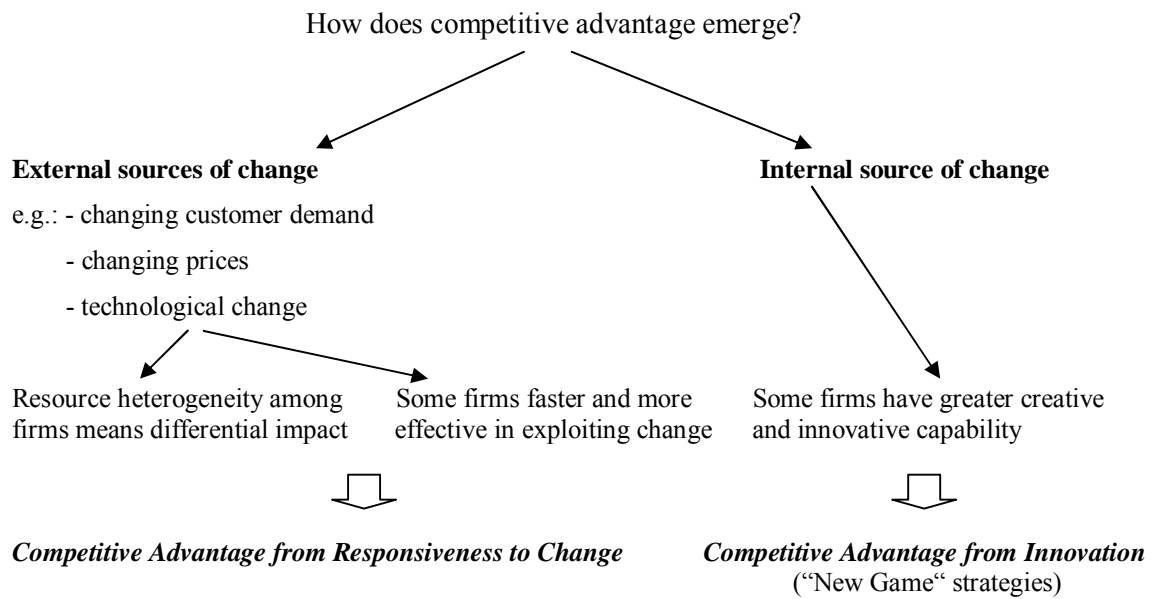


Figure 6: How does the competitive advantage emerge
Source: author according to (13)

→ Competitive environment

Competitive environment is an environment in which the competition takes place. To develop a successful *competitive business strategy*, there is a need to understand competitive environment which surrounds the company. In other words, it is essential to understand changes in behaviour of customers and direct competitors which influence the business competitive strategy such as development of new products by competitors, emergence of new channels of distribution and rise of new customer values. (8) Each competitive environment has its own distinctive elements such as degree of captivity, nature of entry and exit barriers, legal constraints, requirements for differentiation and others. There are various frameworks for the analysis of competitive environment such as PESTEL or Five Forces Framework mentioned earlier. (32)

Thus, competitiveness is closely connected to the strategy particularly at a business level. Running a business today requires a strategy which needs to be defined through focusing the resources, capital and people to meet the current needs of customers. To make a successful competitive strategy, it is necessary to target the right customer segment and positionate the business relative to competitors within existing resources and capabilities. Managers need to harmonize the organizational structure, processes,

culture and people as well as the functional and supply-chain activities with the adopted strategy. While developing a business-level strategy managers need to have clear ideas about the strategic questions such as *where to compete*, *how to compete* and *how to grow*. These questions create strategic decision framework which helps managers to focus the strategy and adapt it as much as possible to its competitive needs. (8)

2.5 Strategic Management in Term of Company's Competitiveness

The competitive strategy exists in each business unit which enters in the competition within a particular sector. The achievement of a necessary level of competitiveness is the main aim of each company. The strategical focus is placed on keeping the costs as low as possible while sustaining the productivity as high as possible.

Subsequently, the attention is paid to the high-quality of company's products, speed of their delivery as well as its price policy. The competitive strategy might be both clearly defined or hidden. There are few questions which each company needs to find answers to:

- What is the competition determined by in the company's sector?
- Which actions are competitors going to take and how the company can best respond to them?
- How to ensure company's optimal position as the long-term competitiveness is concerned?

Strategic analytical methods and tools help the company to analyse the environment and sector with its opportunities and threats as well as to predict company's future development, understand its competitors and determine own position while understanding own strengths, weaknesses or limitations. (33)

Subsequently, on the basis of conclusions drawn from the analysis, the company creates its particular competitive strategy. Its aim is to come up with the ways how the company will compete in the future, what are the company's main objectives and what measures will need to be taken in order to achieve them.

2.6 Strategic Analysis and Competitive Strategies

As strategy is a very broad topic, for the purpose of this thesis just the theoretical base which will help to elaborate the analytical part will be explained. Therefore, the main focus is placed on the theoretical frameworks and tools for strategical analysis of a company as well as its position within the market. Main concern of the thesis is the business-level strategy which is deeply wedded to the company's competitiveness as it deals with how to compete successfully in the market. Main purpose of a strategy development is to find the ways how to differentiate the company from the competitors, find the right position within the market and become successful in the long-term.

2.6.1 Strategic Analysis

This chapter explores different ways how to analyse the organisation's position and its internal strategic capability. In order to find the right future directions and moves of the company, it is essential to deeply understand its external environment as well as the external opportunities and threats and the company's own strengths and weaknesses. An overview about important strategic tools and frameworks needed for analysis are briefly introduced within this chapter.

2.6.1.1 Company's Environment Analysis

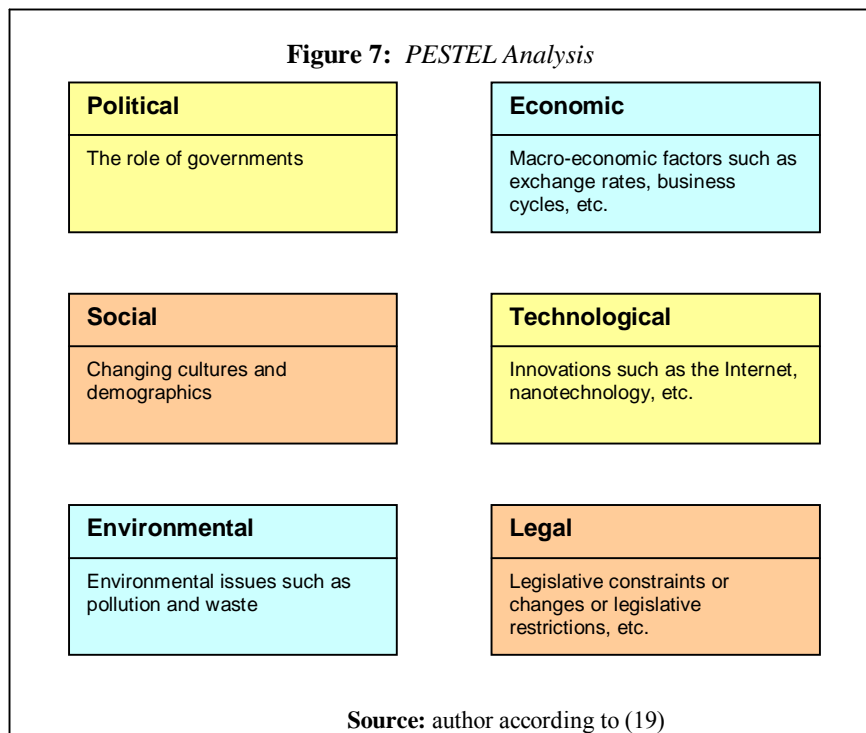
When analysing the environment of the company it is useful to view it from different levels which are the macro and micro environment. The environment within the company operates is of an essential importance as it is a source of threats and opportunities for the company.

A) Macro environment

Macro environment is the highest-level layer. It consists of broad environmental factors that influence to greater or lesser extent all the companies. Main important frameworks of macro-environment analysis are the PESTEL analysis and Future scenarios.

ü PESTEL framework

Within the Pestel framework environmental influences on organisations can be summarised within six categories – *political, economic, social, technological, environmental* and *legal*. These environmental influences have an impact on the particular strategy and among others determine its possible success or failure. For strategic managers it is important to analyse how these factors are changing and how they are likely to change in the future in order to draw implications for the company.



There is a need to focus on the most important factors. Only with a clear sense which environmental factors are important to be considered, managers are able to take the right decisions. These so called *key drivers of change* are environmental factors which have an impact on the success or failure of strategy.

These factors vary by industry or sector. For instance while a computer manufacturer is concerned with technological change, public sector managers will rather be concerned more with social change such as ageing population. Moreover, there is a need to be aware of how some of the factors are mutually linked. (8)

ü Future scenarios

As scenarios are the detailed views of how the business environment of an organisation might develop in the future, they are building on the PESTEL analysis and the key drivers of change. The purpose of building scenarios is to help managers to see and evaluate different alternatives and possibilities of future actions. Scenarios do not attempt to predict unpredictable but rather to consider plausible alternative futures. Scenarios are especially useful if there is a limited number of key drivers influencing the success of the strategy. Managers should develop and evaluate the strategy for each scenario. Consequently they should monitor actual environment changes in order to adjust the strategies accordingly. At least three scenarios should be developed – optimistic, middling and pessimistic scenario. (8)

B) Micro environment

Micro environment consists of the immediate company's environment which is the industry or sector which the company operates in and the competitors within this industry or sector. In order to develop a high-quality and contributive strategy which will help the company to find the way to increase its competitiveness, it is very important to build it on a precise analysis of the company's micro environment. To make a lucid analysis, it is useful to divide micro-environment into two other groups which are *industry or sector analysis* and the *competition analysis*. The first is based on the evaluation of the industry or market attractiveness which the company operates in or which it wants to enter. The latter focus on the company's direct competitors within this market and their strategies to success. There are various frameworks and tools how to analyse the company's micro environment varying according to different authors.

The most important of them which will be consequently used for the analytical part are as follows:

→ Industry Analysis

Industry is defined as a group of firms producing the same principal product or service. It is vital for the manager to understand the competitive forces within the company's industry since these will determine the attractiveness of that industry and the likely success or failure of the particular company.

ü Five Forces Framework

A framework for industry analysis developed by Michael Porter introduces the techniques for the industry dynamics analysis and thus its attractiveness in terms of competitive forces. In this case the attractiveness might be defined as a profit potential of particular industry. On the basis of Five Forces Analysis the company should be able to evaluate the industry which it operates in. The so called 5 stars industries are industries which have all five factors favourable and therefore are perceived as the most attractive ones. As an example of a five star industry a pharmaceutical industry is often mentioned. (8)

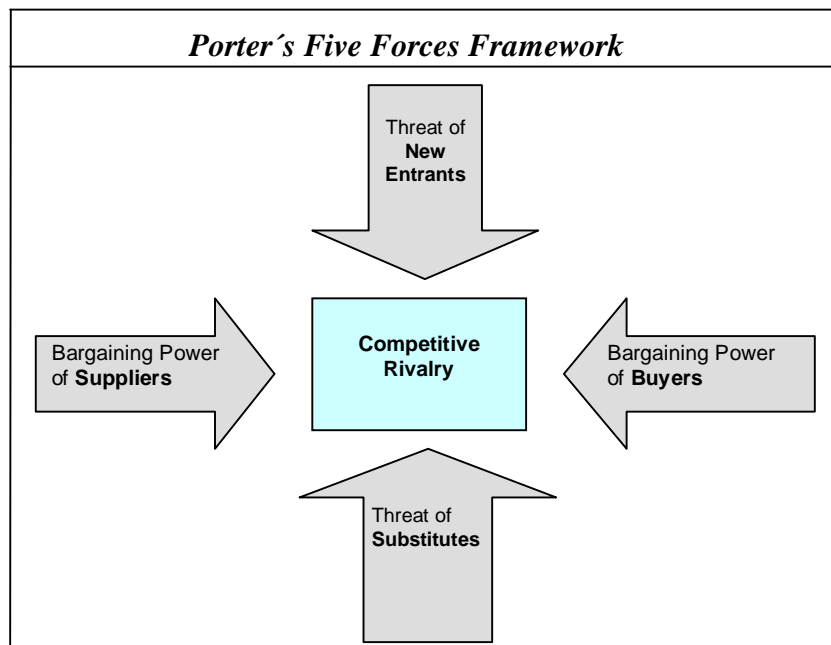


Figure 8: Porter's Five Forces Framework
Source: (19)

ü The Dynamics of Industry Structure

Since the industry structure is not of a static but rather a dynamic nature, there is a need to consider and understand the dynamics of industry structure in order to develop a successful strategy. To explore the change in an industry structure the theory uses three approaches:

- *Industry life cycle concept* (development, growth, shake-out, maturity, decline)
- The *hypercompetition* (increasingly competitive industries which result in aggressive interactions of competitors which are negative for all concerned)
- *Comparative industry structure analysis* compares the five forces over time. As can be seen in the illustration, it is comparing the today industry situation (dark blue line) with the most likely future situation (light blue line) through a logic structure. By the centre of axes the power of forces is high while the more away from the centre the lower power of the force is. It means, power diminishes as the axes go outwards. Where the forces are low, the total area embraced by the lines is high and vice versa. *The larger the enclosed area, the greater is the profit potential.* Thus, large enclosed area suggests relatively attractive industry that is worth to invest in. It gives a dynamic aspect to the industry analysis. (8)

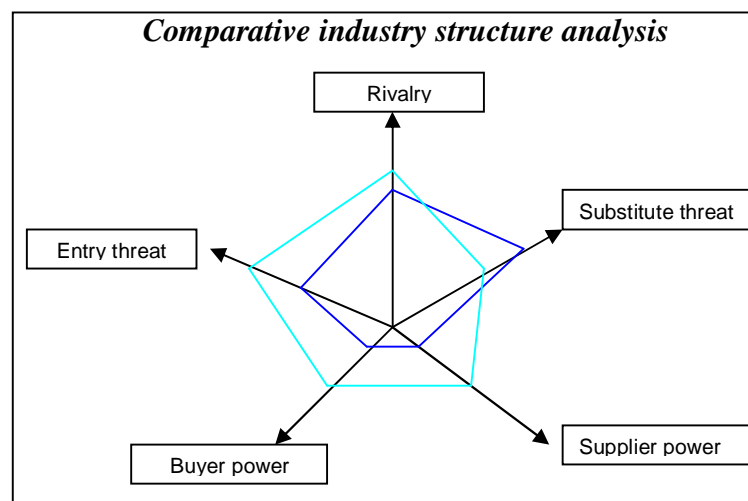


Figure 9: Comparative industry structure analysis
Source: (19)

→ Competition Analysis

The understanding of market and main competitors' strategies is essential for developing a prosperous competitive strategy. Only through a deep knowledge of the rivals' strengths and weaknesses the company can find its unique position within the market and benefit from building a competitive strategy.

ü Strategic Groups

Within an industry, there is a range of companies with different capabilities, which are competing on a different basis. In other words, in one particular industry there exist a variety of strategic groups. Strategic groups are organisations within a particular industry with similar strategic characteristics, following similar strategies or competing on similar bases. Companies within one strategic group have usually same or very similar scope of organisation's activities as they are direct competitors. To distinguish who are the company's direct competitors (those within the same strategic group) enables manager to better focus the strategy. When mapping the strategic groups, the manager might find attractive "strategic spaces" within the industry which might become unexploited opportunities and possible success for the organisation. (8)

ü Market Segments

While the concept of strategic groups focuses on similarities and differences of the organisations, the concept of market segments concerns with differences in customer needs. Market segment is defined as a group of customers who have similar needs that are different from those in the other parts of the market. To develop a strategic capability the company needs to understand *what customers value* and *how the organisations and its competitors are positioned to meet these needs*. Here, the relative market share within a market segment, which means the share with regards to that of competitors, is an important consideration. As what customers really value varies by market segment, the organisations have to recognize which market segment is especially suited to their particular strength and become successful there. (8)

ü Identifying the strategic customer

The strategic manager needs to bear in mind who is the strategy addressed to during the process of development. In order to develop a successful strategy, it is necessary to clearly define a strategic or target customer. "*Strategic customer is the person (or company) who has the most influence over which goods or services are purchased.*" (19, p. 78) Therefore the strategic customer is the one who is the strategy primarily addressed to. It is what the strategic customer desires what is the basic stone which the strategy should be built on.

ü Critical Success Factors

It is valuable for the company to understand which features are of a particular importance for a group of customers (market segment), which means to know what they really value. These desired features are called critical success factors. Therefore, the company must try to outperform the competition and become the best by delivering these desired features to the customer. The key implication is that there is a need to see value through eyes of the customer and to be confident about own strengths.

The purpose of the analysis of company's macro and micro environment is, on the basis of environmental analysis, to draw specific strategic opportunities and threats for the company. Identification and evaluation of these opportunities and threats is crucial when looking for the future strategic directions and choices. In order to respond strategically to the environment, the main objective is to reduce threats and benefit from advantages which will bring the best opportunities. The opportunity in the competitive environment which has not been fully exploited by the competition is called a *strategic gap*. It is a purpose of a strategy to find a strategic gap and take an advantage of relatively low rivalry there. These strategies are sometimes called "*blue ocean strategies*" as they are looking for open spaces free from existing competition. In other words, they are searching for a strategic gap within existing market. It is a way how the organisation manage the challenge of exploiting opportunities while reducing threats, which will determine its further success or failure. (8)

2.6.1.2 Internal Company Analysis (Company’s Strategic Capability)

In order to make a strategic fit with the external environment, it is necessary to develop also a systematic internal analysis of the company. Its aim is to look within the firm for resources and capabilities which can provide a solid base for competitive advantage. So called *resource-based view* of the firm argues that competitive advantage is a primary source of superior profitability. Establishing competitive advantage involves formulating and implementing a strategy that exploits the uniqueness of a firm’s portfolio of resources and capabilities. *Resources* are the productive assets owned by the firm. *Competences* are specific ways how things are done in the company. However, individual resources do not confer competitive advantage, they must work well together to create *organizational capability* (or strategic capability). An *organizational capability* is "a firm’s capacity to deploy resources for a desired result."(13, p.153) The figure shows a relationship among resources, capabilities and competitive advantage.

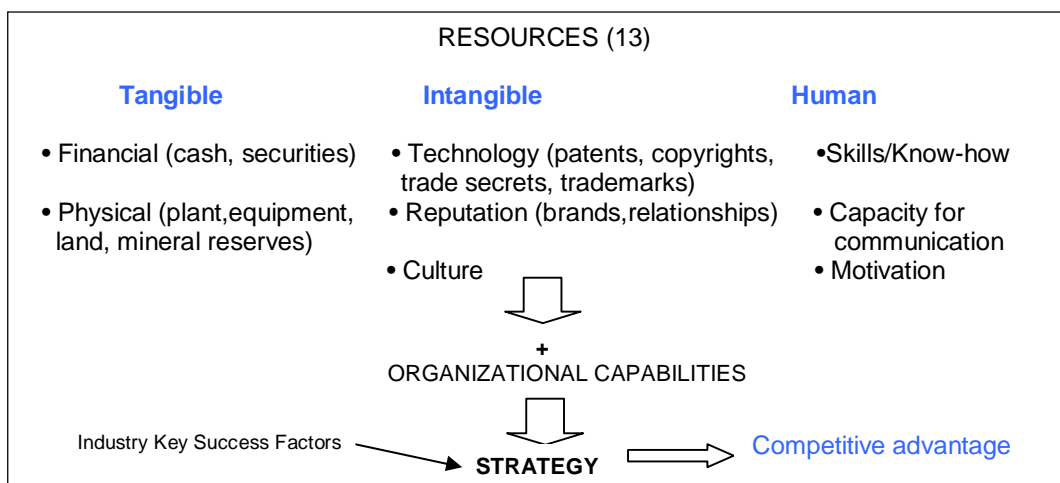


Figure 10: The links among resources, capabilities and competitive advantage
Source: (13)

The managerial task is to understand and constantly develop organizational (strategic) capabilities as they might create a sustainable competitive advantage for the company. Some of the resources can be marked as unique resources as well as some of the competences core competences. “*Unique resources are those resources that underpin competitive advantage and that can not be easily imitated or obtained by competitors*“ and “*Core competences are the skills and abilities by which resources are deployed through a way that others cannot imitate or obtain.*“ (19, p.97)

Strategic capabilities are evaluated with the help of the following criterias:

- ü *Value* of strategic capabilities
- ü *Rarity* of strategic capabilities (unique resources or rare competences)
- ü *Inimitable* strategic capabilities (durable and difficult to imitate or obtain)
- ü *Non-substitutability* of strategic capabilities (capabilities can not be substituted)
- ü *Dynamic* capabilities (renewed or recreated strategic capabilities)

In recent years, an increasing importance can be see in *organisational knowledge* (know-how) which can be defined as “*a collective experience accumulated through systems, routines and activities of sharing across the organisation.*“ (19, p.107).

There are different methods how to diagnose a strategic capability (firm’s capabilities):

ü *Value Chain Analysis:*

Analysing an organisation’s value chain and value network creates a base for understanding how value for customer is creating and how it can be developed.

ü *Activity Mapping:*

Activity mapping offers a more detailed way how to identify the activities which underpin strategic capabilities.

ü *Benchmarking:*

As a tool for internal company’s analysis, benchmarking can be used as a help to understand how an organisation’s strategic capability, in terms of internal processes, compare with those of other organisations.

ü *SWOT Analysis:*

The aim is to identify company’s strengths and weaknesses as well as opportunities and threats coming from the external environment. The purpose of SWOT analysis is to help the company focus on future choices based on recognizing their strengths and exploiting opportunities while reducing the weaknesses and threats. (8)

2.6.2 Strategic Choices

Strategic choices are generated from strategic analysis. They are concerned with decisions about an organisation's future and the way it will respond to the many pressures and influences unveiled by the strategic analysis. As it can be seen from the schema below, there are three overarching choices to be made – the choices as to how the organisation positions itself in relation to competitors (how it will compete in the market – its business strategy), the choices of products and markets for an organisation (questions of corporate strategy) and the choices about how strategies are to be pursued.

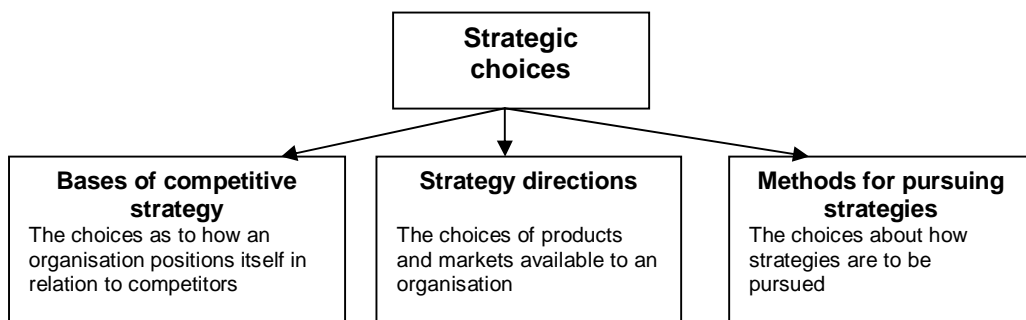


Figure 11: Strategic Choices
Source: (19)

2.6.2.1 Competitive Strategies

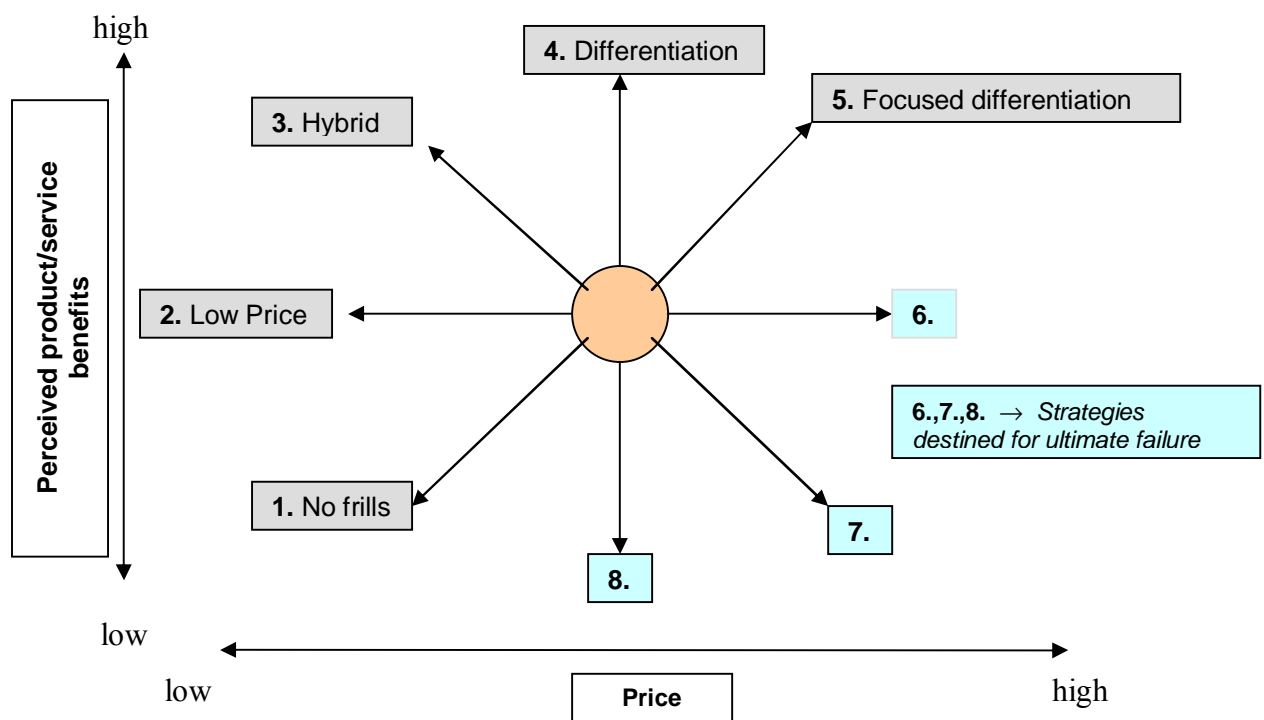
Competitive strategy is concerned with seeking for a competitive advantage. On the basis of a precise knowledge of its external environment, the company needs to find its place within the market by choosing the strategic direction and by creating a competitive strategy which will help to accomplish company's goals.

According to Michael Porter there are three different "generic" strategies by which the company could gain the competitive advantage. The *generic strategies* are overall cost leadership (low-price strategy), differentiation strategy and focus strategy. In general, a competitive advantage can be reached by providing customers with what they want or need and by doing it better or more efficiently than competitors. In a competitive environment customers make choices according their perception of value for money, the combination of price and perceived product or service benefits. (8),(33)

Strategy clock is a tool which enshrines the generic strategies. “*The strategy clock represents different positions in a market where the potential customers have different requirements in terms of value for money. These positions also represent a set of generic strategies for achieving competitive advantage.*” (19, p.224) The purpose of the strategic clock is to help the manager to understand the changing requirements of their markets as well as the choices they can make about positioning and competitive advantage.

It is essential to understand the critical success factors for each position on the clock in order to draw contributive and valuable conclusions. Customers at position 1 and 2 are primarily concerned with price but only if the product or service benefits meet their threshold requirements. In practice here belong the customers who emphasise functionality over service or aspects such as design or packaging. On the position 5 customers required and customised product or service and for this benefit they are ready to pay a price premium. (8)

Figure 12: The Strategy Clock: competitive strategy options



Source: (19)

Table 2: Strategy Clock Positions

Strategy Clock Position	Name	Needs/risks
Price-based strategies		
1	<i>'No frills' strategy</i>	Likely to be segment specific
2	<i>Low price strategy</i>	Risk of price war and low margins, need to be cost leader
Broad Differentiation strategies		
4	<i>Differentiation: a) without price premium</i>	Perceived added value by user, yielding market share benefits
	<i>b) with price premium</i>	Perceive added value sufficient to bear price premium
The Hybrid strategy		
3	<i>Hybrid</i>	Low cost base and reinvestment in low price and differentiation
Focused differentiation		
5	<i>Focused differentiation</i>	Perceived added value to a particular segment, warranting price premium
Failure strategies		
6	<i>Increased price/standard value</i>	Higher margins if competitors do not follow, risk of losing market share
7	<i>Increased price/low value</i>	Only feasible in monopoly situation
8	<i>Low value/ standard price</i>	Loss of market share

Source: (19)

ü Price-based strategies (positions 1 and 2)

- *No frills' strategy*

This price-based strategy combines a low price, low perceived product or service benefits and focus on a price-sensitive market segment.

- *Low-price strategy*

A low-price strategy seeks to achieve a lower price than competitors whilst trying to maintain similar perceived product or service benefits to those offered by competitors.

ü Broad Differentiation strategies (position 4)

A differentiation strategy focus on provision of such unique and value-added products and services that offer benefits that are different from those of competitors and that are widely valued by buyers. Differentiation advantage occurs when a company is able to obtain from its differentiation a price premium that exceeds the cost of providing the differentiation. (8),(13)

ü *The Hybrid Strategy* (position 3)

A hybrid strategy seeks simultaneously to achieve differentiation and a price lower than that of competitors.

ü *Focused Differentiation* (route 5)

A focused differentiation strategy strives to provide high perceived product/service benefits justifying a substantial price premium, usually to a selected market segment.

ü *Failure strategies* (routes 6,7 and 8)

Failure strategy is a strategy which does not provide perceived value for money in terms of product features, price or both.

Managers need to know how to sustain the price-based or differentiation strategies in a long-term. In order to develop a sustainable competitive advantage there is a need to build it on the company's strategic capabilities as well as on developing long-term relationships with customers and on the ability to achieve a "lock-in position". *Strategic lock-in* is created where an organisation achieves a proprietary position in its industry or when it becomes an industry standard recognized by suppliers and buyers.

2.6.2.2 Strategic Directions for the Business Growth

One of the most important managerial task is to create a future direction for the business. Business-level strategy copes first and foremost with the company's competitiveness and ways how to increase it in order to increase the shareholders value. The key strategic decisions that must be made in developing business strategy are:

- Where to compete?
- How to compete?
- How to grow?

In order to design a successful strategy, managers need to think through these questions and make decisions with the help of theoretical models as well as their own creativity. The strategy feasibility is highly important as well.

→ Product/ Market Growth alternatives

An Ansoff's *product/market growth matrix* is an useful framework for discussion of various business's growth options. It offers 4 basic alternative directions for strategic development:

		PRODUCTS	
		Current (existing) products	New products
M A R K E T S	Current (existing)	<p><i>Market penetration strategies</i></p> <ul style="list-style-type: none"> • Increase market share • Increase product usage <ul style="list-style-type: none"> - increase frequency of use - increase quantity used - new application 	<p><i>Product development strategies</i></p> <ul style="list-style-type: none"> • Product Improvement • Product line extensions • New products for same markets
	New	<p><i>Market development strategies</i></p> <ul style="list-style-type: none"> • Expand markets for existing products • Vertical integration (forward or backward) <ul style="list-style-type: none"> - geographic expansion - target new segments 	<p><i>Diversification strategies</i></p> <ul style="list-style-type: none"> • Diversification into related businesses (concentric diversification) • Diversification into unrelated business (conglomerate diversification)

Figure 13: Ansoff's product/market growth matrix
Source: O'Driscoll & Murray, 1996

- A *penetration strategy*, which is seen as a low-risk growth option, occurs when the business grows by selling more of its current products to its existing customers. This can happen by increasing customer retention, attracting customers from competitors, and so on. These option generally requires a competitive advantage or some innovation.
- Market *expansion* and *extension* occur when the growth is achieved by taking existing product to new markets. These new markets may be either related to existing markets or completely new. The organisation might expand its geographic scope while entering new geographic markets or enter into a new industry sector. Such strategies involve a higher risk since the company needs to acquire understanding new markets, new customers and face new competitors.

- Another business growth option is to sell *new products to existing markets* either completely new ones or related to existing product line. These will require a financial resources in order to develop an innovative product and establish a competitive advantage in order to make this product competitive.
- The final growth option is to grow through extended *diversification* by developing new products for new markets. This strategy bears the highest risk and therefore should be required to bring the highest returns back to the company. (8)

It is a task for managers to decide which combination of approaches will be adopted in order to achieve growth of the business. These approaches are not mutually exclusive, therefore a combination of them is possible. However, it is difficult to do all at the same time since each approach requires different resources and competences. There is also a dependency between a market opportunity and organizational competence. For instance, if the business's strength is in the technology, product development might be the most attractive. If the strength of the organisation lies in the marketing, then the most attractive attempt might be to enter new markets. (8)

An alternative way of viewing growth options is according to the degree of innovation they comprehend. Strategic management task includes both operational and strategic innovation. The first involves reducing costs, increasing quality or improving asset productivity. However, significant improvements in shareholders value will usually develop through strategic innovation. In order to gain above-average returns, the company must take a different way than the rest of the industry. Thus, it is essential to understand possible future development of the industry and market as well as to be aware of the threats which may come from new and unconventional competitors or substitutes. Therefore, organisations need a stream of change initiatives. These can be differentiated according to the nature and degree of change innovativeness - an *ongoing change*, *incremental change* or *radical change*. While ongoing change is designed to improve efficiency without changing a basic mission or business model, radical change as a fundamental change redefines the business so it can compete more effectively. *Incremental change* results in performing similar activities in a different way. (8)

3. THEORETICAL BASE FOR THE ANALYTICAL PART

In today's business world many organisations face turbulent, fast-changing and uncertain business environment as well as increasing levels of competition, sometimes even hypercompetition. Here, imitation, innovation or changes of customer preferences mean advantage for a short-term at best. Since a company cannot survive with a poor competitive strategy in these highly competitive conditions, a strategic approach is needed more than ever before. The companies which will want to achieve and sustain their competitive advantage need to be flexible, innovative and able to respond quickly to the changing circumstances. Strategy can be defined as *“set of actions that require significant resources and commitment and that affect the future direction of the business unit. Its purpose is to generate value through creating competitive advantage in selected markets.”* (8, p.38) It means that the business-level strategy is about how to compete more successfully within the market. In order to develop a successful and realistic strategy there is a need to base it on a sound environmental and internal analysis. Firstly, the company's environment and market with its threats and opportunities need to be explored as well as the company's competitors and emerging customer needs and requirements. Moreover, the company needs to critically analyse its own internal situation such as its core competences, resources and others in order to find new approaches and opportunities to grow.

“As strategy is about doing different things or doing the same things differently from and better than competitors, it requires a balance between creativity and realism.” (8, p.37) The development of strategy usually requires a fair amount of creativity as creative analysis can lead to major improvements in customer value. However, if strategy is not based on a sound understanding of the market, competitors and own competences, it cannot be implemented and becomes unrealistic. As strategic management is about both a good idea and making that idea work, there is a need to make sure that the selected strategy is realistic and can be implemented successfully. Since strategy is connected to future and the future may turn out differently than has been expected, a strategy needs to develop a degree of flexibility to take advantage of external changes as they emerge. Once a strategy is developed, there is a need to estimate its expected returns and relate them to the returns from the current strategy.

Subsequently, it is important to constantly monitor the development of strategy, evaluate it and adjust to the changing external circumstances. Having developed a successful strategy that considers all these factors, the company will benefit from an increased competitiveness within the marketplace.

When formulating a competitive strategy it is appropriate to proceed while asking following questions:

- What is the current situation of the company and its current strategy? What are the necessary assumptions for a company position, its strengths and weaknesses, trends in the industry and competition in order to make the strategy meaningful?
- What is happening in the company's environment? What are the main opportunities for the company and what are the possible threats? What are the key success factors in the sector? What are the probable steps of current and potential competitors and what are their strategies, opportunities and limitations? Do political, governmental or social factors exist which can create favourable conditions or pose a threat for the company? What strengths and weaknesses has the company in comparison with its competitors? What is the competitive advantage of the company and is it sustainable in a long-term?
- What the company should do next? What should be the future direction of the company? Should the company grow and if yes how?

Strategic management is a never-ending process and its main objective is formulating a strategy which is tightly linked to organisational strategic goals. Goals demonstrate the desired future state which the company strives to reach while the strategy expresses the basic ideas about how the goals will be achieved. The strategic goals should fulfill the SMART condition, which means that the goals should be Stimulating, Measurable, Acceptable, Realistic and Timed. The strategic goals need to be modified according to the changes in the dynamic environment in the course of time. The management should be ready and flexible enough to take the necessary measurements and steps in order to incorporate these changes into the company's competitive strategy. And by doing so respond quickly to the changing environment and turn it into its own benefit.

II. ANALYTICAL PART

In this thesis the strategy will be conceived particularly as a tool to determine the organisation's future direction as well as an intermediate to develop the company's competitiveness.

The starting point of every strategy is searching for an answer to the question "What business are we in?" as it creates a base for the firm's identity definition. On the basis of a strategy literature review, own knowledge and gained information about the market within which the company operates, the analytical part elaborates on an external and internal analysis of a trading company in Brno. The main objective is to identify potential opportunities and threats arising from the external environment as well as company's strengths, weaknesses and core capabilities which will lead to the discovery of the competitive advantage. Various theoretical strategic tools will be used for a systematic and logical analysis. The aim of the analytical part is to create a solid base for the delivery of an appropriate and successful business strategy.

The "onion model" below illustrates *the process of making a strategic analysis* of the company's external as well as internal environment:

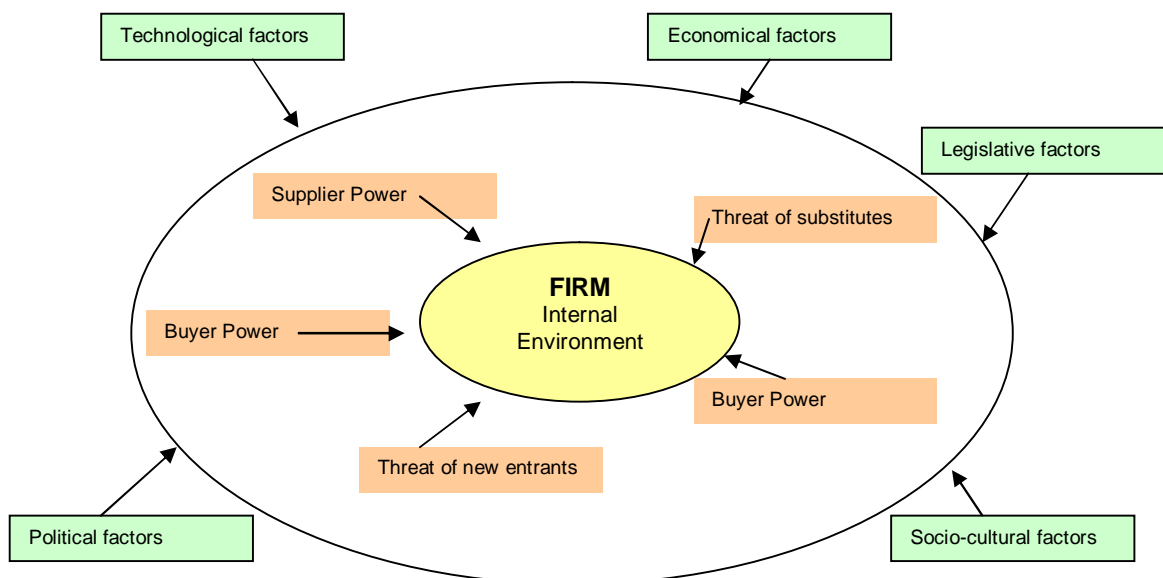


Figure 14: Company's environment analysis
Source: author according to (19)

4. COMPANY INTRODUCTION

The analysed company operates in the Czech market since the nineties. It was when its former manager had started to cooperate with foreign suppliers Hoerbiger Origa Pneumatic and Valtech, both from Austria. The company was officially founded in 1994.

4.1 Scope of business

The company's scope of business is a trading activity in the field of pneumatic elements and industrial armatures as well as a rendition of services in the sphere of industrial automatization. As a trading company, it purchases the products/components from prestigious foreign producers and resells their assortment to Czech customers (machinery, energetic, chemical industries). The company acts as an exclusive dealer for some suppliers whilst with others it cooperates as one of many other distributors for the Czech market. The company has grown up and its services have developed in the course of time. In addition to the traditional trading activity, the assembly of pneumatic ORIGA cylinders and complex solutions were added in order to strengthen company's current activities. The concentration of these activities under one roof enables the company to ensure the best delivery terms. There is a warehouse in the company's headquarters in the range of approximately 3,000 items kept up-to-date regularly.

In addition, the company offers a high-quality technical consultancy as well as a sophisticated services rendition both from the Brno headquarters as well as its branch offices located all over the Czech Republic. It does not offer only goods, it *offers a complete solution* of all movement tasks. All catalogues and prospects are translated in Czech language and updated regularly. Customers are kept informed about the news in the assortment through regular visits of company's salespeople as well as through variety of presentations either in customers' companies or trade fairs and exhibitions.

Company's activity is limited within the Czech Republic. Only a small number of business activities aim out of the home market.

- Sales within the home market: 98.9%
- Foreign sales : 1.1%

4.2 Product Portfolio

4.2.1 Industrial automatization

Parker ORIGA Products: (formerly Hoerbiger and Legris products)

- Pneumatic Cylinders
 - Pneumatic Rodless Cylinders
 - Rod Type Cylinders
- Electric cylinders
 - Origa Drive System
 - Electric Linear Drives
- Air Preparation Units
- Valves
- Accessories and Special products
 - Linear Guides
 - Shock Absorbers
 - Fittings and Tubing



Figure 15: Industrial Automatization

4.2.2 Industrial armatures

- Ball valves (Starline, Adler, Enolgas, Interapp)
- Butterfly valves(Interapp, Ghibson)
- Knife gate valves (Lucaval)
- Solenoid valves (GSR)
- Check valves (GHIBSON)
- Accessories: pressure and air pressure gauges, thermometers and flowmeters
(WIKA, Aircom)

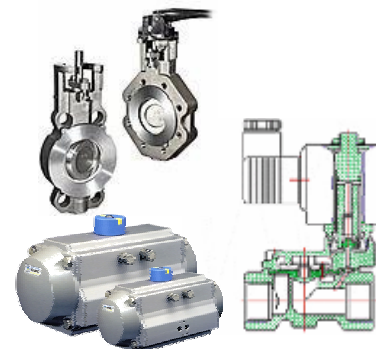


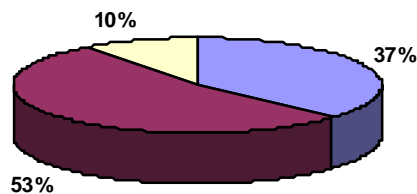
Figure 16: Industrial Armatures

- Industrial pneumatic valve actuators (AIR TORQUE, Servovalve) and electric valve actuators (BERNARD – electric actuation technology)
- Process valves, aseptic valves, flow + level + pressure measurement systems (GEMU)

4.2.3 Pneumatic cylinders assembly and industrial armatures assembly

4.2.4 Main company's portfolio participating total sales in 2008

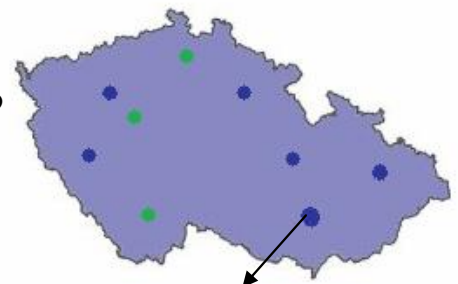
- ü Pneumatic elements: (see 4.2.1) 37%
- ü Industrial armatures: (see 4.2.2) 53%
- ü Production of Origa cylinders and assembly: (see 4.2.3) 10%



Graph 1: Company's portfolio participating total sales in 2008

4.3 Distribution structure

- ü Suboffices (branch offices) = departments according to regions (dark blue points in the map)
- ü Contractors are under particular regional departments (green points in the map: Praha, Č.Budějovice, Liberec)



Brno Headquarters
Figure 17: Suboffices

The *distribution channels* can be divided into two groups:

- ü Direct sale 88%
- ü Sales through distributors 12%

Currently the company employs 22 employees altogether. Seven of them are sales representatives. Each of them is in charge of a particular territory in the Czech Republic. There is more information about company's personnel in the Appendix 1.

Company headquarters with workshop and stock is placed in Brno where the internal technicians, workers in logistics, administration and assembling workers are employed. The external sales representatives have their offices in different territories all over the Czech Republic.

The communication with the customer, price setting, technical offers and enquiries are ensured by each suboffice. The company offers a high-quality technical consultancy, supplies of complete solutions, after-sales service as well as the production of pneumatic cylinders and assembly of industrial armatures. Each branch office is administrated as an individual sales department. Each customer is classified regionally under an adequate department which ensures complex service with the support of the headquarters. Bookkeeping and salary accounting as well as the administration of receivables and liabilities are accomplished from the headquarters for all suboffices.

4.4 Approach to Strategic Management, Planning and Objectives

The company's business strategy is built upon personal contact with the customer, excellent quality, flexibility and service completion. One of the main tools how to fulfil this objective is the orientation on suppliers who guarantee an optimal balance between quality and price. Therefore the company's activity is based on strategic agreements with its main suppliers and their operating ability to supply all the necessary parts for sales and after-sales service on time.

The primary goal and entrepreneurial idea of the company is customer satisfaction with the performance, delivered services and quality of the firm's products. Therefore the *main objective* is to ensure customer satisfaction with the company's products and services at the highest level possible. All the company's activities aspire to this common goal. As the manager said: *"Our main aim is to provide high-quality and value-added services to our customers because only a satisfied customer remains loyal."*

4.4.1 Quality Management System ISO

In 2000, a quality management system ISO was built with the aim of improving general internal organisation and processes. The implementation of this system may be perceived as an important strategic step in the company's history. In the following years it was simplified and rebuilt into ISO 9001:2001. Being kept up-to-date continuously, it is aimed at the simplification of internal communication, job classification as well as at making internal processes more effective.

Within the quality management policies several objectives are defined and kept actualised every year. A responsible employee for the particular objective as well as the deadline for the objective completion are defined. This system enables management to clearly monitor the fulfilment of objectives. At the beginning of a new year the objectives of the last year are evaluated and objectives for the new year are set and discussed at the employee meeting. Here contributions and new ideas are welcomed.

5. STRATEGIC ANALYSIS OF THE COMPANY

Strategic analysis of the company consists of a macro- and micro-environment analysis and an internal analysis.

5.1 Macro-environmental Analysis

Macro-environmental analysis targets the company's general environment. The aim is to draw conclusions about how the current macro-environment influences the company and how the company can benefit from the opportunities arising from the external environment.

ü PESTEL Analysis

Table 3: PESTEL ANALYSIS	
Factors	
Political	EU membership since 2005 Political instability of the Czech government (early elections) Unstable environment and frequent changes in legislation of health care, social security and tax system Keeping up with changes in regulations and their interpretations Tightening of legal regulations on consumer protection and product safety Tightening of requirements on health and safety at work
Economical	Current global financial crisis Economic life cycle (Recession) Slow-down in GDP growth Increasing unemployment rates Decreasing demand and slow-down of household consumption Personnel costs (increase of average wage) Exchange rates (especially CZK/EUR) Interest rates Purchasing power Increasing trend of energy prices
Socio-cultural	Population ageing (ageing of company's staff) Consumerism (increasing trend) Labour force figures Level of education (increasing need for languages and skills in information technology) Employees' attitude to work, trust, appreciation
Technological	Keeping up with technological change, tracking technological trends constantly Development of internet services Development of communication devices
Environmental	Increasing requirements and restrictions in environmental protection
Legislative	Tax Law Labour Law Law.no 22/1997 (Technical norms and requirements)

Source: author (according to theory and analysis results)

→ Political

Since 2005 there have been many changes in the legislation connected with entry of the Czech Republic to the European Union. As far as the analysed company is concerned, international purchase of goods has been made easier as import barriers were reduced. As borders opened up with the membership, both the threat from foreign competition as well as new opportunities arose for Czech companies. Since then the company has had to face an increased number of strong international companies such as German Festo or SMC which have developed a strong market network within the European Union.

One of the opportunities arising from EU membership is the possibility to finance the business from one of the EU funds programmes. According to the Czech Ministry of Finance, the Czech Republic has the possibility to draw an enormous amount of money from the EU budget in the new 2007 - 2013 programming period which is close to CZK 100 billion in peak years. The use of these funds for financing investments and other projects can have a significant positive structural impact. At the same time, however, it creates large demands for co-financing from national sources and brings with it additional sources stimulating aggregate demand.

The unstable environment and frequent changes in the legislation of health care, social security and the tax system require additional resources to keep up with the changes either in software, equipment or in understanding the changing legal and political environment and its impact on the company. The tightening of legal regulations on consumer protection and product quality as well as stricter health and safety at work also require additional resources, costs and time.

→ Economic

The Czech Republic is one of the most stable and prosperous economies of the post-Communist states of Central and Eastern Europe. Growth in 2007-08 was supported by exports to the EU, primarily to Germany, as well as by a strong recovery of foreign and domestic investment.

Table 4: Czech Republic: Real GDP growth
Annual growth in percentage

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
4.0	-0.8	-0.7	1.3	3.6	2.5	1.9	3.6	4.5	6.3	6.8	6,1	3,0

Source: ČSÚ: <http://www.czso.cz/csu/csu.nsf/kalendar/aktual-hdp>

The economic development of the Czech Republic has been among the strongest in Europe since 2002. Thanks to the growth of GDP and standard of living there was an apparent increase in private consumption which was driven by a strong labour market and low interest rates. Together with Hungary, the Czech Republic has been the most rapidly growing market in Europe in recent years.

The current financial crisis followed by a recession has slowed down this process although GDP still increased about 3.1% in 2008. GDP in first quarter of 2009 fell by 3.4% in comparison to the first quarter 2008 when it rose by 3.8%. Deep global changes which have arisen showed considerably different development of home economics in comparison to data from previous years. The recession has had a significant effect on cash outflow as consumers have less to spend and they are more price-sensitive. This may result in a significant decrease in sales for some companies. The recession also leads to the decrease of investment activities and to the increase of unemployment rates which can even further decrease companies' sales. The low value retailing industry has increased because of intense competition from low priced producers. Industry has also noted a significant decrease in production. (See App.4 on Economic Outlook)

In 2008 the average monthly wage achieved 23 542 CZK which means an increase about 8.5% compared to the previous year. Consumer prices increased about 6.3 % during 2008 and real incomes increased by about 2.1 % which is the smallest increase within the last ten years. In the area of business activity the average wage climbed to 23,961 CZK which means an increase of about 9.6% and real incomes also increased (about 3.1%). In the non-business sphere the average wage increased to 22,037 CZK. This means an increase of about 4.4%, while the real income decreased about 1.8%.

Table 5: Main macroeconomic indicators

		2007	2008	2009	2010	2011	2008	2009	2010
			Forecast	Forecast	Outlook	Outlook	Fiscal Outlook - May '08	Outlook - May '08	
Gross domestic product	<i>(growth in %, const.p.)</i>	6,6	4,4	3,7	4,4	5,2	5,0	5,1	5,3
Private consumption	<i>(growth in %, const.p.)</i>	5,9	3,3	3,9	4,2	4,2	4,2	4,6	4,2
Government consumption	<i>(growth in %, const.p.)</i>	0,5	1,1	0,5	0,0	0,0	-0,4	-0,3	-0,5
Gross fixed capital formation	<i>(growth in %, const.p.)</i>	5,8	5,1	4,5	6,2	7,0	9,0	7,8	7,2
Contr. of net exports to GDP growth	<i>(p.p., const.p.)</i>	1,1	2,2	0,4	0,9	1,5	-0,1	1,0	1,5
GDP deflator	<i>(growth in %)</i>	3,6	2,4	2,1	2,9	2,4	3,1	2,3	2,2
Inflation	<i>(in %)</i>	2,8	6,4	2,9	3,0	2,5	3,8	2,2	2,0
Employment (LFS)	<i>(growth in %)</i>	1,9	1,7	0,7	0,3	0,3	1,1	0,5	0,2
Unemployment rate (reg.)	<i>(average in %)</i>	5,3	4,4	4,4	4,6	4,7	5,9	5,6	5,5
Wages and salaries	<i>(growth in %, curr.p.)</i>	9,0	9,5	8,3	7,5	7,5	7,4	7,1	7,0
Current account to GDP ratio	<i>(in %)</i>	-1,8	-2,5	-2,3	-1,1	0,1	-2,5	-1,7	-1,0

Source: MFČR: Macroeconomic Prediction of the Czech Republic, <http://www.mfcr.cz/cps>

→ Socio-cultural

The current lifestyle is oriented to increased consumerism. The company's final customers are usually companies in the machinery, pharmaceutical or chemical industries. Products of the company usually serve industrial automatization. Therefore, when considering socio-cultural factors which influence the company, higher impacts might be found when talking about the company's employees. In conjunction with the demographic trend of an ageing population, ageing of the workforce might become an issue for the company. The company's management finds it increasingly difficult to resource appropriate candidates and qualified employees for the working positions. However, as the financial crisis increases unemployment, more suitable people might be looking for a secure job. This could increase the choice of candidates for the company. In a more inter-connected world there is an increase in the importance of languages and knowledge of information technology. In Appendix 1 there is shown the average age of the company's employees and their level of education achieved.

→ Technological

The speed of technological obsolescence is increasing as constant innovation and progress in technological discoveries develop rapidly. It is in the company's own interest to monitor and innovate all technological aspects of the organisation. Although the company is not engaged in a full production process, it has to be aware of and follow the latest technological trends. The newest models of products should be purchased and technology should be modernised regularly. The machines and equipment for the production and assembly of pneumatic cylinders as well as the hardware and software need to be kept up-to-date. Keeping up with technological progress and using the latest technology is vital for the company's internal processes and communication. Subsequently, the company can benefit from this by finding its competitive advantage and the way to outperform its competitors. As the speed of technological obsolescence is high nowadays, by keeping up with the fast changes, the company may become a customer's partner throughout the life of the product (sale, after sale service, technical consultancy, etc.) and by doing so to create long-term relationships with the customers.

→ Legislative

There are many laws and directives within Czech legislation which directly or indirectly influence the company (tax laws, labour laws). Because the analysed company does not sell abroad (except very special cases), it does not have to be concerned about the laws in other countries. Legislation develops and changes constantly especially since entrance to the European Union. As it becomes increasingly difficult to understand the complex environment, legislative regulations and restrictions surrounding the business environment, companies need to count with the additional costs for consultancy with auditors, tax consultants and lawyers. The analysed company is also influenced by the rate of income tax, which shows a decreasing trend, as well as by health and social insurance contributions. The most important law to be monitored for this company is law No. 22/1997 which defines the technical parameters, norms and requirements for quality of the company's products.

→ Environmental

Concern about the environment is a phenomenon of recent years. Being environmentally-conscious plays an increasing role in the business environment nowadays. Companies need to be aware of environmental legislation and regulations. Although the analysed company does not have a full production process and thus a significant impact on the environment, it still has some responsibilities to the environment such as separation of waste from the assembly and office processes.

5.1.1 UNDERSTANDING OF MACRO-ENVIRONMENTAL IMPACTS:

The PEST analysis has shown that the macro-environment currently offers a range of favourable opportunities for the company such as a decreasing trend in income taxes, propitious monetary development and others. However, the present financial crisis and its consequences poses a significant threat to the company. Other threats and opportunities coming from the macro-environment can be seen in the table below:

Table 6: Opportunities and threats arising from the macro-environmental analysis

Opportunities	Threats
<ul style="list-style-type: none">• decreasing trend of income taxes• internet services development facilitating communication and sales• strengthening of Czech crown (buying from foreign suppliers is cheaper)	<ul style="list-style-type: none">• increasing requirements for certificates (attestation) of product quality• increasing labour costs• lack of qualified and competent young workforce, ageing of employees

Source: author

5.1.2 Building scenarios: Trends in the macro-environment

When looking at the future possible development of the Czech business environment, companies need to take into account a high level of uncertainty. The current trend is heading towards a global recession within the next few years. The Czech Republic will continue the integration process into the European structures which will lead to the adoption of the Euro currency.

5.2 Micro-environmental Analysis

Micro-environmental analysis concerns the most immediate surroundings of the company. The objective of the investigation is to focus on the analysis of the industrial sector within which the company operates, as well as on the competition within that particular sector. Analytical conclusions will help the company to find the competitive advantage on which to base its future strategy.

5.2.1 INDUSTRIAL ANALYSIS

The industry is analysed with the help of Porter's Five Forces Framework. Subsequently the dynamics of the industrial structure is analysed and key success factors are defined.

5.2.1.1 Porter's Five Forces Analysis

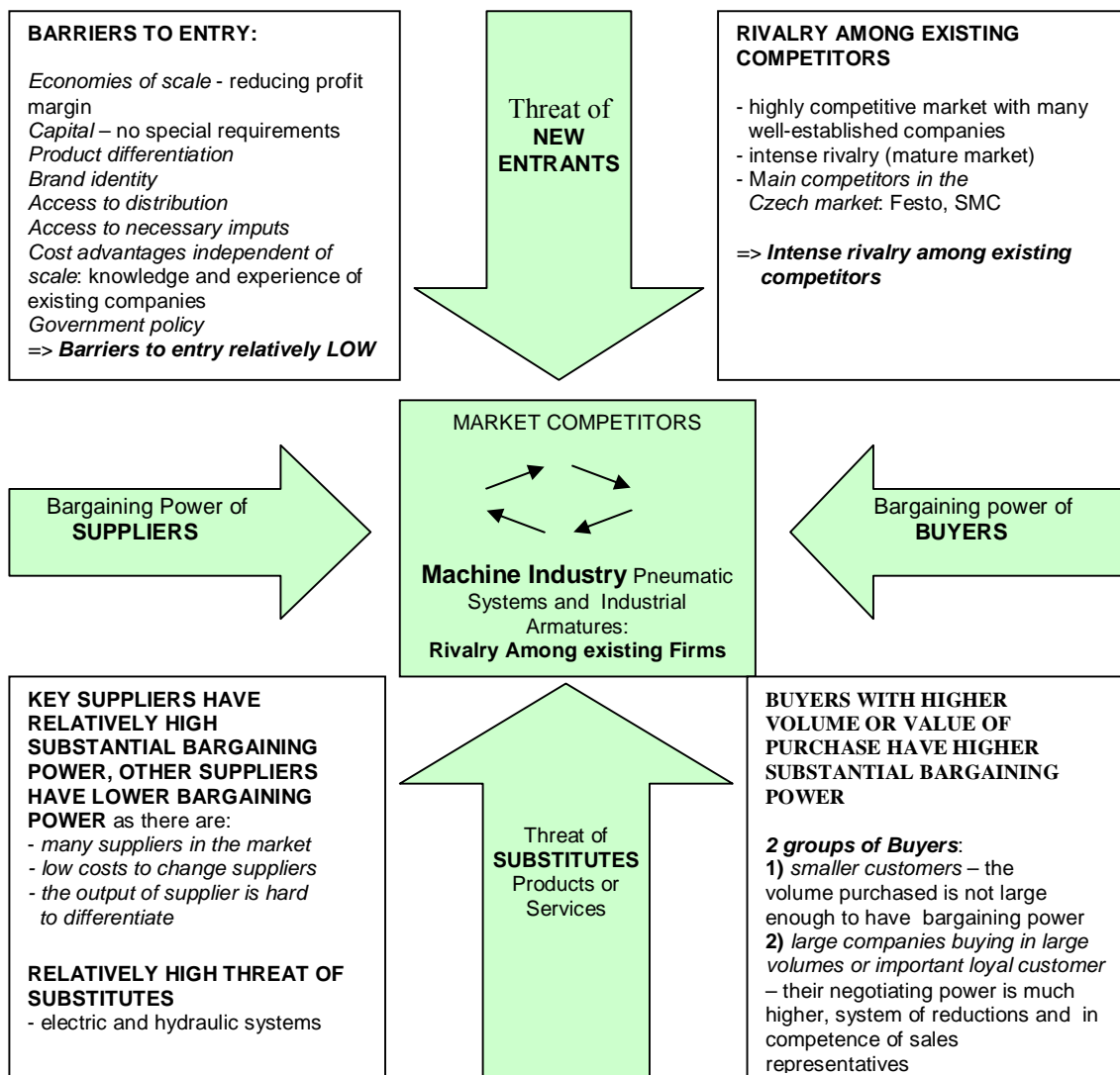


Figure 18: Porter's Five Forces Analysis (Source: author)

→ *Suppliers*

Bargaining power of crucial suppliers, which the company is directly dependent on, is relatively high. Their business relationship is given by mutual contracts negotiated by the top management. Some of these contracts guarantee the company a position of an exclusive dealer for the Czech market. The managerial task is to gain the best conditions possible. Smaller suppliers are chosen according to price/quality factors. These suppliers' bargaining power is relatively low as they can be easily replaced by other suppliers who are willing to offer better conditions. However, as the company's key foreign suppliers are more important, their bargaining power is relatively high.

→ *Buyers (Customers)*

In general, the bargaining power of customers depends on the amount of goods which are purchased on a regular basis. The importance of a particular customer is mainly left to the competence of each sales representative. The criteria are first of all the amount and frequency of customer's buying. There is a general list of percentage discounts on goods which sales representatives may offer to customers in order to encourage their purchase. Higher discounts on larger volumes or by special circumstances are always discussed with the company's top management. The idea of the company's system is to reward loyal customers by reductions in price in order to motivate them not to go over to cheaper competition. Factors such as the importance of the customer (for instance a strong distributor who is able to influence other customers), amount or frequency of purchases or prospect of future business plays a significant role when deciding whether to offer better prices/terms or to risk losing business to the competition. If all factors are favourable and the company decides to gain this customer, the bargaining power of this buyer is relatively high (for instance Poličské Strojírny). The threat is even bigger as the product standardization is high in this industry and larger companies benefiting from economies of scale often have better prices. Moreover, the costs to change suppliers is relatively low and therefore the risk of losing customer is high. Therefore the company needs to find a way of how to offer added value and differentiate itself from the competition.

→ *Threat from new entrants*

As the industrial sector of the analysed company is in a mature state, there are not many new companies entering it. If it happens, it is usually a professional who had been working for a big company and has now set up business on his/her own. As general barriers to entry are concerned, the threat of new entrants might be regarded as relatively low. The only significant barriers might be the accumulated knowledge and experience of existing companies. Other barriers can be overcome if the new entrant has a good product or service differentiating while maintaining high quality standards.

→ *Threat of substitutes*

From the company's most recent experience it is obvious that the threat of substitution is relatively high. It has happened time to time that a sales representative has lost a purchase order because of the customer's decision to use a substitute product. In this case, the substitute is made on an electric and hydraulic basis. Customers always compare the performance with the price. Some customers increasingly prefer cylinders made on an electric basis as they can maximize the performance with regard to price. This trend seems to be increasing and therefore poses a significant threat.

→ *Rivalry among competitors*

Rivalry is determined by intensity of competition and the strength with which tools are used in a competitive strategy (such as price, quality, service or guarantee). This company needs to clearly understand the characteristics and rules of its competitive environment as well as to be able to estimate the intensity of the rivalry. There are a variety of factors influencing competition intensity such as the number and size of competitors, market growth rate, differentiation degree, fixed costs, level of exit barriers, acquisition pressure and others. In the sector of the analysed company, rivalry among existing competitors is relatively high. Not only with firms with a similar focus and size, but also with big international companies such as Festo or SMC. The rivalry is intensified even more as the sector is at its mature stage.

5.2.1.2 The Dynamics of the Industry Structure

After the Velvet revolution, there was a boom with many new firms emerging in this sector. Since then, the number of currently emerging companies has slowed down significantly. The sector has stabilized at the cycle of maturity. There are 3 or 4 big companies engaged in the production of pneumatic systems and industrial armatures within the Czech market. These are companies, such as FESTO or SMC, with their own production, a long tradition and well-established position with the highest market share in the Czech Republic. There are also smaller trading companies which buy goods from foreign producers and resell them to Czech customers, such as the analysed company or Stasto. As this sector is highly dependent on strict technical norms and parameters, it is difficult to differentiate the products regarding their design or packaging for instance. What is of most value is the product portfolio range, high-quality of products, professional technical know-how, service and consultancy. A customer oriented approach that is delivering products according to the customer's specific requirements and preferences is a prerequisite for success. Thus, know-how and soft skills are one of the main factors differentiating one company from another. Economic predictions state that the sector is not threatened by a steep decline of demand from a long-term point of view.

Active change-creating forces which should steer further development in the mature sector are particularly:

- ü Product innovations (supporting the company's differentiation and improving its competitive position)
- ü Changes in cost effectiveness (increasing company's profitability)
- ü New forms of marketing (new forms of addressing and approximating customers)

5.2.1.3 Key Success Factors

The main purpose of the industrial analysis is the identification of key factors contributing to company's success within the industry or sector. Success is not only the ability to survive, but to prosper in the future as well. On the basis of the industrial analysis and knowledge of the analysed company, the critical success factors are defined for the company:

Table 7: Key Success Factors: Understanding what customers value	
MARKET:	<i>Comprehensive market knowledge</i> – knowledge of legislation, trade policy, target customers, competition as well as an understanding of the technical aspects and the latest technological developments in the industry + building a reputation for quality
TECHNOLOGY:	<i>Comprehensive technical knowledge</i> by sales representatives and internal technicians, in depth knowledge of offered product portfolio, its technical parameters and characteristics and investments into innovation and hi-tech communication technology
CUSTOMER:	<i>A Professional approach to customers:</i> understanding the customers' expectations and preferences and quick responses to their fast changing needs and requirements
MARKETING:	<i>Smart / effective marketing and advertising campaigns:</i> the right way of communicating products and services to customers (gaining new customers while maintaining long-term relations)
PROCESSES:	<ul style="list-style-type: none"> → Efficiency and flexibility throughout the supply chain (successful value-added negotiations with key suppliers, costs lowering and delivery cycles shortening) → Efficient distribution (access to distribution channels, its maintenance and flexible logistics) → Constant improvement of quality management (ISO 9001:2001) and strict quality control → Efficiency and high-quality of manufacturing process (manufacturing of pneumatic cylinders, assembly of industrial armatures and complete solutions) → Responsiveness to current socio-economic trends such as <i>environmental responsibility</i> and <i>corporate social responsibility</i> ("giving back to society" in the form of charity donations, child care, etc.)

Source: author

The analysed company should be encouraged to see value through the eyes of customers. The customer should be in the centre of all the company's processes, marketing and future planning. The company needs to be clear about its own strengths. Identify and excel in those products and service features which are particularly valued by customers and thus outperform the competition. Building the future on a deep understanding of the customers and the environment is the right way to success.

5.4 Swot Analysis

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Strong corporate culture • Unique strategic connection of pneumatic systems with industrial armatures • Independence and Flexibility • Quality Management System ISO • Long-standing relations with customers • Well-established company with long existence in the market (since 1990) • Own partial production of pneumatic cylinders and assembly of complete solutions • Local company with a long-term tradition • Long-term cooperation with strategic key suppliers (exclusivity for ORIGA cylinders) • Strong balance sheet: financial health and stability, financing mainly from own resources (see App.2: Financial Analysis) • Own stock (approximately 3,000 items) + possibility of delivery on call • Familiar atmosphere (small-sized and interconnected company) • Organizational Know-how: professional technical consultancy + high-quality after-sales service 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Low market share • Sales data of pneumatic systems sortiment lower than by industrial armatures • Not economical holding of too big stock • Internal communication (not sufficient information sharing through intranet, etc.) • Ageing of employees, burnt-out collective, lack of “young spirit“, lack of team-work • No research and development • Higher price of products compared to the competition (balanced by high-quality and value-adding technical consultancy and service) • Lack of strategic vision • Not well-established distribution network (especially in South Bohemia) • Difficulty to address and gain new customers (threat for the future)
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Possible connection with Parker Hannifin • Further broadening of product portfolio • Diversification (expansion in other, diversified business) • Further expansion of warehouse + production and assembly extension => development of own activities • Expansion to abroad? (Slovak Republic with similar market) • Enhance know-how, knowledge and expertise of company’s employees • Increasing market share (focus especially on southern Bohemian region) 	<p>THREATS</p> <ul style="list-style-type: none"> • Main supplier Hoerbiger ORIGA bought by Parker Hannifin => threat for the exclusivity contract for ORIGA products in the Czech Republic => increased competition • Threat from currently unpredictable cooperation with new supplier (Parker) - possible mistakes and problems at the beginning • Threat of big international companies profiting from the economies of scale which could overtake the control over the market of pneumatic systems (example: FESTO, SMC) • Threat from newly coming international companies which grow through acquisitions of small local companies (example: PARKER) • Threat from faster, more innovative competition, its price and marketing policy (all what could overtake customers) • Emergence of low-cost overseas competitors from China, Taiwan, etc. => cheaper products of comparable quality can create a significant competition threat (this trend increasingly important in German market of industrial automatization but still is not in its full range within Czech market) • Threat from current financial crisis and subsequent economical recession (it might be very difficult to survive without effective competitive strategy)

Table 10: SWOT Analysis

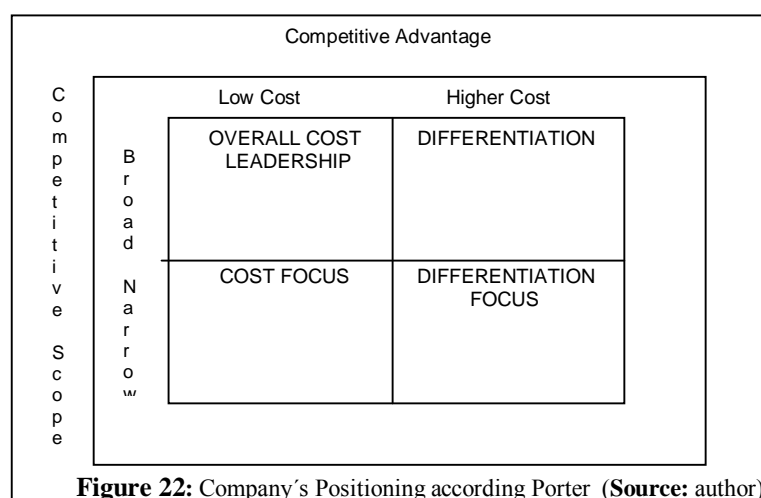
Source: author (according to internal documents and own experience from company’s praxis)

One of the main *strengths* of the analysed company is its long tradition within the Moravian market particularly. Throughout the years the company has gained many loyal customers and has established long-lasting relationships with its key suppliers. A particular strength lies in the exclusive contracts with some suppliers (such as former Hoerbiger Origa) for sole representation of their product portfolio in the Czech market. The relatively small size of the company creates a comfortable atmosphere which contributes to a friendly company's spirit. It also enables the company to focus on individual customers while being flexible when offering them complete solutions for their projects. The customer's requirements are submitted and the company prepares everything from the purchase of components through assembly to the elaboration of technical documentation while providing the customer with technical consultancy and other value-added services. Know-how, professional technical knowledge and expertise have been accumulated over the years and have become one of the company's main advantages. Among the company's other strengths and a basis for competitive advantage are the connection of pneumatic systems and industrial armatures in its product portfolio as well as its financial stability. All processes and new investments are financed from its own resources. When analysing the company's *weaknesses* it would appear that there is an apparent lack of strategic vision. Formal strategic planning is unfortunately not part of the organisational routine. This has been partly improved by implementing Quality Management Norms in 2000 aimed at the improvement of internal processes within the organisation. However, there are still limitations in fulfilment of quality objectives particularly in strategy defining and internal communication.

When highlighting the company's *opportunities* for its future direction, a current topic is the company's possible cooperation with Parker Hannifin, new owner of Origa cylinders which creates the company's main portfolio of pneumatic systems. Origa products were formerly owned by Austrian company HOERBIGER with whom the company had a very well-established and long-standing relationships for years. Over a period of cooperation with Hoerbiger, the company was the exclusive distributor of Origa products for the Czech market. As the owner of Origa has changed, the company currently faces uncertainty about its future as its exclusivity contract is seriously

threatened. However, there is good strategic potential in cooperating with such a strong partner. New customers may be gained from the extension of a portfolio with Parker products. A planned Parker store introducing Parker main product lines should be established in the seat of the company. Parker, well-established in the United States, has the strategic aim to become the third market leader in the industry, just behind FESTO and SMC. The analysed company is important to Parker for its long-term experience with Origa products, technical know-how, loyal customer base for Origa products and sales turnover which has kept showing an increasing trend during the years. Therefore the intention is to become Parker's main distributor if not the sole distributor for the Czech Republic. All current negotiation are directed to the aim of gaining as best conditions as possible for mutually valuable cooperation in the future. Here, it is also necessary to be aware of potential *threats*, too. If the company does not gain the exclusivity from Parker Hannifin, it would intensify competition among smaller trading companies similar to the analysed company. This might result in a price war among them and, together with current weak economic conditions, might seriously endanger the company's existence. Another threat might arise from Parker's growth through acquisitions which is inherent to its growth strategy. If the company lost its position due to intensified competition, it might be forced to sell its interests in foreign ownership. Therefore, it is vital to think of this while negotiating any future contract. Only by taking all strategical issues into account can the company create a successful strategy which will strengthen its competitive position within the market.

5.5 Porter's Positioning of the company



6. ANALYTICAL PART CONCLUSIONS

The executed strategical analysis has turned out to be a valuable tool for the determination of opportunities and threats arising from the external environment as well as critical internal strengths and weaknesses of the company. Thanks to the use of all available analytical tools I can better understand the course of events both inside and outside of the company. A comprehensive approach to strategic management has shown itself to be the main factor as far as the competitiveness development is concerned. The conclusion of the analysis is that *companies which choose not to apply a complex strategical approach give up a significant tool for improvement of company's competitive position.*

The strategical analysis has helped to find answers to the questions which had been asked at the end of theoretical part. More has been learned about the current situation of the company, its position within the external environment and its internal strengths and weaknesses. The analysis helped to determine the main opportunities and threats arising from the immediate environment as well as to analyse the dynamics and trends of the industry and the nature of company's competitors. On the basis of the analysis results, the company's competitive advantage, based on the differentiation, has been identified which, in turn, will help the company on its way to long-term success and profitability. As the analysis revealed, the company's competitive advantage is embedded in its organic development throughout the years based on an unique combination of pneumatic systems and industrial armatures product portfolio which makes it more difficult to be imitated. Other contributing factors rise from the company's resources, competences and its long-term operation in the market. The core of the advantage is in the internal way of doing day-to-day business, employees' expertise and experience and the company's trading and technical know-how. The high-quality of both products and services and the customers' satisfaction are in the centre of all efforts. This advantage is further supported by the flexibility typical for smaller firms in terms of its response to customers' special requirements and changing needs, building beneficial long-term relationships with customers and suppliers as well as its flatter hierarchy which results in a faster decision-making process.

In the proposal part, there will be further focus on the development of competitive advantage as well as on the possible means of how to increase the company's competitiveness in today's turbulent and fast-changing environment. I believe that by focusing on individual customers while enhancing the company's value-chain activities and internal processes, competitiveness can be developed. The recommendations will be based on the results of the external environment analysis as well as on the recognized company's strengths and limitations. In addition, possible opportunities for business growth will be discussed at the corporate strategy level with regards to current management strategical vision and plans.

The analysis has revealed a number of problematic issues and deficiencies as well. The existence of weak points in the company arises mainly from a non-complex approach to strategic management which is not given the appropriate importance. No analytical tools are used to understand company's external and internal environment better. This thesis argues that the strategic management concept is one of the main internal factors contributing to the company's ability to compete. Therefore, the main aim of strategical proposals will be to introduce strategic thinking and a strategic approach to the company which it is believed can develop the company's competitiveness in the future. Another crucial problematic issue is the current negotiations with Parker Hannifin, a new supplier and potential key partner of the company. When developing the key factors for a future strategy, it will be important to exploit the company's key strengths and, on the other hand, to manage its key weaknesses. Thus, in the proposal part, both theoretical knowledge and analysis results will be used to overcome existing problematic issues and, with the help of extended marketing mix at the business level and value chain activities at the operational level, a strategic goals will be formulated. The aim of these goals definition will be to allow benefits to be derived from existing competitive advantage and maintain them into the future.

To conclude, there is no ideal model for the strategic approach which would guarantee success for the company; it always has to rise from the conditions of a particular organisation. Great value also lies in the intuition, estimation and sense for opportunities of the entrepreneurial strategist. (20)

7. PROPOSALS AND RECOMMENDATIONS

The *starting point* of the proposal part is a review on what I have found as being most important where the development of the company's competitiveness is concerned. While striving for an increase in its competitiveness, the company needs to take a complex picture of its internal situation, position within the market in which it operates as well as of the external environment and its current circumstances. There is no such thing as a recipe which will guarantee success for the company. Competitiveness is understood as the ability to gain and sustain a competitive advantage in the highly turbulent market environment. Competitive advantage arises from the value which the company is able to create within its value chain and use it for its long-term value growth. The instrument to achieve the advantage lies in the use of the best methods and approaches which help the company to optimize its value chain and manage all its activities in the most efficient way. (28)

Thus, in order to stay competitive, the company has to focus on a very complex range of both external and internal factors which, directly or indirectly, influence its ability to compete. Only by taking the inter-disciplinary point of view, new dimensions of the competitiveness can be grasped. The company needs to use all the available methods and techniques to manage this complexity. Therefore, in my opinion, a first step in the development of the company's competitiveness is the introduction of a strategic approach to the company. I believe that *formal strategic planning can help the company to improve its internal processes and develop its competitiveness.*

The implementation of strategic planning is expected to be challenging as there has been almost no formal strategic planning in the past. The *assumption* of the successful strategy implementation is the manager's willingness to cooperate on the realisation of the proposals. The management has to be convinced about the practical contribution of a formal strategic approach. This determination is needed while convincing the employees about the need of practising formal strategic planning. Only when both groups share a common goal, will it be possible to formulate a business strategy which each member of the company will feel committed to.

In these proposals a combined strategy will be applied while taking into account the rather conservative managerial style of the company’s executives. As the company has just one strategic business unit, the corporate- and business- strategic levels are identical. The proposal of formal documents for strategic planning and a detailed proposal of promotion possibilities are presented in the Appendixes 6 and 5.

7.1 Strategic Vision and Mission

The highest level of strategy is mostly about what the company’s owners want the company to be. The owner does not want the analysed company to grow or expand to new markets but rather to further improve the quality of the product portfolio, services, internal processes as well as technical consultancy and employees’ expertise. At the same time the company strives to remain a stable and profitable company within the Czech market of pneumatic systems and industrial armatures. In accordance with the vision and values of the company’s founder as well as day-to-day company practice and philosophy, the company’s vision and mission are defined below:

Table 12: Strategic Vision and Mission	
VISION	<i>“Be a flexible company fulfilling our customers high expectations Become a safe place where the customers return and employees are happy to work.”</i>
"Our approach"	"We do not sell just goods, we offer a solution." “Flexibility, intuition, reliability, experience and a familiar atmosphere.” “Understanding of individual customer needs is a key objective for us.”
MISSION	Within the company’s philosophy there is a clear focus on three values which the organisation seems to strive for in everything that it does. These key values regarding three main shareholders groups have been elaborated:
"to our customers"	“Offer a broad portfolio of high-quality products and value-adding services in the field of pneumatic elements and industrial armatures while ensuring experienced technical consultancy, after-sales service and flexible assembly of complete solutions. Become a reliable partner for our customers.”
"to our employees"	“Creating a learning organisation encouraging curiosity, a desire to learn and mastering technical expertise. Creating a company to which employees feel committed to because it has become a part of themselves. “
"to our shareholders"	“To become an organisation striving for constant value enhancement.”

Source: author

7.2 Proposal of Strategic Directions and Strategic Options for the company

"Business is like riding a bicycle. Either you keep moving or you fall down." (21, p.125)

After stating the company's vision and mission, we can focus on the corporate aspect of the company's strategy and propose strategic options for its future direction. The recommended strategic direction, method for pursuing a chosen strategy and basis of the company's competitive strategy are demonstrated in the Figure 23.

1. Strategic option: Organic Development

("Pursue the strategy by developing organisation's own capabilities.")

The most convenient method of pursuing the company's strategy seems to be an internal development, so called *organic development*, because it corresponds better with the owner's idea about the company's future. The company does not strive for either a rapid growth through mergers, acquisitions or strategic alliances. Neither does it consider the possibility of an international expansion. It should therefore remain oriented to a rather slower growth based on evolving its capabilities, competences and constant learning.

Advantages:

- ü Enhancement of knowledge and capability development.
- ü Spreading investment over time: Spreading the costs of its own activity development may be more favourable than major expenditure on an acquisition.
- ü Slower rate of change: Minimising the disruption to other activities and avoiding the political and cultural problems that the integration of the acquisition often brings.

2. Strategic option: Market Penetration/Consolidation

("Stay where you are and protect it", "Search new customers for existing products")

The strategy direction evolves from the vision of the company's founders or owners who incorporate their ideas about the company's future direction and development. The

owners of the analysed company see the direction as further *market penetration and consolidation* in combination with product portfolio extensions resulting from the future cooperation with Parker. While consolidation involves protecting existing products and markets, further market penetration aims to look for new customers within existing product portfolio and markets. In practice, even market penetration requires some product development in order to sustain market share in the future. Thus, the future direction of the analysed organization is seen as maintaining present market share, building on strengths through investments and innovations as well as in exploiting knowledge of customers needs and enhancing product and service development. The way to extend the product portfolio range and gain new customers is seen in a possible future cooperation with Parker which is currently at the negotiation stage. This cooperation will require new strategic capabilities as well as constant learning about new products which may be unfamiliar to the organisation. Therefore the company should be ready to acquire new technological and marketing capabilities. Moreover, the company should be aware of the need to base the contract for cooperation with Parker on precisely defined conditions which will minimize the risk of failure.

Advantages:

- ü Lower risk and lower costs when compared to product development, market development or diversification strategies.
- ü Lower need for heavy investment connected to product development.

Disadvantages:

- ü Further competition increase: Increasing market penetration is likely to provoke a rivalry which can result in price wars or expensive marketing battles.
- ü Too reactive and defensive rather than proactive and innovative.

3. Strategic option: Hybrid/Differentiation Strategy ("Be different from your competitors")

As the products are highly standardized in the field of pneumatic elements and industrial armatures, because of their need to meet rigorous technical standards, the

opportunities for a tangible *differentiation* are somewhat constrained. Customers consider technical aspects vital in comparison with design or packaging. Therefore, the company's competitive differentiation strategy might be pursued, in particular, by offering value-added complementary services. *"Differentiation is not simply about offering different product features, it is about identifying and understanding every possible interaction between the firm and its customers, and asking how these interactions can be enhanced or changed in order to deliver additional value to the customer."* (13, p.241) Differentiation is mainly about the company's ability to create a value perceived as unique, special and value-adding. It is about understanding customers, delivering the right value to them and doing it better than the competitors. (13) To achieve this, the company needs to focus on the communication with customers and customer-friendly services (such as technical consultancy, after-sales service, flexible approach, assembly of complete solutions, fast and high-quality repairs and others) as well as to find ways how to get feedback and ideas for innovation from the customers (questionnaires, meetings with sales representatives, etc). By analysing customer demands the company can determine which product characteristics have the potential to create value for customers. The analysed company should pursue a differentiation strategy based on consistency, reliability and quality while monitoring costs by searching the best quality/price combination by its suppliers.

Advantages:

- ü Premium price: Customers are willing to pay a price premium if the added value of product/service is perceived as unique or beneficial by the customer.
- ü Lower risk of a price war and low margins.

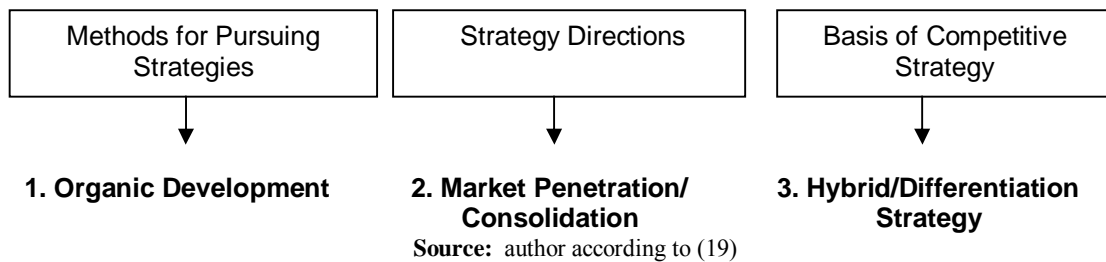
Disadvantages:

- ü Higher costs for differentiation: There is a risk that the costs of differentiation will become higher than its benefits.
- ü Risk of fast imitation.

7.2.1 Summary

The figure below recapitulates the proposal on company's strategic options:

Figure 23: Strategic Option for the Company



To sum up, the company should pursue its strategy through the organic development which will further develop the quality of its products/services and strategic capabilities. Future directions should be focused on protecting existing markets and searching for new customers for existing products. The competitive strategy of the company should be based on the differentiation of services creating an unique value for the customers.

The overall company's philosophy should remain strongly customer-oriented. The main differentiation factor is especially embedded in the unique offer of the company's services which are strongly customer- and quality-oriented, complex and flexible. In order to pursue a differentiation strategy, strategic decisions should be based on "*giving customers what they want*", "*offering a high quality product range, price and unique service*" and "*build the company's success and growth on listening to customers*". Therefore the organisation needs to know their individual customers' requirements and preferences and respond to them proactively.

Furthermore, to ensure an organic development of the competitive advantage embedded in its unique know-how, the company should be constantly evolving into a learning organisation. Its task is to constantly enhance its employees' technical expertise and soft skills as well as the efficiency of internal organizational processes. To achieve this, an environment of inquiry and play should be created where individual creativity and imagination can spread and contribute to the benefit of the organization. The task of the manager is to manage and enhance the development of the strategic capabilities, actively make people stretch and contribute to the company's ability to compete.

7.3 Business Strategy Level

After stating the main directions for the company's future and choosing the differentiation strategy (particularly in the customer-oriented approach and flexible services offer) as the base of its competitive strategy, the extended marketing mix¹ tool can be used to elaborate a set of strategic goals at the business level. The goals are particularly aimed at the development of differentiation.

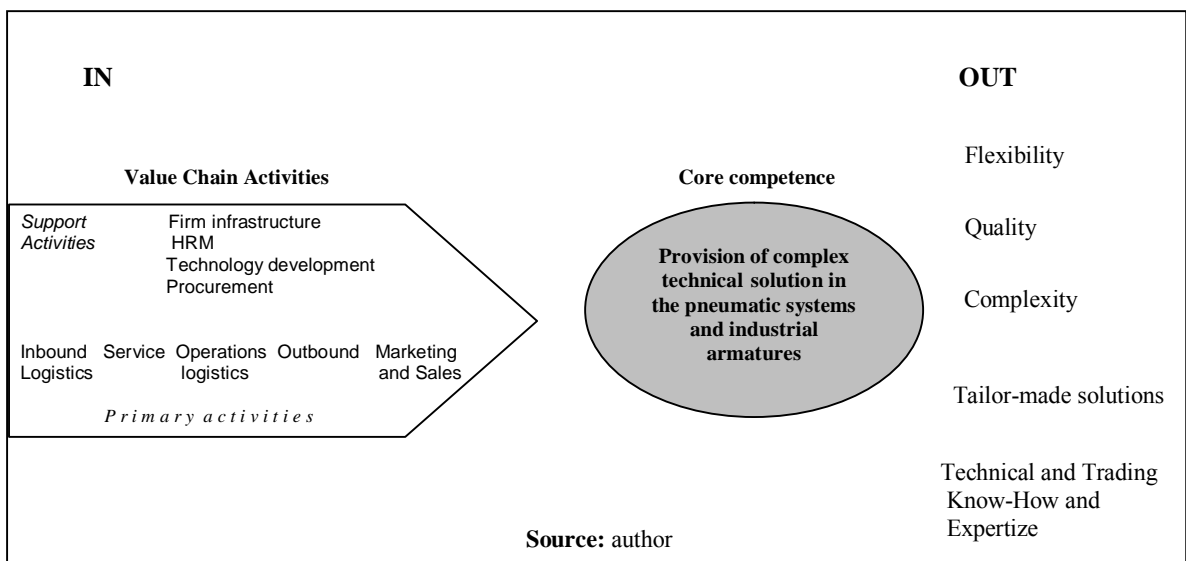
¹ Marketing mix is "*a tactical marketing tool that the firm blends to produce the response it wants in the target market*" (21, p.34)

7.4 Improvement of Value Chain Activities (Competitiveness Development)

In this thesis, a combination of a position-based and resource-based view on strategy has been used. It is believed that the competitive advantage arises from the company's main resources and capabilities. In order to strengthen the competitive advantage and thus competitiveness, the company's key competences need to be constantly developed. Therefore the competitive strategy needs to be built upon the constant development of key functional areas of business activities which contribute to the development of the company's key competences.

In this sub-chapter, goals which will contribute to the improvement of the company's competitiveness in the future are elaborated. The tool of value chain has been used to do it. As the basis of the company's competitive strategy lies in the differentiation of its services, there is a need to develop each key internal activity in favour of this differentiation. By constant development of each key value chain activity, the company's core competence (the provision of complex technical solution in the area of pneumatic system and industrial armatures) will be strengthened. I believe that through a further refinement of the company's internal processes, the competitive advantage embedded in the company's unique way of doing business (resulting in flexibility, quality, complexity, tailor made solutions according to customers' specific requirements, technical/trading know-how) can be developed and competitiveness increased.

Figure 24: Developing of the Competitiveness by Improving the Internal Processes



7.4.1 Summary: Further Development of Competitive Advantage

To sum up, the competitive advantage can be further developed by improving the company's internal processes and encouraging employees to enhance their technical knowledge, expertise and soft skills. Further, offer a complete technical solution for the customer together with flexible services such as non-stop technical consultancy, after-sales service, assembly and installation in the customer's premises while at the same time making the processes more transparent and customer-oriented - these all can significantly contribute to further development of the core competence and competitive advantage. Moreover, currently negotiated cooperation with Parker brings the opportunity to broaden both the product portfolio and the customer base. If the negotiations turn out well, the company will also benefit from being an exclusive dealer for Parker guaranteed for two years.

Having selected the right ways for the development of the competitive advantage, the company has to effectively communicate its chosen position to its target market. The analysed firm has selected *the quality* of its product/service mix as its main differentiating attribute. This is where the company positioned itself. The main strategic objective could be therefore expressed as "Become a firm known for *best quality* and *best services*". Even though the products may be similar to competitors' products, the company has to develop a differentiating factor which will have a unique association for customers (such as the advantage resulting from the unique combination of pneumatic systems and industrial armatures while ensuring best quality and value-added services). The company must stand by its word if it strives to be successful. Once it has decided to build its reputation on better quality and service, it must be consistent in its delivery.

7.5 Economic View: Strategic Plan for Turnover 2009-2015

7.6 Contribution of the proposals

Among main contributions of proposed measurements and recommendations are:

- ü Strategic analysis (strategic position and competitive advantage definition)
- ü Introduction of formal strategic approach which helps to identify, build up and sustain the competitive advantage
- ü Proposal of formal documents on strategic planning (see Appendix 6)
- ü Definition of a clear and market-oriented vision and mission statement
- ü Clear definition of company's future directions and ways how to get there
- ü Formulation of strategic goals developing differentiation (with the help of Marketing Mix tool: see Table 13 above)
- ü Efficiency increase by making internal processes logical and clear: formulation of goals for the future competitiveness development (see Table 14)
- ü Formulation of promotion mix aimed at acquiring new customers (see App. 5)
- ü Strategic plan on sales development (5 years plan: see Table 15)
- ü Motivated employees who understand their individual tasks participating on common goals and who feel committed to the organisation
- ü Competitiveness development through clear company's positioning, systematic planning and better understanding of the organisation and its internal processes

The assumption of a successful strategy realisation is the flexible management who will be able to implement strategic thinking into company's daily practise. I believe that the implementation of a formal strategic approach and systematic planning will help the company to face the competition in a more organized way and offer new patterns of leading the company to success. The company is expected to compete more consciously and become rather proactive than reactive when responding to the external environment. As the company has a sufficiency of own resources for the implementation of the proposed measures, the only limitations may be in the willigness of the manager and the employees to cope with new responsibilities resulting from newly incorporated system and the changes it will bring. Another possible limitation is the difficulty in finding the right people for the proposed working positions.

7.7 Searching for a Blue Ocean Strategy

In conclusion, I would like to inspire the company with an alternative way of viewing the strategy which is the creation of so called blue oceans. The red ocean is a metaphor for all the existing industries today where boundaries are defined and competitive rules are known. Here companies try to outperform their competitors in order to gain a greater market share. On the contrary, blue oceans represent the unknown market space where companies tries to create a supreme space in order to leave competitors out of the game. In blue oceans, the opportunity for a profitable growth is high as the competitive rules are still waiting to be set.

The strategy of creating "blue oceans of opportunities" breaks away from a traditional strategic thinking. It requires an ability to see a strategic gap that offers the still unexploited opportunities. The unconventional strategic thinking helps the company to make the best of an encountered opportunity. The corner-stone for a blue ocean strategy is the *value innovation*. It is the simultaneous pursuit of differentiation and low cost. The methodology is to find factors that can be eliminated or reduced below the industry's standard and, on the other hand, find factors that should be raised above that standard and create those which the industry has never before offered. Blue oceans strategy is about moving boundaries of what is "taken for granted" and searching for what customers really want and giving it to them. (3)

At the end of the proposal part, I would like to recommend the strategic manager of the analysed company to constantly break away from the traditional mindset as well as to see the benefits of a strategic thinking for the future competitiveness of the company. By learning from the examples of successful predecessors and applying those principles creatively in its own organization, the company can gain a considerable advantage over the competitors. The company should use all the possible ways, techniques and methods to increase its competitiveness and long-term profitability. As this thesis argues, one of these ways is to always strain for an optimal approach to a strategic planning while constantly developing the company's core competences and competitive advantage. This proposal is just the first step on a long journey to apply the strategic concepts in the company's practice and benefit from them.

CONCLUSION

In this thesis, the development of the competitiveness in a trading company has been evolved. As I have proceeded, I have realised that the competitiveness of the company is strongly tied to strategy and the management's ability to employ strategic planning to the daily internal processes. Knowing the company's core competences and systematically building on them, having a clear strategic vision, proceeding by systematic strategic steps towards the desired direction in order to accomplish strategic goals - these are examples of the attributes that have to become inherent in a successful company.

In today's world of rapid globalisation, a strategic approach to the company's management is needed more than ever before. However, in most of the states of Eastern Europe, including the Czech Republic, the field of strategic management is still considered as a new area and is, unfortunately, not used enough for the company's benefit. Therefore more attention should be turned in this direction. Even more nowadays, when the borders have been opened encouraging free trade, companies face not only domestic but also foreign competitors. If Czech companies want to ensure their position within the world markets there is a need for the involvement of strategical activities into the company's daily practice. The ability to compete successfully in the contemporary changing business environment depends on a highly competent management and leadership which is ready to embrace change and respond to upcoming opportunities. The main assumptions of leading the company towards success are the strategical thinking and managing. Today's competitive environment requires having a clear vision and future direction for the company. What the companies need is to acquire strategic knowledge, mindset and skills in order to ensure its long-term stability within the competitive environment. The new dimensions of competitiveness can be understood just by an interdisciplinary look at the company. To develop their competitiveness and gain a long-term sustainable advantage, companies need to strive for the optimization of their value chains by using all available techniques and methods to improve all the areas of their business activities (internal processes, organization, marketing, product development, assembly, service, etc.)

As Sun Tzu said in his famous work Art of War:

"If you know your enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle." (44, p.17)

Sun Tzu's quotations, originally made for military purposes hundreds of years ago, are valid to this day. What makes his work special is that until now many strategists still look for inspiration in his words. In these few sentences the whole purpose of strategy may be concluded. Developing a strategy is generally about "*being ready*".

No strategy can be successful without previous comprehensive analysis. Strategy-making requires being ready for all the alternatives that may come. When the environmental changes bring an opportunity, the company needs to respond quickly and seize upon it to its own benefit. Only in that way can the company overcome all the obstacles and become successful over a long-term period.

As the industry and market are constantly evolving, also the strategy making is a never-ending process. Managers need to be aware that the lack of strategic planning might exclude the company from potential advantages and benefits. Strategic management helps the company to become ready for the future. It might seem impossible to foresee the future. However, it is essential for the company to create the clues as little securities in today's unsecure world. As is implied from the practical part of this thesis, there are various traditional and non-traditional frameworks for predicting the future development and strategy planning. One of the non-traditional approaches is to create a blue oceans strategy. This strategical approach recommends to avoid direct encounters with the competition but rather to create one's own exclusive place within the market. This creative strategy assumes the need to break away from the traditional mindset, going beyond just rethinking strategies. No matter if choosing the traditional or non-traditional approach to strategic management, it is vital to use all the available techniques and tools of the strategic analysis and planning in order to make the most of the benefits of this valuable strategic management approach.

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