



# Analysis of the International Trade Strategy of a Selected Company

## Master Thesis

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## Master Thesis Assignment Form

# Analysis of the International Trade Strategy of a Selected Company

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# **Analýza mezinárodně obchodní strategie společnosti**

## **Anotace**

Diplomová práce se zabývá analýzou mezinárodně obchodní strategie vybrané společnosti. Jejím cílem je pomocí výzkumných nástrojů zhodnotit současnou mezinárodně obchodní strategii společnosti. Práce nejprve vymezuje základní pojmy jako je obchodní politika a její nástroje, internacionalizace a formy vstupu na mezinárodní trhy. Skrze kvalifikované rozhovory s manažerem obchodu ve vybrané firmě jsou poté tato teoretická východiska implementována na konkrétní činnosti, postupy a strategie podniku. Dle zjištěných výsledků jsou potom navrženy kroky k doplnění stávající strategie vybrané společnosti.

## **Klíčová slova**

Mezinárodní obchod, mezinárodně obchodní strategie, obchodní politika, internacionalizace, mezinárodní společnost

# **Analysis of the International Trade Strategy of a Selected Company**

## **Annotation**

The master thesis deals with the analysis of the international business strategy of the selected company. Its aim is to use research tools to evaluate the current international trade strategy of the company. The thesis first defines basic concepts such as trade policy and its instruments, internationalization, and forms of entry into international markets. Through qualified interviews with a sales manager in the selected company, these theoretical backgrounds are then implemented on specific activities, procedures, and strategies of the company. According to the findings, steps are then suggested to complement the existing strategy of the selected company.

## **Key words**

International trade, international trade strategy, trade policy, internationalization, international company

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## **List of Abbreviations**

EPRG	ethnocentric orientation, polycentric orientation, regiocentric orientation, geocentric orientation
OECD	Organisation for Economic Cooperation and Development
PESTLE	political factors, economic factors, social factors, technological factors, legal factors, environmental factors
SWOT	strengths, weaknesses, opportunities, threats
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

## **Introduction**

In today's globalised world, international trade for companies and individuals is a fact of life. Across the globe, international trade affects the daily lives of almost everyone on the planet. Within international trade, goods, services, and capital can move freely. Basically, any company that manufactures products in the Czech Republic is nowadays free to move production or other activities abroad, and then sell them on the domestic or international market. Just as there is a domestic policy of the state, there is a trade policy in foreign trade that affects both buying and selling abroad. There are different forms of entry into foreign markets and each firm chooses them according to its preferences. International trade strategy, then, is one of the fundamental pillars of the success of a company that trades with a foreign country (whether buying or selling) and getting it right is therefore crucial.

The company chosen for this thesis is LA LINEA, Ltd. which has been in the market since 1993 and deals with importing fabrics from abroad and then exporting these printed fabrics to other countries. The aim of this thesis is to use research tools to evaluate the current international trade strategy of LA LINEA, Ltd. and then propose new approaches to complete this strategy based on the information found.

The structure of the master thesis is divided into a theoretical recherche and an analytical part. The theoretical recherche is divided into two main chapters, which are further divided into subchapters. The first chapter introduces basic concepts such as international trade and trade policy along with trade policy instruments. In the second chapter, the author introduces the international trade strategy, which is related to internationalization, and the forms of entry into foreign markets are presented.

The theoretical recherche is followed by the practical part, which is divided into two chapters. The third chapter introduces the company LA LINEA, Ltd. to the reader. Its background information, structure and history are presented and the whole international business strategy is described. A separate subchapter is devoted to the internationalization of the firm as well as its import and export activities. Based on this information obtained from qualified interviews with company officials, a SWOT analysis is compiled with internal strengths and weaknesses as well as external opportunities and threats concerning the company's international trade. The output of this thesis is then an evaluation of the company's international business strategy and then suggestions for supplementing the current strategy that could improve the company's market position.

# **1 International Trade and Trade Policy**

International trade policy is an area that is closely linked to international trade. The main essence of international trade is the implementation of the import and export of goods, services, and capital between the domestic and foreign economies. The various theories of international trade that have been formed since the 18th century, form the basis for international trade policy. These theories are either protectionist or liberal, depending on the objectives and instruments used (Fojtíková 2009).

## **1.1 The essence of international trade**

Trade can be broadly defined as the exchange or buying and selling of commodities between individuals or groups. It can be performed directly through barter system or indirectly through money. Depending on the level at which trade is conducted, three types of trade are distinguished. In her publication, Fojtíková (2009) divides trade into retail trade (trade between seller and buyer), wholesale trade (trade between supplier and purchaser) and international trade.

Fojtíková (2009) also states that international trade is one of the oldest and most widespread forms of external economic relations. It is circulation of goods that constitutes exchange with foreign countries, that means, it crosses the borders of individual countries or economic units. Foreign trade consists of imports and exports. The object of exchange is not only goods, but also services, a capital or intellectual property. It links the internal economy of a country to the world economy and performs important functions in the process of the development of the productive forces and the international division of labour. It primarily concerns one country or economic unit in relation to other countries and the world.

There are many reasons why countries and companies enter international markets and over the last several decades, international trade has grown at extraordinary rate (Blonigen 2018). From a firm's perspective, the main factor is the desire to increase profits and therefore to create and penetrate new markets, or to import cheap input materials for further use from abroad. The motive for internationalization may be, for example, that a company is unable to make a profit in its home market and therefore needs to expand into a foreign market. Expansion into foreign markets is an excellent way for a firm to grow (Ďaďo 2015).

In the modern world, there are more than two hundred countries on different continents (World Bank 2022). Each of them has its own specific mindset, unique national traditions, and its own business specifics. A company must make a thorough analysis of the potential

countries in which it wants foreign expansion to take place, and in the end a country where there is a real prospect of long-term profit should be preferred. Also very important is the balance of benefits, costs, and risks that a company may face in setting up business in that country (Hill 2008).

A very important task for a company is to choose the right way to penetrate the world market. Small and medium-sized enterprises often choose export and import methods, while large companies prefer a combination of forms according to the chosen strategy for the target foreign market. Each of these foreign market entry strategies has its own advantages and disadvantages, and these must be considered for a company to be able to operate successfully in new investment attractive countries in the long term.

According to Černohlávková (2014) when choosing a strategy for a target market, it is always necessary to consider the specifics of that market and other factors. These include:

- trade policy conditions – customs and exchange rate regime, exchange rate policy, non-tariff trade policy instruments,
- economic environment – economic growth, inflation rate, unemployment rate,
- political environment – political regime, political stability, membership of the country in regional integration groupings,
- product characteristics – industrial products, agricultural products, consumer goods,
- efficiency of the selected form of business – cost/risk ratio, expected profit rate.

## **1.2 Trade policy and its orientations**

Each country has its own trade policy with which it creates a suitable internal economic environment. The trade policy of each country also includes foreign trade policy with which the country creates its own conditions for the external economic environment. However, the two are related to each other and therefore only the term "trade policy" will be used in this final thesis.

Kalínská (2010) mentioned that trade policy is a set of intentions, strategies, policies, measures, instruments, contracts, and institutions that are developed at the government level and directed towards both domestic and foreign businesses. Through trade policy, governments influence the business environment and business relations of business entities with the objective of ensuring optimal internal economic development of the national economy.

In addition to creating an appropriate economic environment, the basic aims and objectives of trade policy include ensuring mutuality in economic relations with foreign countries, influencing the import and export of goods and services and creating institutions for the development of economic relations with foreign countries (Fojtíková 2009). Through trade policy, the government engages the economy in international trade relations to bring about a change in the redistribution of profits as Kalínská (2010) refers. Through foreign trade policy, problems with the country's balance of trade as well as unemployment or inflation can also be addressed indirectly. Trade policy is greatly influenced by the degree of openness of a country's economy and the degree of involvement in investment abroad. In general, the smaller the domestic market, the higher the degree of openness of the economy. If these rates are comparable, states generally have a larger share of foreign trade in gross domestic product. And the more open an economy is, the more it is influenced by the trade policies of its government. However, trade has also been determined by other policies of the country. For example, it is the country's agricultural policy, especially to the extent of supporting regional production. It is also the extent to which research and development is supported or the policy on service provision (the extent to which the domestic government accepts foreign service providers).

Over the course of historical development, two basic trade policy orientations have evolved around the world. Both are rather theoretical in nature, as neither of them occurs in its pure form, but it is always a combination of both directions, with one of them always prevailing. The factors that influence which direction a country takes are mainly the economic level of the country and its political situation. In the next part of the chapter these two directions will be explained (Fojtíková 2009).

The first direction is **liberalism**, which already contains the word "libertas", which means freedom. Liberal trade policy is based on free trade, which encourages trade without any barriers. It is the complete opening of all internal sectors to foreign firms, investors, and competition. The goal is to achieve free trade without any government support or interference. The consequence of liberal trade is a more open economy, more competition in the domestic market as many foreign competitors join the market, but at the same time new opportunities are created for domestic producers. This approach also leads to lower consumer prices, lower wages, higher unemployment, but also to greater vulnerability of the economy, as the market can be monopolized by a foreign importer. The second and opposite direction is **protectionism**, which, on the contrary, is based on the principle of protecting



the internal economy from external influences from abroad. Here, the state is the particular 'protector' and it tries to enforce trade barriers against foreign segments such as firms, investors or competitors. The proponents of protectionism argue this direction, for example, that it has a positive effect on employment, as the domestic market is protected from imports of goods from abroad, increasing domestic production capacity and thus creating new jobs. Another argument is that protecting the domestic market helps to reduce dependence on imports for key products. An extreme case of protectionism is so-called **autarky**, in which the domestic market is completely closed to imports and exports are prevented (Kalínská 2010).

As mentioned above, this direction does not occur in practice in its pure form, and it is usually a combination of both directions. This is also the case of Czech Republic. The foreign policy of the Czech Republic links the domestic and international environment. It enables the state and non-state actors to operate abroad in a way that fulfils the best interests of the country, while at the same time dampening any activities that would harm these interests. The state adopts positive incentives from abroad that contribute to the realisation of Czech public interests at home and, on the contrary, counteracts threats coming from abroad, whether at the national, European, or global level. The Czech Republic tends to be more liberal and, with its open economy, ranks among the forty richest countries in the world. The ratio of exports to GDP is around eighty per cent, with a substantial part of exports going to the European Union (MZV 2019).

### **1.3 Trade policy instruments**

The state has several trade policies instruments at its disposal to implement its trade policy objectives. These instruments also enable the government to enforce the intentions of the states concerning trade relations with foreign countries. They can be broadly categorised in several respects, according to their legal or substantive nature or objectives. The basic classification classifies trade policy instruments into tariff and non-tariff instruments. The division according to the political-trade aspect is then into autonomous and contractual. Historically, autonomous instruments are older, but their use is gradually declining, mainly due to the development of international trade. Today, contractual trade policy instruments are far more important (Fojtíková 2009). Both will be introduced in the following part of the thesis.

### **1.3.1 Contractual trade policy instruments**

While autonomous trade policy instruments are unilateral, contractual trade policy serve to regulate trade between two or more countries, usually by signing a treaty or agreement (Fojtíková 2009). A treaty is a political arrangement that regulates the mutual economic relations between the contracting parties.

Trade agreements are divided into multilateral, plurilateral and bilateral. For example, WTO agreements are considered as **multilateral**. Their common basis is respect for the basic principles of the multilateral trading system in trade in goods and services. The principles are embedded in the rules of the individual WTO agreements and in the schedules of commitment of each member states. A **plurilateral** agreement is a free trade agreement concluded between several countries, such as NAFTA or the European Union. Plurilateral agreements also include international commodity agreements administered, for example, by UNCTAD - agreements on coffee, cotton, cocoa, citrus, lead, and zinc, etc. **Bilateral** agreements can be free trade agreements, customs union agreements but also economic cooperation agreements. An agreement to create a customs union removes all tariff barriers between the parties and establishes a common tariff against third countries.

In addition to the above-mentioned agreements that regulate the trade policy regime in international trade, the treaty instruments also include other trade-related international treaties. These include various arrangements on international transport, protection of intellectual property or sanitary standards (Kalínská 2010).

### **1.3.2 Autonomous trade policy instruments**

Autonomous foreign trade policy instruments are various measures used unilaterally by governments to adjust imports and exports, their level and structure, to suit stated objectives. These measures adopted are designed to protect domestic producers from the external environment or to restrict the import of foreign goods that are more competitive than domestic ones and, on the other hand, to encourage the export of domestic goods and services abroad. Autonomous instruments can be applied by a country that is not a member of multilateral trade agreements. They fall into two categories. Tariff and non-tariff instruments (Heczko 2007).

### **1.3.3 Tariff instruments**

Tariff instruments are customs duties, the rates of which are announced in advance for a predetermined period by a national law (usually the Customs Tariff). A duty is a monetary

amount levied by a state when goods cross customs borders in connection with the import or export of goods. Through customs duties, the state changes the amount of these imported and exported goods. It primarily performs a protective function – it protects domestic producers from importing goods from abroad by making them more expensive and making it more difficult for them to penetrate the domestic market. In addition, customs duties have a fiscal function, which consists of providing the necessary resources to finance government expenditures, especially in less developed economies (Kalínská 2010).

Customs duties can be further divided according to direction into import duties, which are used mainly for protective reasons in the case of developed countries, and export duties, for financial reasons as a source of revenue for the treasury or for protective reasons to make the export of goods abroad more difficult and thus support the domestic market (this type of duty is used in exceptional cases in nowadays) as Fojtíková (2009) explains.

It can be further divided also according to the method of calculation into ad valorem duty – set at a certain percentage of the price of the goods, specific duty – set at a fixed amount per unit, differentiated duty – takes the form of a differentiated ad valorem value, where duties are graduated for different prices of the same type of goods, or mixed duty, which is a combination of ad valorem and specific duty (Kalínská 2010).

Every year, the World Trade Organization publishes a document called "World Tariff Profiles", which lists all WTO member states and their tariff protection levels. It also shows the differences in tariffs between countries. The latest edition is from 2021 (World Tariff Profiles 2021).

Other tariff instruments are tariff-rate quotas and tariff ceilings, which combine tariff and non-tariff measures by allowing a product or service to be imported at a reduced tariff rate within a predetermined quota. Once the quota is depleted, goods can still be imported into the domestic market, but at a higher tariff rate. The difference between a tariff quota and a tariff ceiling is that while once the tariff quota is depleted, goods can no longer be imported at the lower rate, while with a tariff ceiling it depends on when a government entity of that country initiates the lifting of the ceiling – until then, imports are allowed at the lower duty (Fojtíková 2009).

### 1.3.4 Non-tariff instruments

A non-tariff trade policy instrument is any measure (other than a tariff) that affects trade in some way (Kalínská 2010). According to the UNCTAD classification, non-tariff measures are divided into the following groups:

- **price-control measures** – actions implemented to control the prices of imported goods, for example import duties on fresh blueberries will not be calculated in the period from 1 January to 31 May, but seasonal duties will apply in the other months,
- **technical barriers to trade** – special customs formalities, food safety requirement or preservation of animal and plant health,
- **non-automatic licensing, quotas, quantity control** – the declaration of a quota (once the quota is exhausted, further imports are prohibited),
- **rules of origin, etc.** (UNCTAD 2019)

The openness of a country's economy and its trade policy settings vary from country to country. It is possible to encounter countries that have a high level of trade liberalism, including good terms of trade (i.e., without high tariffs or quotas). On the other hand, we also encounter countries that protect their domestic environment and economic sectors in such a way that it is very difficult for companies to enter or invest in these markets. A country's trade policy and international trade settings are a prerequisite for companies to consider entering foreign markets. Therefore, the trade policy and international trade strategy should be aligned so that the best possible terms of trade flow to the firm.

## **2 International Trade Strategy**

The concept of strategy is encountered practically every day in everyday activities. It is any plan, whether long term or short term. It is given that strategy first appeared in the context of combat. And even at the corporate level, strategy can be likened to warfare or contest. A firm develops its own strategy in such a way as to spend its resources most effectively in corporate activities and at the same time generate profit. The strategy of any firm is to generate the highest possible profits and therefore it is important to define this strategy correctly and make decisions based on it. The strategy tells how the company will achieve the identified objectives.

The basis for creating a corporate strategy is to determine the vision and mission, that is, what direction the company wants to take. The mission statement should answer the questions: what does the company do? Who are its customers? What should the business look like in the future? According to Mallya (2007), this mission statement should first be in line with the internal and external conditions of the organization, and its most important task is to motivate and inspire the employees and managers of the company. The vision is then an expression of the desired state of the enterprise in the future. It must be clearly communicated and realistic and, again, should inspire all those involved. It is important that the enterprise has both a mission and a vision, with the vision being defined first as it defines the actions and aspirations of the enterprise in the future, and thus becomes the basis for developing the mission, which will further elaborate the vision and put actions in place to achieve it.

The general strategy of the company is followed by the marketing strategy, which is directly linked to the overall corporate strategy and should unconditionally respect it. According to Jakubíková (2013), the marketing strategy expresses how the company wants to compete with its products or services in defined target markets or market segments and how it wants to achieve determined objectives. It represents the basic concept within which businesses implement the best possible course of action to reach target markets and their customer satisfaction products. Every company is exposed to different influences and therefore the marketing strategy should be based primarily on the strengths of the company and take advantage of appropriate external opportunities. Finally, it should also consider the internal capabilities of the enterprise and consider the conditions within the competitive environment. The basis of a successful strategy is therefore to identify the strengths and

weaknesses of the business and to compare them with the opportunities and threats that arise from the external environment of the company.

From the point of view of the marketing concept, it is also advantageous to gain a so-called **competitive advantage** over the competitors in the sector. This can be gained when a company offers its target customers something better than its competitors. To gain this competitive advantage, it is necessary to know the competitors well and to develop a strong competitive strategy, which is again intertwined with the overall corporate strategy and the marketing strategy. Porter says that the competitive advantage that a business can gain is divided into two basic types – low cost and differentiation. Each of these strategies represents a different approach to achieving competitive advantage. The **low-cost leadership strategy** consists of the firm's leadership in total costs within an industry. The sources of advantage depend on the structure of the industry in which the firm operates, and include, for example, the pursuit of economies of scale, patented technologies, better access to raw materials, etc. The lowest-cost leader will have above-average performance in its industry if it follows average prices. The **differentiation strategy** then seeks to create something that is unique in the industry. For a company that wants to differentiate itself, the most important thing is not low cost, but to differentiate itself in e.g., design, brand image, technology, features, customer, or sales service, etc. With successful differentiation, the company will achieve above-average revenues, secure customer loyalty and a better position to substitutes than its competitors (Magretta 2012).

Strategy, whether short or long term, is of fundamental importance to the firm and is widely incorporated into management theory and practice. Strategical planning and decision making is very important for a company and, if it is chosen correctly, it can lead to a significant competitive advantage over competitors and thus provide the firm with large profits. The international trade strategy of any firm should be based on the overall strategy, especially marketing strategy. With the entry into foreign markets, the concept of strategy expands to include other important criteria and once a firm decides to enter the market of a particular country, it must develop a proper strategy to penetrate and operate in that market. The entry of a company and their products into an international market is usually the first step and the impulse for the firm's overall internationalization process.

## 2.1 Internationalization

As mentioned in the introduction, with increasing globalisation, the number of firms operating in foreign markets is growing. Either these are firms that started in the domestic market and gradually internationalised their products and processes, or they are firms that started doing business internationally right from the start. Internationalization affects the whole enterprise, and it is always very difficult to know if it has positive results on it or not. New theories show that globalization may not last indefinitely and so it is important for companies to follow current trends and analyse both foreign and domestic markets (Potužáková et al. 2016). In this subsection, the thesis will focus on the internationalization of the product in the firm, which will later serve in the second part of the thesis.

### *Product internationalization*

According to the marketing view of internationalization, products are categorized according to the market to which they are supplied:

- domestic products – products in the domestic market (this includes regional products),
- export products – products that are supplied only to selected markets and are adapted to the needs of a particular foreign market or customer,
- multinational products – products adapted to the specifics of individual markets (e.g., packaging size),
- global products – fully standardised products for the widest consumer segments (differences only occur in the case of translations of packaging and instructions for use). (Potužáková et al. 2016)

Therefore, in the context of export marketing, adaptation or standardization strategies are used. In the case of **standardization**, the company offers the same product on both domestic and foreign markets – it is a global product. For the firm, this strategy means lower costs, increased production quantities and higher competitiveness. Standardisation permeates the whole enterprise, including marketing. This strategy is common for raw materials, agricultural products, or industrial products where there are standards that are accepted worldwide. **Adaptation**, on the other hand, means adapting a product to the needs of a market, segment or individual. A firm may adapt its products to foreign countries voluntarily – that is, of its own volition based on customer preferences, or the adaptation of products in each country is mandated – resulting from government standards or decrees. Adaptation or

standardisation can be related directly to the product (size, shape, function, packaging) but also to the services for the product. With an adaptation strategy also comes the decision to what extent a particular product will be adapted in a particular country and what services it will offer to its customers (Potužáková et al. 2016).

### ***Internationalization of processes***

In principle, all processes in the company, including internationalization, are primarily aimed at increasing sales profits, and achieving better prices. Furthermore, further opportunities for internationalisation, e.g., in the supply chain, are inevitably sought that lead to cost reductions. Therefore, firms are choosing the more cost-effective options of exporting all or part of their production to countries with cheaper labour and lower overheads. However, internationalisation also affects the sales process, whereby sales through foreign intermediaries are used, which gains more orders and customers, but also has the negative impact of losing control over its product and the overall distribution process. At the same time, the company is forced to increase the price to the customer in this case, as costs are increased by the commission to these foreign intermediaries (Potužáková et al. 2016).

### ***Internationalization of human resources***

Human resources are another area that feeds into internationalisation when a business operates abroad. As such, human resource management can be defined as a strategic approach to managing people who contribute individually and collectively through their work to achieve the goals of the entire organization (Armstrong 2015).

Thus, human resources in a company are considered as a positive factor that contributes to the implementation of the established corporate strategy or a critical aspect that hinders the changes needed in the development of the firm. As mentioned in the introduction, globalisation is growing at an extreme pace and affects the whole world and most companies. Therefore, companies that do business abroad must also adapt their human resources internationally. Four approaches to international management were defined by Howard Perlmutter in 1979. These approaches are also discussed by Štrach in his publication in 2009. These approaches define the relationship between a company's strategy and its HR policies in filling key positions in the subsidiaries of international companies. The EPRG model incorporates strategy:

- ethnocentric



- polycentric
- geocentric, and
- regiocentric (Štrach 2009).

Štrach (2009) states that the **ethnocentric approach** is typical of firms, with their parent company staffing key positions in all branches with expatriates seconded from headquarters, characterized by high numbers of these employees and a preference for domestic human resources. This strategy is mainly used by companies that are just starting to operate in a market where they don't know local labour market. This approach also tends to be applied in relation to manufacturing subsidiaries with a global programme, whereby foreign subsidiaries only produce products with a lower technological level, as the home workforce is perceived to be more competent.

Another possible approach to employing people is a **polycentric strategy**. Such oriented companies often establish themselves in culturally different regions. Here, the individual branches adapt to local conditions and the head office leaves them some autonomy. Applying a single central organisational culture here would be highly problematic and subcultures are therefore created. The basis of this policy is the employment of local managers who are well versed in the local market. Polycentric operations tend to be sales-oriented, with local management producing products from the global product parent that match requirements with local customers (Štrach 2009).

The third approach is the **geocentric strategy**, which converges cultures and exploits their individual specificities by blending the influence of the parent company with the multinational standards of foreign subsidiaries. Here, regional parts of the firm that operate internationally are effectively brought together to create synergies. However, the creation of such a corporate culture is not short-term. Key positions in the company are filled with the most suitable employees according to their performance and competencies, regardless of their nationality. The geocentric approach is typical for new industries such as information or communication technologies or, conversely, for very primary industries such as mineral extraction (Štrach 2009).

The last strategy complementing the EPRG model by Perlmutter is the regional-centric strategy. It stands between the polycentric and geocentric strategies and international human relations in this case are managed according to geographical units. Even employee mobility

takes place within these regions, which are usually defined by natural boundaries, i.e., the Europe, South America, or Middle East region (Štrach 2009).

The EPRG model explains the principle of international human resources and in practice it is often a combination of the above strategies. The choice depends on the specific situation the company finds itself in, e.g., when opening a new office, company objectives or political instability.

### ***Internationalization of innovations***

The internationalization of innovation essentially builds on all three of the above terms. According to the OECD (2018), innovation as such can be defined as a new or significantly improved product (good or service) launched on the market or the introduction of a new or significantly improved process within an enterprise. It is also any change in the management or structure of an organisation. Innovations are linked to technological developments or to the use of new knowledge acquired by the enterprise. Innovation essentially improves the existing form of the product, service or process provided.

Potužáková et al. (2016) further talks about the fact that internationalization in the field of innovation can be spoken of when a firm:

- exports its innovative products abroad,
- develops innovations involving a foreign workforce,
- obtains financing for the development of the innovation from abroad,
- it uses instrumentation from abroad to implement the innovation,
- obtains income from foreign licensing or other forms of intellectual property.

The last item, the protection of corporate intellectual property, plays an important role in the internationalization of a company since the extent of this protection largely determines the volume of profits from abroad. In practice, it is a question of the extent to which a firm sells under its own brand and the extent to which it merely sews under foreign brands.

## **2.2 Forms of entering the international market**

Deciding how a company enters a foreign market is a key strategic step. The choice of a particular strategy is influenced primarily by factors such as the potential of the target market, the riskiness of doing business in each foreign market, the investment intensity, and

the overall competitiveness of the firm in the international environment. Forms of entry into foreign markets can be divided into three broad groups – export operations, non-capital investment intensive forms, and capital entry by firms into foreign markets. Companies operating abroad usually choose a combination of these forms (Machková 2021).

### **2.2.1 Export and import operations**

Export is the most common and easiest way to penetrate foreign markets. Many companies start operating in foreign markets by exporting and, once they have achieved sufficient penetration, choose other internationalization strategical step to further strengthen their position. The main advantage of exporting is the ability to avoid the high cost of production in each country. However, there are several disadvantages that may make exporting unprofitable for a company (Hill 2013).

Business methods are implemented based on contractual relationships with the following business partners – intermediaries, sales representatives, exclusive seller, and other entities.

#### ***Intermediary relations***

In international trade, there are many entities that do business in their own name, at their own risk and on their own account. Intermediaries sell the goods they buy to other buyers and their remuneration is a price margin or commission. The use of an intermediary is advantageous for small businesses for which having their own dedicated department would be too costly. It also results in lower risks from international trade and the possibility of exporting to markets where it would be too costly to trade directly. Conversely, the disadvantage of using an intermediary is the loss of control over the international marketing strategy and the loss of contact with the customer (Machková 2021).

#### ***Exclusive seller***

Another way for a company to enter a foreign market is through an exclusive seller, i.e., a supplier commits to sell only to an exclusive customer. This agreement is created by concluding a contract, which must be in writing and must include the area and type of goods. The advantage of using these services can be rapid entry into foreign markets in already established distribution channels. This form often serves as a test of the potential of a given market. If it is confirmed that the market is sufficiently profitable and customers are interested in the product, subsidiaries are then set up in the area to control sales in the target market. The disadvantage is, as with the intermediary, the loss of direct contact with the

customer and the possibility of blocking the market if the exclusive seller fails to meet expectations or conditions (Machková 2021).

### ***Sales representatives***

The form of sales through a sales representative works based on a contract, where the representative undertakes to conclude long-term transactions with foreign and other entities on behalf of the company he represents and on its account. Building a representative network abroad often determines the success of a company, so building a good network is very important.

Before signing a contract with a sales representative, it is very important to find out about his/her relationships with competing companies and to define the scope of his/her activities. Typically, this is a non-exclusive representation where the firm uses other representatives, and the representative also represents other firms or entities. The advantage of dealing through an agent is that the person concerned knows very well the market in which he or she is selling and the companies that operate in that market. Very often, he already builds long-term relationships with the companies and performs a very important information function. However, it is necessary that they respect the conditions set by the company and follow its instructions (Machková 2021).

### **2.2.2 Non-equity, contractual operations**

Firms use non-capital-intensive forms of entry into foreign markets if they do not want to invest or operate through exports. The most used forms of such entry are licensing, franchising, and outsourcing operations. All three forms will be described below.

#### ***Licensing***

A license is defined as certain permission or authorization to engage in an activity that is otherwise prohibited. This form is very common in international trade. In the field of intangibles, a licence is used to authorise the use of an intangible by another person, or permission to manufacture according to an invention protected by a patent. A licence is granted by the one who has the so-called absolute right to the intangible asset, for example the owner of a patent. This right allows him or her to allow anyone else to use that particular asset. However, if the owner chooses, he can grant someone else the right to use that property - just by granting a licence (Machková 2021).

In licensing, a distinction is made between licences for patents (inventions), industrial designs (external design of a product), utility models (technical design of a product), trademarks (use of a company's trade name) or a licence to use know-how (Machková 2021).

### ***Franchising***

Franchising is a contractual relationship between partners in which the franchisor obligates individual franchisees to use the trade name and subject matter of the business in their company. This means that it provides its know-how, including management systems, service provision, and technical and sales assistance, and the franchisee contractually agrees to comply with the franchisor's policies and pay the appropriate remuneration. Franchising is nowadays mostly applied in areas with commercial business. These are, for example, in the hotel, fast food and retail sectors (Machková 2021). A typical example of franchising in practice is the fast-food provider McDonald's, which has more than 39,000 restaurants worldwide (Statista 2020).

### ***Outsourcing***

According to Machková (2021), outsourcing means that the company transfers some activities (most often production) to external entities, which brings advantages such as reduced production costs, flexibility, when it is possible to change suppliers and there is a possibility to react flexibly to seasonal fluctuations. This allows the company to focus on its core strengths, which create much higher added value. Along with the increasing competition, companies are looking for a supply chain partner that can improve its efficiency in producing products so that it can better stay in business and achieve better results and higher profits (Shanmugan 2019). As a result, outsourcing is quite common nowadays and especially in the textile industry. Companies are shifting their production specially to developing countries with cheap labour. A practical example of outsourcing is Nike, which does not even consider itself a manufacturing company, as it concentrates all its production in developing countries where costs are low.

### **2.2.3 Investment operations**

Capital entries into foreign markets are characteristic of large companies, as they are very investment intensive. They most often take the form of direct investment. Foreign direct investment is characterised as an investment whose purpose is to establish, acquire or expand permanent economic relations between an investor in one country and an enterprise based in another country. Most direct investment flows from developed countries to developed

countries in the form of acquisitions, mergers, and strategic alliances. A description of each of these follows (Machková 2021).

### ***Mergers and Acquisitions***

Acquisition or is characterized as the takeover of an operating business or part of it. It is usually a so-called "friendly acquisition", the aim of which is to strengthen the position of the company, or a "hostile acquisition", the aim of which is, on the other hand, to liquidate the competitors. A fusion takes the form of a merger or consolidation. A consolidation is a combination of companies in which the merged company ceases to exist without liquidation of assets and liabilities, because the assets and liabilities are transferred to the company with which the merging company is merged. A merger then means a business combination in which one company is dissolved and a new legal entity is created. In the field of international business, three types of acquisitions and mergers can be identified. In practice, the horizontal form is the most common, where companies from the same business sector merge. Their main objective is to increase their global market share. Vertical forms aim at strengthening control over suppliers or customers. The usual objective of conglomerate forms, in which firms from different industries merge, is to diversify corporate activities and spread business risks (Machková 2021).

### ***Joint venture***

A joint venture is the pooling of the resources of two or more companies under common ownership for the purpose of carrying out a common business plan, jointly generating profits and jointly covering any losses. Two forms of joint ventures are commonly encountered in the international environment. These are contractual joint ventures and joint ventures based on equity investments. The advantages of joint ventures are in the use of the local partner's contacts and knowledge of the markets or the faster possibility of entering foreign markets. On the other hand, the disadvantage may be inconsistencies in joint management. The most common is a combination of a strong and a weaker firm or a firm from a developed country joining with a firm from a less developed country.

However, a similar form like joint venture is a **strategic alliance**, where two large and powerful companies from developed countries most often join. Thus, the motivations for the formation are different, as the previous form involved the merger of a strong firm with a weaker firm. Originally, strategic alliances were formed in the telecommunications industry or in the aerospace or automotive industries. Nowadays, strategic alliances are also found,

for example, in retail chains. In practice, we see alliances, for example, in the case of Japanese car manufacturers, who have encountered too many obstacles from the US. They therefore formed strategic alliances with car manufacturers in the US, which allowed them to sell their cars under US brands, which were not subject to any quotas. This type of alliance was formed, for example, by Mazda and Ford or Toyota and General Motors. (Machková 2021).

International trade strategy takes many forms in practice. It follows the overall corporate strategy, and it is usually tailored to the company that wants to internationalize its activities and processes according to the reasons it has for internationalization, the present development, and the prerequisites it has for international expansion. This is also the case for the selected company.

### 3 The company LA LINEA, s. r. o.

LA LINEA, s. r. o. is a traditional Czech manufacturer of printed cotton fabrics based in Dvůr Králové and Labem, in a region with a large textile history. The company was founded as a successor to the original printing plant TIBA a. s.

Tiba a. s. was founded in 1928 by Julius Löwenbach. In the 1960s and 1970s was the largest producer of cotton textiles and at that time the company registered 24 plants throughout the whole Czech Republic. Dvůr Králové was called the "Czech Manchester". However, Tiba, like other companies, failed to cope with privatisation after the Velvet Revolution and most of their factories were restituted in 1989. The plant in Dvůr Králové was then resold to the Swiss businessman Elard Maron, the owner of a real estate buying company SIMATEX and at that time the owner of several full-scale factories such as Mileta, Erba, Lautex and others. In 2005, with the closure of the Swiss HEBERLEIN AG printers in Wattwil, the Maron group transferred the entire Heberlein technology and its know-how in high-end men's shirting fabrics from Switzerland to the Czech Republic, bringing LA LINEA to the Czech Republic at the highest technical level.

To understand the internal relationships within the company, an organizational structure was constructed, which is shown in Figure 1.

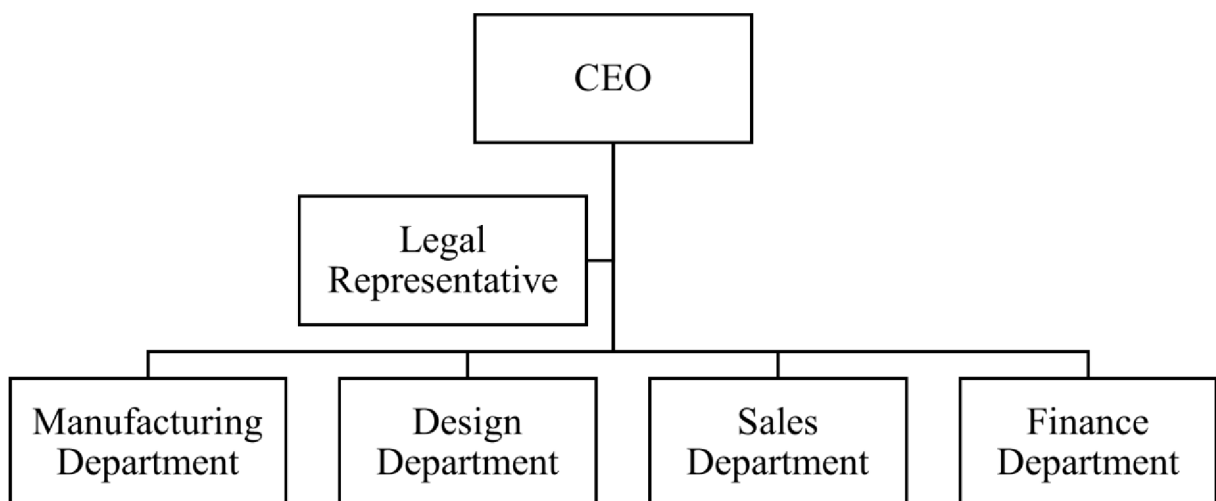


Figure 1: Organizational structure of LA LINEA

Source: Own processing according to qualified interview with company representatives



The highest representative of the company is its managing director, who has long-term and close cooperation with the Swiss owner of the company, Mr. Maron. The CEO is thus also the employee of the parent company SIMATEX and the subsidiary LA LINEA. The **managing director** in cooperation with the owner are practically responsible for purchasing in the company, which will be further specified in the next part of the thesis. Just below the managing director is his **legal representative** who, in his absence, signs all the necessary documents and oversees the running of the company. The legal representative is followed by the individual departments – manufacturing, fabric design, sales, and finance. **Manufacturing** is further divided into maintenance, further fabric treatments, which depending on the type of fabric (cotton, linen) and the printing itself (rotary, digital). **Fabric design** deals with the creation of new collections and the creation of designs according to the customer's wishes. **The sales department** has several employees who take care of the actual sales and communication with customers and agents, and it also includes a sample room that contains all the fabric designs the company has ever sold. They are used when a customer wants to see the fabric samples that the company can offer them. The firm has its own **finance department**, which includes the firm's chief accountant and a payroll accountant.

The essence of the strategy of the company's international trade is to buy the cheap and high-quality purchase of blank fabrics from abroad, on which the company prints its own designs directly in Dvůr Králové. Then, the company sells these fabrics to luxury brands in the European Union, third countries and, in a small extent, domestically.

The sales range consists of fabrics that are later used to produce shirts, costumes, bed linen and home textiles, of which costume fabrics account for the largest share. These fabrics are certified according to STANDARD 100 by OEKO-TEX®. This certification guarantees, for example, that the fabric does not contain any harmful substances and chemicals that would, for example, harm the person who wears the fabric products. The certification also tests fabrics for banned azo dyes, formaldehyde, nickel, etc. This certification is therefore a considerable advantage when offering company products and thus guarantees lasting business relationships. LA LINEA renews its certification every year when it sends samples of its fabrics to the German OEKO-TEX office.

To find out which type of fabrics dominates the company's sales; a table was compiled summing up the number of meters sold in relation to the type of fabrics. The number of metres of printed fabrics produced by product range in 2017-2021 is shown in Table 1.

*Table 1: Production in years 2017-2021*

<b>Production in years 2017–2021</b>	
<b>Product (Fabrics)</b>	<b>Number of metres</b>
Costumes (57 %)	2 130 272,38
Shirts (33 %)	1 233 381,43
Home textile (6 %)	224 243,60
Bed linen (4 %)	149 495,72
<b>Total</b>	<b>3 737 393,13</b>

Source: Own processing according to internal company sources

Data was collected for the last five years, and the total meters of those years added up. The table shows that costume fabrics have had the highest share of production in these last five years, followed by shirting fabrics, which are starting to gain more and more production. Bed linen and home textile are then produced in small quantities, together accounting for only 10 % of the total volume of all fabrics. It is therefore safe to say that LA LINEA's core products are the fabrics used to make shirts and costumes. Because of that this thesis will focus mainly on these two core products. The next part of the thesis will deal with the company's international trade strategy. Specifically, the thesis will deal with the extent to which the company internationalizes its activities, the import of blank fabrics, the production and export of printed fabrics, i.e., the entire purchasing, production, and sales process.

### **3.1 Internationalization and Trade Strategy of the company**

The process of internationalization affects practically every company that is in some way present abroad. Whether it is importing goods from abroad, redirecting activities abroad or then exporting products to foreign countries. Every company that trades with foreign countries is essentially internationalizing its product, activities, or services. Internationalization is the basis of a firm's international trade strategy.

In the case of LA LINEA, internationalization is most evident in the product, which is always adapted in some way to current trends or customer needs. In essence, LA LINEA offers the same product repeatedly, namely printed fabrics. However, the way it works is that

individual designs are created in collections twice a year. One collection is created for the SPRING, SUMMER season and the other collection for the AUTUMN, WINTER season. New shirt fabric designs are created in collaboration with an Italian studio that follows new market trends and creates new types of collections according to its findings. In this way, Italian designers create about 60 % of the collections and the remaining 40 % are finished by designers directly in Dvůr Králové. Often, the designs are merely adapted from the most popular ones of previous years. These fabric designs are then published and offered to customers at trade fairs or on the e-shop. In a way, this is an adaptation of the products according to the current trends and according to the current needs of the customers.

As far as the internationalization of processes is concerned, it is mainly about the production of the initial product abroad. As already mentioned in the chapter on the company's introduction, LA LINEA buys blank fabrics abroad and prints and modifies them. For the transport of the fabrics, both for purchase and for sale, the company uses its contractual partners DHL from Germany and TNT from the Netherlands. This means that half of the supply-consumption chain goes through foreign partners, thus internationalizing the processes.

LA LINEA has been in the hands of the Swiss owner Maron since its purchase after 1989. From this moment on, the company has been a subsidiary of the SIMATEX, which means that, in fact, the human resources of the company have been internationalized since its foundation. All other employees in the company are Czech. This means that all the employees of LA LINEA (see Figure 1), including its managing director, are expats for the Swiss owner. However, as mentioned in the introduction, the Swiss production of Heberlein technology and its know-how in high-end men's shirting fabrics was transferred to the original Czech company Tiba after 1989. Although the company is based in the Czech Republic and all its employees are Czech, the entire production and printing is based on Swiss technology. The company itself guarantees its customers "shortest lead-times and permanent reliable Swiss quality standard", as it says in its description on its website, so there is no Czech production at all. The company's production strategy is therefore based primarily on the Swiss quality of its fabrics.

Also, the company is not present in the world under its brand name at all. The company sells printed fabrics to foreign buyers, but nowhere does it indicate that it is "LA LINEA" brand fabric. Only the dimensions, fabric type and design number are given on the label. The

foreign brands that later sew the fabric into shirts also nowhere indicate that the fabric is from LA LINEA company. This shirt is already listed by the buyers under their own brand.

### 3.2 Import

As mentioned above, LA LINEA first purchases relatively cheap but high-quality blank fabrics in countries with low production costs and then imports them to its production centre where it prints its own designs. The countries from which the company imports the fabrics are shown in Figure 1.



*Figure 2: Fabrics suppliers*

Source: Own processing according to internal company sources

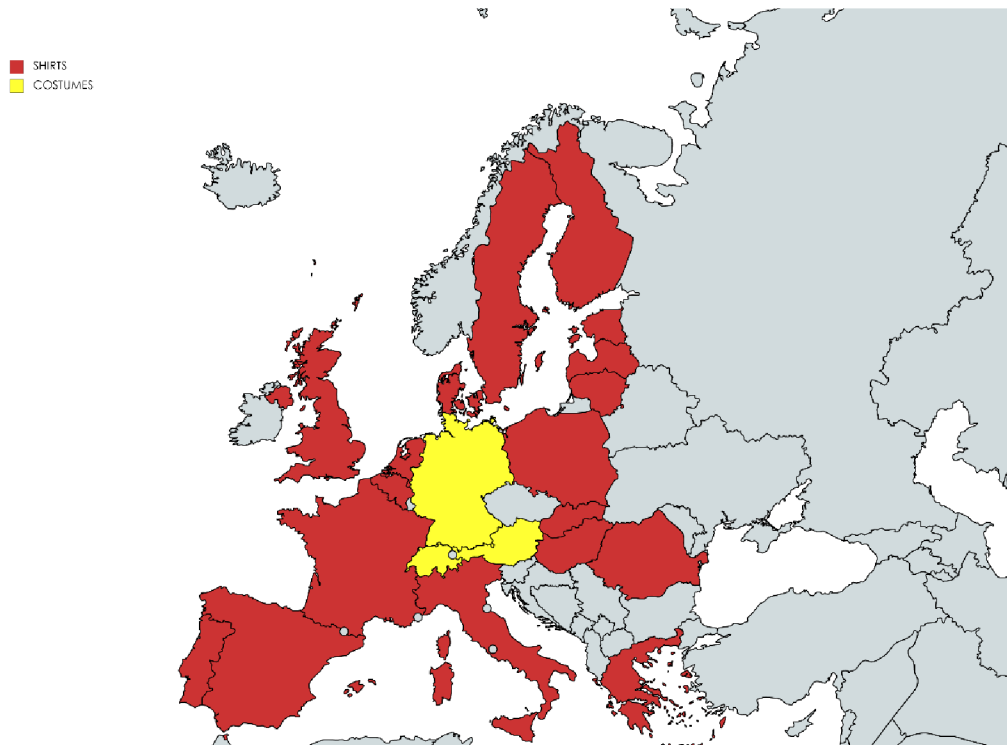
Imports of fabrics are made from four countries. These are Portugal, China, India, and Uzbekistan. In the case of Portugal, which is a member of the European Union like the Czech Republic, trade is simple. One of the cornerstones of the European Union is free trade between Member States and therefore, there are no tariffs and no barriers to trade. The other three countries are not part of the European Union and are therefore third countries. Different trade policies of EU is applied into trade with third countries. EU Member States keep a common tariff for goods imported from outside the EU. This is the integrated TARIC tariff code in force since 1987, which contains all the tariff rates and some EU rules on external

trade. It establishes a common system for the coding and classification of goods, called the Combined Nomenclature, which is used by all trading countries (including in international trade negotiations). This coding facilitates their uniform application by all Member States and provides all economic operators with a clear overview of the measures to be taken when importing goods into or exporting goods from the EU. Textile products belong to Section XI, which is further subdivided into chapters according to the type of textiles. In the case of LA LINEA, it is Chapter 52, which belongs to cotton. And this chapter is further subdivided into other parts, e.g., cotton, not carded or combed (5201), cotton waste (5202). These types are then subdivided into further sections. In total, the code may contain 8 digits. The code is then used to determine the rate of duty to be paid during imports. LA LINEA pays these duties on imports and does not use any intermediaries or sales representatives for imports. All fabric purchases are made through the owner, who is in direct contact with the suppliers. As the business in this area is working without major difficulties, there seems to be no need for further change of strategy. Subsequent steps to improve the situation will be applied to sales and exports.

### **3.3 Export**

This part of the thesis will deal only with the fabrics used to make shirts and costumes, since these two types account for 90% of turnover, as it was explained above. In the chapter on company introduction, it was already mentioned that LA LINEA sells fabrics mainly to

European countries. The specific countries with customers who regularly buy fabrics are shown on the map in Figure 2.



*Figure 3: European countries receiving LA LINEA fabrics*

Source: Own processing according to internal company sources

The regular countries from which customers buy shirting fabrics are Finland, Sweden, Estonia, Lithuania, Latvia, Poland, Slovakia, Hungary, Romania, Greece, Italy, Portugal, Spain, France, Belgium, the Netherlands, Denmark, and United Kingdom. They are marked in red on the map.

Although costumes account for the largest share of the firm's fabric production, costume fabrics (yellow colour) are supplied only to Germany, Austria and Switzerland, countries where costumes are traditional. This includes, for example, the Dirndl, which is a traditional women's folk costume worn mainly in Austria and southern Germany, rooted in the historical rural clothing of the German-speaking regions of the Alpine countries of Germany and Austria. Nowadays, the dirndl is also part of women's fashionable dress outside its traditional area of distribution, especially at folk festivals such as the Munich Oktoberfest beer festival.

Most of the countries with which the company trades are members of the European Union, which means that they belong to a free trade zone and no customs duties apply. As far as European countries are concerned, the European Union does not include Switzerland and the

United Kingdom, which left the EU in 2020. Although Switzerland is not an EU member state, it belongs to the Schengen area and the European single market, which means that free movement of goods and services also applies when trading with this country. Exports here are also not burdened by tariff barriers. For the UK, it is a little more complicated. According to the Trade and Cooperation Agreement between the EU and the UK, if the goods originate from the EU or the UK, there is no customs duty. LA LINEA can say for most of its products that the fabrics come directly from the EU, even if they buy the pure fabrics from third countries. In fact, by printing the designs, they modify the fabric by more than 95 % and can thus claim these goods as EU origin. In this way, the company avoids the customs duties that apply in the UK.

80 % of all sales therefore go to European countries. A further 19 % are domestic sales, which, however, relate only to bedding and home textiles and account for around 10 % of turnover. The remaining 1 % are sales to third countries, which have high regional quality requirements or barriers to entry so high that it is not worthwhile for the company to trade with them. This includes, for example, the United States, which is the EU's largest trading partner. However, although the United States and the European Union are such large partners, there is no specific free trade agreement between them. Negotiations to conclude the so-called Transatlantic Trade and Investment Partnership (TTIP) were launched in 2013 but ended without conclusion in 2016. Despite this, EU-US trade enjoys one of the lowest average tariff burdens in the world at less than 3 %.

The company also cooperates in small quantities with customers from Canada. At the moment, however, this is a market that is not explored at all. In 2017, the Comprehensive Economic and Trade Agreement (CETA) was signed between the European Union and its members and Canada, which includes the promotion of labour rights, environmental protection, and sustainable development. But what is more important for trade is the elimination of most tariffs, which improves and ensures better market penetration of Canadian goods and services.

As far as sales are concerned, LA LINEA enters foreign markets through sales representatives or directly addresses customers from the sales department or at trade fairs, which it participates in every year. These fairs take place in Milan (Milano Unica) and Paris (Première Vision), and they are shirting fairs. Here are present the sales managers of LA LINEA, the sales representatives who cooperate with the company and the customers

themselves or their representatives who are interested in the fabrics. As far as costume fabrics are concerned, the Munich Fabrics Start is held every year in Munich and the company also participates in it every year. These trade fairs are a great opportunity to attract new and new customers, and at the same time a chance to deepen relationships with existing customers.

Table 2 below shows the list of customers from countries that regularly purchase LA LINEA printed fabrics. The data is for the period 2018-2021.

*Table 2: List of European customers (2018-2021)*

Country	Total Turnover in CZK	Average number of customers	Number of agents
Germany	70 454 038,65	96	2
Italy	31 498 227,43	68	7
Austria	28 119 976,19	36	None
Slovakia	3 502 570,46	36	None
Poland	6 799 433,89	25	1
Switzerland	7 018 879,62	20	None
France	6 817 274,78	19	2
United Kingdom	2 982 065,14	9	None
Spain	1 642 033,73	8	1
Belgium	3 379 205,40	7	1
Estonia	1 337 693,39	6	None
Netherlands	20 825 689,96	6	1
Romania	1 698 760,32	5	None
Lithuania	611 224,67	4	None
Portugal	654 049,35	3	None
Finland	419 925,55	3	None
Sweden	25 228 935,44	2	None
Greece	381 677,47	2	None
Denmark	713 391,86	2	None
Latvia	105 076,17	2	None
Hungary	60 579,94	2	None

Source: Own processing according to internal company sources



As can be seen in the table above, the countries are ranked according to the average number of customers of the firm in that country. The second column then shows the sum of the total turnover in that country for the period 2018 to 2021. The last column further shows in which countries the firm sells its products through sales representatives.

In terms of total turnover and the number of customers in each country, Germany, Austria, and Switzerland dominate the table. This is because LA LINEA is one of the leading suppliers of costume fabrics in these countries. The strategy here is therefore clear and the customers are loyal. However, if only shirting fabric sales are considered (which is the case for all other countries in the table), there is an interesting finding. In terms of the number of customers per country, Italy (with an average annual number of 68 customers) is clearly the world fashion leader. However, if the total turnover is further compared with, for example, the Netherlands (average of 6 customers per year) below or even Sweden, which is almost at the bottom of the table with 2 customers, these countries do not lag so far behind in total turnover. This is because Italy is a huge competitor in terms of number of customers. This country is dominated by the textile industry and especially by traditional family businesses. In the case of the Netherlands and Sweden, on the other hand, the numbers of customers are lower, but by buying luxury fabrics from the company, it generates such high turnover. The number of customers in Italy also determines the number of agents LA LINEA has in Italy. Each part of Italy is completely different, and the customers have different needs, which is why it is necessary to have so many sales representatives. In other countries, however, this form of entry is not preferred. It then has two agents only in Germany and France and then one agent each in Poland, Spain, Belgium, and the Netherlands. The sales manager communicates with the other customers.

### 3.4 SWOT Analysis of the company

The information above describes the business situation of the company and indicates some strengths, weaknesses, opportunities, and threats. For a complete overview of these, a SWOT analysis will be used to help analyse the current situation of the company and based on this, steps for improvement will be proposed. Figure 4 depicts the strengths and weaknesses of the firm and its external opportunities and threats regarding to international trade strategy.



Figure 4: SWOT Analysis of LA LINEA

Source: Own processing

As can be seen in the figure above, one of LA LINEA's main **strengths** is its large textile history. Over the years, the company has built up a good reputation all over the world and therefore has a large network of loyal customers. Depending on this strength, it is considerably easier for the firm to reach new customers as they have good recommendations from existing ones. Next strength of the company is its parent company under which it belongs. In the event of a poor financial situation, SIMATEX would support LA LINEA to avoid premature bankruptcy and so the company would not be forced to end the business. The quality of the materials that the company supplies to its customers is another advantage that results from the company. For example, large customers, such as the Italian brand Giorgio Armani, have fabrics imported first by an external company that checks the quality of the fabric supplied and then sends LA LINEA a report on the shortcomings found. In this

case, there are never major quality defects, which is a good sign of quality for the company. And as mentioned above, the company also confirms its quality by obtaining the annual STANDARD 100 by OEKO-TEX® certification, which guarantees that the fabrics sold by LA LINEA are not harmful to health.

LA LINEA is a manufacturing company, hence one of its main **weaknesses**, namely its high sensitivity to price changes. And when we talk about prices, we are talking about changes in energy prices. A manufacturing company such as LA LINEA is highly sensitive to changes in energy prices because once electricity and gas prices increase, the cost of production is significantly affected, which must be reflected in the selling price, so that the company does not start to make a loss on its products. This year, energy prices have increased by almost 30 % and the company has had to react significantly to this change. The problem is that the company is not only sensitive to changes in energy prices, but also cannot afford to raise prices by the same rate as energy prices have increased. Because the whole business process takes one year, for some contracts that have already been paid for, the price cannot be increased any more. Prices can only be increased in bulk from the start of the next business process and for orders that have already been created, prices are dealt with individually. There are even situations where the company deals with customers who do not even make a profit for the company, because the company prioritises good customer relations and the management believes that the period of high costs will not weigh on the company for long and it is better to keep a loyal customer than to lose them through high prices. Another weakness is the fact that LA LINEA only acts as a sort of an intermediary in the supply chain as their printed fabrics are further processed into a finished product. This is a weakness because the company is highly dependent on the success of the companies that source and process the fabrics. So, the company should hedge its bets in some way.

The qualified interview also revealed another weakness in the form of the impossibility of focusing on a range of products other than shirting and costume fabrics, given that the company's machinery is not geared to this. These interviews also revealed an important weakness in the company's human resources. LA LINEA has only one sales manager for English-speaking countries and one sales manager for German-speaking countries who takes care of the customers who buy the costume fabrics. And because the company deals with more than 20 English-speaking countries, it is very difficult to sell effectively and attend to customers from each country, especially as each country has its own culture and different customs and the approach to dealing with them needs to be adapted according to that.

In terms of external **opportunities**, the company's long history and reputation in the world, which include the company's strengths, make it easier for the company to gain new customers. A concrete example was the cooperation with an Italian company that initially refused the cooperation and went to do business with competing companies, but later went bankrupt and thanks to the earlier approach from LA LINEA and recommendations from other textile companies in Italy, the company decided to contact LA LINEA again and conclude business with them after all. The company also gets new customers thanks to its intermediaries (agents) in the markets concerned, as they are always looking for new fabric buyers in the region in which they operate. Another opportunity is to penetrate new markets that are still available to the company.

Canada, whose mentality is like England's and France's due to its history, would be the worthiest of consideration. The company already trades regularly with these countries. European Union member states concluded a tariff-free free trade agreement with Canada in 2018 (CETA), which means that trade between these member states and Canada will be greatly simplified. Another opportunity that the analysis of the work has shown is the still underserved Italian market, which can be further expanded with more and more customers, as there are countless sewing workshops in Italy. The strengths also include the possession of a certification that guarantees health-safe substances. This certification can be expanded to include other certifications that would allow the company to gain additional customers who require these certifications. These are the Global Organic Textile Standard (GOTS) certification and the Fair Wear Foundation certification. These would guarantee that the company purchases and manufactures its fabrics in accordance with a clean environment and ensuring the rights of workers in the workplace. All these opportunities will be further elaborated in the proposals to complement the company's strategy in the next chapter.

There are also **threats** from the external environment that can afflict a company's operations. One of these are the barriers that afflict trade with foreign countries. The biggest barrier is tariffs, which in the case of some countries are too high, making it impossible to trade with the firm. One such country is China, for example, which requires duties on orders over €8,000. However, orders from LA LINEA are usually higher by several thousand euros and therefore business with the People's Republic of China is not as frequent. China is protecting its own market with this attitude and as is well known in this country; they largely sew its own textiles. LA LINEA itself takes large quantities of unprinted fabrics from China, on which it then prints its own designs. Another such country is Turkey, for example, which

has a duty limit of as much as €150, which is a huge barrier for LA LINEA. However, Turkey is not a customer for the company. The company sends goods to this country for many European customers who sew their textiles in Turkey. They then must pay a higher price for the fabrics because of the duty. Another threat that could affect the company is competition in the sector, if an existing customer starts to produce the fabric itself, the company will lose this customer. However, in most cases, it is far more profitable for European brands to outsource and buy fabrics directly than to produce them on their own machines at their own cost. Force majeure, which has been evident in recent years and days, also plays a major role in the external environment. These are the interventions in the form of the Covid-19 pandemic, which has affected the company in several ways – for example, after the outbreak of the pandemic, large companies stopped buying products, but at the same time there was a great demand for fabrics from private persons and individuals, due to the sewing of their own fabric drapes, which was a phenomenon not only in the Czech Republic. Thanks to this era, even in the first months of the pandemic, the company's income was several times higher than in the entire previous calendar year. However, this era did not last very long, and the company's turnover for several months afterwards was much lower than before the pandemic. From a staffing point of view, this was also a significant disadvantage, as it was not easy to work from a home office, workers were needed on-site at the production site, and so strict hygiene measures had to be followed to prevent infection in the workplace. Higher power can also impress in a way that most people in modern history would not never expect. Indeed, the war in Ukraine that is currently taking place can greatly affect the supply chain that is set up between companies. It is therefore necessary for a company to prepare in some way for this threat and the possible consequences of a chain breakdown.

The SWOT analysis above therefore identified the strengths and weaknesses of the company and outlined the external opportunities and threats, helping to identify areas and steps to complement the existing strategy, which are outlined in the next chapter.

## 4 Suggestions for completion the company's strategy

To further improve its position on the market and to better strengthen its relationships with its customers, the company needs to increase its strengths and use them to take advantage of opportunities that arise on the market.

The first step to improve its market position is to obtain more certifications of origin and quality of its fabrics. As mentioned in the chapter on company introduction, LA LINEA has one certification. This is the STANDARD 100 by OEKO-TEX® certification, which guarantees that LA LINEA fabrics are completely health-safe, containing no chemicals harmful to health. However, there are other certifications that the company does not have that would help it to attract more customers and especially new customers who require these certifications.

One of these is the **Global Organic Textile Standard (GOTS)** certification, which is awarded if fabrics contain at least 70% certified organic fibres. Organic fibres are those natural fibres that are grown without the use of synthetic pesticides and herbicides according to organic farming principles. This maintains the health of ecosystems, soil and people. The second condition, to obtain this certification, is to meet environmental and social criteria. Environmental criteria include e.g. separation from conventional fiber products and identification of organic fiber products, use of GOTS approved dyes and auxiliaries, companies must demonstrate environmental management including wastewater treatment, environmentally hazardous substances prohibited in chemical inputs. Social criteria then include, for example, a ban on child labour, no discrimination, mandatory occupational health and safety, no harassment and violence in the workplace, or allowing the employment of migrant workers. However, there are many more criteria. GOTS take certification ensures that all steps in processing, manufacturing and trading are covered. All stages must be certified according to strict environmental and social criteria in order for a product to be so certified. In this way GOTS prevents greenwashing, where a company cannot advertise compliance with only one phase, while the other would not have complied with the conditions. This cannot happen with this certification. The advantage of this certification is that it is carried out and the company's status is assessed by independent GOTS accredited certification subjects – it is a completely objective and credible assessment (Global-Standard, 2022).



Another certification that would help improve market positioning, attract more customers, and further enhance the quality of fabrics is the **Fair Wear Foundation** certification. If a company is a member and holds this certification, it commits to respecting basic human rights in the workplace. If LA LINEA were to hold this certification, its products would, from the very growing of the cotton for its fabrics, comply with these rights. The basis of the collaboration between the Fair Wear Foundation and its members is the Labour Standards, which are strictly adhered to. At the core of these standards are standards derived from the UN Declaration on Human Rights. The labour standards that must be respected in the workplace are freedom of choice of employment, freedom of association and the right to collective bargaining, non-discrimination in the workplace, prohibition of child labour, payment of a living wage, reasonable working hours, safety in the workplace and legally binding employment relationships. These standards are like the social criteria for GATS certification (Fair Wear, 2022).

For LA LINEA, this would mean that all its suppliers of the pure fabrics that the company buys, would have to comply with these standards. And if they did not, the company would not be able to continue working with them. With these two certifications, LA LINEA would strengthen its position in the market, as both the issue of poor working conditions in developing countries and environmental pollution are increasingly discussed and more and more countries and brands are actively addressing these issues. LA LINEA would thus gain many new customers who require these certifications.



Less studied so far from a corporate perspective is Canada. The second largest country in the world, with all external factors more than like the structure of the countries which the company already does business with (UK, France, and Sweden). Another proposal to increase turnover is to increase sales in this country. To better understand the Canadian

environment, a PESTLE Analysis was constructed, and individual factors are described below.

### **Political factors**

The political environment in Canada follows its history. The type of state here is constitutional monarchy, parliamentary democracy, and federation. The head of state is Queen Elizabeth II of Britain, who has a rather symbolic role in the government, as in the UK. The Queen appoints the Governor General of Canada, who handles all royal duties in the country. One of his duties is to appoint the Prime Minister and the Cabinet. The Prime Minister then heads the government and has executive power in the country, just as in Prime Minister in Czech Republic. The legislature in Canada is bicameral, as in the Czech Republic, and consists of the Senate and the House of Commons. The country is politically very stable and developed and is one of the safest countries in the world. (World Population Review, 2022). It is a founding member of the United Nations and maintains very good political relations with the world's most advanced countries such as the US, UK, France, and China (ITA, 2021).

### **Economic factors**

Another factor that is addressed in the PESTEL analysis is the country's economic environment, which is very favourable in Canada. The country is one of the most advanced economies in the world. Its GDP is 1.71 trillion as of 2022, ranking as the 10th largest GDP in the world (WPR, 2022). It is a member of the G7, the Organisation for Economic Cooperation and Development (OECD), the World Trade Organisation (WTO), the G20 and the Commonwealth. Canada also has several cooperation and free trade agreements with countries around the world. One of the most important agreements for Canada is NAFTA, signed in 1994. This is the North American Free Trade Agreement with the United States and Mexico, which aims to create a trilateral trade bloc between these countries. Another agreement of significance came into force in 2018 and it is the Comprehensive Free Trade Agreement with the Transpacific States (CPTPP). The most significant agreement for this work, and especially for the firm, is now the Comprehensive Economic and Trade Agreement (CETA), signed in 2017 with the European Union, which newly facilitates the export and import of goods and services for the benefit of people and businesses in both Canada and the EU. This has created a great new opportunity and gateway to a newly advantageous market for European Union countries. The agreement removes all tariffs on



all textiles and clothing originating in the European Union. If the fabrics meet the rules of origin set out in the agreement, LA LINEA can also export to Canada duty-free. This is a significant advantage as Canada applies MFN duties of up to 14% on certain fabrics. In order to benefit from this advantage, countries need to register in the EU REX system, which is required for orders over €6,000. Furthermore, the rules of origin are mainly based on the principle of double transformation. This means that to be considered as EU origin goods, either the weaving or the fabrication must be carried out in the EU and preceded by the printing of the fabric (Europa, 2017), which is exactly the case for LA LINEA, the company that prints the fabric.

### **Social factors**

Canada is one of the most advanced countries in the world. After the British and French rivalry, the country became a British colony in the 18th century and is therefore politically linked to Great Britain and is part of the British Commonwealth. The official languages here are English and French, which has remained here with the French inhabitants who owned some of Canada's colonies. By area, Canada is the second largest country in the world, but its population is not high. As of 2020, the population was 38 million and the population density was 4 inhabitants per square kilometre in the same year (World Bank, 2020). The maturity of the country is also related to its very high standard of living. Canada has one of the highest levels in the world. Consumers here are supportive of sustainability and almost always demand high quality goods and services.

### **Technological factors**

Technology is one of the fastest growing sectors in the country. The technology sector also offers people well-paying jobs. For example, many international IT professionals and companies see Canada as one of the best countries in the world to develop their careers and businesses. However, as far as the textile industry is concerned, it is a sector that has been in decline in recent years due to a decline in domestic demand for goods. As for the Canadian apparel industry, there has been negative growth over the past few years. The total value of apparel products produced in Canada continues to decline, while apparel imports continue to increase. However, the textile and apparel market in Canada is still full of opportunities. There are still many companies in the country that make not only shirts but also uniforms and other textiles. These include companies such as:

- Outclass.

- Naked & Famous.
- United Stock Dry Goods.
- Arc'teryx.
- Roots; etc. (Canada.ca, 2022)

### **Environmental factors**

Canada is visited by millions of tourists every year, especially for its beautiful nature. The Arctic mountains, glaciers, lakes, forests, and deserts are the great landmarks of this country. Also, thanks to high tourism, Canada faces environmental problems, just like the rest of the world. The earth is affected by factors such as acid rain, smog and climate change. The Canadian government is trying to combat these problems through, for example, several initiatives it is taking to reduce air pollution and greenhouse gas emissions. Also, the people of Canada are highly conscious in promoting environmental cleaning and sustainability (Dodd, 2020).

### **Legal factors**

The last factors examined in the PESTEL analysis are the legislative standards in the country. The fact that Canada is a very developed country permeates all factors, including legal ones. Canadians take great pride in employment rights. There are certain minimum standards that employers must adhere to in terms of employee working hours, minimum wage, sick days, vacation days, layoffs, and many others, as is the case in most developed countries. For example, the Canadian Human Rights Act (CHRA) prohibits discrimination based on sex, race, ethnicity, age, and several other grounds, so there are very good conditions for foreigners and foreign companies (Santander, 2022).

If the entire analysis is summarized, it is found that as far as all factors are concerned, the Canadian market is suitable to increase the turnover and sales in the country. Politically, Canada is very stable and is one of the safest countries, which means that no conflicts are foreseen in the future that would threaten the supply chain, as is the case, for example, with the war in Ukraine. Moreover, Canada already has very good trade relations with the European Union. This is confirmed by the signing of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) in 2017, which eliminates all tariffs on products that originate in the EU. As a result, trade between EU Member States and Canada has become much easier since this year. Due to its history, Canada is very much connected to European countries and especially to the UK and France (countries with which

the company already trades). The fact that Canada is one of the most developed countries in the world with a very high standard of living makes LA LINEA even more successful, as people here are likely to be interested in the luxury shirts that Canadian companies sew here. While there are limits and imperfections in the Canadian textile industry, there are still spaces for opportunities and there are brands that make shirts in Canada, such as Outclass, Arc'teryx, Roots and Naked & Famous. Canada's mindset culture is based on a lot of support for the environment and sustainability, which would be helped by a company having GOTS certification as well as the other certification described above (Fair Wear Foundation) as Canadian legislation looks at the rights of employees in the workplace and encourages fair treatment of people in the workplace.

The third proposal to complement the corporate strategy is to increase turnover in Italy. This country is the cradle of fashion and luxury brands and is known worldwide for this. LA LINEA has been trading with customers from Italy since 2018 and has always been at the forefront in terms of total company turnover and number of customers. Table 2 of customers by country shows that Italy is second in terms of total turnover from 2018-2021. The average number of customers in these years was 68. An interesting finding came when Italy was compared with brands in Sweden. Here, the company has a small number of customers, but they make up a much higher turnover per Italian customers. It means that Italy has much more potential, and the company can extract much higher turnover from Italian customers. For this proposal, data of Italian customers and their turnover for the years 2019, 2020 and 2021 was provided by the internal sources. In 2019 the firm sold its fabrics to a total of 62 brands, in 2020 to 79 brands and in 2021 the total number of brands the firm traded with was 84, meaning that from 2019 the total number of customers in Italy is increasing. The aim of this proposal will be to single out, from all the customers who have bought from LA LINEA in these three years, those customers who have regularly bought every year while generating sufficient turnover. Between 2019 and 2021, the company traded with a total of 143 customers from Italy, with a total turnover of CZK 28,994,880 for all three years. The Pareto Principle says that 80 % of profits come from 20 % of customers. This rule will also apply for the purpose of this proposal, where we will choose these 20 % of customers to work with later. 80 % of the total turnover corresponds to about 23 195 904 CZK, which in the case of LA LINEA generates a total of 30 customers, which are listed in the table below.

Table 3: Selection of the 30 customers with the highest turnover in 2019-2021

Name of the customer	Total turnover in years 2019-2021 (CZK)
Customer 1	1 989 052
Customer 2	1 416 826
Customer 3	1 332 299
Customer 4	1 220 537
Customer 5	1 180 735
Customer 6	1 111 592
Customer 7	1 037 794
Customer 8	973 726
Customer 9	934 903
Customer 10	929 337
Customer 11	852 265
Customer 12	829 724
Customer 13	818 615
Customer 14	810 402
Customer 15	783 330
Customer 16	735 384
Customer 17	732 270
Customer 18	556 503
Customer 19	541 229
Customer 20	509 632
Customer 21	508 621
Customer 22	479 498
Customer 23	470 878
Customer 24	443 398
Customer 25	436 595
Customer 26	420 932
Customer 27	383 538
Customer 28	347 651
Customer 29	307 894
Customer 30	300 477

Source: Own processing according to internal company sources

Customers who have done business with the company for two or three consecutive years are highlighted in colour. Customers who traded with LA LINEA in all three years mentioned above are shown in green, customers who traded for two years are shown in blue, and brands that only took fabric in one of the years mentioned are shown without colour. Logically, therefore, the highest rungs are those customers who bought fabrics in three consecutive years. However, there are also those who ordered fabrics in only one year but generated comparable turnover to brands that traded all three years. This difference is particularly noticeable for Customer 3, which has comparable turnover to Customers 2 and 4. The company now has two options. The table shows that these 30 customers generate the highest turnover of all customers in Italy. LA LINEA should therefore focus on this group of customers and change its individual approach to them. It can select all 30 customers, which include companies that buy regularly but also companies that have made one-off purchases. It can select loyal customers with whom it has worked for several years and thus reduce the group of customers it will focus on in the future. If it were to select only customers it has worked with for three years, the total number would be almost halved to 14 firms. However, in my opinion, it would not be a bad idea to focus also on those customers who have generated high turnover in one year of cooperation (see Customer 3 and 5).

For this smaller group of customers, who account for the highest turnover in Italy, the company should create a special customer programme to increase customer loyalty and achieve even higher turnover. The aim of the LA LINEA loyalty programme should be to increase the frequency and value of purchases. The first step in creating this program is to find out as much information as possible about a particular customer. Sales representatives with whom the company already works in Italy could help the company in this respect. In total, LA LINEA has seven sales representatives in Italy. Two deal with north Italy, three with central Italy (Roma, Toscana, and Marche-Abruzzo-Molise) and two with south Italy (Campania, Puglia). Each of them deals with a different region, as Italy is very diverse and different in this respect. Customers in each region have different preferences and habits, and it is therefore important to know each of these regions perfectly to achieve the greatest possible satisfaction of these customers. And because the company sells printed fabrics to luxury brands, it will be important for these customers to get the best value from their purchase, and it will be important for the company to choose the right way to reward the purchases that selected customers make in the future. A discount program where the main reward is a discount on the product, or the entire purchase could be effective and efficient in

this case. This discount is achieved when the customer's purchase reaches a certain amount, which also needs to be selected appropriately. It can be chosen individually for each customer and brand separately, or a discount package can be created that is the same for all selected customers. However, since loyalty is based on an individual approach to each customer, it would be advisable to choose a different program for each brand according to their needs and preferences. For these customers, it would also be possible to create a collection for which LA LINEA guarantees that it will not sell the same fabric designs to any other brand. This would be a so-called exclusive sale, which can be set out in the sales contract. LA LINEA could work with specific brands to develop designs that it would sell either to one customer or to all members of that selection, but to no one else. Therefore, for this close cooperation to be effective, an additional employee (preferably Italian speaking) would need to be hired in the sales department to deal with these Italian brands and customers. As mentioned above, one of the weaknesses of the company is too few employees in the sales department. If implemented, this proposal would not be possible with this number of employees. But if this person could be found and be precise in his work, it could result in a convenient and close cooperation with these Italian brands and the turnover and profits would increase a lot.

## **Conclusion**

The aim of this thesis was to evaluate the existing international business strategy of the selected company using a suitably chosen methodology and, based on the analyses carried out, to draw up proposals for supplementing this strategy. The thesis was prepared in cooperation with a member of the sales department of LA LINEA, who provided all the information necessary for its preparation. The company LA LINEA is engaged in the low-cost purchase of fabrics from abroad, their subsequent printing and then their sale both on domestic markets and abroad.

In the theoretical recherche, the author relied on the issue of trade policy, which is very important when trading with foreign countries, and worked with concepts dealing with forms of market entry and internationalization, which she then used in the analytical part of the thesis.

Based on qualified interviews with the business manager of LA LINEA, first a brief history of the company and its basic information and structure was described and then a detailed list of which elements are internationalized in the company and to what extent. The next part of the thesis describes how pure substances are imported from abroad and then sold to customers. This part of the thesis lists the different European countries with which LA LINEA trades and which country generates the highest turnover for the company. To evaluate the international business strategy of the company, a SWOT analysis was created, and its strengths, weaknesses, opportunities, and threats were listed. The firm's strengths include, first, its long textile history, which has made the firm a traditional printing company that has built a network of loyal customers. Another strength is the existence of a successful Swiss parent company that has brought a quality print production system to the firm, which the firm can also boast of. The company's strategy is based on these strengths, as the company's mission is to deliver the best quality products to its customers in the shortest possible lead time. On the other hand, weaknesses have also been identified in the form of a small number of employees in the sales department, which in a way hinders the sales efficiency of the firm, as one person represents sales to all English-speaking countries in Europe and the world. Other weaknesses identified were more of a general company nature such as sensitivity to changes in energy prices or heavy reliance on the success of customer brands. In examining the external environment of the firm, several opportunities were identified that the firm should seize and exploit. These are mainly additional certifications of quality and origin of substances that would attract new customers that require them.

Another opportunity is to enter the Canadian market, which, due to its history, is very similar to the English and French markets with which the company already trades. The third opportunity identified is to increase turnover in Italy. From the second perspective, there are certain threats that the company should be aware of and prepared for, which are unpredictable influences that most people would not have thought of until recently. These are the Covid-19 pandemic, which also affected LA LINEA, as most fashion brands stopped producing their products for a while and therefore did not take any fabrics from the company. The second unforeseen impact is war, a conflict that no one expected in modern history, and which may affect supply chains worldwide or affect other countries in the future and thus have a direct impact on the company.

After an overall analysis of the company's international business strategy, three steps were proposed to move the company forward. All three build on the identified opportunities presented in the previous paragraph. The first concrete suggestion to complement the firm's strategy is to expand its portfolio with two additional certifications. The first is the GOTS certification, which would guarantee that the fabrics that LA LINEA prints are of a high standard both socially and environmentally. If a company holds this certification, its fabrics possess at least 70% certified organic fibres, the company's management is based on environmental protection, including wastewater treatment, material recycling. At the same time, the company also commits that the production of their fabrics does not support child labour, discrimination in the workplace and on the other hand, supports freedom of choice in employment, adequate working hours, and proper remuneration for work. The second of the certifications would be somewhat complementary to the first and is the Fair Wair Foundation certification. If a company is a member of this organisation, it confirms that it respects basic human rights in the workplace. Nowadays, when the world is becoming more polluting, many companies are becoming more oriented towards sustainable production, so especially the first certification would help the company to gain a lot of new customers.

It was also apparent from the qualified interviews that LA LINEA would like to expand into new markets, so another suggestion for addition was to enter the Canadian market. For this purpose, a PESTLE analysis of the whole country was made to better understand the market there. After evaluating this analysis, it became clear that Canada was a good candidate for finding new customers. From a political point of view, Canada is very stable and has very good trade relations with the European Union, which is only confirmed by the signing of the new Economic and Trade Cooperation Agreement (CETA) in 2018, which eliminates all



tariffs on purchases and sales from European Union member countries to Canada and vice versa. The only requirement for tariff-free trade is proof that the product originates in the EU or Canada. Another aspect examined in this analysis, was the social and environmental aspects, in which Canada also emerged as a suitable candidate for entry. Canadians have a very high standard of living, hence there is a presence of luxury brands that a company could work with, and their culture is very supportive of environmental conservation, hence gaining the certifications discussed above would again be helpful in gaining Canadian brands.

The company's data also showed that LA LINEA was not exploiting the full potential of its Italian customers. It was worth noting that Italian brands have the highest numbers in terms of customers but lag far behind in terms of turnover. Therefore, the author's third suggestion is to increase turnover in Italy by singling out the 20% of Italian customers, using the Pareto optimum, that generate the highest turnover for the company and to focus closely on these in the future. The Pareto analysis yielded a total of 30 of these customers, who have either purchased regularly and have generated annual turnover for the last three years, or whose purchases have been one-off but acceptably high. The proposal recommended the creation of a discount system for this selection of customers and the establishment of so-called exclusive sales, whereby LA LINEA would guarantee to companies that the patterns created would only be for these specific brands if, on the other hand, these customers generated a turnover that the company itself determined.

The analysis of the company's international business strategy showed that the company implements a successful strategy, which has its significant limitations, but at the same time gave room for further development, which was proposed by this work.

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