

# **The evaluation of business plan for attracting investors to finance receivables of other companies**

**Bachelor thesis**

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I would also like to thank to my family for the support during the whole period of my studying.



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## **Abstract**

Mervartová, P. Evaluation of a business plan for attracting investors to finance receivables of another company. Bachelor thesis. Brno: Mendel University in Brno, 2016.

The bachelor thesis is focused on creation and subsequent evaluation of a business plan for Czech company, Investiční aukce, s.r.o. The aim is to attract new investors who could engage in trading receivables with the above mentioned company. A business plan is created based on interests of existing investors established in the thesis. The work is divided into two parts, theoretical and practical. The theoretical part is based on information and data collected from the literature and verified Internet sources. The practical part includes the evaluation of the questionnaire, which represents a sub-section of the final business plan, and the actual business plan. The conclusion will summarize findings from my own work and proposes recommendations for mitigating the risk of negative events.

## **Keywords**

Business plan, banking sector, CNB licensing, payments, receivables

## **Abstrakt**

Mervartová, P. Vyhodnocení podnikatelského záměru, který byl vytvořen k přilákání investorů k financování pohledávek jiné společnosti. Bakalářská práce. Brno: Mendelova Univerzita v Brně, 2016.

Bakalářská práce se soustředí na tvorbu a následné vyhodnocení podnikatelského plánu pro českou společnost, Investiční aukce, s.r.o. Účelem je přilákání nových investorů, kteří by se mohli zapojit do obchodování s pohledávkami u zmíněné firmy. Na základě zjištění zájmu dosavadních investorů o nové produkty a potřebných analýz, bude vypracován podnikatelský plán. Práce je rozdělena na dvě části, teoretickou a praktickou. Teoretická část se opírá o informace a data zjištěná z dostupné literatury a ověřených internetových zdrojů. Praktická část zahrnuje vyhodnocení dotazníkového šetření, který představuje dílčí část konečného podnikatelského plánu, a samotný podnikatelský plán. V závěru budou shrnutы poznatky z vlastní práce a navržené doporučení k minimalizaci rizik negativních událostí.

## **Klíčová slova**

Podnikatelský plán, bankovní sektor, licence ČNB, platební styk, pohledávky



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# 1 Introduction

## 1.1 *Introduction*

In today's world most ideas and aims of public spin around finances. We are focusing on how and where to grow our wealth. But it does not have to be always connected with increasing our standards of living. Nowadays, the concepts of corporate social responsibility, charitable contribution, disability living allowance and many more are quite common. We can talk about generally increasing interest in the well being of our society.

More and more money flows in financial services and banking due to quantitative easing and other regulations of national banks. One of the modern branches of financial services is receivables management and invoice discounting, commonly known as factoring which rapidly became one of the key products in banking sector. Trading receivables in companies other than banks is still pretty young business in Czech Republic. Due to modern IT technologies used in banking also known as FinTech<sup>1</sup>, trading receivables is becoming accessible to smaller companies as a working capital financing tool, therefore it is an interesting financial product for further research.

Paying liabilities at the end of due date or even after has become standard in business. That's why the receivable financing business was founded, originally in England. In this country it is a relatively common way of optimizing cash flows and financing working capital of businesses when they need money for other purposes. Factoring as a financial product is attractive from more points of view. We can find partly human factors – help to companies with cash flow problems to optimize their cash flows and increase their production. And of course it is a very attractive product from the point of view of the bank and investor, because of unique combination of interest, risk and liquidity

Society is entering a period where the most important ability in business is speed. The market is getting crowded and increasingly competitive. If a company or its owner do not produce innovations, new ideas or upgrades and booms that will draw attention to the company as an example of quality, the market will be closed to them.

## 1.2 *Objectives*

The aim of my bachelor thesis is to find out how the interests of investors will be influenced after the launch of a new product within current process (trading with receivables). The main goal of the work is final evaluation of a business plan. Based on verified literature and actual analysis, partial strategies will be created, which will together compose the business plan.

The goal of my bachelor thesis is a complex and realistic evaluation of each part of the business plan and new products. Recommendations based on the eval-

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<sup>1</sup> FinTech is an acronym for financial technology; it is a system of business which is based on using software to provide financial services (Fintech, 2015).

ation of the BP of iA will be prepared using modern managerial tools and methods in order to ensure professional standard of the results of my research.

Using market research I want to find out what kind of promotion opportunities of current product is suitable. The Financial part will focus on the financial overview of the company- how much will the launch of the new product cost or if there will be a necessity of any changes in the company due to new services for clients. That means that the goal of that part will be checking the budget of the company. The legal part of the analysis will be aimed at regulations, orders and decrees of Czech national bank. The aim is to find out how these legal aspects will influence the launch of the product. By partial strategies I would like to ascertain the market conditions at the present moment - in what areas the company is a market leader and where it needs to work harder to catch up.

## 2 Survey of Literature

The following chapter is focused on explanation of general information about creation of business plan. This information was gained by reading and analyzing verified literature and credible internet articles written by specialists on this topic. Other sources which helped me to create this chapter were materials from lectures at Mendel University and communication and discussion with the owner and team of the company for which this plan was made.

### 2.1 *Business plan*

Business plan is a result of management activity, which is focused on future development of organization and is based on the strategies of the company. This activity is called business planning. It defines what the current goals of the company are and how they will be attained. It leads to determination of the way, rules and tactics used in implementation of the strategy.

Planning must continually respond to changes of internal and external conditions and evaluate the fulfilment of business objectives. The results received by the analysis of these factors have to be reflected in actualized plans (Synek, 2010, p. 173).

**Business plan** is a tool for realization of a development strategy of a company. During this realization it already has to be an integrated whole. Partial plans must be factually, temporally and financially related (Martinovičová, 2014, p. 89).

Business plan is usually created by new founders of companies. They are trying to gain awareness of competitors in their branch. Plan can be also created by already existing companies. In this case, a person inside the company structure is usually charged with preparing the plan. Business plan should help entrepreneurs both in the beginnings (with creating necessary conditions for successful business activity) as well as during routine business (Červený et al., 2014).

The reasons above are those most usually given by the founders or owners of companies. There two more types of people that could be interested in creation of a business plan – managers and investors. A business plan can help managers to eliminate business risk, creat new teams or gain money. Investors use it usually during evaluation of risk of investment or to evaluate the quality of the management (Koráb, 2008, p.24).

Červený et al. (2014) said that business plan is a document in written form. It is also very important in obtaining the necessary financial resources. A bank or investors looking for opportunities how to get involved in the business plan. So in business, the plan is needed to collect information useful for attracting recipients. They have to be sure about the long term perspectives of the project. The point is that the plan should increase the functioning/prosperity/awareness of the company in the long term . It should be built on using opportunities and strengths of the entrepreneur to eliminate factors which could be a threat in the future. The plan should convince involved people not just about the quality of the business plan, but

also about positive attributes and the ability of actual entrepreneurs to handle the plan and the problems associated with its implementation.

### 2.1.1 Requirements for business plan

Fotr (1999) in his book states that a business plan should primarily meet the following requirements:

- **brevity and clarity** - length should not exceed fifty pages, it means maximum 40 standard pages,
- **simplicity** - the plan should not contain too many technical details, the document should be understandable even for people without deep technical knowledge,
- **focus on future** - plan should be primarily focused on processing of predictions, analysis of future development and how to achieve goals, rather than focusing on achievements of the past,
- **credibility** – for example, detailed and honest assessment of the competition increases the credibility of the plan,
- **realistic** – neutrality of the plan, should not be too optimistic nor pessimistic.

Specifications which were made by Fotr (1999), are more or less comparable with the principles of SMART goals. Based on the explanation of the 5 elements below, I would like to demonstrate interconnection between principles and requirements. About.com (2016) provides a definition of the SMART written by a small business expert Allyson Gregory. Her explanation of each principle starts with a bolded word. It is as follows:

- **Specific** – clear definition of what we want to accomplish and focus on
  - Similarity between specific element and simplicity can be seen in pointing out the accurate description of the goal.
- **Measurable** – outcome of the goal has to be measurable, we can express it in variables.
  - Due to “detailed and honest assessment”, which we can consider as our variables we can measure the value of credibility.
- **Attainable** – goal should be realistic and manageable, achieving it must be probable.
  - The character of this goal is essentially the same as the “realistic” requirement.
- **Relevant** - identified goal has to be achievable and relevant to realities of the current business climate and should fit with the business model.

- Looking to the future and trying to be realistic during approving goals connects the “relevant” element with focusing on the future.
- **Time-Based** – period for achieving the goal has to be identified a specified.

This fact shows us that for successful business plan it is necessary to abide by conditions which are based on SMART principles.

There are few advices what should not be missed by creator of the plan. It is made by Fotr (1999):

- demonstrate the benefits of service or product for user (customer),
- don't cover weaknesses and threats - this can be prevented by good SWOT analysis,
- point out the competitive advantages of the project, its strengths and competence of the management team,
- prove profitability of the project – the intent of any investor is the return of the invested funds with due appreciation (FOTR, 1999, pp. 208 – 209).

### 2.1.2 Structure of the business plan

There are different approaches to what a business plan should look like and what should its contents be. I would like to present two attitudes to the structure of business plan.

The first one is made by Stutely (2012). He came up with “10 steps to a successful business plan” which he starts with two simple questions: “what and why are you planning?” If entrepreneur is able to concisely answer these questions, he will be able to develop a valid plan as well. It should be possible to make a valid plan using these 10 steps:

1. Define your business activities.
2. Define the current status of the business.
3. Define the external market, your competition and your market positioning.
4. Define your objectives for the period of the plan.
5. Develop a strategy for achieving the objectives.
6. Identify the risks and opportunities.
7. Develop a strategy for limiting risks and exploiting opportunities.
8. Refine the strategies into working plans.
9. Project costs and revenues and develop a financial plan.
10. Document it concisely.

There are two more steps, which are actually more important than previous ten points:

11. Get it approved.
12. Use it (Stutely, 2012, p. 13).

Koráb (2008) talks about business plan as a constantly repeated process which is a part of planning within company. According to him there are few questions which have to be put for good business plan concentrated on outcomes. As a demonstration, I present an example of these questions:

- Is the plan simple and comprehensible at the same time?
- Can the plan be realised and is it logical?
- Are the goals concrete and measurable?

After comparing the structure of the plans stated in literature with experiences from reality we can say that business plan consists of the following basic parts:

1. Title page
2. Executive summary
3. Market research
4. Description of the business
5. Production plan/business plan
6. Marketing plan
7. Organizational plan
8. Financial plan
9. Annexes (supporting documentation)

The structure of business plan made by these two authors is pretty similar. Stutely uses a more detailed name for each step of the plan, which is probably easier to understand for the general public. For example the less common term "executive summary" is replaced by Stutely by "Define your objectives for the period of the plan.", on the other hand, for Koráb it covers more than just the objectives. The strategies which are summarized under "Market research" in Korab's book, are explained in three steps by Stutely. The Missing part in the first structure of business plan is the marketing plan. According to many analysts, the marketing plan is very important for a successful business plan. This fact is confirmed by one online economic article for entrepreneurs as well as other sources.

"What's the relationship between your marketing plan and your business plan or vision statement? Your business plan spells out what your business is about--what you do and don't do, and what your ultimate goals are. It encompasses more than marketing; it can include discussions of locations, staffing, financing, strategic alliances and so on. It includes "the vision thing," the resounding words that spell out the glorious purpose of your company in stirring language. Your business plan is the U.S. Constitution of your business: If you want to do something that's outside the business plan, you need to either change your mind or change the plan. Your company's business plan provides the environment in which your marketing plan must flourish. The two documents must be consistent." (Entrepreneur, 2016)

This is more or less the same idea as the concept of David Lavinsky, contributor of Forbes. He stated that: "To grow your business, you need a marketing plan. The right marketing plan identifies everything from who your target customers are to how you will reach them, to how you will retain your customers so they repeatedly buy from you. Done properly, your marketing plan will be the roadmap you

follow to get unlimited customers and dramatically improve the success of your organization." (Forbes, 2013)

In order to create a professional plan it is necessary provide market analysis. In my bachelor thesis I will describe analyses, which help me with evaluation and creating of business plan in practical part of the work. I will focus especially on:

- SWOT analysis
- PESTE analysis
- Porter's 5F
- Marketing mix
- McKinsey 7S

## **2.2 Business financing**

In order to understand the business model of Investiční aukce s.r.o. (hereinafter iA), it is necessary to do a brief overview of the financing sector. This chapter will explain the term "investment decision" and its necessity for the well being of a firm. The next part will be focused on types of business financing. Much like technological progress, there are also developments in the financial sector; because of that, there are increasing opportunities for financing a plan.

### **2.2.1 Investment decision**

Decision making is the most important tool to achieve the aims set by the company. According to Fotr (2005) investment decision is one of the most significant types of company's decision. This type of decision mostly means either to accept or reject an investment proposal. A less successful project can be the cause of major inconvenience or even cause the end of the company.

Investment decision is closely linked with the strategic decision making of the company, which determines basic aims and ways of achieving them. Among these aims, a significant position is occupied by financial goals. Nowadays it is very important to focus on the growth of the value of company – investment decisions are the means to create said growth (Fotr & Souček, 2005, p.13).

Fotr and Souček (2005) stated that both internal and external factors have to be respected. Especially external factors (like customer behaviour, exchange rate, market situation, prices of basic products and energies etc.), which have conditions of risk and uncertainty. Complying with these factors positively influences the quality of decision and future opportunities.

Selecting a suitable source of financing for investment is another key decision in the investment process. As was already mentioned, the choice of financial sources is a financial decision of company and a correct choice can significantly affect the outcome of the process.

The Selected financial source has an impact on the determination of the discount rate of the project, which should cover at least the capital costs of the company and the risk of the project (Kislengerová, 2004, p. 285).

## 2.2.2 Types of business financing

Business financing can be classified in many different economics terms and it is sometimes quite difficult to find out what the correct explanation is. I will divide these types according to Synek's (2003) opinion. He divides types of business financing in the following way:

- current asset:
  - deposit of owners or partners,
  - depreciation,
  - undercharged profit,
- current liabilities:
  - investment loan,
  - bonds,
  - indirectly short-term loan,
  - long-term reserves,
  - instalment sale,
  - venture capital,
  - subsidies from the state or local budget.

Another classification of finance sources might be dividing them into internal and external financing as you can see in Figure 1. Internal financing is connected with capital sources; it means the economic activity of the company. On the other hand external financing is the deposits and the shares of founders, owners and co-owners. External sources of financing of investment represent smaller part of financing sources than internal; they are used for financing of long term assets. Their diversity is related to the development and innovations in capital markets (Valach, 2010, pp. 370-371).

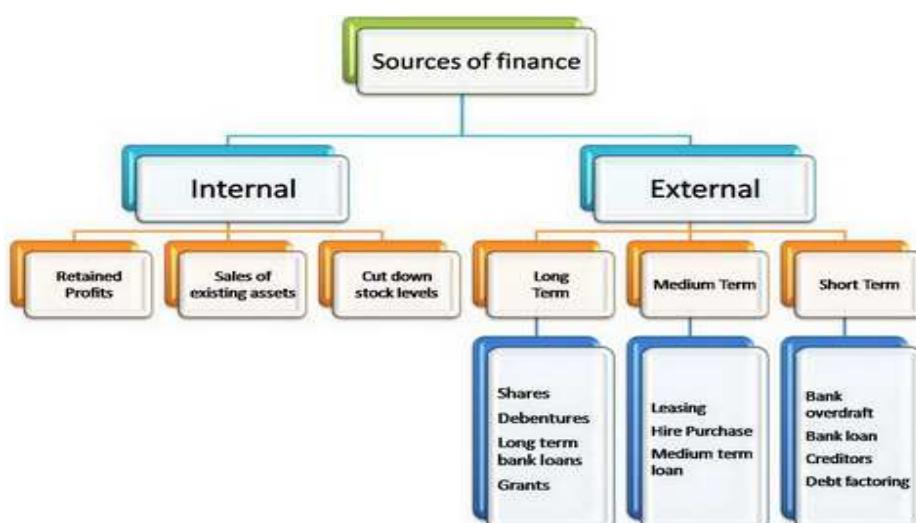


Figure 1: Types of business financing

Source: [www.dineshbakshi.com](http://www.dineshbakshi.com)

External sources are further divided into three different categories depending on time period. Some sources which belong to medium and short term are also usually called alternative sources of financing.

### 2.2.3 Alternative sources of financing

Alternative sources of financing have their own specific characteristics - that's why we cannot easily classify them either as own sources or as current liability.

Basic types are mainly leasing, factoring, forfaiting, quiet community and venture capital. For clear understanding of what the difference between leasing, factoring and forfaiting is, I am going to provide a brief explanation.

#### Leasing

Leasing started in the '50s in America. From there it spread to Europe. In Czechoslovakia, it is first mentioned in the middle of the seventies - import leasing. It was mostly used for financing of imported machines and technologies. Full development could be seen in the early nineties. Leasing was always used due to its advantage of full liberalization and the fact that it has never been adjusted by any special law. It relies on some regulations of Commercial and Civil law, Law on income tax, some accounting standards and a number of implementing orders issued mainly by the Ministry of Finance (Sektorová analýza, 2001).

According to Valach (2010) the definition of leasing looks as follows: "leasing is, from the legal point of view a tripartite legal relationship between the supplier, lessor and leaseholder, where the lessor buys the property from the supplier and provides it for consideration to the use of leaseholder; from the financial point of view it is an alternative form of financing business needs by foreign capital in which the creditor (lessor) is the owner of the goods, which the leaseholder uses in its activities."

There many types of leasing in reality, but the most common are:

- operating lease,
- financial, capital lease.

Within financial leasing we distinguish other types of leasing:

- direct leasing
- indirect financial leasing (sale and lease back)
- leverage leasing (Valach, 2010, p. 421).

#### Forfaiting

Forfaiting is another form of corporate financing, used mainly in foreign trade. "Forfaiting Company repurchases individual secured receivables from exporter who realizes delivery for foreign customers." (Mareš, 2004, p. 82)

Forfaiting is typical when dealing with middle-term and long-term maturity receivables. It is not common to repurchase receivables with short-term maturity, at least 6 months of maturity.

The main item which forfaiting service consists of and mentioned by Mareš (2004) in his book, are:

- Discount
- Commitment fee
- Processing (management) commission
- Optional commission

We can see the many advantages of forfaiting such as: "Exporter can export to foreign countries on credit thanks to forfaiting and expand his sales capabilities. Exporting company does not have to cover its financial debts incurred by receivables by bank loan and that's why it does not increase the share of liabilities in the capital structure of the company. It is a flexible system." (Mareš, 2004, p. 86)

### **Factoring**

Factoring belongs to short-term sources of corporate financing. Mareš (2004) defines this type of financing as: "Continuous redemption of short-term unsecured receivables of supply company (seller) towards a specific buyer company (buyer) that arise to the supplier in relation to the customer to a business in the supply of credit." (Mareš, 2004, p. 86)

Factoring was actually discovered by small enterprises. Banks were too expensive for them and because of the strict regulations were not flexible. They were forced to find another way of funding the growth of their company (Forfaiting and Factoring as the Means for Handling Transactions, 2010).

There are two ways of arranging factoring. Firstly, it is 'without recourse' basis; the second and cheaper one is 'with recourse' basis.

"When factoring is *without recourse* or 'non-recourse', the factor provides protection for the client against irrecoverable debts. The factor has no 'comeback' or recourse to the client if a customer defaults. When a customer of the client fails to pay a debt, the factor bears the loss and the client receives the money from the debt." (kfknowledgebank, 2012)

"When the service is with recourse ('recourse factoring'), the client must bear the loss from any irrecoverable debt, and so has to reimburse the factor for any money it has already received for the debt." (kfknowledgebank, 2012)

"Credit protection is provided only when the service is non-recourse and this is obviously more costly." (kfknowledgebank, 2012)

To better see how the entire factoring process works, see Figure 2. It is a model example of factoring.

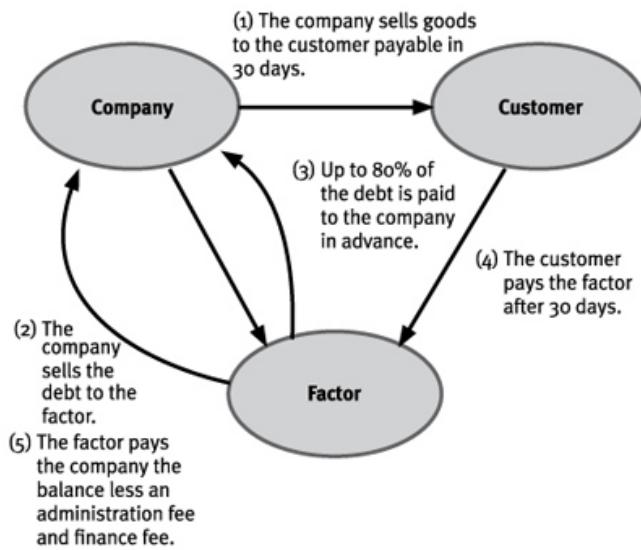


Figure 2: Typical factoring arrangements

Source: Kfknowledgebank, 2012

### 2.3 Financial institutions

For the purpose of better understanding the monetary system in the Czech Republic and in response to developing a platform of iA, I will briefly explain types of financial institutions, regulations of banking sector and what is necessary when asking for a licence in this chapter.

The types of financial institutions and their list are available at Czech National Bank (hereinafter referred to as CNB) website. Among the "Monetary Financial Institutions" (MFIs) belong: "central bank, resident banks, and other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities." (CNB, 2016)

Czech MFI includes more money market funds and credit unions. To date (3/31/2016) there are 59 MFIs<sup>2</sup> in the Czech Republic. 56 of them are credit unions and 11 of the 56 are savings and loan associations, just two of the 59 are from the category of money market funds and of course one central bank. All these financial institutions are also subject to regulation by the CNB and central banks in general.

#### Payment institution

It is a legal entity that is authorized to provide payment services listed in the authorization to operate payment institutions, given to it by the Czech National Bank. On the basis of this authorization, a Payment institution can:

- Provide related services, including loans.

<sup>2</sup> [https://www.cnb.cz/cs/statistika/menova\\_bankovni\\_stat/seznamy\\_mbs/seznam\\_mfi/index.html](https://www.cnb.cz/cs/statistika/menova_bankovni_stat/seznamy_mbs/seznam_mfi/index.html)

- Seznam měnových finančních institucí v České republice (xls, 2,2 MB)

- Administrate a payment system, with exception established by law (not a system with settlement finality).

### 2.3.1 Regulations of the banking sector

Bank is defined as a financial institution the aim of which is to produce several types of banking transactions. This means transactions like accepting deposits, providing loans and secure payments. There are many banks nowadays but only CNB can issue money.

Banking in all advanced economies belongs amongst the sectors with the highest levels of regulation. By regulations we mean the drafting and enforcing of rules and conditions of activity of banking institutions. Supervision of banks represents monitoring of observance rules and the determination of sanctions if rules are not observed. All systems of regulations and supervision must have appropriate legislative framework (Revenda, 2012, p.247).

In a market economy, the systems of banking regulation and supervision consist of four basic components:

- control entry into the banking sector,
- setting the basic rules of banking activities,
- verification and enforcement of keeping the basic rules of banking activities,
- financial safety net (Jurošková, 2012, p.21).

“The regulations in the area of payment system institutions apply – to varying extents – to entities that are authorised or registered to perform the activities of payment institutions, electronic money institutions, electronic money issuers or small-scale payment service providers. Some of these institutions are subject to similar regulation as banks and credit unions. Banks and credit unions may also provide payment services under conditions stipulated in the act regulating the activities of banks or credit unions.

Regulations and authorizations of payment institutions and institutions of electronic money are specified in *Zákon č. 284/2009 Sb., o platebním styku*. In the mentioned law in the head I. under the § 5 payment system act are defined persons who are authorized to provide payment services. Namely these are:

- a) banks,
- b) foreign banks and foreign financial institutions,
- c) savings and credit unions,
- d) electronic money institutions,
- e) foreign electronic money institutions,
- f) electronic money issuers small-scale,
- g) payment institutions,
- h) foreign credit institutions
- i) payment service providers of small-scale
- j) The Czech National Bank.

The identification of term payment service is explained in § 3 v Zákoně o platebním styku. „Payment service is a service (a) enabling cash to be placed on a payment account, (b) cash withdrawals from a payment account, (c) a transfer of funds from

the payment account, (d) issuing payment instruments and devices for accepting payment instruments (e) money remittance, (f) payment transactions via electronic communication equipment.“ (Zákoně o platebním styku)

According to § 5 Zákona o platebním styku, the authorization to provide payment services as a business may only follow persons:

- a) banks under the conditions stipulated by the law regulating the activities of banks,
- b) foreign banks and foreign financial institutions under the conditions set by law regulating the activities of banks,
- c) savings and credit unions under the conditions established by the law stipulated activity of savings and credit unions,
- d) electronic money institutions (§ 46) under the conditions set by this law,
- e) foreign electronic money institutions under the conditions set by this law,
- f) electronic money issuers of small range (§ 53) under conditions established by this Act,
- g) payment institutions (§ 7) under the conditions set by this Act,
- h) foreign payment institutions under the conditions set by this Act,
- i) payment service providers of small range (§ 36) under conditions established by this Act,
- j) the Czech National Bank.

### 2.3.2 Control entry into the banking sector

Supervision of the banking sector in the Czech Republic is performed by the CNB. It makes rules and according to *act no.6/1993 Coll, § 44 The Czech National bank, as amended*, supervision contains:

- a) decisions on applications for licenses, permits, authorizations and approvals under other legislation,
- b) control of the observance of the conditions stipulated in licenses and permits;
- c) monitoring compliance with laws and regulations applicable within the European Union - in case that the Czech National Bank is authorized by this Act or other legal rules, and monitoring of observance of regulations issued by the Czech National Bank,
- d) obtaining necessary information for supervision of other laws and their enforcement, checking their truthfulness, completeness and relevance to topic,
- e) imposition of remedial measures and penalties pursuant to this Act or other laws,
- f) proceedings concerning administrative offenses and misdemeanours (Liška et al., 2014, p.31).

Polidar summarised in his book rules which CNB has under its control. It consider such as posses of bank 's equity, aligning payment deadlines borrowed money and sold loans with aim to ensure stable bank solvency (liquidity), managing of credit's and other risks associated with the bank business (Polidar, 1999, p.18).

Liška et al. (2014) explains what kind of action CNB takes to ensure the reliable operation of its banks. “In the supervision of their performance, it reviews and

evaluates whether the arrangements, strategies, processes and mechanisms implemented by the bank and the bank's capital ensures safe and reliable operation of banks and covers the risks undertaken by the bank or risks to which it might be exposed." (Liška et al., 2014, p.31)

CNB is authorized to adopt the following measure if it finds shortcomings:

- a) remedial measures
- b) protective measures
- c) sanctions
- d) protective measure.

"The statutory regulation of punitive measures in the Bank Act is based on the principle of opportunity, which is expressed in the § 26 section 1 of the Bank Act as it is the power of the CNB, not its obligation, to apply the lawful tools available to it to find shortcomings. The legal provisions relevant to punitive and rectifying measures are § 26 to 26bb of The Bank Act (Liška et al., 2014, p.32)

### 2.3.3 Payment services

All these information in this chapter are taken from the *Zákon č. 284/2009 Sb., o platebním styku*.

According to part II § 9 *Povolení k činnosti platební instituce*, the authorization to act as a payment institution can be obtained only by being granted this authorization by the CNB. CNB gives the permission to the applicant:

- who is a legal entity and has its headquarters in the Czech Republic,
- who has an initial capital at least in the same amount as is set by law,
- whose business plan, including a forecast budget for the first three financial years, is based on real economic calculations,
- whose material, technical, personnel and organizational assumptions are appropriate in terms of legitimate and circumspect provision of payment services,
- whose management and control system is suitable for the legitimate and circumspect provision of payment services and in terms of compliance-related obligations the fight against the legalization of proceeds from crime and Financing of Terrorism,
- who provides protection of funds which where entrusted to him by users in purpose to perform payment transaction,
- whose financial statement is verified by auditor who complies with requirements of the law governing the activities of auditors, if the law requires such verification,
- and some additional conditions stipulated by law.

In the *Payment System act*, as period is also specified within which the CNB has to publish its decision on authorization to operate as a payment institution. It has to be within 3 months from the date of initiation of proceedings. CNB's decision also has to state what kind of payment services the payment institution in question is allowed to provide.

"The registered capital of a payment institution must be at least in the range corresponding to

- a) 20,000 €, if payment institutions is authorized to provide payment services under § 3 odst. 1 písm. f),
- b) 50,000 €, if payment institutions is authorized to provide payment services under § 3 odst. 1 písm. g), or
- c) 125,000 € if the payment institution is authorized to provide any of the payment services under § 3 odst. 1 písm. a) to e).

The basic principles of payment institutions during implementation payment operations:

- separation holding of funds earmarked for the execution of payment transactions,
- or their deposition in a bank or savings and loan association to a separate account until the end of the next business day when it is received.

Other obligations of the payment institution:

- information obligations,
- obligation to retain documents and records (for five years),
- secrecy.

In the paragraph below can be seen few reasons for termination and revocation of authorization to operate a payment institution which are determined in the law.

1. Permission to perform activities of a payment institution terminated by the day of:
  - a) cancel the payment institution,
  - b) when the decision to reject the insolvency petition for lack of assets of payment institutions,
  - c) registration of payment institutions to the register of small- scale payment service, etc.
2. The CNB may withdraw the authorization to operate a payment institution, if that payment institution requested it.
3. The CNB may withdraw authorization to operate a payment institution, if
  - a) a payment institution has repeatedly or in serious way breached its obligations in relation to the be the activities prescribed by law,
  - b) a payment institution does not fulfil the conditions for granting authorization to operate a payment institution,
  - c) the payment institution has not begun within 12 months of the grant of authorization to provide payment services,
  - d) payment institutions did not provide payment services for more than 6 months, and others.

#### **2.3.4 Description of receivables**

By receivable, we understand (from legal point of view) a right of one party arising in relation to another party. The law may also require specific transactions. The

members of the legal relationship are called the creditor and the debtor (Drbohlav & Pohl, 2011, p. 17).

"Accounts receivable is the money that a company has a right to receive because it had provided customers with goods and/or services. Accounts receivables are also known as trade receivables. Companies who sell on credit are unlikely to have liens on their customers' property. Hence, there is a risk that the full amount of their accounts receivable might not be collected. This means that companies need to be cautious when granting credit and establishing an account receivable." (Accountingcoach, 2016)

A receivable can originate from a variety of situations. The most common reason is a legal relationship under contract. The contract is a bilateral or multilateral legal act, where the creditor has a right to receive certain performance and debtor has duty in relation to creditor to give the creditor the performance. The performance could be financial or non-financial. The receivable has to be payable. The opposite of receivable is a liability (Drbohlav & Pohl, 2011, p. 17).

According to length of the payment we can divide receivables into:

- short-term receivables,
- long-term receivables.

The length of the maturity of receivables is established when the claim arises.

Short-term receivables maturity is less than one year. They arise mainly from trade receivables, prepayments, receivables from employees, receivables from the state (taxes, social and health insurance) in the budget, etc.

Short-term receivables belong among the current assets and are recognized in the balance sheet item B. II.

Long-term receivables maturity is longer than one year. They arise from provided repayable financial assistance long-term, long-term receivables from transferred loans, long-term prepayments, long-term receivables from liability, etc. Long-term receivables belong among the fixed assets and are recognized in the balance sheet as item A. IV. (Knihovna.oseminare, 2013).

The debt is usually terminated because of the following reasons:

- Fulfilling the debt – this is the most common way of fulfilment debt which is perished without further compensation. When partial payment is repaid then just the part of the debt perished.
- Partial fulfilment of the commitment and payment of interest
- Offsetting debts
- Prescription
- Preclusion (Businessinfo, 2014).

The demise of receivables may be based on other legal facts:

- "agreement: the principle of freedom of contract implies that the parties can always agree on the dissolution of debts
- forgiveness of debt and the waiver of rights,
- innovation: there is a replacement of the commitment by a new, original commitment expires,

- settlement: the parties to the agreement governing the settlement of rights that among them are questionable or doubtful,
- the death of the creditor or the debtor,
- merger: the claim expires if the creditor and the debtor merge into one entity." (Businessinfo, 2014).

## 3 Methodology

In the literature part, we were able to search the available sources which focus on explanation to better understand the business plan and business financing. The part also details and provides the definitions for regulations of the banking sector, which is required for the completion of the PESTLE analysis and its legal part, as well as the legal plan as a part of the business plan.

In the methodology section, I am going to focus more on individual analyses and on the structure of the business plan. It provides detailed explanation for each necessary part of the business plan. These explanations will later be used in order to create the business plan for Investiční aukce, s.r.o.

The practical part of the thesis will consist of two parts. First, the business plan itself – this part will detail information about the company, fundamental data related to it and analyze internal and external environment of the company. There will also be created a legal plan regarding new products and a financial plan based on data from previous years. The second part of the practical part is dealing with questionnaire researching attitude of active investors of the company to current conditions provided by the company and their interest in launching new products. I have chosen qualitative research, which is, according to Hendl (2008), based on subjective selection of a research topic and identification of research questions. "It is about description that is apposite, plastic and detailed" (Hendl, 2008, p. 35).

The questionnaire will be used to approach active investors of the Investiční aukce company. The questionnaire will be distributed via Internet between 130 active investors who have invested in Q1 2016. Questionnaire will be firstly attached to newsletter which is normally resent by company to all investors. If there will not be enough responses for relevant result, the questionnaire will be sent directly to individual investor's email boxes. The last part for gaining relevant result of questionnaire could be made by direct email to a second selection of investors who have not completed the questionnaire before.

### 3.1 *The structure of the business plan*

The structure of the business plan is based on a theory detailed in literature - Podnikatelský plán, written by Koráb et al. (2008). For the purpose of my work I am going to subtly adjust the content of the plan according to my opinion and needs. The final business plan will consist of the following chapters in this order:

- Title page
- Executive summary
- Company description
- New products and services
- Environment analyses
- Marketing plan
- Financial plan

- Legislation plan
- Risk assessment

### **Title page**

Title page should show all necessary information about the plan. "It gives explanation of the content of the business plan. This part usually states data like the name and location of the business of company, names of businessmen and contact information (phone number, email), characterization of the company, its funding sources and its structure." (Koráb et al., 2008, p. 36)

This part of business plan should also include a list of professional consultants, who discussed the creation of the business plan, definition of abbreviations and, if needed, explanation of terms which are not widely known (Koráb et al., 2008, p. 74).

### **Company description**

The information about the company in the business plan is usually divided into more chapters or items. For my purpose I will cover these partial chapters in "Basic information on the company". This part will introduce the history of the company, vision of the company, structure of the company – infrastructure and what is the business of the company.

History of the company should not provide such information as development of the company or events which happened in the past, but should be more about financial or property situation. Financial data are mostly defined by accounting statement and its three items: statement of cash flow (CF), balance sheet (BS), income statement (IS) (Koráb et al., 2008, p. 102).

By "vision of the company" we mostly mean future expectations of the company. It means long-term ambitions for how the company should be remembered in the far future. Every business company should have a vision for its business. Structure of the company will focus on the number of staff and their hierarchy. The main part of this paragraph will represent the description of the company business. Job description, provided services, etc.

### **New products and services**

This chapter should provide an apposite description of products and services. There, current as well as future products and services should be referenced (Koráb et al., 2008, p. 105)

"This descriptive part can be also supplemented by table overview of the products or services with their brief characteristic and eventually with information about their relative importance in the whole spectrum of products of the company" (Koráb et al., 2008, p. 105)

### **Environment analyses**

The SWOT analyses will be created as a combination of internal and external analyses of environment. External analyses will be made by SLEPT and Porter's five force analyses. Internal will be done using McKinsey 7S.

### **Marketing plan**

The anchor of marketing plan is usually the marketing mix. It will also represent the final version of the marketing part. For creation of the mix I am going to use potential customer's analysis and market segmentation.

### **Financial plan**

"Financial plan is one of the most important and in terms of difficulty of devising it one of the most difficult parts of business of companies. It follows from reality that financial plan is a qualitative expression of all business activities focused on functioning and development of the company." (Koráb et al., 2008, p. 141)

"The outcome of a financial plan is prediction of revenues which should work on the presumption of development of whole demand and market share of the company." (Koráb et al., 2008, p. 149)

According to Koráb et al. (2008) financial plan deals with three most important areas:

- "Prediction of relevant revenues and expenditures with at least three years prospect to the future, including expected turnovers and calculated costs.
- Development of cash flow in the coming years.
- An estimate of the balance sheet, which provides information about financial situation of the company at certain date." (Koráb et al., 2008, p. 38)

### **Legislation plan**

In the chapter focusing on legislation plan I would like to mention the laws, regulations and decrees which somehow influenced the launch of new product (payment account) in the system of trading with receivables.

### **Risk assessment**

This chapter will include a description of the largest risks, which could be a result of weaknesses of marketing or managerial team and could lead to competitors benefit. That's why it is necessary to analyse these risks and prepare alternative strategies for their elimination. It is a good mark of the company, because investors can see their assets are secure and that the company is ready to deal with potential risks (Koráb et al., 2008, p. 38).

Potential (high-) risk factors according to Koráb et al. (2008) are in market, product, trades, management, own development, quality, sources, productivity, investments, information technologies, cash-flow, macroeconomic risks etc.

## **3.2 SWOT analysis**

SWOT analysis is the most widely used method of strategic analysis of a company. It is defined by four categories of factors. SWOT is an acronym for the name of the individual factors forming the matrix - **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. There are two combinations of outputs which focus on the environment of a company. The first one is identified by opportunities and threats and analyse external environment of company. Internal environment of company is analysed by strengths and weaknesses.

- Opportunities and threats - management has to identify the main opportunities and threats which the company is facing. The purpose of this analysis is to force the manager to predict important trends that may have an impact on the company.
- Strengths and weaknesses in the SWOT analysis do not include all of the characteristic features of the company, but only those that are related to the critical factors of success (Kotler, 2007).

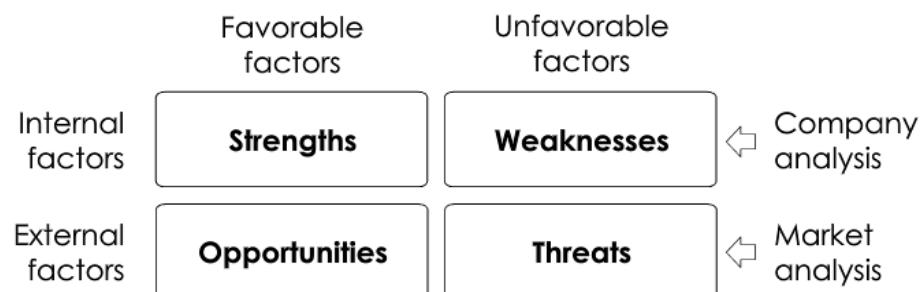


Figure 3: The SWOT framework

Source: Chernev, 2004

“SWOT can also help to focus the discussion on future choices and the extent to which the organisation is capable of supporting these strategies. A useful way of doing this is to use a TOWS matrix as shown in Figure 4. This builds directly on the information in a SWOT exercise.” (Johnson et al., 2012, p.68)

	<b>Strengths</b>	<b>Weaknesses</b>
<b>Opportunities</b>	<b>S – O Strategies</b>	<b>W – O Strategies</b>
<b>Threats</b>	<b>S – T Strategies</b>	<b>W – T Strategies</b>

Figure 4: The TOWS matrix

Source: Marketing 91, 2016

According to Figure 4, we can set up 4 strategies which are defined by their input factors.

### **S-O strategies**

As Kotler (2012) said: “The attributes helpful for achieving objectives are considered in strengths and opportunities.” This strategy is trying to use strengths to take advantage of opportunities.

“Use internal strengths to capitalize on external opportunities. For example, if you have a person or committee that is adept at writing grant proposals and

there is a lot of grant money available, then a strategy may be to devote more focus to this area." (Volunteerhub. 2011)

### **W-O strategies**

Strategy which is focusing on weakness and opportunities is according to Johnson et al. (2012) trying to: "take advantage of opportunities by overcoming weakness."

The theory from Volunteerhub (2011) is talking about options which are possible to do in case of large weaknesses. For example, when creating a project, the company can hire an expert or a consultant to avoid some specific weakness.

### **S-T strategies**

S-T strategy is defined by Mindtools (2015) as: "Strategies that use strengths to minimize threats." They are giving a question, which suppose to lead you to the best strategy which could decrease potential threats. It sounds like that: "How can you take advantage of your strengths to avoid real and potential threats?" (Mindtools, 2015)

### **W-T strategies**

These strategies are focusing on potentially high risk. As Johnson et al. (2012) wrote: "Generate options here that minimise weaknesses and avoid threats."

"The strategies created here will want to avoid threats and minimize weaknesses. It is most often used when an organization is in a bad position. For example, perhaps an agency isn't as efficient as stakeholders expect, and there is the threat of losing funding. In this case it might make sense to merge some programs with another organization to leverage resources better and ultimately hang on to funding." (Volunteerhub. 2011)

SWOT analysis helps us to set a strategy and analysis our risks. As Stutely (2012) said: "Generally, you want to build on strength, exploit opportunities, fix weaknesses (before you get trampled by your competitors), and develop a strategy for dealing with threats."

## **3.3 SLEPT analysis**

SLEPT analysis is according to Koráb (2008) a tool used for identification and exploring of external factors. "Determination of analysis's field is not strictly disjunctive; also for example review of taxes could be understood as a legal or economical factor by a businessman – in the upshot it is not substantive at all." (Koráb, 2008, p. 48)

As is written in Červený et al. (2014), SLEPT analysis should be focused on revealing future development of external environment of the company. It should also include looking into development trends, which could mean even threats or opportunities. That's why we are talking about analysis of wide external environment connected with SLEPT analysis. This analysis is consisted of 5 spheres which surround the company. Each of these can be explored from multiple angles and using many factors. We are talking about:

- Social

- Legal
- Economical
- Political
- Technological

The value contributed to a company by making this type of analysis should be connected with the development of market aims, as was written above.. But there are also many others fields where the company should focus its interest and try to find out information about them. For example, the general economy framework within which the company conducts its business, the environment, lifestyle of target group of customers and employees, information about development trend in technologies, business plans of investors and significant competitors, long term business plans and the logic of the legislative process etc. (Červený et al., 2014, p. 57)

### Social factors

As social factors and their influence on decisions about business strategy we can consider the following:

- Socio- political system and environment within company, connected to relationship with employees.
- Value scales and attitudes of the people (employees, customers, competitors, suppliers and their partners), especially connected with the area of our business, product, potential substitutes etc.
- Lifestyle and its changes.
- Standard of living and its changes.
- Demographical factors and structure of population, including qualification structure and its influence on job market situation (Červený et al., 2014, p.58).

### Legal factors

Management is in many ways directly connected and to a large extent limited by many laws, regulations and directives. That's why analysis of observance of laws in effect should be one of the most important partial analyses of the internal environment of a company. Even unintentional violation of laws could lead to fatal consequences for company.

When doing SLEPT analysis, the main aim is to predict the development of laws relating to the company's business and to evaluate whether the result of this development bring any threats or opportunities to the company (Červený et al., 2014, p.61).

### Economic factors

Situation of companies is significantly influenced mainly by current and future development of economy. Main issues are defined by Červený et al. (2014) as follows:

- "Stage of the economic cycle in our and global economy (recession, depression, recovery or boom).
- Political situation and its influence on economy.

- Government economic policy (greater emphasis on regulation, raising/reducing taxes, business support, solving situation with unemployment, investment protection, support for certain sectors, regions, etc.).
- Monetary policy (money supply, interest rate, exchange rate developments in other currencies).
- Fiscal policy (tax burden of companies or individuals, government spending, etc.).
- Situation of payment balance of the state, the foreign trade deficit, the debt ratio.
- Inflation rate (possibly deflation).
- Situation on the capital market." (Červený et al., 2014, pp. 63-64)

For more precise prediction, it could be (according to Červený et al. 2014) also useful to realise function of the following items:

- Product - annual growth of gross domestic product
- Price level – negative inflation rate
- Employment rate
- Payment balance - the share of trade balance to GDP

We can add a few more economic factors which could be covered when analyzing the market, but it usually depends on the specialization of the company doing the market exploration.

### **Political factors**

Political factors can be missed out during formulation of business strategy. These factors are related with political situation of country. Political decisions can significantly influence the economic conditions of the country. Červený et al. (2014) is talks especially about following factors:

- Who will win the next elections and what goals the potential winners have in connection with monetary and fiscal policy, market regulation, business protection, investment, taxes, salaries, etc.
- There has to be question of potential war, embargo, disorders, and natural disaster.
- What will be the solution to environmental problems?
- Potential changes in employment conditions (social benefits, vacation, national holiday etc.).
- Possible changes of retirement.
- Potential changes of the minimum wage and social benefits, support from the government for handicapped employed people and unemployed people.
- Methods of obtaining grants and subsidies.
- Etc.

### **Technological factors**

Concerning technological factors I would like to mention just a few factors which could be important during formulation of business strategies. These factors are:

- New technologies which increased quality and productivity of products or services can be used during development, production and distribution. They can be also useful for saving material, energy etc. But firstly they should reduce unqualified and dangerous working places.
- New information and communication technologies could streamline communication with customers, suppliers or workers.
- New technologies could positively influence conditions of work performance, increase work safety by monitoring and automatic controlling during working process.
- Modern technologies could contribute to eco-friendliness and humanization of work.

### **3.4 Porter's Five Forces Model**

Porter's five forces model is one of the basic and also the most important tools for analyzing the competitive environment of the company and its strategic management. Chernev (2014) said that: "competitiveness within an industry is determined by evaluating the following five factors:

- bargaining power of suppliers,
- bargaining power of buyers,
- threat of new entrants,
- threat of substitutes,
- rivalry among extant competitors.

In general, the greater the bargaining power of suppliers and buyers, the threat of new market entrants and substitute products, and the rivalry among existing competitors, the greater the overall industry competitiveness." (Chernev, 2014)



Figure 5: The Five Force Model of Competition  
Source: DAVID, 2015

**Rivalry among competing firms** is usually the most powerful force. It examines how intense is competition in the current market. Rivalry competition is high when there are just a few businesses equally selling a product or service, when the industry is growing and when consumers can easily switch to a competitors offering for little cost. Company has competitive advantage when the quality of its products or services is relatively same or better than competitors and expenditure is lower (Business News Daily, 2015).

**Potential entry of new competitors** is force which shows us how difficult it is for new companies to get into the marketplace. The higher the level of investment and expertise a sector has the more difficult it is to enter the market for new rivals. The number of potential new entrants into the market will be low if there are barriers to entry created by:

- Governments
- Patents and proprietary knowledge
- Asset specificity
- Internal economies of scale (Team FME, 2013, pp. 18-19).

Potential development of substitute products means products in other industries, which could affect the demand for a product mostly via price change. Substitute products have usually the same function but came up from different branch. "A product's price elasticity is affected by substitute products – as more substitutes become available, the demand becomes more elastic since customers have more alternatives (QuickMBA, 2010).

**Bargaining power of suppliers** is more intensive when there are fewer amounts of suppliers in the market. The power of suppliers is also enhanced by few good substitute raw materials in the market, customers will be forced to stop the production without products provided by the suppliers, or when there is too high price of switching raw material. Usually, it is in the interest of both suppliers and producers to establish advantageous conditions for long-term profitability (David & David, 2015, pp. 241-242).

**Bargaining power of consumer** is higher, when there are more products with similar quality and price. This is usually so in the case of standard or undifferentiated products. "The bargaining power of consumers can be the most important force affecting competitive advantage." (David & David, 2015, p. 242)

### **3.5 Marketing mix**

Marketing mix is another tool which helps companies with the creation of business strategies. Its definition is quite simple: "It is about putting the right product or a combination thereof in the right place, at the right time, and at the right price. The difficult part is doing this well, as you need to know every aspect of your business plan." (The Marketing Mix, 2015)

As we noted before, the marketing mix is predominately associated with the 4P's of marketing, the 7P's of service marketing, and the 4 Cs theories developed in the 1990s (The Marketing Mix, 2015).

For my purpose I am going to explain and in the practical part use the marketing mix consisting of 7Ps. The company I analyzed is a services provider, which is why I am going to focus on a wider version of a marketing mix.

As is predictable from the first paragraph, 4P represents product, price, place and promotion. 7P is extended by process, people and physical evidence as is well seen in the Figure 6.



Figure 6: The marketing mix 7S model

Source: *Research and Markets*, 2013

*Product* – “The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.” (Professional Academy, 2015)

*Place* – Or distribution decisions. It is about getting the products to the customer. For that we can use for example the nowadays well known and effective options such as an online shop or e-commerce. Distribution decision according to NetMBA (2010) includes: “distribution channels, market coverage, specific channel members, inventory management, warehousing, distribution centres, order processing, transportation, reverse logistics.” (NetMBA, 2010)

*Price* – There are differences between pricing products and services. Generally, service pricing involves taking into consideration labor, material cost and overhead costs. By adding a profit mark up you get your final service pricing (Marketing91, 2011).

*Promotion* – “Advertising, PR, Sales Promotion, Personal Selling and, in more recent times, Social Media are all key communication tools for an organisation. These tools should be used to put across the organisation’s message to the correct audiences in the manner they would most like to hear, whether it be informative or appealing to their emotions.” (Professional Academy, 2015)

*People* – “All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.” (Professional Academy, 2015)

*Processes* – Represents the method and system necessary for delivering a good or services to the customer. “All services need to be underpinned by clearly defined and efficient processes. This will avoid confusion and promote a consistent service. In other words processes mean that everybody knows what to do and how to do it.” (Learnmarketing, 2009)

*Physical Evidence* – “Physical evidence is about where the service is being delivered from. It is particularly relevant to retailers operating out of shops. This element of the marketing mix will distinguish a company from its competitors. Physical evidence can be used to charge a premium price for a service and establish a positive experience.” (Learnmarketing, 2009)

### 3.6 McKinsey 7S

McKinsey 7S model was developed in 1970s by Tom Peters and Robert Waterman. The idea of the model is based on interconnection between seven internal aspects of an organization for its successful running. “The lack of hierarchy among these factors suggests that significant progress in one part of the organization will be difficult without working on the others.” (McKinsey, 2008)

The model 7S can be used in many variants of situation, which can help:

- “Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.” (Mindtools, 2016)

“The McKinsey 7-S model can be applied to elements of a team or a project as well. The alignment issues apply, regardless of how you decide to define the scope of the areas you study.” (Mindtools, 2016)

These seven interdependent factors are usually divided into two categories.

Table 1: Categorization of 7S elements

<b><i>Hard elements</i></b>	<b><i>Soft elements</i></b>
Strategy	Shared values
Structure	Skills
System	Style Staff

Source: Mindtools, 2016

“Hard” elements are easier to define or identify. Due to this transparency management can directly influence them. The second category represents “soft” elements.

These are more difficult to describe, these factors are usually influenced by culture. Both elements are significant for successful operating organization (Mindtools, 2016).

In the Figure 7 below we can see the structure of interconnected elements from 7S model. In the lower part of the figure, there are the “soft” elements; upper part collects the “hard” elements.

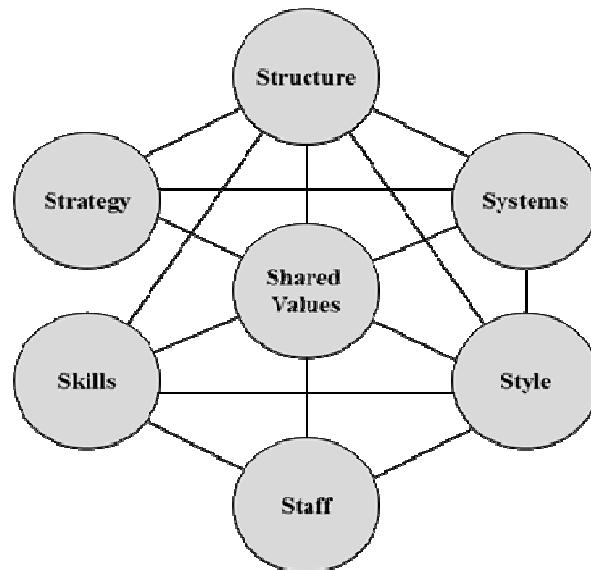


Figure 7: The McKinsey 7S model  
Source: MBS boost, 2014

Let's have a brief look into description of each element:

- *“Strategy*: the plan devised to maintain and build competitive advantage over the competition.
- *Structure*: the way the organization is structured and who reports to whom.
- *Systems*: the daily activities and procedures that staff members engage in to get the job done.
- *Shared Values*: called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- *Style*: the style of leadership adopted.
- *Staff*: the employees and their general capabilities.
- *Skills*: the actual skills and competencies of the employees working for the company.” (Mindtools, 2016)

For successful and balanced functioning of a company is necessary to deal with each element by itself. By exploring the questions we can analyze the current situation or proposed future situation. I am going to examine just few questions for each element.

- “Strategy:      What is our strategy?  
                        How do we intend to achieve our objectives?  
                        How do we deal with competitive pressure?

How are changes in customer demands dealt with?

- Structure: How is the company/team divided?  
What is the hierarchy?  
How do the team members organize and align themselves?
- Systems: What are the main systems that run the organization?  
Where are the controls and how are they monitored and evaluated?  
What internal rules and processes does the team use to keep on track?
- Shared Values: What are the core values?  
How strong are the values?
- Style: How participative is the management/leadership style?  
How effective is that leadership?  
Do employees/team members tend to be competitive or cooperative?
- Staff: What positions or specializations are represented within the team?  
What positions need to be filled?  
Are there gaps in required competencies?
- Skills: What are the strongest skills represented within the company/team?  
Are there any skills gaps?  
Do the current employees/team members have the ability to do the job?  
How are skills monitored and assessed?" (Mindtools, 2016)

## 4 Practical Part

The practical part will be divided into two parts. The first one will focus on own business plan. Here will be in each part of plan specified information relating to Investiční aukce, s.r.o. (hereinafter referred to as iA). In the beginning of the business plan are chapters which dealing with company's data. There will be basic information about foundation, milestones and brief introducing into financial situation of the company. To have clear notion about the new products, there will be description of the payment account and investments in corporate loans secured by real estate in one chapter. Next part of the business plan will focus on analyses of environment. By outcomes of analyses will be create marketing plan and specified strategies which could help company to reduce its risky issues. Legislation and financial plan will be based on the already known data from last years and on predicted data for near future. The second part of practical part will deal with questionnaire. There will be described purpose of questions and evaluation of the results.

### **4.1 Business plan**

#### **4.1.1 Title page**

The company Investiční aukce, s.r.o. registered in the commercial register with seat in Purkyňova 649/127, Medlánky, 612 00 Brno, operate under the legal form as a Limited Liability Company. The iA has two co-founders - CEO Ing. Adam Šoukal and CTO Ing. Tomáš Slobodník. According to Register of companies its scope of business is production, trade and services not specified in annexes 1 to 3 of the Trade Act. The second identification of subject of business according to the same database is scope of activities, where is company written as the payment service provider.

#### **4.1.2 Company description**

The company Investiční aukce, s.r.o. was launched and registered in the commercial register in 5<sup>th</sup> June 2013 in Brno, Czech Republic. In the beginning of September of the same year, iA started a web interference. This was the milestone for starting the process trading with receivables. The first auction was launched 1<sup>st</sup> October 2013. In November of the same year, they received an official certificate of registration to payment service providers of small-scale, and thus become a participant of registered financial market. In September of the year 2014, was entered into partnership with the company Deloitte. It gave the iA opportunity solve the legal issues with professional consultants. Year after its establishment, the company won 2nd place in the competition for the most promising start-up of the year 2014 in the Czech Republic. From the end of the year 2014 the iA are trading in foreign currency (euro). After two years of operating in the market, the iA established cooperation with the company CVV Information System.

As can be seen in the Table 2 the profit of the iA has been changed since 2013. 2013 is the foundation, that's why there are higher expenditures than revenues. But already in the 2014 show a relatively high level of profit in the form of thousands of Czech crowns. Milestone can be seen among the years 2014 and 2015 where the revenues of the company is one time higher and final profit/loss account is almost three times higher than one year after establishment.

Table 2: Profit/Loss Account of the company Investiční aukce (in ths. CZK)

	2013	2014	2015*
<b>Revenues</b>	166	1 565	3 205
<b>Expenditures</b>	202	1 118	1 999
<b>Profit / loss of current accounting period (+/-)</b>	-36	447	1 206

Source: [www.justice.cz](http://www.justice.cz)

\*Preliminary financial results before audit

For better imagination how had been changed the profit of the iA during last three years, was made graph (Figure 8) which can be overleaf.

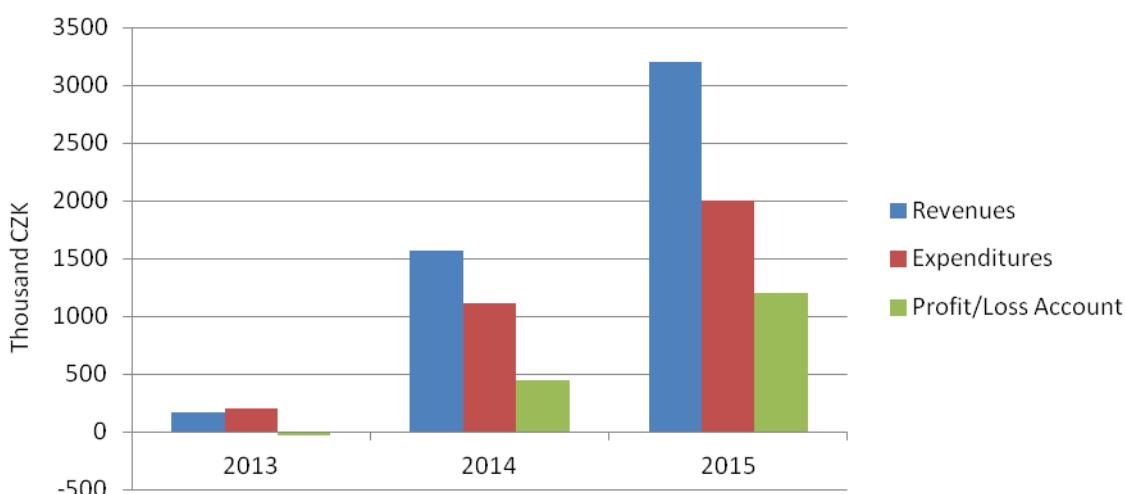


Figure 8: The comparison of profit/loss within three last years

Source: [www.justice.cz](http://www.justice.cz)

The services performed by iA are similar to the services offered by the bank in the form of factoring. The purpose of factoring in the bank is to forward all receivables to the bank to improve cash flow of own company. Investment Auction divides these packages of receivables into smaller marketable units.

So the process trading with receivables is similar like generally known factoring. But the iA works on P2P platform, it means without bank participation. On one side are small and medium enterprises (SME's) that supply ① to large corporate as chains, breweries, operators, energy companies and etc. These large corporate are reliable concerned paying the invoice. The problem is longer maturities. Most of SMEs cannot afford to wait several months for repaid invoice, which usually constitutes a significant portion of their cash flow. They are not able to get to the

other contracts and hence it slows down its development. Through the iA is their invoice offered on iA platform ②, where already registered investors compete in so called Dutch auction, and vie each other by offering lower interest rate on the invoice ③. Each investor can state by himself what kind of form for investment will use. Most of the investment is for a period of 30-120 days with the interest rate of 6-18% per annum. After finished auction iA sends ④ to the SME's client financed amount, plus interest. SME client is taking care about timely payment from the large corporate. The large corporate have to pay back the bill within contractual period ⑤. (If they will not pay until the maturity day, iA will solve it with them within 60 days, or agree to log on to insurance payments or of legal process.) The amount of money received from large corporate is financed amount with interest returned to the investor ⑥. They are sent to the client funds reduced by net of financing, interest and charge for intermediaries (iA) ⑥.

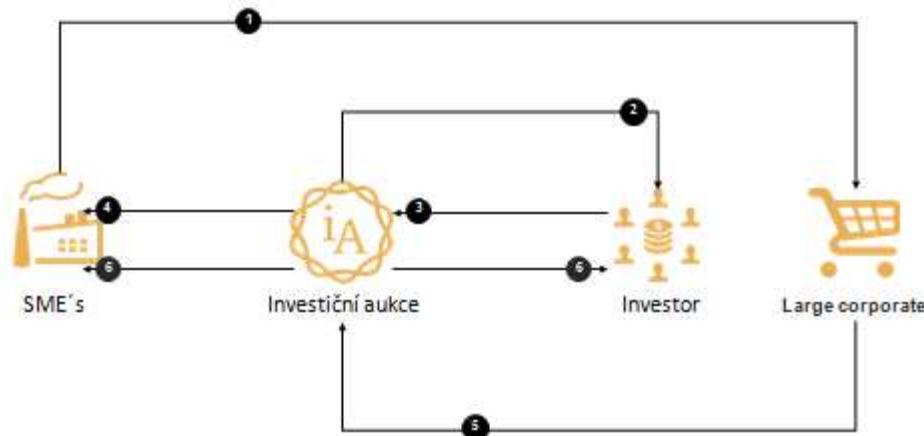


Figure 9: Working process of trading with receivables  
Source: [www.investaukce.cz](http://www.investaukce.cz)

The client portfolio has increasing character. If we will have a look back to the years 2014 and 2015 we could register almost one time more active clients. In 2014 was the client portfolio fulfilled by 24 active clients, 13 of them were clients regularly used the services of iA and 11 irregular. At the end of the year 2015 the client portfolio was consisted of 47 active clients. Already 30 clients were regularly used the services.

#### 4.1.3 New products and services

##### Payment account

The new product which the management of iA is planning to launch into the process of trading with receivables, is payment account. The product was established primarily to streamlined services for investors. The payment account will be managed by the company iA. It will have permission from the CNB in form of license for

payment institutions. The accounts will have the same requisites and acted as accounts in other banks. The existing operations, which are necessary to finance receivables, would remain unchanged, except for the automatic debiting of the purchase price from investors account carried by iA. An investor will have unlimited possibility of control and manipulation of the account via the web interface.

Advantages:

- Time savings
- Effectiveness - simplification of transactions
- Acceleration of transaction (money will be added in the account sooner)
- Transparency - simplifying tracking of revenue
- Minimizing risks during performing transactions
- Free keeping of account

Disadvantages

- Allocating capital into one investment tool
- No trust in the company
- Low interest deposit account

#### Investments in corporate loans secured by real estate

Investments in corporate loans secured by real estate is a new product which will be in the same level as invoice of receivables. In the meaning of new product which will widen iA platform offered to investors. Loans secured by real estate will be with an investment horizon of 2-5 years. It would be a conservative investment instrument where the loan amount will not exceed 75% of the value of the property securing. The value of the property will be determined by an independent appraiser. There will be offered expensive bank loans of SMEs for its refinance in the auction. Credit trading system would have the same form as the existing system of trade receivables.

#### **4.1.4 Environment analyses**

Environment analyses will consist of two external analyses (SLEPT and Porter's five force) and one internal analysis (McKinsey 7S). Based on these analyses will be made summarisation in the form of SWOT analysis. The results of that chapter should give us clear idea about company environment.

##### **4.1.4.1 SLEPT analysis**

###### Social

The standard of living of the population of the Czech Republic belongs in the European Union, according to Eurostat, among the lowest. According to the research we are clearly below average in the consumption of a public character. Among the EU member countries, the Czech Republic belongs to the last quarter according to standard of living (Parlamentní listy, 2014).

With regard to purchase power of the Czech citizens, we were in the 2015 in the 26th place in the ranking of the member's countries EU. Purchasing power in the Czech Republic is in average 7 313 € per year per capita, by this amount is

reaching the level of 53.6% of the European average. For better imagination of situation of purchasing power in compared countries within EU is represented in the Figure 10. These values are not adjusted from inflation.

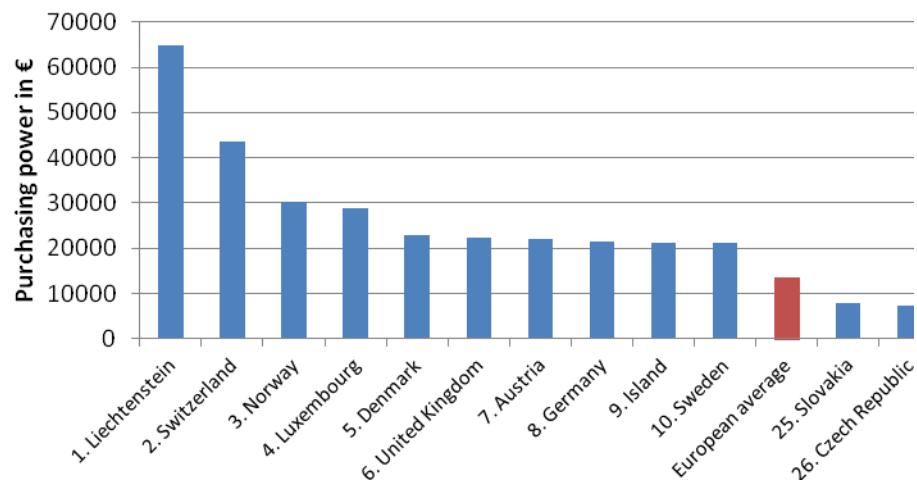


Figure 10: Purchasing power per capita in EU

Source: GfK Purchasing Power 2015

### Legal

In the preparation of legislation in the area of payments and others is involved Czech National Bank. It cares for the smooth and efficient functioning of payment systems and ensures security, reliability and efficiency of payment systems and their development. The way of business which is provided by iA is also subject of CNB. There more legal regulations which have to be fulfilled by company. Among the most actual for the company belongs *Zákon č. 284/2009 Sb., o platebním styku*. This law is adjusting legal framework of company in the following year. Another law according to which the company must comply is for example *Zákon č. 253/2008 Sb. o některých opatřeních proti legalizaci výnosů z trestné činnosti*. Legal framework is supported by regulations of CNB. Already followed is *Vyhláška č. 141/2011 Sb., o výkonu činnosti platebních institucí, institucí elektronických peněz, poskytovatelů platebních služeb malého rozsahu a vydavatelů elektronických peněz malého rozsahu, a odůvodnění k této vyhlášce* which is followed by *Vyhláška č. 142/2011 Sb., o předkládání informací platebními institucemi*, etc. In case of launch of payment accounts as a service provided to investors, the iA will have to follow more regulations. For example *Vyhláška č. 169/2011 Sb., o stanovení pravidel tvorby čísla účtu v platebním styku* or *Vyhláška č. 140/2011 Sb., o platebních systémech s neodvratelností zúčtování*.

The continuity and stability of business environment is secured by directives of EU. These are made and regulate by the European Parliament and of the Council. Legal framework is different for each state. For expansion to foreign countries is necessary to get know about regulations, decrees and controls of specific country.

### Economical

Economical factors which could influence business of explore company can be as followed: inflation, interest rates, tax changes, economic growth, economic cycle, inflation, exchange rates, etc. During expansion to other countries has to be considered also economic situation of potential country. According statistical data and as can be seen from Figure 11, inflation had still decreasing character. At the beginning of the previous year was average inflation rate 0,3%. Values showed in the graph are measured also in the beginning of the year.

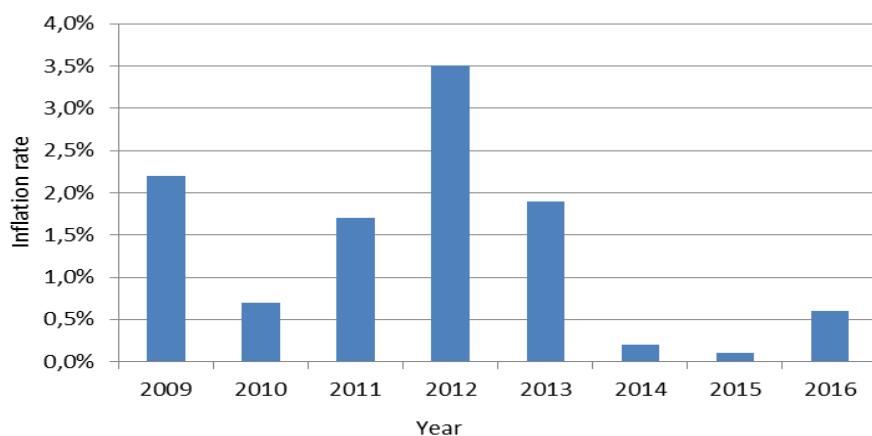


Figure 11: Inflation and its development in the Czech Republic

Source: kurzy.cz

The volume of loans provided to entrepreneurs has been steadily year over year. Even in 2009, when it became apparent impact of the economic recession, there was also a year on year increase in these loans. Accounts receivable from business loans and instalment sales for entrepreneurs reached in late 2009 amount of 48.5 bill. CZK. Non-bank business loans also grew during the years 2010 and 2011. In 2011, the number of new contracts stood at number 66 626. In subsequent years, the volume of non-business loans is also increasing.

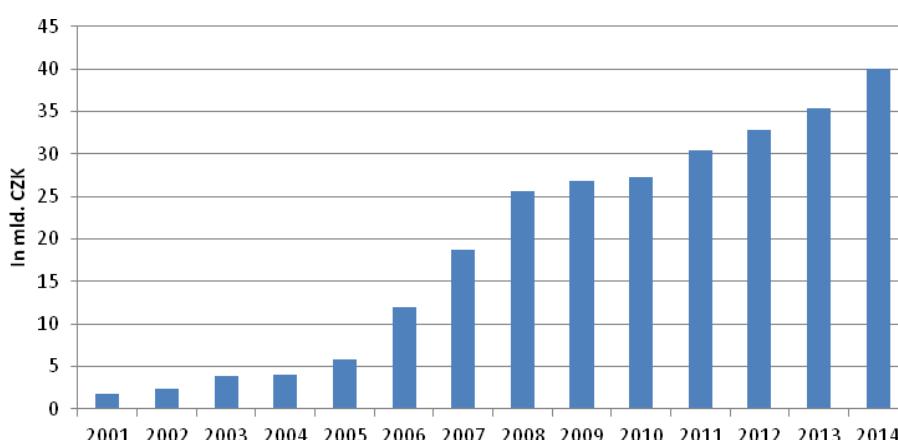


Figure 12: Development of non-bank business loans

Source: Snadnapujcka, 2014

From the past statistic data can lightly predicted increasing power in non-bank business loan in the future years as well. This prediction has positive impact on iA company, they do not have to be worry about time of recession.

Threat in market can be seen in lowest interest rate provided by CNB. Since September 2015 has been watched the lowest value of interest rate ever. The value measured by CNB is 0.2% these last months, as can be seen in the Figure 13. This should represent threat for interest rate offered by the iA which is nowadays around 3%.



Figure 13: Development of the interest rate

Source: CNB, macroeconomics statistics

Another economical factor which can significantly influenced progress of company, is construction. Many of clients or potential clients of the iA are from construction industry. From the Figure 14 can be seen slight reduction of power, but in comparison with previous years it is still keeping in positive values.



Figure 14: Development of construction output

Source: CNB, macroeconomics statistics

### Political

The political situation in the Czech Republic is mostly connected with EU policy. "The development of freedom of movement and trade in the European Union has led to greater levels of competition on European routes coupled with increased movement of people." (Business case studies, 2016)

The referendum (which should be solve in the beginning of May this year) about leaving the Czech Republic from European Union had negative responses. Demise would damage the Czech Republic; it would lead us into the isolation. Discussions regarding the reforms and changes in the operation and direction of the

EU are the consequences of inability of the EU to solve the problem in rational level - such as the current immigration crisis.

The programming period 2014–2020 is in line with the budgetary framework of the European Union for this seven-year period. Funds amounting to EUR 24 billion were allocated for the Czech Republic. In the Figure 26 can be seen allocation of source for each programme. In consideration to the iA they can be affected by the *Operational Programme Enterprise and Innovation for Competitiveness*, its aim is as follows: "Promotion of research and development for innovation, development of SMEs' entrepreneurship and competitiveness, energy savings and development of high-speed internet access networks and information and communication technologies." (European Structural and Investment Funds, 2011) Another programme where the company can be influenced is the *Operational Programme Employment*. They focus on: "Supporting employment and workforce adaptability, social inclusion and combating poverty, social innovation and international cooperation, and efficient public administration." (European Structural and Investment Funds, 2011)

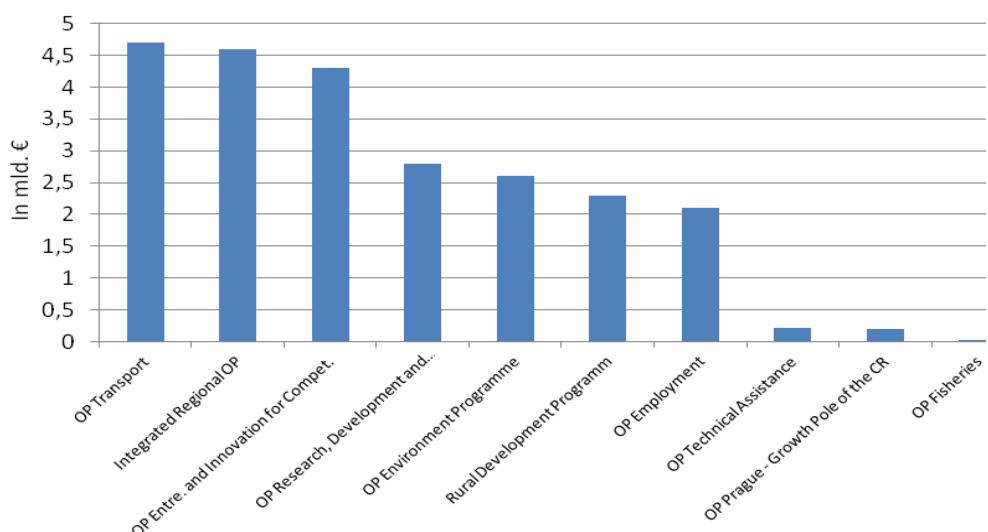


Figure 15: Programmes for the programming period 2014-2020

Source: European Structural and Investment Funds, 2011

Subsidies for innovation can draw all business entities (SEP, Inc., Ltd., corporate company ...). As can be seen from the Table, the subsidy can be drawn up to 45% on product and process innovation to 200 mil. CZK. The iA are still Microenterprise, so they can draw subsidies in the amount of 45%.

Table 3: Drawing subsidies for innovation

<b>Enterprise category</b>	<b>Subsidies</b>	<b>Determining the category of enterprise</b>
<b>Microenterprise</b>	45%	0-10 employees
<b>Small business</b>	45%	11 - 50 employees
<b>Medium enterprise</b>	35%	51-250 employees
<b>Large enterprise</b>	25%	250 and more employees

Source: Dotacez.eu, 2011

### Technological

The technological progress in the world is still increasing. It influence economical world as well. There are upgraded and innovated many applications and technological services which suppose to make the business easier and faster. There should be mentioned for example project FinTech on which already works many companies over the world. It is taking financial services into the viral world.

In regarding to using mobile interference in many financial services, is the iA planning to create same service for their users as well. By technological department of the company will be created interface for mobile which will enable investors to operate on auctions via mobile devices. It will increase effectiveness and investors will never miss any offer of auction. It is observed that 30% of clients use iA mobile devices.

#### **4.1.4.2 Porter's five force analysis**

##### Bargaining power of suppliers

As a bargaining power of suppliers could be consider power of investors. The company working as a services provider so they do not need any materials for operating their business. But the successful business is depended on the investment of investors. Increased pressure from investors can be seen in the request for an increase in interest rates. However, the company is currently not able to provide that interest with keeping the earnings at a satisfied level.

Investors awareness about technological development in the market concerning to IT services (applications, etc.) is pushing company into upgrading and developing of that apps as well. But this fact cause hiring of new IT employees.

##### Bargaining power of buyers

Among buyers belong clients who use services provided by iA company. It means SMEs. Their power is not that significant. Nevertheless, interest rate which is provided by iA to clients seems to be high for clients. So their power is mostly concerning with trying to cut the price of invoice at lowest possibility.

##### Threat of new entrants

The obligations which are required for entrance of the market have quite wide range. Primarily new potential participant has to be informed about local environment in which he will provide his business. The information about clients, competitors and co-workers seems to be the most important issue. Other important knowledge is connected with legal system. It is necessary to do the business according to written law and regulations written in it. It long process to be successful with granting license from CNB. It takes approximately half year and cost about 1 million CZK. Another thing which has to be considered during entering the market as competitor to the iA is to program save software. It also takes many hours and of course so much money. There has to be taken in the mind that legal framework is different for each country.

Important turning point for the iA is to keeping client base. It is good to provide for example some benefits for current clients.

### Threat of substitutes

Threats of substitutes can be seen in side of investment products. It means, investors can choose from range of product which are currently available at the market for favourable profit. Other side of threat is seen in offer by banks. They operate with similar product like the iA do. SMEs have wider option where to claim their invoices.

### *Investment products*

The market is flexible and open to new products. In our case are these products in form of financial instruments. There are many investments products which are changed over the years. In following point are mentioned substitutes which can mean a threat for iA company:

- Bond
- Commodity – gold, silver, oil
- Mutual funds
- Shares (long-term, short- term)
- Real estate

Nowadays the biggest threat can be seen in increasing investment into mutual funds and persisting interest of investors in real estate and of course in commodity. The end of the last year was rapid drop of oil and widespread buying barrels of oil. The price of oil has been falling since the beginning of the year by a further 30%.

In 2015 decreased the price of mined commodities, with the exception of uranium. Price for gold and silver fell by about 10%. Also, most agricultural commodities over the past year on the stock exchange considerably cheaper. The value of all commodity indexes is currently in the lowest level in the last ten to fifteen years.

Threat can be also seen in long-term shares. They were, are and will be the most profitable class of asset. Revenues from shares in the long term period significantly overcome inflation. It's mostly due to growing population on the Earth, but also due to the growth of labour productivity. According to the investment analytics long-term shares seems to the best option for investment. On the other hand short-term shares are more risky and that's why it does not represent that big threat for our company (Penize, 2015).

Another potential competitor could be seen in agriculture commodities. There is also speculation about natural phenomenon called El Nino. This might affect poor harvest in the next year and that's why agricultural commodities prices could rapidly increase.

According to answers from questionnaire the highest portion of using investment products is putted into the shares and after real estates.

### *Bank credit*

Bank credits work on the similar principle as investment products. They are changeable and react on the current economical situation. From the biggest threat can be considered:

- Revolving loans

- Cash loans – such as overdraft account, working capital loan and investment loan
- Alternative forms of financing – from this section can marked banking factoring, forfeiting or leasing
- Consumer loan

"Credit earned from banking loans is in the border of 95% of currency of the *first world*."<sup>3</sup>

#### Rivalry among extant competitors

There are many companies which operate on the similar purpose as the iA. Competitors from the side of investors, it means companies which can be more interested by their products for investors. Among them belongs for example: Mintos, Bondora, Twino, Benefi, Zonky, Bankerat. Bankerat is also the oldest and the most successful company in the field. Within four years brokered loans for 244 million CZK. On the side of clients are the biggest competitors usually banks. It is direct competitors, who provide clients the best substitute. Between them can be considered institutions written in the Table 4 which are completed by two non-banking institutions provide factoring as all from the list of institutions. The table shows annual turnover of these companies between years 2014 and 2015. There can be seen position of the iA in the market. The company between 2014 and 2015 doubled its market shares.

Table 4: Turnover of the most revenues companies in the CR

	<i>Objem v mil. Kč (2014-2015)</i>	<i>Podíl v %</i>
<b>ČS</b>	65 094	31,40%
<b>KB</b>	34 049	25,20%
<b>ČSOB</b>	30 544	22,30%
<b>Transfinance</b>	26 037	11,20%
<b>Raiffeisenbank</b>	8 679	7,60%
<b>Bibby</b>	2 504	2,20%
<b>IA</b>	154	0,02%
<b>Celkem</b>	167 061	100,00%

Source: Česká leasingová a finanční asociace

While has Bibby long history and in the Czech market operate for more than 20 years is its marketing share in the comparison to other companies really small. The leader in factoring services is for current time Česká spořitelna.

In the following table will be on a scale from 1 to 5 demonstrate how big weight have each of the factor which influence power of the iA in the market. The point 1, has the lowest power and represent the lowest threat. On the other hand number 5 shows the biggest press in given field.

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<sup>3</sup> Paul Grignon: *Money as Debt*

Table 5: Evaluation of Porter's 5F

<b>Porter's 5F</b>	<b>Influenced power</b>	<b>1 - 5</b>
<b>Bargaining power of suppliers</b>	Request for an increase in interest rates Press to upgrade and develop IT	3 1
<b>Bargaining power of buyers</b>	Press to decrease interest rate	2
<b>Threat of new entrants</b>	High requirements for entry	3
<b>Threat of substitutes</b>	Investment products Bank credits	3 5
<b>Rivalry among extant competitors</b>	Competitors on the side of investors Competitors on the side of clients	3 4

There are two the most significant factors which imagine threat for the iA company - in the various types of bank credits and competitors from the side of clients. The management in cooperation with analytics of the company are developing new products which will extend the platform. By this steps will be touch more clients and investors afterward. Among competitors from the side of clients mostly belong banks. The process dealing with loan is uncomplicated and more effective (faster) on the side of the iA. It gives to our company advantageous which should be shown as primary item. More less high threat can be also seen in new entrants. Nevertheless, there are many factors which have to be fulfilled by new entrants; there is no special know-how or untouchable initial. Well known environment of the market is giving the iA advantage to defeat new entrants.

#### 4.1.4.3 McKinsey 7S

##### Strategy

Through continuous analyses of the market by analytics of the company, is iA constantly prepared for sudden situations. Also by analyses of market company knows as much as possible information about their clients and investors as well.

##### Structure

The share of company is divided into 3 owners with different percentage portion of ownership. Two of them are directly involved in functioning of the company. It is CEO and CTO. In the following structure of the company is well seen hierarchy of the company.

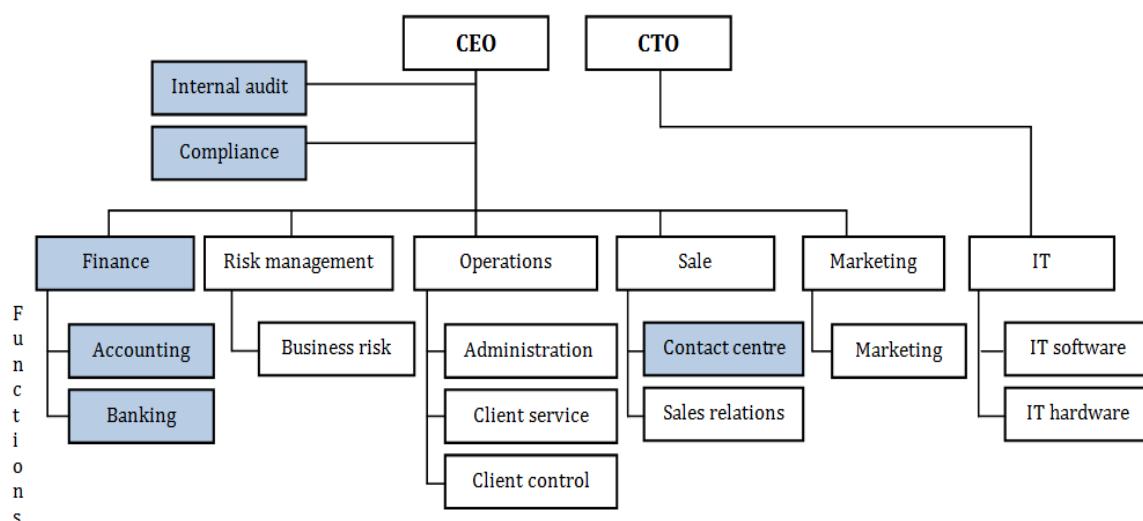


Figure 16: The organizational structure of the company Investiční aukce s.r.o.

The company has overall 8 employees. Among these employees are covered also superior positions of CEO and CTO. The 6 employees are under control of CEO and CTO according to their subjects. Some of the activities are outsourced by external suppliers outside the company. The activities outsourced outside the company are recorded in blue. The company is divided into six departments, of which 5 and 2 functions are subject to CEO, together with the Compliance and Internal Audit. IT function is subordinated CTO.

Each of the internal function is under control of employees. They have specifically given their scope of business and responsibility of operations. The functions of these 6 employees are more in detail explained in the part Staff – Skills.

### Systems

Each person of the team has own role. The functioning of the company could not be working without any member of the team. As was said first, they work as a team, they cooperate with each other. In case of problem they solve it together. Of course they work under one of the leadership style, more about it in part "Style". They make the daily activities and procedures that staff members engage in getting the job done.

### Shared Values

The shared value of the company is as followed: "We want to support small and medium enterprises by offering them convenient and flexible financing options." Till the end of the 2017 is the vision of the iA to finance invoices in totally amount 1 billion CZK to the mutual satisfaction of clients and investors.

### Style

They work on democratic style of leadership. Employees hold various functions. More less they work on the same positioning level. The main world has the manager of the company. His content of the work is primarily concluding contracts, communication with potential investors and clients and of course keep the team together with harmonious relations. Deficiency can be seen in the communication within workers. They lose one's train of thought; they do not complete one operation without starting new one. The solution could be seen in launch of "operating maps" within company.

### Staff - Skills

As was already mentioned in the aspects of Structure company has 8 employees and 6 different internal departments which are fulfilled by the employees. Below is deeply described subject of operations for each function.

*Risk management* is dealing with evaluating the risk of potential clients and investors, evaluating the interest rate and administrative fee and others. *Operation department* covers administration function (processing of documents and papers pertaining to individual business cases, preparation of business cases in the system iA, preparation of documents and arranging meetings, etc.), client services (communication with clients, suppliers and investors, solving problems and complaints from the side of clients, investors, suppliers, etc.) and client control (checking the authenticity of documents at the customer, checking material for auctions, check-

ing the payment discipline of customers and others). *Sales operations department* is fulfilling the function of the sales relations, contact centre and brokers. The subject of function of sales relations is acquisition of new clients, identification of clients and investors, creation of new lists of potential clients, establishing contacts with third parties. The last department under control of CEO is *marketing*. The person works on this position is able to carry out following operations: creation of market analysis, preparation and implementation of a marketing plan, maintenance of communication channels, creation of marketing materials, communication with media, and evaluation of campaigns.

IT department is divided into two sections. The scope of business in the section *IT hardware* is ensuring material support for IT operations and services and ensuring backup services in case of failure of the primary. The function of *IT software* administrator is for example development of web platform, solution of problems and failures in IT, taking third-party programs and more. The distribution functions for individual employee are as followed:

- 1 person - Risk Management
- 1 person - Administrative functions
- 1 person - The client service functions sales relations
- 1 person - The Marketing
- 2 persons - The IT software

Because iA is still new in the market they do not have so many employees. Each of them is very important for functioning of the company. There are few functions which have to be fulfilled by more employees. For the future widen of the company, management is thinking about hiring new employees.

Current employees know deeply the functions which they carry out. They work in one room, so the cooperation, tolerance and communication within each other is important for harmonized working place. All of them go along with these rules. They are trying to fulfil their obligations without any objectives.

#### **4.1.4.4 SWOT analysis**

In order to internal and external analyses and due to few visits of the company, I had an option to get know more about the operations and functions which are fulfilled by employees. The SWOT analysis follows from analysis and own opinion. It summarizes and identifies factors which influence iA. In the Table are identified the most significant factors.

Table 6: SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Fast developing</li> <li>• Specialists in the field</li> <li>• Widen of platform</li> <li>• Speed in handling operations</li> <li>• The company's credibility</li> <li>• Deep knowledge about the market</li> <li>• Secured legal framework</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of communication among workers</li> <li>• Lack of employee</li> <li>• Increasing amount of investors lead to decreasing interest rate -&gt; outflow of investors</li> <li>• Lack of invoices provided on auctions</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• New in the market</li> <li>• Cooperation with strong companies - new contacts</li> <li>• Developing scale of FinTech</li> <li>• Expansion to other countries</li> <li>• Launching of new products</li> </ul>	<ul style="list-style-type: none"> <li>• High amount of substitutes</li> <li>• Increasing IT potential in banks</li> <li>• Hand in one's notice, protracted illness, injury of current employee</li> </ul>

Source: internal & external analyses

Nowadays, the threats and weakness are not that significant and company can put more power to developing and improving its platform and services. Therefore I chose S-O strategy for analyzing strengths which are available to support opportunities and change them into strengths as well. The main aim of the company is to multiple their revenues and gain more clients and investors. To be able to satisfy needs of investors they have to extent its portfolio of products. This is also the most actual innovations within the company. In order to research of the market which should be make by analytics of the company with support of marketing and risk management, can discovered new products which are suitable for our company. Based on the fast developing and specialist in the field is opportunity to expand to other countries appear as good step for next years. Each market has own legal regulations, but as was already proved at the level of Czech legislative system, company has high support in getting well known data in legal framework and can successfully secured them.

#### 4.1.5 Marketing plan

##### 4.1.5.1 Potential customer's analysis

The target customers for the iA company are specially small and medium enterprises. To be able to work with bigger corporate, the iA will have to ask CNB for license which allowed to already licensed payment institutions operate with finances on higher level.

The Czech Statistical Office published in the 2013 annual press report where pointed out on the increasing amount of SMEs. They represent in the Czech Republic, more than 1 million businesses and employ an average of almost 2/3 of employees. The SME sector is a major driver of business, growth, innovation and

competitiveness and is also a major employer. There is a program which has been running since 2014. The year 2014 is also the year for the new programming period which finishes in 2020. The program is called The Operational Programme Enterprise and Innovation for Competitiveness. The operational program is aimed at increasing the number of companies able to move or at least reach the technological frontier in their field, with particular emphasis on the development of corporate research, development and innovation capacities and their connection with the environment. According to technologies functions which are listed in SLEPT analysis, we can say that the iA are well prepared for needs of its potential customers.

In 2016, the target groups are mainly clients of the segments of IT services and FMCG. These segments have been identified as key based on experience from previous periods, when clients of the aforementioned segments proved most suitable for cooperation.

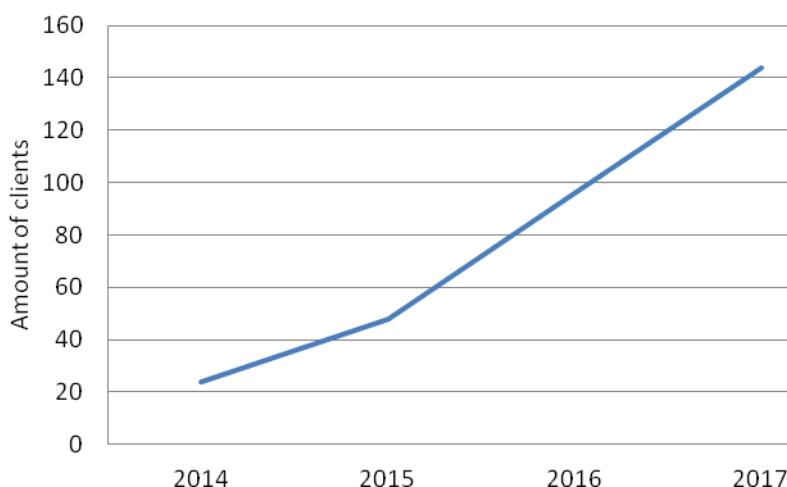


Figure 17: Development of active clients

Source: Business plan of iA 2016

The iA company came with prediction of increasing amount of clients for two followed years. At the end of the year 2016 they would like to register 96 active clients and for next year 2017 they are predicting 144 active clients. Among the active clients are considered clients who proceed from one to two invoices per month and the average size of these invoices are between 0.5 and 1 mil. CZK.

For the 2016 is the most important clients seen in segmentations from IT, services and FMCG. According to analyses from past years made by works of iA.

#### 4.1.5.2 Market segmentation

##### Geographic

The country of origin is the Czech Republic that's why they are mainly focusing on reaching customers from the Czech Republic. Company is planning expansion to other countries. Already signed contracts in Brazil. iA analytics are already doing a research in Slovakian, Polish, German market. Because of the current economic situation in southern countries could be thinkable to do research in countries like

Portugal, Greece or Italy. There could be many potential SMEs which are in bad economic situation. They are willing to adapt conditions of potential market. The language of origin is Czech. Management of the company can also communicate in English and Spanish language.

#### Psychographic

Individual entities are searching for option to make good use of their surplus. The iA provides them advantageous and fast option how to deal with their "problem". The development of business is in rapidly increasing scope. It is good mark for the iA but unsatisfied for investors. By increasing amount of investors is the interest rate for won auction lower and lower. That fact leads to lower revenues for investors and unsatisfactory result.

#### Behavioural

Occasions – iA usually work during holidays and special occasions as well. Even though it is symbolize hardworking employees it meets with negative reactions of investors.

### **4.1.5.3 Marketing mix**

#### Product

Payment account mean effective service for investors. It is without charges, with low interest for operation of the account in the iA company. Potential outlook to the future: by developing IT technology in the company might be developed function which will make trading with receivables as much effective as is nowadays possible. Following and competing of auction via cell phone.

Second product is corporate loan secured by real estate. Based on decreasing interest rate on the receivables which is influenced by increasing number of investors and of course higher demand, are loans solutions for extending platform of products. As was already described in the chapter 4.2.4 New products and services, in the auction will be offered loan of SMEs secured by real estate with investment horizon 2-5 years.

#### Price

Both of these products are totally free of charges. The only issue which has to be done within payment account is initial deposit by users.

#### Place

Already used distribution channels by company could be also used for redistribution information about payment account among customers. Namely could be used:

- *Phone reaching potential users* – via phone conversation among active investors to let them know about the new product, its advantages and preparing services connected with it. By this approaching company will directly know the attitudes of investors.
- *Email approaching potential clients* – this tool works on the same idea like phone reaching, without the option to get directly know what investor thinks about the product and if he wants to use these services.

- *Personal meetings with potential clients* – once a year management of the company visits their investors and communicates incongruity, shortage and information about innovation which might affect current operations made by investor. During these meetings could be more deeply introduced information about payment account.

#### Interactive marketing:

The research showed that among the most important marketing channel should be tools used on the Internet. Like:

- Newsletter – periodically send internet article attached to emails distributed among auction users. It is service without charges. No guarantee of reading these articles.
- Facebook
- Twitter

#### Promotion

There will not be huge range of promotion activities regarding to our products/services. It is useless to get it know about news of company to the general public. The main aim is to let know about news to company's investors. There are already planned marketing activities complemented by financial values, which the company is planning to invest in 2016. In total iA management earmark 80 000 CZK for the marketing tools. In the Figure 18 can be seen price percentage distribution for individual promotional activities. The highest sum is represented by promotional events. For the online marketing is devoted 37%. According to research should be high attention pay exactly to this type of marketing. More force should be put into the promotion of new products in the facebook page, twitter and internet articles. These were found out as the most effective tools for attracting new investors.

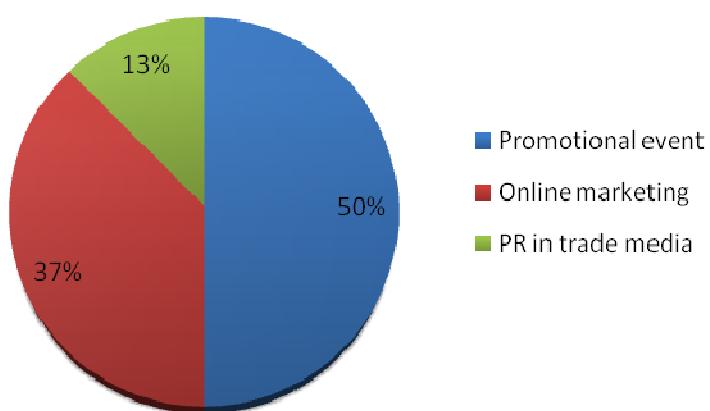


Figure 18: Price distribution of individual promotional activities

#### People

iA is planning to hire new employees in case of actual needs in current period. There is open space for the working position on post salesperson.

### Process

The process by which the iA providing whole operations is described in the chapter 4.2.3 Description of company. I would focus in this chapter more on the improvement of the process/operations.

- Active and rapid response to questions or objections of clients
- Identify threats that endanger the perceived value of clients,
- Once a year, to visit existing clients and plan collaboration for the current year,
- Sending newsletters to inform clients and investors about new possibilities and future direction of the company,
- Active management of Facebook and Twitter account of the iA
- Finding new retention tools, methods and measures.

### Physical evidence

In the description of physical evidence I will concentrate on places where usually CEO or Sellers make deals with clients. Because of clients from different cities in the Czech Republic, representatives usually have to go to their place of business. Each meeting is concluded according to official formalities, and of course depending on it is chosen the place. Normally it is office or meeting room.

### **4.1.6 Regulatory plan**

The regulatory plan is focusing on changes in the legal and regulatory framework of the company. On the changes which will has to or should be done within launch of new product/services. Changes will be made especially within the purview of the *Zákon č. 284/2009 Sb., o platebním styku*.

Regarding to establishment payment accounts as a service provided by the company, the company will have to ask for different type of license. This type of license allows administrate payment accounts, even to non-banking institutes. The iA company already operate according to point *f) § 5 Zákona o platebním styku* as PSPs small-scale (*viz. 2.3.1 Regulation of the banking sector*). It means that the monthly average of the amounts carried out payment transactions in the Czech Republic, including payment transactions carried out by its business representatives, for the last 12 months does not exceed an amount corresponding to 3 000 000 €. It is already quite limiting sum of the money for business of the iA.

To be able to provide administrate payment accounts is necessary to ask CNB for license according to point *a) § 5 Zákona o platebním styku*. The company will have to act like bank and accept conditions stipulated by the law regulating the activities of banks. With this law are moreover connected operation conditions for payment institutions according to *§ 16 Zákona o platebním styku*. As can be recognized from the Table 7 during asking for license a) applicant have to have in his initial capital 125 000 €.

Table 7: The initial capital of payment institution

Type	Initial capital	Point/letter
a)	20 000 €	f)
b)	50 000 €	g)
c)	125 000 €	a) to e)

Source: Zákona o platebním styku

The followed financial plan is showing future situation of the company as well as the current. Balance sheet is presenting the fact that company currently does not have the initial capital in amount of the required 125 000 €. To be able to ask for letter a) they will have to find another investor (new co-owner of the company) or already existed owners will have to increase their registered capital. It is difficult process where all current owners will have to make an agreement on the same amount of deposit and the process of returning back the deposited money is difficult as well.

Connected with rapid growth and development should the management of the company think about enlargement in the term of license as well. There is an option to ask CNB for license according to letter g) § 5 Zákona o platebním styku. It allows provide services in higher range than just for SME. As a payment institution (according to § 7) they should ask for the license according to letter g) and f). The initial capital in this case has to be in amount of 50 000 € by which the company already operate (viz. Table 10. - Balance sheet).

#### 4.1.7 Financial plan

Financial plan is essential part of the business plan. Because of the iA is already existed company I am going to use already known numbers which will be supplemented by predicted numbers from the year 2016 and 2017. Firstly I am presenting changes in amount of clients, in the number of auctions, number of workers who influence process of productivity. Afterward there is shown in table potential development in the profit/loss statement and last table is focusing on balance sheet of the company. In case of increasing registered capital by co-owners I am going to calculate ROI for better imagination how big will be rate of return of the investment.

In order to increasing productivity of the company, there has to be hired more employees for future years. The management of the company doubled the amount of workers for current year, it means that in the year 2016 had to be expend on salaries almost two times more than previous year. For the next is planned to hire 4 more employees. With workers hiring is connected rate of productivity, which is presented in last row of the Table 8. In the year 2016 is final amount of productivity lower than in previous year in spite of more workers. It is influenced by increased amount of expenses (viz. Table 9.). Nevertheless, productivity of employees is hard to calculate. There are many factors which can cause increasing or decreasing productivity. There is high potential of increasing rate in amount of clients. There is increase from 2014 to 2015 of 24 customers; double increase is predicted for the end of the current year. The amount of customers does not influence monthly funding of one customer. But the increase will influence increase in amount of auctions. More clients -> more auctions.

There are still risks, which are deeply explained in chapter 4.2.8 Risk assessment that could influence situation in the market immediately. From the available information is created Table 8.

Table 8: Process productivity related to hiring new employees

	<i>Services</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>OP</b>	<b>Revenues</b>	1 515 000	2 871 000	5 644 000	9 480 000
	<b>Expenses</b>	-49 100	-90 000	-150 000	-150 000
	<b>Operation Profit R + E</b>	<b>1 465 900</b>	<b>2 781 000</b>	<b>5 494 000</b>	<b>9 330 000</b>
<b>HWP</b>	The number of workers	3	4	8	12
	Hours worked	5 850	7 800	15 600	23 400
<b>PP</b>	<b>Process of productivity OP/HWP</b>	<b>251</b>	<b>357</b>	<b>352</b>	<b>399</b>

The profit/loss statement is connected with data from previous Table 8. In order to hiring new employees because of covering necessary positions related to implement new license within the process of business of the company, will be also increased in personnel expenses and consulting, in total it gives sum of 1mill. CZK. Another increasing in cost could be seen in consumptions like services, material and energy, on marketing and others. Related to development of the company and extension of offered products will have the increasing scope also revenues which is at end higher than expenses.

Table 9: Profit and Loss Statement of iA (in CZK)

	<b>GOODS/SERVICES</b>	<b>2015*</b>	<b>2016</b>	<b>2017</b>
<b>R</b>	<b>Revenues</b>	<b>2 871 000</b>	<b>5 644 000</b>	<b>9 480 000</b>
	Revenues from sold goods	2 816 000	5 544 000	9 180 000
	Revenues from sold licenses	0	0	100 000
	Sales of third-party services (Insurance)	55 000	100 000	200 000
<b>E</b>	<b>Expenses</b>	<b>-90 000</b>	<b>-150 000</b>	<b>-150 000</b>
	Purchase of licenses, registers and vetting	-40 000	-50 000	-50 000
	Purchase of third-party services (Brokers)	-50 000	-100 000	-100 000
<b>AV</b>	<b>Added Values R,E</b>	<b>2 781 000</b>	<b>5 494 000</b>	<b>9 330 000</b>
<b>PE</b>	<b>Personnel expenses</b>	<b>-526 132</b>	<b>-2 000 000</b>	<b>-2 679 000</b>
	Wages and salaries	-444 602	-1 680 000	-2 251 000
	Social sec. exp. and health insurance	-79 040	-320 000	-428 000
	Other social expenses	-2 490	0	0

<b>CS</b>	<b>Communication service</b>	<b>-43 900</b>	<b>-64 900</b>	<b>-80 900</b>
	Internet	-8 500	-8 500	-8 500
	Line	-2 400	-2 400	-2 400
	Cell phones	-33 000	-54 000	-70 000
<b>ME</b>	<b>Consumption of material and energy</b>	<b>-175 000</b>	<b>-215 000</b>	<b>-260 000</b>
	HW (2000 to 40000)	-85 000	-100 000	-120 000
	Office supplies, and other small purchases	-80 000	-100 000	-120 000
	SW 0 to 60000	-10 000	-15 000	-20 000
<b>C</b>	<b>Cars</b>	<b>-12 100</b>	<b>-150 000</b>	<b>-225 000</b>
	Leasing, fees and loan, interest means of transport	-4 022	-100 000	-150 000
	Fuel consumption	-8 078	-50 000	-75 000
<b>MR</b>	<b>Marketing</b>	<b>-446 900</b>	<b>-580 000</b>	<b>-640 000</b>
	Database marketing	0	-10 000	-10 000
	Marketing tool, PPC	-92 000	-100 000	-100 000
	Analytical trade promotion, PPC	-30 000	-30 000	-30 000
	Identity brand	-6 000	-10 000	-10 000
	Acquisition business materials	-20 000	-30 000	-40 000
	Promotion communication	-238 900	-250 000	-250 000
	PR a media relations	-40 000	-100 000	-100 000
	Direct marketing	-20 000	-50 000	-100 000
<b>OT</b>	<b>Others</b>	<b>-263 001</b>	<b>120 000</b>	<b>356 000</b>
	Training	0	-20 000	-40 000
	Representation	-8 784	-10 000	-10 000
	Rent	-9 037	-180 000	-180 000
	Financial expenses	-108 931	-120 000	-120 000
	Consulting	-334 250	-300 000	-300 000
	Other operating expenses	-102 000	-150 000	-200 000
	Grants	300 000	900 000	1 206 000
<b>Se- cExp</b>	<b>Sectional expenses PE, CS, ME, C, MR, OT</b>	<b>-1 467 033</b>	<b>-2 889 900</b>	<b>-3 528 900</b>
<b>CF</b>	<b>CF result AV, SecExp</b>	<b>1 313 967</b>	<b>2 604 100</b>	<b>5 801 100</b>
	Depreciation	-108 793	-150 000	-200 000
<b>PL</b>	<b>Operation Profit/Loss</b>	<b>1 205 174</b>	<b>2 454 100</b>	<b>5 601 100</b>

\*Preliminary financial data before audit

In the balance sheet below are shown data from previous years (2014 and 2015, where numbers from the last are just preliminary financial data before audit) and model situation for the year 2016 and 2017 if the company will want to ask for the license according to letter a) (administration of payment accounts). The main changes will be made in the liabilities part especially in register capital. These changes will of course influence Assets of the company as well.

As was already mentioned in the regulatory part, for the license a) is required to have equity in amount of 125 000 €. As can be seen from the Table 10, the company currently have 1 816 000 CZK, which is at the current exchange rate of the euro (according to CNB approximately 27 €) 67 259 €. It means that in current situation will have to be increased the registered capital by almost 1 560 000 CZK. It means each of the partner would have to deposit proportional part of 1 560 000 CZK according to their current share in the company. Therefore, the iA will apply for the license at the end of June there is no other option than immediate deposit by the owners of the company.

As could be seen from calculation in the balance sheet in the end of the year 2015 will be the equity of the company already more than 125 ths. €. To fulfil the condition for being a holder of the license has to be in the issue equity permanently 3.375 ths CZK. It means that registered capital could be divided among partners again according to agreement. In the registered capital has to stay the required amount for a.s. 200 ths CZK. However this is not a preferred option as this process involves significant legal and administration expenses.

Table 10: Balance sheet of Investiční aukce, s.r.o. (in ths. CZK)

		2014	2015*	2016	2017
<b>TOTAL ASSETS</b>		<b>1 106</b>	<b>1 688</b>	<b>5 339</b>	<b>8 565</b>
<b>A</b>	<b>Receivables from subscriptions</b>				
<b>B</b>	<b>Fixed assets</b>	162	785	2 785	4 800
B. I.	Intangible fixed assets				
B. II.	Tangible fixed assets				
B. III.	Long-term financial assets				
<b>C</b>	<b>Current assets</b>	939	895	2 539	3 740
C. I.	Inventory				
C. II.	Long-term receivables				
C. III.	Short-term receivables				
C. IV.	Short-term financial assets				
<b>D</b>	<b>Accruals</b>	5	8	15	25
<b>TOTAL LIABILITIES</b>		<b>1 106</b>	<b>1 688</b>	<b>5 339</b>	<b>8 565</b>
<b>A</b>	<b>Equity</b>	610	1 816	5 419	8 255
A. I.	Registered capital	200	200	1 760	200
A. II.	Capital funds				
A. III.	Funds from earning				
A. IV	Profit / loss - previous years	-37	411	1 205	2 454
A. V.	Profit / loss - current year	447	1 205	2 454	5 601
<b>B</b>	<b>Other sources</b>	448	-229	-60	130
B. I.	Reserves				
B. II.	Long-term payables				
B. III.	Short-term payables				
B. IV.	Bank loans and financial accommodations				
<b>C</b>	<b>Accruals</b>	48	101	180	180

\*Preliminary financial data before audit

#### 4.1.7.1 The method of "rate of return" investments

To have an idea how will look like the rate of return in case of launch payment account as a service provided by the company, it means they will operate under the letter *a) § 5 Zákona o platebním styku*, I am going to calculate rate of return on the investment  $r_i$ , also known as ROI. It will be done according to following equation made by Synek (2010):

$$r_i = Zr/IN$$

$Zr$  is the average annual net profit from investments,  $IN$  are investment costs. Indicator of return on investment is derived from the widely used indicators return on capital. Disregard for the distribution of profits at a time is a static indicator.

$Zr$  is going to be calculated as a differential between annual profit from the investment and costs on the investment. The cost on the investment ( $IN$ ) is sum of more indicators. It is consisted of consulting, personnel expenses and alternative cost of equity ( $re$ ).

The company are going to spend approximately 2 400 CZK per next month for transaction of money. This value has increasing character. There is almost 15% of increasing rate as was found out from the previous months. Nowadays, there are almost 80 transactions per month. There has to be taken in consideration the fact that the transaction with one trading invoice has to be done two times (iA -> client; iA -> investor). Cost of one transaction is 15 CZK. So the income expected from the investment is going to be next year according the following equation:

$$CF_1 = CF_0 + 15\% \text{ of } CF_1$$

$$CF_2 = CF_1 + 15\% \text{ of } CF_1$$

...

$$CF_0 + CF_1 + CF_2 + \dots + C_{11} = \mathbf{48\,428\,CZK.}$$

According to formulation and data calculated from the server INFA CZ-NACE, I am going to calculate alternative cost of equity:

$$re = r_f + r_{LA} + r_p + r_{FS} + r_{FST}$$

$$r_f = 1,58\%$$

$$r_{LA} = 5\%$$

$$r_p = 10\%$$

ROA = *Operation Profit/Loss* / Fixed assets

ROA = 1 205 174 / 785 000 = 1,535; the average of the sector is 3,72%, it means that the ROA value of the company is lower than the average of the sector, so the  $r_p$  values is 10%

$$r_{FS} = 0\%$$

LI = Current assets / Short-term payables

895 000 / 84 000 = 10,65; the result of LI is higher than the recommended value which is XL2 = 2,5, it means that the  $r_{FS}$  value is 0%

$$r_{FST} = 10\%$$

$$re = 1,58 + 5 + 10 + 0 + 10 = \mathbf{26,58\%}$$

The owners of the company will have to contribute to registered capital 1 560 000 CZK. The final value is then 26,58% of the contribution to registered capital, which **414 648 CZK**.

The expenditure for consulting is keeping the same financial amount **300 000 CZK**, it means there is not necessary to do any recalculation. On the other hand there has to be calculate the personnel expenditures. The equation will be according to following formula:

$$\text{Personnel expenses} = \text{personnel expenses (previous year - current year)} / 2$$

Because the project will run from the beginning of next month (half year of the 2016) till the half of the following year, the result of the expenditures will be:

$$2016 \frac{1}{2} \text{ year: } (2\ 000\ 000 - 526\ 132) / 2 = 736\ 934 \text{ CZK}$$

$$2017 \frac{1}{2} \text{ year: } (2\ 679\ 000 - 2\ 000\ 000) / 2 = 339\ 500 \text{ CZK}$$

$$\text{Personnel expenses} = \mathbf{1\ 076\ 434 \text{ CZK}}$$

The final sum of invest costs is as followed:

$$\text{IN} = 414\ 648 + 300\ 000 + 1\ 076\ 434$$

$$\text{IN} = \mathbf{1\ 791\ 082 \text{ CZK}}$$

Now can be calculated final  $r_i$ .

$$r_i = 48\ 428 - 1\ 791\ 082 / 1\ 791\ 082$$

$$\mathbf{r_i = -0.973}$$

The rate of return on invest is lower than 0. It means that the investment in the project is negative. There is zero rate of rentability of the project. This investment is not economically effective for the company.

#### 4.1.8 Risk assessment

Process of risk assessment is created and evaluate in the company to prevent unexpected risks from even external and internal environment. Close attention will be pay to risk appeared from side of clients and investors as well. There has to be made difference between credit risks and strategic long-term risks.

##### Credit risks

###### *The process of risk assessment - Client*

The first step is to verify the entity in terms of execution and insolvency, this analysis is based on data Sokordia. Furthermore, by this database is verified also executive director or also the owner of the company, if the owner is not the executive.

Executive, or owner, according to the above-mentioned principle is subsequently verified according to data of Non-Banking register. All the above mentioned data are once again discussed with the Risk Manager of the company who

will make a decision based on the information above , whether the entity is suitable to cooperate or not. Before the Risk Manager determines the final statement, the client is verified in the database Bisnode in order to determine its current financial situation. All this process secured clear overall view of the client.

#### *The process of risk assessment - Investor*

To have the most evident results, the verified documents concerning to investor are taken from various sources. Specifically, it is the Internet portal Bisnode. Based on that source are verified in particular the value of turnover, ownership structure, payment discipline (current and average) and values of profit/loss for the last three closed accounting periods. Further attention is paid to general financial values.

The invoice is refer after a phone verification of the number of the invoice and subsequent agreement between the involved parties (client - investor). In case of forwarded the invoice to the EDI system, there is not necessary to do mentioned control.

#### *The main credit risks*

These risks have been and still remain as one of the highest potential risks. As the main credit risks are perceived by company mainly fraud. Limitation of this risk is ensured by observance of the above-mentioned procedures. These are keeping the risk largely eliminated. To this category of risks belongs also unwillingness to pay or inability of paying customers. This risk is solved by insurance by which is the risk also minimized. Breakdown of individual risks is as followed:

- Fraud by the client
  - A non-existent debt
  - Embezzlement
  - A poor financial situation - insolvency risk
- Payment unwillingness and inability
  - Poor financial situation of the customer

#### Strategic long-term risks

##### *Not obtaining the license from CNB*

Concerning to Legal plan, I am going to consider the risk of not obtaining the license according to point g). As was explained in Legal plan point a) is not favourable for company in current situation. If the CNB will not give the iA permission to operate under the point g) they will not extend their scope of business, which will not lead to that rapid development as was the cause until now.

#### *Products displeasure*

Products displeasure cannot be influenced by the iA. It is up to investors if they are interested in proposed products or not. Related to payment account the highest risk can be seen in already made changes. Changes should not be done before getting known if the investors are interested in. The only solution is to do research before launch payment account. Research will show us investors attitude.

Potential risks can be also seen in changes of economical situation, high resignation of employees, migration crisis, even political situation related to potential war.

In the Table 8 is individually showed seriousness and rate of probability of each potential risk of the company. According to seriousness of the risk, it means in how big troubles will be company in case of happen, is established the scale (low – medium – high). Rate of probability is showing us how big probability is that give risk will happen. It marked on scale from 1 to 5 points, where the 1 is the lowest probability and 5 the highest.

The risk that will appear any case with non competent client or investor is pretty low. It is especially because of the protection measures made by specialists of the company. Nevertheless, if the case will happen the company will have to deal with it by legal way.

Another group of risks represent fraud and unwillingness or inability to pay. It is high threat for the company. In the worst case will have to be this problem solve by legal way. The main player will be money it means that in case of lost legal case the iA company will have to pay not just for lawyer but also the money for the auction. The probability is not that high nowadays, but in the future with higher amount of clients will increase also the probability of that risk.

The probability of not obtaining the license from CNB is quite low. Thanks to consultation with professionals is company well prepared and fulfil all necessary conditions regarding to receive the license. Higher problem could be seen in time horizon of preceding the requirement.

High risk is also seen in the displeasure of the product. If the company will launch the product before getting know attitude of investors to the product, could be problem seen in withdraw the product from the circulation. There is high probability of in this case.

Risk can be seen in unpredictable economical situation. Because we cannot say how will look situations in next years, it is difficult to be prepared for it. We can presume from last economical crisis (the development can be seen in the Figure 23) that the interest in non banking business loans will be still slightly increasing. Regarding to periodicity of economy can be predicted another economical crisis, we just cannot say when and how will it looks like.

If there will be rapid increase of hand in notice from the side of employees in one moment, company will be in big trouble. Rest of the employees will not be able to hold post of the resignation's persons. As is explained in the McKinsey 7S, each person in the company is unique. The probability of resignation of any of them is really small. Employees are satisfied in the work and do it with pleasure.

Last two risks are concerning to political framework. There already is migration crisis, but it does not influence the business of the iA at all. The probability that it could appear and somehow influence is in the medium level. Risk which could be seen in potential war will have high seriousness, of course. But the probability is almost none. But nobody connected with the business of the iA can do anything...

Table 11: Comparison of seriousness and probability of the risks

<b>Name</b>	<b>Seriousness</b>	<b>Rate of probability</b>
<b>Competent client</b>	Medium	2
<b>Competent investor</b>	Medium	2
<b>Fraud by the client</b>	High	3
<b>Payment unwillingness and inability</b>	High	3
<hr/>		
<b>Not obtaining license from CNB</b>	High	2
<b>Products displeasure</b>	High	4
<b>Economical situation</b>	Medium	3
<b>Hand in notice of employees</b>	High	1
<b>Migration crisis</b>	Low	3
<b>Political situation related to potential war</b>	High	1

## 4.2 Evaluation of research

In this part of the work will be evaluate the questionnaire. Based on the review of the literature I have chosen for my work qualitative research, which according to Hendl (2008), based on subjective selecting a research topic and identify research questions. "It is about a description that is apposite, plastic and detailed" (Hendl, 2008, p. 35). It is not about generalization of conclusions, but about the output of description and understanding of the phenomenon.

Questionnaire was sent among current investors who use the option compete in auctions of the iA. The questionnaire was focus on finding out a ration of investor's interest into launch new products for more effective operations during trading with receivables and extension of investment products on the platform. In order to cooperation with the iA, the questionnaire was created with purpose to find out as much as possible about attitude of investors to operation by the iA team. In reaction on the answers the iA could improve their platform, services and develop new effective products/services positively used by clients.

By questionnaire were approached active investors of the iA. The questionnaire was distributed via Internet between 130 active investors who have invested in Q1 2016. There is approximately 26% response rate. For distribution were used internet channels as was already mentioned. Questionnaire were firstly attach to newsletter which is resent by company to all investors. To obtain more responses was questionnaire sent directly to individual investor's email boxes. The last part for gaining relevant result of questionnaire, were sent emails directed to selected investors who did not fulfil the questionnaire till that time.

Values that are mentioned in the results (graphs) below are rounded to one decimal place.

### 1. How did you get to know about the company Investiční aukce?

The first question of the questionnaire is informative and gives us as an indication to determine effective marketing channels. Answers define the how, from whom and where the user got knows about the company.

As can be seen from the Figure 19, the most respondents refer to web search engines, online magazines and news and advertising on the Internet. The iA should focus more on viral marketing. It is about articles on the Internet, actualization of own web pages to get on the first page during searching in the Internet etc. Other sources from where users can get know about the company are not that significant, but they are also worth mentioning. Personnel references, which are meaning mostly like references from friends, could be connected with references from colleagues from the work, which is giving us the second highest group of sources. The company already knows and makes a point of keeping connection with their customers. To communicate with stable and spread the name and business of the company among users has positive influence for future development. Not that expressive in answers but also important is direct contact of CEO with clients.

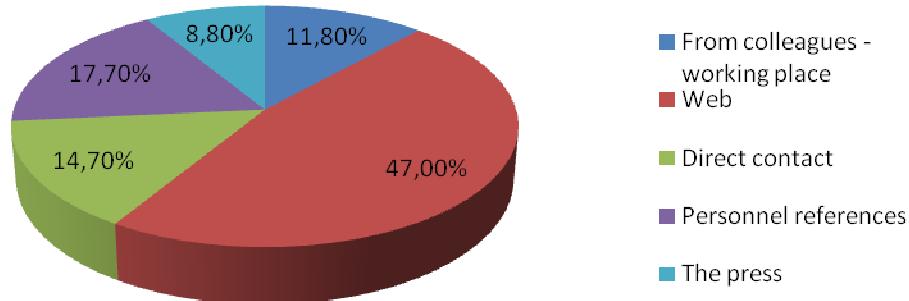


Figure 19: Information sources about the iA

### 2. For how long time have you been working with the company?

From the graph below could be seen increase of users. The company iA is 3 years in the market. The biggest increase of investors was during last year. There can be expected continuous increase of clients for future as well. Since the beginning of the year 2016 was an increase of more than 25%.

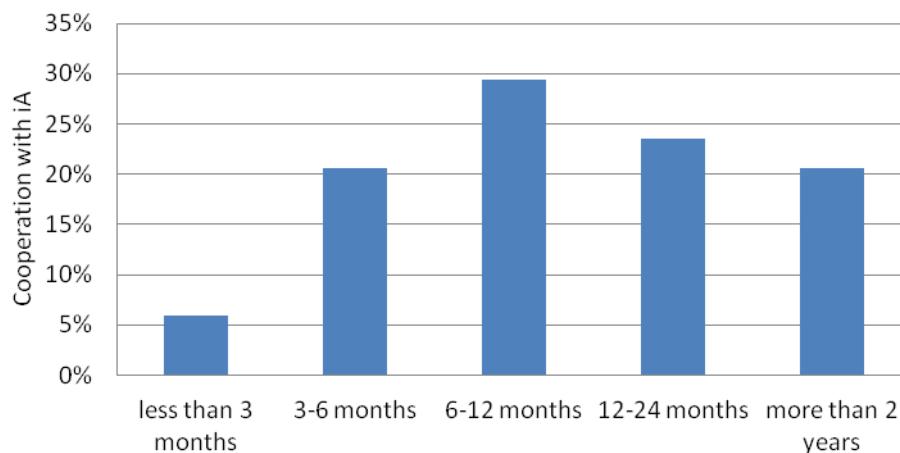


Figure 20: Time horizon of cooperation between Investiční aukce and investors

### **3. Are you satisfied with the existing services provided by the company?**

The satisfaction of investors was evaluated positively. Only 14,7% of respondents answered negatively, 85,3% are totally satisfied with services provided with the company. The question is elaborated on the question of finding deficiencies that investors find in the service provided by the iA. Displeasure is seen in low interest rate. It is cause by increasing of investors and with it related to greater pressure on auctions. In this case could be the solution launch of new products and by this extend offer for investors.

### **4. Do you miss anything in the current system?**

What should the iA improve in their current system was explained by investors in given open questions. Most of the respondents can see deficiency in the lack of information about auctions; within the meaning of a confirmation that the transaction has arrived, billing of all transactions directly on the web, information regarding payment and urgency of redemption date. Many respondents would be glad for more investments opportunities and concerning with it also higher interest rate. There is requirement of investors is to increase speed in send a warning during editing "bids" or approaching the end of the auction. To actualized web pages of iA, there is deceptive information. In order to improving IT there also request on creation of mobile applications.

### **5. How often do you watch offer of auctions with receivables?**

Answers on this question uncover interest of investors in engage to auctions with receivables. More than 50% of respondents check new auctions 2 to 5 times per week. There are almost 15% of investors who will not miss any of auctions. Into these two groups belong the most active users who take a part in last column in the next graph. 20% of respondents already stopped be participant of auctions. The reasons are as followed: low interest rate, low profitability, demand exceed supply. The solution as will be said more times is to extend platform of products and by this spread demand into more products.

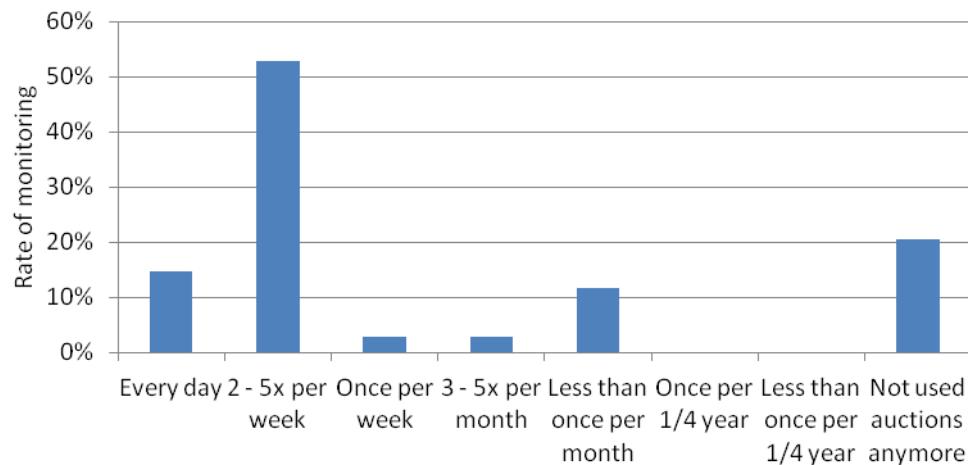


Figure 21: Rate of monitoring of auctions by investors

#### 6. How often do you partake of auctions with receivables?

There are more than 30% of respondents who participate in auction 5 times and more per week. Investors who restricted their competition in auctions or stopped using this kind investment at all are almost 30%. Another 30% of respondents take part in auction less than once per month. The last 10% of respondents take a part of auctions 2 to 4 times per month.

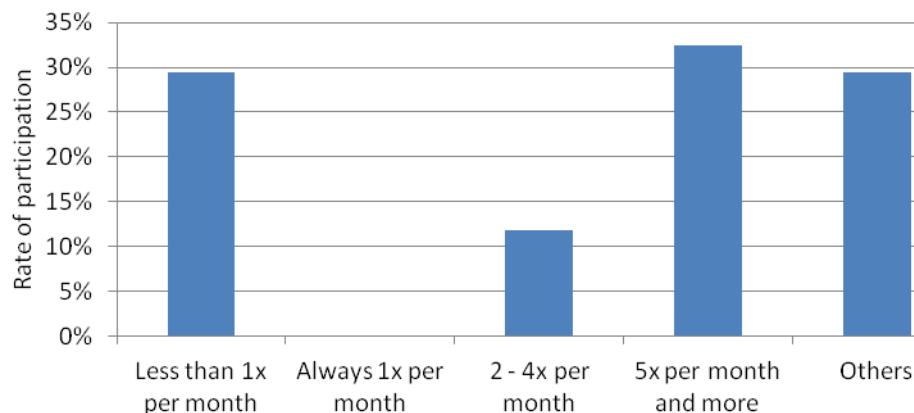


Figure 22: Participation in auctions

#### 7. Do you think that the speed by which is arranged whole process is sufficient?

The team of workers of the iA make according to responses from investors well job. There is only 5,9% of unsatisfied investors with the speed by which are processed operations within company. It means that 94,1% are fully satisfied.

#### 8. How much time approximately does take to you analysis of an auction?

Investors spend by analyzing of one auction approximately 5 to 10 minutes. A few of investors spend above analysis in the range of 10 to 15 minutes and only small amounts of them analysis auction more than 15 minutes. From the result can be deduct clear description of auctions and fast option to gain knowledge about it.

**9. How much time approximately does take process of administration of won auction?**

From the answers of respondents can be deducted that the operational system for trading with receivables is transparent and comprehensible. 38,2 of investors spend less than 5 minutes by process with administration. There are 44,1% of user who deal with administration of won auction for 5 to 15 minutes. And just 17,6% do this process longer than 15 minutes by less than 30.

**10. Would you be interested in creation of a payment account in company iA in order to speed up and simplify transactions?**

The central question of this questionnaire is ascertaining investor's interest in the launch of the payment account as a product to make more effective the process of trading with receivables.

From the Figure 23 can be seen quite interest result which shows us higher rate of non interested users in using payment account under the iA company.

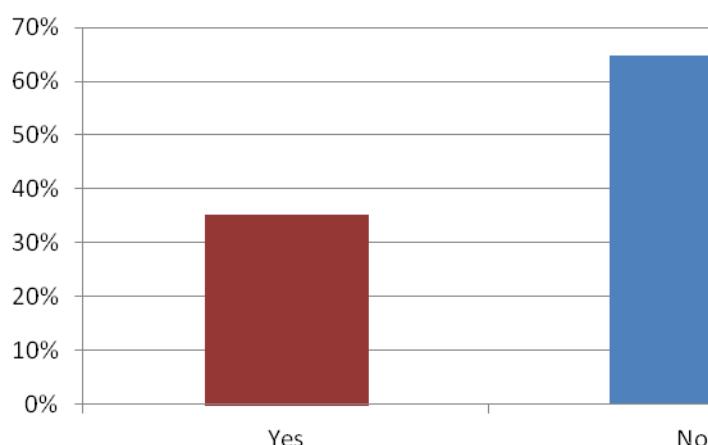


Figure 23: Rate of investor's interest in launch payment account

Negative answers are explained especially by not find the need to conduct additional account. They are mostly satisfied with current system. Investors usually cannot see any benefits from the account under the iA. Because of lack information about the payment account they do not trust this service. The main question here is: "How big will be appreciation of invested money."

There are few options how to deal with the situation. There can be made another questionnaire which would introduce aim with payment account more deeply. There can be changes already mentioned conditions and make the more comfortable for investors. Or just do not provide payment accounts as a service of the iA.

**11. What advantages can you see in establishing a payment account with iA?**

This answer has multiple choice's character. Investors according to their attitude could find more advantages which suppose to payment account bring to them.

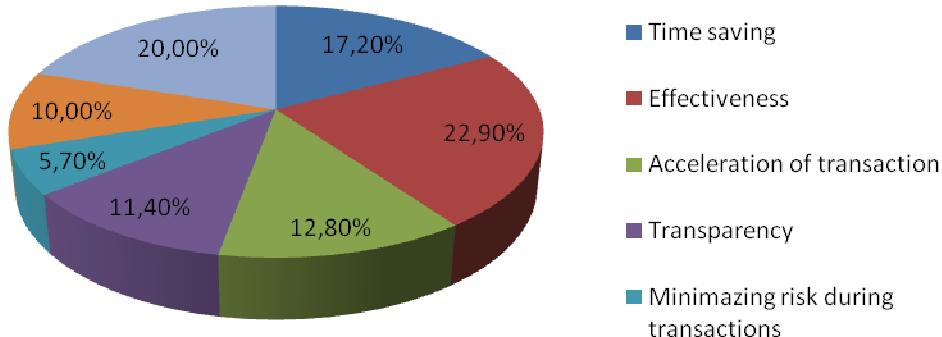


Figure 24: Scale of advantages seen in establishing payment account

The highest percentage represent also the main aim of establishing the payment account, it is effectiveness. The effectiveness is meant especially in easier transactions. Investors will be saved from transactions of money. They will not have to think about this process and just confirm won auction. The rest will be make for him by administrate works. Close to the result of effectiveness has its power answer "No advantage". This answer is regarding to previous question. Investors who do not agree with establishing of payment account probably cannot see any positives.

## 12. What disadvantages and risks can you see in establishing a payment account with ia?

Opposite aim had question which tried to find out disadvantages seen by investors. Also multiple choices question.

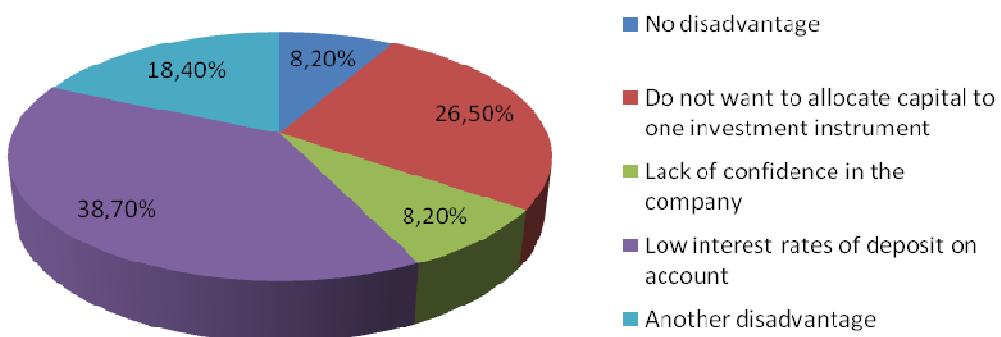


Figure 25: Scale of disadvantages seen in establishing payment account

As could be already predicted from questions 10, there are few displeasures which investors see in launch of payment account. The highest disadvantage is seen in low interest in the account. The company cannot allowed to pay higher interest than approximately 0,03 nowadays – could be change in the future. Investors usually do not want to manage more accounts than they currently have.

According to statistics from the questionnaire, more answers were added into items of advantages. Despite higher amount of non acceptance of payment

account, investors were trying to find more advantages of that product. I would evaluate it like a possibility to do this kind of research in the near future, when company will be able to offer better conditions on it.

### **13. Do you have any experience and use offer of other companies that operate on the P2P platform?**

Research was trying to find out the rate of competitors among the company provided similar services like the iA company do. From the answers can be seen low threat among companies in which our investors also invest. Almost 80% of respondents invest only in iA's auctions. Nevertheless, competitors are seen in companies like Mintos, Bondora, Twino, Bankerat, Benefi or Zonky. These companies were also mentioned by the rest 20% of respondents.

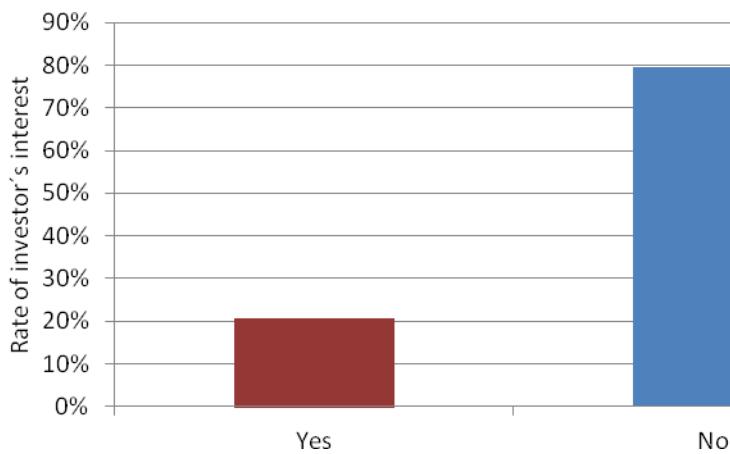


Figure 26: Interest of investors in other companies

### **14. Do you invest in other investment products?**

The following question was form as a multiple choice. The rate of investor's interest in other investment products could represent threat in the side of attractiveness of product provided by the iA to investors. Is shown in the Figure 16 there is pretty huge range (just the most preferred) of investment possibilities. The highest threat can be seen in shares. As will be deeply described in the Porter's 5F analysis, shares were, are and will be the most requested investment tool. Other interest of respondents in investment is put almost equally into bonds, mutual fund and real estate. In the item others were, beside other things, mentioned products of potential competitor, Zonky. Because of minor part of responses should not be taken so deep attention to research of Zonky's product. If there will be higher percentage rate of this kind of products, there should be make analyses of these products by analytics of the company. Based on the result improve own products.

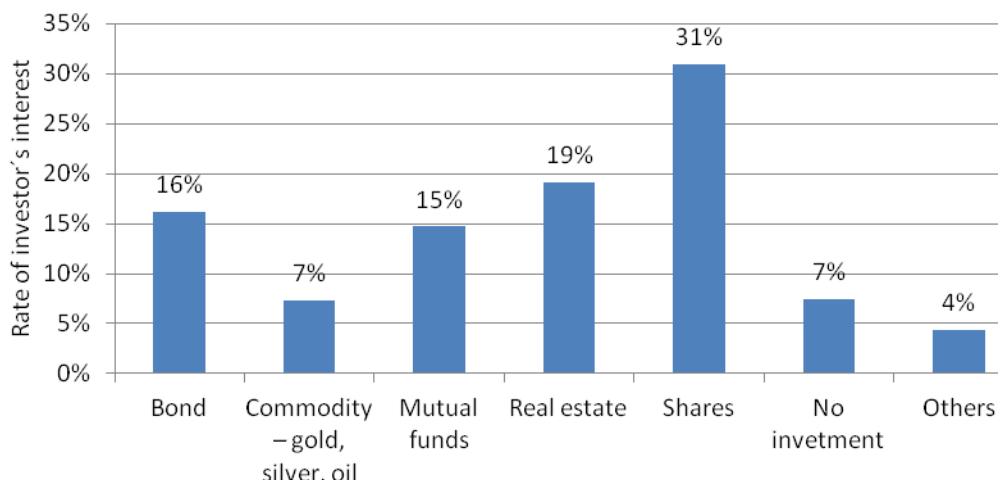


Figure 27: Rate of investor's interest in other investment products

### **15. Would you be interested in auctions in other currencies?**

The iA already offer auctions in Euros. By this multiple choices question would be find out the interest of investors to have auctions in other currencies. There were given USD, PLN and GBP. Investors had place to add other currencies according to their opinion, but no more were mentioned in answers.

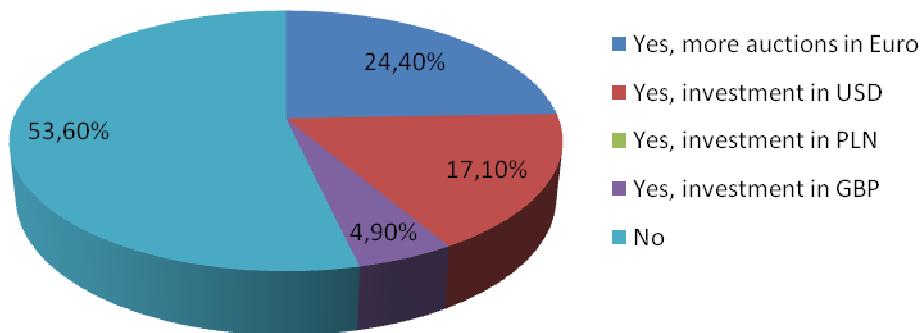


Figure 28: Interest of the investors in investment into different currencies

The graph is showing us high percentage rate of satisfied investors with current situation. There is also pretty high rate in request to add more auctions in euro. Less had US dollar or British pound. There is big questionnaire above the GBP, because of the Brexit. Nobody can immediately say if the currency will have to same, lower or higher value. There was no interest in Polish zloty.

Company should think about more auctions in € currency and according to my opinion wait for the result of the referendum in the Great Britain.

**16. Would you be interested to invest in loans secured by real estate?**

The question is showing the interest of investors in potential establishment of new product. Launch of loans secured by real estate will partly cover the rising demand of extending the range of products provided by the iA.

From the responses can be seen positive reaction on this kind of product. Almost 74% of respondents would be interested in possible auction where as an investment product will be offered loan secured by real estate. Only 26% are against to it. Because of the anonymity of respondents we cannot say who are these respondents can be supposed that among them belong especially already non active users.

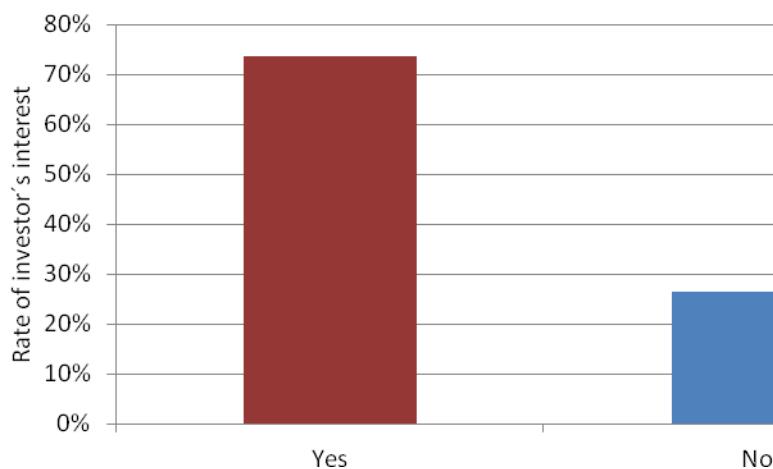


Figure 29: Investor's interest in investment to loans secured by real estate

## 5 Discussion

The objective of the thesis was evaluation of the business plan for attracting investors to finance receivables of other companies. The initial part of the research focused on creation of the business plan. The business plan was created according to pattern from theoretical source and adjusted to the business of the company. Data used in the business plan were verified and under control of the management of the iA company. Analyses were made in order to interpret current information about the market. One of the ways of evaluation of the business plan was creation of questionnaire which was distributed among active investors.

The thesis was written with initial prediction of required option to use payment account for more effective operations trading with receivables. According to the research among the investors, the result was surprisingly opposite. There is not so high interest in launch a payment account among the administration process after won auction. Investors are usually satisfied with all functions and services which are provided by the team of the iA. They do not want to manage another payment account and mostly are not satisfied with the low interest rate which could be offered by the iA on the accounts. According to research it is not effective to establish payment account for each active investor.

In the financial part of the business plan was calculated rate of return on investment. This indicator was also with negative result. The calculation makes stronger confidence about not advantageous providing payment accounts. It means it will not be necessary to apply for the license according to letter a) § 5 Zákon o platebním styku as described in the legal plan, but it is more possible to apply for the license according to letter g) same part of the Act. It means that the company could operate with higher range of amount of money (higher cash-flow). According to Figure 30 they already finance almost 2mil € per quarter year. These 2mil € is going back from the client with 75% increase. So in next quarter it is going to be at least 4,6mil €. It is getting to be more than half of the allowed amount of finance money. Because according to law they can finance as PSPs small-scale just 3mil per month, it is 9mil € per quarter year. The company is growing 100% per year. It means that it is better for them to apply for the letter g).

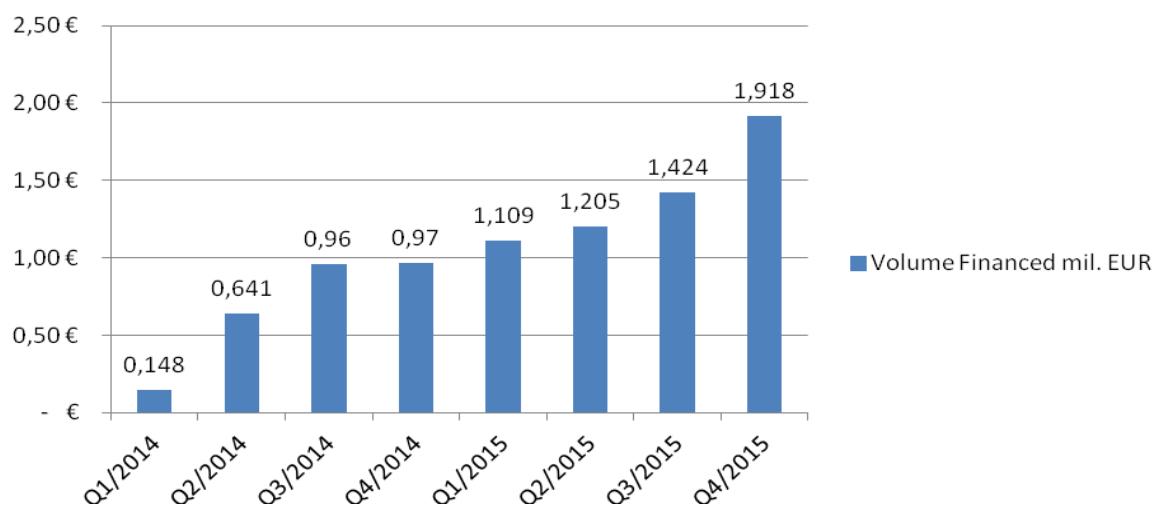


Figure 30: Volume finances by Investiční aukce, s.r.o.

With different application of the licence will change the requirements for the amount of equity will change as well. For the letter a) it is necessary to have 125 000 € as current equity. Currently, the company does not have this amount at its disposal. They operate with 67 000 € which is enough to apply for the license according to letter g). This license seems to be more effective for the company from another point of view as well. The point is coming with innovation of PSD (payment service directive) to PSD2, which was done in 2013 by European Commission. PSD2 is a service that provides the following: "wider scope than PSD by covering new services and subjects, by extending the scope of existing services (payment instruments issued by payment service providers that do not manage the account of the payment service user), enabling their access to payment accounts" (Europa, 2016). Requirements related to the enhanced levels of payment security are as follows: "payment institution shall provide with their application a security policy document, as well as a description of security incident management procedure, contingency procedures etc." (Europa, 2016). The access to payment account of different owner is enabled by the so called third party providers (TPPs). According to European Commission act: "offers specific payment solutions or services to customers. For example, there are services which collect and consolidate information on different bank accounts of a consumer in a single place ("account information services - AIS"). These services will typically allow consumers to have a global view on their financial situation and to analyse their spending patterns, expenses, financial needs in a user-friendly manner. Other third party providers facilitate the use of online banking to make internet payments (so-called "payment initiation services - PIS")" (Europa, 2016). "These arrangements are backed by a separate PSD2 requirement that banks permit PSPs access to their payment account information (i.e., via open APIs) on an "objective, non-discriminatory and proportionate basis", where they have the explicit consent of the user. Such access must be "extensive enough" to allow PSPs to provide payment services "in an unhindered and efficient manner". " (Mondaq, 2016)

It's easier for them in terms of IT and regulatory requirements and generally less expensive than to administrate client accounts.

The result of the research also lead to widening of the requirements for the platform used to offer auctions. These could be fulfilled by establishment of a new product. The product could be presented as a loan secured by real estate. To find out the opinion of investors to launch this kind of product as an investment product offered on auction, another questionnaire was made. The answers mostly had a positive outlook.

There are few risks which may influence business of the company. Due to development of information technologies and accompanied by the increasing threat of internet viruses, the IT sector of the company should be secured by the best available security devices.

## 6 Conclusion

The aim of my bachelor thesis is to find out the interest of investors in establishment of new products provided by the iA.

The theoretical background of the thesis is based on explanation of terms which are afterwards used in the practical part. Each chapter of literature deals with different scope of business plan. First survey of literature was made especially in professional literature from past years. Other two chapters deal with literature sources and verified internet sources for verification of actual definitions. In the methodology section, analytic approaches which were practically used in work to find out position of the company in the market are briefly explained.

The research in the next part of the thesis was created with the purpose to find out the opinion of investors on the services provided by the iA, satisfaction with current situation and threat of external environment which could have impact on the company. Questionnaire was created in order to improve items which were found out as not complying with investor's needs.

The conclusion of the bachelor thesis is based on three the most important recommendation which result from the practical work. Investors are not interested in payment accounts administrated by the company. It means that it is not recommended to put money to buying license, consulting and overall development of a platform with payment accounts. There is no direct revenue from this product and it is difficult to quantify the rentability and payback period of the investment. Investors are interested in new products where they could increase the value of their invested money. This suggests that an advantageous product could be secured loans. Unlike the payment accounts the advantage of secured loans is that there is a clear revenue stream and therefore it is possible to quantify the profitability and payback period of the investment. There are more than 200 mld. CZK secured loans in the Czech Republic which represent huge potential for following 5 years, when most of them will be refinanced. The last recommendation is a kind of replacement of payment accounts which could be seen in the system PSD2. More effort should be put into developing the software for operating through the API. As was also seen from responses to the questionnaire, most investors have confidence in the iA, so there will not be problem to operate on this FinTech level.

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## Lists of abbreviations

- SLEPT analysis – Social, Legal, Economical, Political, Technological factors  
SWOT analysis – Strengths, Weaknesses, Opportunities and Threats analysis  
P2P – Peer to Peer platform  
CNB – Central national bank  
iA – Investiční aukce, s.r.o.  
MFI – Monetary financial institution  
SME – small and medium enterprise  
PSD – payment service directive  
TTP – third party providers  
AIS - account information services  
PIS - payment initiation services

# **Appendices**

# A Questionnaire

## Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.

### Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.

Jmenuji se Petra Mervartová a jsem studentkou Mendelovy univerzity v Brně. Dovoluj si Vás požádat o vyplnění krátkého dotazníku pro účely mé bakalářské práce. Vaše odpovědi pomohou při sestavování dílčích strategií a při dalším vývoji platformy společnosti Investiční aukce s.r.o. (dále jen iA). Celá práce je tvořena pod záštitou společnosti iA, která průzkumem bude těžit z výsledků bakalářské práce.

Vyplnění dotazníku je jednoduché a zabere jen pár minut. Každá odpověď je pro mě důležitá, proto prosím o nevynechání žádné otázky. Veškeré Vaše odpovědi jsou anonymní.

Dotazník je zaměřen na zjištění vašeho zájmu o zavedení nových produktů do již fungujícího procesu obchodování s pohledávkami. Konkrétně se jedná o 2 nové produkty. A) Investice do úvěru zajištěných nemovitostmi. B) Platební účet na platformě spravovaný společností Investiční aukce.

Ad A) Investice do firemních úvěrů zajištěných nemovitostmi s investičním horizontem 2-5 let. Šlo by o konzervativní investiční nástroj, kde by výše úvěru nepresahovala 75% hodnoty zajišťovací nemovitosti. Hodnota nemovitosti by byla stanovena nezávislým odhadcem. Do aukce by se nabízely k přefinancování drahé bankovní úvěry malých a středních podniků. Systém obchodování úvěrů by měl stejnou podobu jako stávající systém obchodování s pohledávkami.

Ad B) Platební účet by byl vedený společností iA. Díky licenci platební instituce by účty měly stejně náležitosti a chovaly se stejně jako účty v jiné bance. Dosavadní operace, které jsou nezbytné k financování pohledávky, by zůstaly nezměněné, až na automatické debitování kupní ceny z vašeho účtu prováděné iA. Vy budete mít neomezenou možnost kontroly a manipulace se svým účtem přes webové rozhraní.

Tyto produkty byly navrženy v rámci rozvoje a snahy o zlepšení podmínek pro klienty společnosti Investiční aukce.

Jakým způsobem jste se dozvěděli o společnosti Investiční aukce?

Jak dlouho spolupracujete s touto společností?

- méně než 3 měsíce
- 3- 6 měsíců
- 6- 12 měsíců
- 12 - 24 měsíců
- více jak 2 roky

Jste spokojeni s dosavadními službami, které Vám společnost nabízí?

- Ano
- Ne, proč?

**Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.**

Je něco, co postrádáte v rámci stávajícího systému?

Jak často sledujete nabídky aukcí o pohledávku?

- Každý den
- 2 - 5x týdně
- Jednou za týden
- 3 - 5x za měsíc
- Méně jak jednou měsíčně
- Jednou za 1/4 roku
- Méně jak jednou za 1/4 roku
- Aukce jsem přestal využívat, proč?

Jak často se zúčastňujete aukce pohledávek?

- Méně jak 1x měsíčně
- Vždy jednou měsíčně
- 2 - 4x měsíčně
- 5x měsíčně a více
- Jiná

Zdá se Vám rychlosť, kterou Investiční aukce vyřizuje celkový proces, dostatečná?

- Ano
- Ne

**Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.**

Kolik času Vám přibližně zabere analýza jedné aukce?

Návod k otázce: *Před tím než se zúčastníte aukce.*

- do 5 minut
- 15 minut
- do 30 minut
- do 1 hodiny
- více jak 1 hodinu
- Vlastní odpověď (min/hod)

Kolik času Vám přibližně zabere proces administrace vyhrané aukce?

Návod k otázce: *(převody, účetní a daňové operace, správa portfolia)*

- do 5 minut
- 15 minut
- do 30 minut
- do 1 hodiny
- více jak 1 hodinu

Měli byste zájem o vytvoření platebního účtu u společnosti iA v rámci zrychlení a zjednodušení transakcí?

- Ano
- Ne, z jakého důvodu?

Jaké výhody vidíte v založení platebního účtu u společnosti iA? (možnost vybrat více odpovědí)

- Úspora času
- Efektivnost - zjednodušení transakcí
- Zrychlení transakce (peníze dříve „na účtu“)
- Transparentnost - zjednodušení sledování výnosu
- Minimalizování rizika při provádění transakcí
- Bezplatné vedení účtu
- Žádné výhody nevidím

**Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.**

Jaké nevýhody a rizika vidíte v založení platebního účtu u společnosti? (možnost vybrat více odpovědí)

- Žádné nevýhody nevidím
- Nechci alokovat kapitál do jednoho investičního nástroje
- Nemám dostatečnou důvěru ve společnost
- Nízké úročení vkladu na účtu
- Jiná nevýhoda

Máte zkušenosti a využíváte nabídek i jiných firem, které provozují P2P platformy?

- Ne
- Ano, jakých?

Investujete i do dalších investičních produktů?

- Dluhopisy
- Komodity - zlato, stříbro, ropa
- Podílové fondy
- Nemovitosti
- Akcie
- Neinvestuji
- Jiná

Zajímaly by Vás aukce i v jiných měnách?

- Ano, chci více aukcí v eurech
- Ano, chci investovat v USD
- Ano, chci investovat v PLN
- Ano, chci investovat v GBP
- Ne
- Jiné

**Zjištění zájmu o rozšíření platformy Investiční aukce s.r.o.**

Zajímala by Vás možnost investovat do úvěrů zajištěných nemovitostmi?

Nápověda k otázce: Jednalo by se o investice do firemních úvěrů zajištěných nemovitostmi s investičním horizontem 2-5 let. Šlo by o konzervativní investiční nástroj, kde by výše úvěru nepřesahovala 75% hodnoty zajišťovací nemovitosti. Hodnota nemovitosti by byla stanovena nezávislým odhadcem. Do aukce by se nabízely k přefinancování drahé bankovní úvěry malých a středních podniků.

- Ano  
 Ne