Mendel University in Brno
Faculty of Business and Economics

Possibility of Entry into the Textile Production Industry in the Czech Republic

Bachelor thesis

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Abstract

The topic of this bachelor thesis is Possibility of entry into the textile production industry in the Czech Republic. The main goal is therefore evaluation of possible entry and attractiveness, which is done based on the method of pair comparison. In the theoretical part are described methods used in the practical part. The main foundation for the final assessment is PEST analysis, Porter´s Five Forces Analysis, evaluation of barriers of entry, key driving forces of change and finally attractiveness of the industry, which is determined as 3, 42. This value indicates attractiveness slightly above average. Potential entrant should enter the market as a firm specialized only on certain type of high quality and innovative products.

Keywords

Textile industry, PEST analysis, Porter's five forces, key driving forces of change, barriers of entry, GE matrix

Abstrakt

Téma této bakalářské práce je Možnost vstupu na trh textilního průmyslu v České republice. Hlavním cílem práce je tedy vyhodnocení vstupu a následné atraktivity, které je vytvořeno na základě metody párového srovnávání. V teoretické části práce jsou popsány metody, které jsou následně aplikovány v praktické části. Hlavním zdrojem pro finální hodnocení je PEST analýza, Porterův model pěti sil, bariéry vstupu, změnotvorné hybné síly a nakonec atraktivita odvětví, která je vyhodnocena jako 3,42. Toto číslo indikuje atraktivitu jako lehce nadprůměrnou. Potenciální zájemce o vstup by měla být firma specializovaná pouze na určitý druh vysoce kvalitních a inovativních produktů.

Klíčová slova

Textilní průmysl, PEST analýza, Porterův model pěti sil, změnotvorné hybné síly, bariéry vstupu, matice GE

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1 Introduction

Since the ancient times, textile is a part of everyday life of people as it plays role of our second skin. There are a lot of possibilities of its usage, the most typically as clothing, but also it has its utilization in agriculture, building industry or in health services. Textile industry is engaged in processing and utilization of textile fibers and on the Czech market it belongs to the one of the most traditional industries with a long history.

First mentions about textile production appeared in the 12-13th century, mostly in the form of craft manufactories, later in the 18th century the manufactories were influenced by the foreign trade, so they started to growth and develop. Thanks to the industrial revolution textile became a very important part of the Czech industry. However, due to the sequence of unfavourable events, such as wars and subsequent crisis at the beginning of 20th century, its importance declined. Nowadays, it is facing high competitive pressure from abroad.

Textile production is divided into cotton production, silk production, wool production and flax production. According to the classification of economic activities CZ-NACE, textile production is classified as CZ-NACE 13.

As mentioned at the beginning, very important part of this work is strategic formulation. Strategic planning is a key for successful company, as it includes targets of the company and prepares it for every situation that might occur in the future. Especially in the 21st century, which is characterized and affected by the high development of competitive environment and globalization, it is necessary for a company to find optimal and long-term direction of development.

The partial aim of this thesis is to analyze the industry according to the theoretical knowledge and analysis applied in the practical part. Based on the results of the above mentioned analysis and final attractiveness, there is suggested proper strategy formulation for a new potential firm.

2 Objectives and Methodology

2.1. Objectives

The main objective of this bachelor thesis is to evaluate attractiveness of the textile industry in the Czech Republic. This is done from the point of view of a potential entrant who would like to enter the industry. The practical part of the thesis deals with the detailed analysis which focuses on the industry structure, its impacts and identification of key driving forces of change. The analysis results in evaluation of attractiveness of the industry and evaluation of the possibility to enter the industry.

2.2. Methodology

The main source of information utilized in the theoretical part includes scientific literature. This part of the thesis focuses on the description of methods used in the practical part, but also description of management environment and some basic facts about history of Czech textile for better understanding its position nowadays.

Practical part starts with environment analysis. Macro environment is analysed using PEST analysis. Industry analysis is done through Porter´s Five Forces model. These tools enable to identify the key external environment factors and attractiveness criteria. Primary source of information incorporates data mainly from the Czech Statistical Office, Statistical Yearbook by ATOK and data and information published by the Ministry of Industry and Trade.

Final evaluation of attractiveness is done through the evaluation of importance of selected attractiveness factors by the method of pair comparison. This method is based on comparing the factors according to their importance. The criterions were chosen as the one, which are significant and the most important for the textile production industry. They are there assessed regarding their attractiveness for a potential new entrant. Following that, final results are implemented into the GE matrix.

3 Literature overview

3.1. History of the textile industry in the Czech Republic

From the historical point of view for the economic development textile industry has always been very significant part of profit for the light industry. (Glogarová, Kraftová, 2015)

Textile industry belongs to the most traditional industries in the Czech Republic. In the past, production area was concentrated mainly in the Northern Bohemia, Eastern Bohemia and in the Northern Moravia. The main centers were located in Liberec, Děčín, Semily, Dvůr Králové nad Labem, Náchod, Broumov, Brno and Šumperk. Textile production was even at that time influenced by the foreign countries- especially by Germany and German businessman who worked in the Czech countries. The main enterprises were wool, cotton and flax enterprises. The oldest textile enterprise in the Czech countries was established probably in the second half of the 18th century in Brno and it was named Offerman factory for the cloth (in Czech Offermanova továrna na sukno).

In the 2nd half of the 18th century the domestic production was replaced by the manufacturing production and it was followed by the huge growth of numbers of factories, which continued until the beginning of 20th century. In 1802 the first spinner machine in the Habsburg Monarchy was constructed in Brno. Twelve years later in the same city, the steam engine was used within the textile production for the first time.

Disintegration of Austro-Hungarian Empire positively influenced the textile production industry in the Czech countries. About 80% of textile enterprisers were located in Czechoslovakia. As follows, Czechoslovak Republic became one of the most important European exporters of textile. New technologies and discoveries had also positive effect on the Czech textile production- for example invention of Arachne technology. (Janoštíková, 2011, p. 71, 72).

In the 20th century almost whole production was mechanized. However, this development was strongly affected by the World War 1 and World War 2- the heavy industry was preferred over the light industry and many textile factories were completely destroyed, or at least damaged by the air strikes. In the 2nd half of the 20th century, the decline in the textile production continued as the communist era disabled market economy. After the Velvet revolution, thanks to the new discoveries, research

and renewal of market economy, the textile production started to rise again. However, nowadays it deals with the strong competition from abroad.

3.2. Management environment

Every organisation operating on the market is a part of certain environment. Management environment can be characterised as a space in which managers execute their managerial functions and roles. The main classification of management environment is presented in the Figure 1:

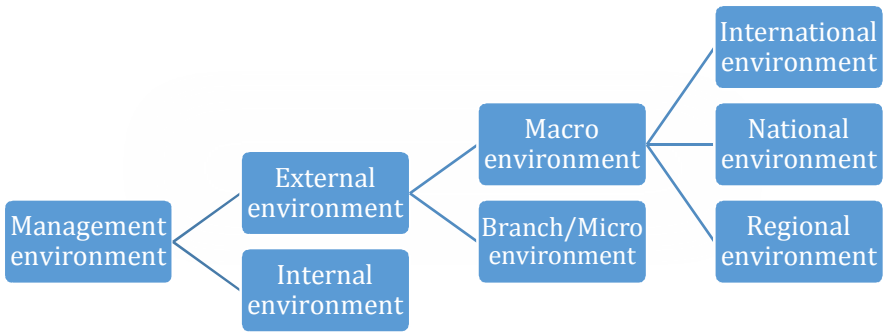

Fig.1Management environment
Source: Poštvář, Erbes, 2004

The factors of environment can be divided according to other criterions which include following:

- **General and specific** (an example of factor that influences organization generally can be Labour Code, on the other hand factor which affects organization specifically is for example Act of University Education)
- **Direct and indirect** (direct factors include for example taxes as it influences organization directly, an example of indirect factor can be rise in prices as it influences demand)

- **Predictable and unpredictable factors** (predictable factors may possibly include growth of prices of inputs, unpredictable may be natural disaster or bankruptcy). (Pošvář, Erbes, 2004, p. 20-21)

3.2.1. External environment

For analyzing of external environment there is applied so called external analysis. The main goal of external analysis is to find threats and opportunities in the company´s environment. Based on this analysis, company should find the way how to utilize the opportunities and avoid or at least minimize influence of threats. Company´s environment can be divided into two main parts- macro environment and micro environment. Macro environment creates common environment for all the micro environments and on the other hand micro environment represents space, in which the company operates. (Dedouchová, 2001, p. 16)

3.2.2. Macro environment

Macro environment represents political, economic, social and demographical framework for a company. Success and effectiveness of a firm can be influenced by various factors such as political stability, technological innovations, inflation rate or demographical movement of population. As each company deals with these factors in a different way, there exists different level of reactions and ability to balance these influences and as a result, it influences success of a company. Macro environment consists of factors which are generated outside the company. Company cannot directly influence these factors, however by its determination it can actively react on these factors and prepare for various alternatives, which may appear in the future. (Sedláčková, 2000, p. 9, 10)

3.3. PEST Analysis

PEST analysis is an effective tool for evaluation of impacts of global environment factors on the company. The main aim is to formulate answers to the following questions: “Which of the external factors can influence the company? What are the possible effects of these factors? Which of them are the most important in the near future?” (Tichá, Hron, 2014, p. 72)

3.3.1. Socio-cultural Factors

Tichá, Hron (2014) defined socio- cultural factors as "Factors which are connected with the way of life of people, including life values". It includes factors such as demography, distribution of incomes, lifestyle, level of education or population mobility.

3.3.2. Technological factors

In order to prevent underdevelopment, the company must be informed about technological and technical changes, which may occur in the firm´s environment, because these changes may radically influence the future development. Technological factors involve quality of materials, development of production facilities, development of processes, expenses on research and development, inventions, patents, or obsolescence of production facilities.

3.3.3. Economic factors

Economic factors are characterized by the economic status. It includes factors connected with cash flow, lifecycle of a company, supply of money, interest rate, GDP situation in the country, unemployment or inflation rate.

3.3.4. Political- legal factors

The existence of laws, legal norms and directives defines space for entrepreneurship and also manages entrepreneurship itself. Object of this analysis is usually government stability, tax policy, protection of environment, or regulation of foreign trade. (Sedláčková, 2000, p. 10, 11).

3.3.5. Advantages of PEST analysis

As it is written at the beginning, PEST analysis is an effective tool for evaluation of factors, which can influence the company, therefore business may strengthen its position by understanding of the most important factors. The main advantage of the PEST analysis is that it evaluates the factors from the wider point of view. These factors cannot be seen while doing branch environment analysis. Another advantage

of PEST analysis may be that it takes into account factors, which cannot be taken into account at the first sight- for example environment or mobility of population.

3.3.6. Disadvantages of PEST analysis

The main disadvantage of PEST analysis may be that sometimes it brings nothing new to the company and so it consumes time. Users of the PEST analysis may also oversimplify the used information. (Tichá, Hron, 2014, p. 72, 73)

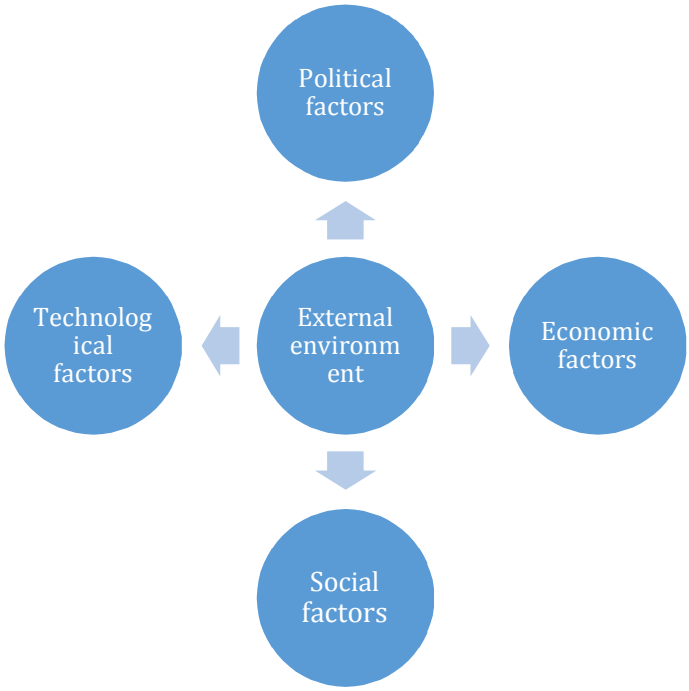

Fig. 2 PEST analysis

Source: Sedláčková, 2000

3.4. Barriers of Entry

According to Porter (1994) there exist six main barriers of entry, which may cause obstacles for a new potential entrant in a given market.

3.4.1. Economies of scale

According to Porter (1994), economies of scale are described as a "reduction in the unit price of a product in dependence on the increase of production volume for given period of time". These economies of scale may discourage potential entrant as it forces

them to enter the market with a large scale of production and so in consequence risk the strong reaction of current firms operating on the market, or either enter the market with a small scale of production, which can cause price disadvantage.

3.4.2. Product differentiation

Product differentiation is considered as another important barrier of entry, as it forces a potential entrant to expend high costs to exceed loyalty of customers of current firms on the market- the current firms already have their well-established brand and loyalty customers and so new firms must calculate with initial losses and high time consumption. It has significant influence on the products connected with investment banking, financial advice or tax advice services.

3.4.3. Capital intensity

Capital intensity is significant barrier in every industry, but especially dangerous it is, when it comes to investment into risky and irreversible initial advertising or development. Capital is necessarry mainly for purchase of materials needed during the production, but also for gaining loyalty of customers.

3.4.4. Transition costs

Transition costs are nonrecurring expenses which appear, when buyer goes from production of one supplier to the production of another supplier. An example of these transition costs may be costs and time used for testing and evaluation of new source, change of design of production or means used for retraining of employees. In the case that transition costs are high, new entrants must enhance the quality of production and prices, so the costumer would change the supplier.

3.4.5. Government regulations

Government regulations have significant impact in the case of selling of alcohol, railways or shipping. Government can limit or even close the entry into the industry by giving licenses, it can restrict asses to materials or it can issue norms concerning for example maximal possible air pollution or technical and safety decrees for specific kind of production. For a new potential entrant it can lead to increase of capital requirements and costs necessary for the entry.

3.4.6. Asses to distribution channels

The need of assuring of distribution of own production may be considered as another important barrier of entry, as existing distribution channels are already supplied with established firms. A new entrant must induce these channels to accept their products. This can be done through price breakthrough or support of common advertisement. However, it can lead to reduction in profits. (Porter, 1994, p. 7, 17)

3.5. Porters Five Forces Analysis

Porters Five Forces is a tool for analysis of competitive environment. It is also used for identification of forces which influence degree of competition and possibilities of creating competitive advantage. Porter´s five forces analysis include following forces: rivalry among existing competitors, threat of new entrants, threat of substitutes, bargaining power of buyers and bargaining power of suppliers. (Johnson, Scholes, 2000, p. 100-101)

Porter´s model can be used for the purpose of strategic analysis of external environment and as well for the evaluation of proposed strategy. The main aim is that proposed strategy will decrease the bargaining power of suppliers, buyers and threat of substitutes, increase the barriers of entry to the industry and improve the competitive position of the enterprise in the given industry. (Lhotský, 2010, p. 41)

3.5.1. Rivalry among existing competitors

Rivalry among existing competitors can be characterized as series of actions performed by the firms with the main goal to maintain advantageous position on the market. Among tools which can help to get this advantageous position belong price competiton, advertising campaigns or better services to customers. Rivalry exists because competitors are feeling pressure, or they see oportunity for improvement of their position. Competitive actions of one firm can significantly influence other competitors, so it means that firms are dependent on each other. (Porter, 1994, p. 17, 18)

3.5.2. Threat of new entrants

Threat of new entrants is influenced by the existing barriers of entry. The most common barriers include following:

I. Economies of scale
II. Product differentiation
III. Capital intensity
IV. Transition costs
V. Government regulations
VI. Assess to distribution channels
VII. Cost advantages independent on scale

3.5.3. Bargaining power of buyers

Bargaining power of buyers is high when:

a) From the point of view of demand, the buyer is significant and important customer (for example the firm with a long tradition).
b) Buyer can easily come over to the competitors, customers have small switching costs.
c) Buyer has available all the necessary market information, for example information about demand, supply, or market price.
d) Buyer has the possibility to eventually use backward integration, which means that in the case of difficulties with supplier, the buyer can start to produce certain products by oneself.
e) There are a lot of easily available substitutes on the market.
f) Buyers are obliged to minimize their costs.
g) The quality of products does not have huge impact, as the buyer does not take into account differences between each supplier. (Keřkovský, Drdla, 2003, p. 108)

3.5.4. Bargaining power of suppliers

Bargaining power of suppliers is high when:

a) Supplier has significant position on the market and from the point of view of demand the supplier is significant.

b) The products are differentiated, there exist high switching costs, so it is not so easy for the buyer to come over to the competition.
c) The buyer does not have a lot of market information, the market is not transparent.
d) It is impossible for the buyer to use backward integration.
e) The products have small price elasticity of demand.
f) There are small amount of eventual alternative suppliers on the market. (Lhotský, 2010, p. 39, 40)

3.5.5. Threat of substitution

Threat of substitution can has various forms. First of all, it can be substitution where one product substitutes the other one. Second type is replacement of needed products or services, by which the current products or services became redundant. The last type is general substiton, which is common in situations, where products or services compete for the demand. An example of this may be when producers and sellers of furniture compete for available expenditures of households with suppliers of televisions, automobiles, cookers etc.

When analyzing threat of substitutes, firm has to take into account following question: "Does the substitution create or not threat of dropping behind the firms product or services, or does it create value and contribution?" (Johnson, Scholes, 2000, p. 105)

In general, threat of substitution has significant impact when the enterprises which sell substitutes produce with smaller costs and increase their supply, or in the case that switching costs for the consumption of substitutes are low and so the price is attractive for the customer. (Lhotský, 2010, p. 40)

3.5.6. Utilization of Porter´s Five Forces Model

Porter´s five forces model is an effective tool for environmental analysis. However, it is necessary to add that its quality of usage depends on few important factors. First is right determination of industry from the nature of an industry itself, and also from the demographic and geographic point of view. Recently, some analytics claim that this model is obsolete and there is a need to complete this model for sixth force, which should be complementary products, because often demand of the firm is derived from demand of complementary products (for example price reduction of winter vacation

may possibly caused higher demand for the equipment for skyiing). Also time horizon is very important, as the five forces model itself provides relative static view on the current situation. It is crucial to realize that as the world is developing and changing every day, so does the industry and distribution of forces. (Tyll, 2014, p. 28)

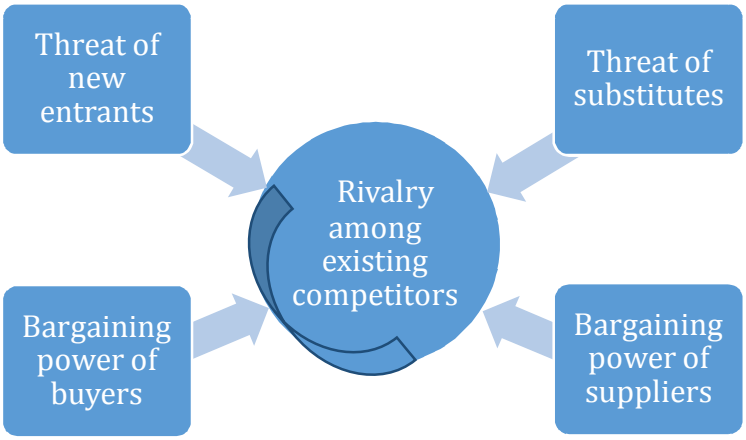

Fig. 3 Porter´s Five Forces

Source: Tichá, Hron, 2014

3.6. Industry Attractiveness

3.6.1. GE Matrix

Genereal Electric (GE) matrix is tool which helps company to decide, which products should be added to its portfolio and helps to identify good opportunities on the market. According to Kotler, the sucess of the company is dependent on the fact, whether the firm will be operating on the attractive market and will have sufficient market power on this market. Enterpreneurship cannot be successful if one of these dimensions are missing.

GE matrix is divided into nine fields which creates three zones. The three fields in the left upper corner are presenting good strategical position. Fields lying on the diagonal connecting left and right corner represents strategically average position of the SBU. Lastly, three fields in the right lower corner represent the worst position of the SBU and firm should take into account whether to harvest them, or get rid of them. Top management of the firm should be also able to recognize and forecast expected

position of the firm in the following three or five years. (Kotler, 2003, p. 84, 86) The complete GE matrix and corresponding strategies are described in the following table.

Tab. 1 Attractiveness portofilo strategies

Protect Position -Invest to growth at maximum accessible rate -Concentrate effort on keeping strengts	**Invest to Build** -Challenge for leadership -Build selectively on strengths -Stregthen vulnerable areas	**Build Selectively** -Specialize around limited strengths -Seek ways to prevent weaknesses -Withdraw if indications of sustainable growth are missing
Build Selectively -Invest heavily in most appealing segments -Build up ability to counter competition -Stress profitability by raising productiveness	**Selectively manage for earnings** -Protect existing program -Concentrate investments in segments where profitability is good and risks are low	**Limited expansion or harvest** -Look for the ways to expand without threat of risks, otherwise minimize investment and rationalize operations
Protect and Refocus -Manage for current earnings -Focus on attractive and profitable segments -Defend Strenghts	**Manage for Earnings** -Protect position in most beneficial segments -Renew product line -Minimize Investment	**Divest** -Sell at time that will maximize cash value -Cut fixed costs and evade investment

Source: Kotler P., 2003

3.7. Key driving forces of change

Key driving forces of change are factors, which may possibly cause significant changes of an industry. The analysis of key driving forces of change is a part of analysis of industry and it involves two major steps- first of all identification of these forces and secondly estimation of their impact on the industry. The most common ones include

changes in long term growth of an industry, new customers and usage of the product, product innovations, changes in technologies, new forms of marketing and entry/exit of a large firm and globalization.

3.7.1. Changes in long term growth of an industry

These forces are considered as a very important, because they influence balance among supply and demand, entry and exit of enterprises and difficulties of other growth of production capacity. Steep growth in long term demand attracts new enterprises on the other long term decline may force some firms to exit.

3.7.2. New customers and usage of the product

Necessity of adjustment of services may be caused by changes of characteristic of customers and possibly new ways of using the product. Producer is therefore obliged to broaden or narrow the sortiment, or even change its marketing communication (advertisement, public relations, support of sales, etc.). Enterprises should be able to identify basic characteristics of their customers, which includes demographic, ethnographic, socio-ekonomic, geographic characteristics. It may also involve social classes or lifestyles of customers.

3.7.3. Product innovations

Product innovations may broaden the number of customers, renew the growth of an industry, or contribute to product differentiation of competitive enterprises.

3.7.4. Changes in technologies

New technological processes may dramatically change structure of industry because they enable production of better products for lower expenses. This force has a significant impact in the production of hardware industry, because technologies used for production of computers are rapidly developing nowadays.

3.7.5. New forms of marketing

New forms of marketing may rapidly broaden demand and therefore change the structure of an industry. For example firm NIKE used marketing strategy based on the

cooperation with famous sportsman and therefore this company overcomes its biggest competitor- firm Adidas.

3.7.6. Globalisation

Global competiton changes the basis of competitive advantage. Abilities and possibilities of multinational companies to transmit production, marketing a organizational know-how from one country to another very often gives competitive advantage over the domesic enterprises. (Sedláčková, 2000, p. 32, 33)

3.8. Identification of characteristic of industry

Industry can be defined as a "group of enterprises offering similar products or services on the market" (Sedláčková, 2000, p. 23).

At the moment, boundaries of industry are not clearly defined and so it is not obvious who are the target customers, competitors and which new enterprises occurred in the industry. Nowadays, many industries run trough each other and so it is important to take this aspect into account when analyzing the industry.

The basic characterics of an industry are very important from the point of view of their impact on the firm´s strategy. The following table shows factors and their strategic meaning, which are used for basic description of an industry. (Sedláčková, 2000,p. 23)

Tab. 2 Basic characteristics of an industry

Factor/Characteristic	Strategic importance
Market size	Small markets are not interesting for large corporations, huge markets attract corporations, which are trying to get enterprises with strong position in attractiveness industry.
Number of competitors on the market	Dominant firms have the power to influence price.
Customers	Small amount of significant customers causes high bargaining power of buyers.
Vertical integration	Vertical integration causes costs differences.
Barriers of entry	When the barriers are low, it attracts potential competitiors, especially in the period of growth of an industry.
Exit barriers	High exit barriers may cause rivalry among competitors, especially in the period of decline of a demand.
Changes in technologies	Repeated changes in technologies increases investment demands.
Product innovations	Frequent product innovations shortening the lifecycle itself.
Capital intensity	Capital intensity creates entry and exit barriers.
Product differentiation	High differentiation causes lower rivalry.

Source: Sedláčková, (2000)

3.8.1. Industry Structure

According to Dedouchová (2001), industry can be divided as following:

a) Atomized industry

Atomized industry is characterized by huge amount of small and medium enterprises. There exists no dominant enterprise and the market shares of each enterprise are very similar. Low barriers of entry are common for this type of industry and so are differentiated products.

b) Consolidated industry

Consolidated industry is typical for small amount of enterprises with large market share. Enterprises are dependent on each other.

3.8.2. Industry lifecycle

Heberberg and Rieple define industry life-cycle as " A model of how a typical industry progresses from its birth, with a creation of a new product type, to its demise, with the sale of its very last product" . (Haderberg, Rieple, 2013, p. 114)

There are different stages of the industry life-cycle which are connected with different types of industry structure. The most typical industry goes through four main stages. First stage is called introductory stage, which is characterised of the made of first products and potential customers only started to recognize them. There are only few competitors, but it is expected their increase in the future. Possible entry barrier may be technonology. This stage is followed by the growth phase, where the industry is fully established, number of firms is rising and sales are growing. Entry barriers include start-up costs. Next phase is called mature phase, where sales start to stagnate and decline. However, profits are still high. Last one is so called phase of decline- sales fall, number of firms is declining or it can even lead to the exit of some firms.

It is obvious that not every industry is following this phases exactly and duration of each phase varies according to the nature of the product. However, this model of a lifecycle is sufficient for the represenatiton and generalisation of competitive behaviour. (Haderberg, Rieple, 2013, p.114, 115)

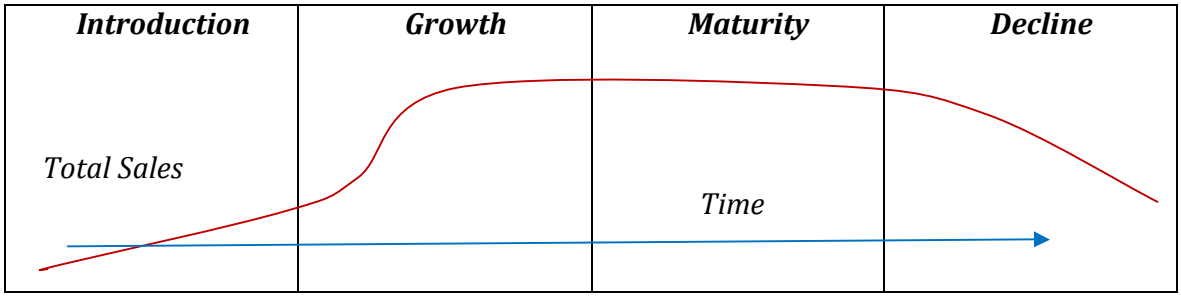

Fig. 4 Industry lifecycle

Source: Haderberg, Rieple, 2013

4 Practical part

4.1. PEST

4.1.1. Political factors

All entrepreneurial activities within textile production industry are regulated by the European and national rules. From the legislation point of view, there exists a system of norms which must be followed. The norms differ depending on the type of the product or the area of usage. There are different norms for textiles used in the health service and textiles used in the automobile industry.

Sales of textile products in the Czech Republic is regulated by the Act number 238/2012 from the 14th June 2012 which amended the Act number 634/1992 About Consumer protection. By this amendment of the Consumer Protection Act the national legislation reconciled with the decree of EU number 1007/2011.

From the original Act number 634/1992 are deleted regulations such as definition of textile product and textile fiber or duty of labeling textile products with information about material composition, because these duties are already included in the above mentioned EU decree. In this Amendment of Consumer Protection Act the following provision authorizing the Czech Trade Inspection for having competences to supervise compliance with the obligations arising from directly applicable EU regulations. Czech Trade inspection has also capabilities to impose fines in the case of violation of these obligations.

Since the Czech Republic is part of the European Union, the legislation for the textile industry must follow supranational rules. The above mentioned Decree of the European parliament and Council 1007/2011 came into effect 27th September 2011. This decree deals with titling of textile fibers, related marking of material composition of textile products and it determines duties of marking textile products with information about material composition. Another mandatory provision stated in this decree include among others for example:

- Minimum requirements for technical documentation which must be included in the request about titling of new textile fiber.
- Review of titles in each categories of textile fibers and their description.
- List of textile products for which the titling is not obligatory.

- List of textile products which can be marked by common marking. (Ministerstvo průmyslu a obchodu, 2012)

Crucial influence on the future development of the Czech textile production industry had cancellation of quantitative restrictions on the import of textile and clothing products from the third countries, which came into effect 31st December 2004. This agreement has significantly influenced future development of textile products in the mean of huge imports from the Asian countries, which are nowadays one of the causes of decline in the textile industry. (Ministerstvo průmyslu a obchodu, 2005)

4.1.2. Economic factors

4.1.2.1. Foreign trade

Very important economic aspect is definitely foreign trade. From the long term point of view, import of textile products has always prevailed export. However, according to the Statistical Yearbook by ATOK, in 2014 export prevailed import, which may be considered as a positive sign for a potential entrant. The total value of imported goods in 2014 was 63, 69 billion of CZK, which is exactly 7 billion more than in 2013. The rise of import was caused mainly by higher demand of households. The total value for export of textile products in 2014 was 65, 68 billion of CZK. Compared to 2013 the total value was in amount 59, 04 billion of CZK, so the substantial rise can be seen as well. From the above mentioned data, it can be stated that significant year-to- year rise is notable both for export and imports in the time period 2013-2014. (ATOK, 2015). The following graph shows import and export in graphical way for better illustration.

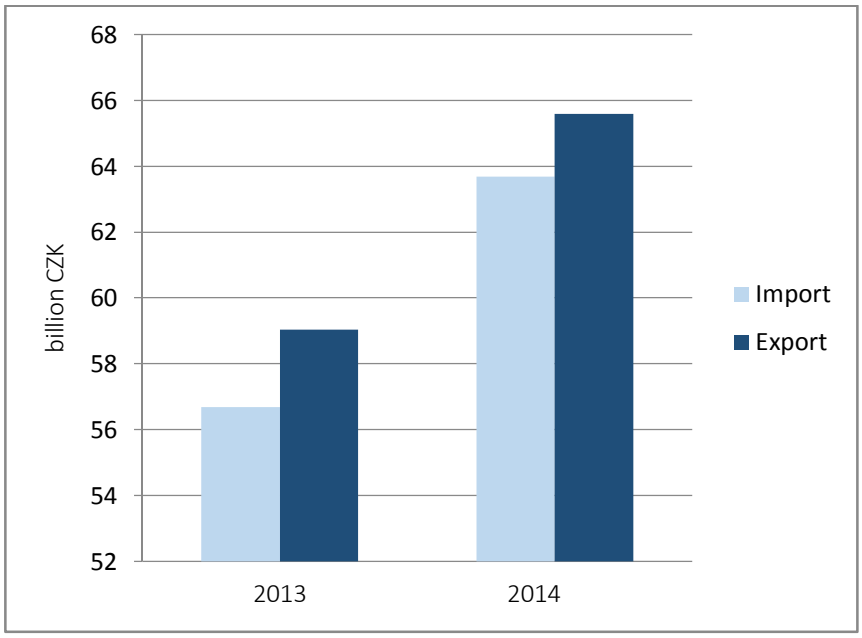

Fig. 5 Import and export of textile products, 2013-2014

Source: Own elaboration based on the Statistical Yearbok by ATOK, ATOK, 2015

4.1.2.2. Unemployment rate

Another factor which should be taken into account when analyzing economic situation is unemployment rate. According to the Czech Statistical Office data it has not been rapidly changing during the last six years, predictions for 2016 state approximately similar rate as in the previous years. Results of the unemployment rate in the first, almost finished quarter of 2016 are 6, 4%, which indicates slightly increasing tendency for the rate of unemployment compared to 2014. Traditional impacts of unemployment include decline in living standards of citizens, so in consequence people are saving their money, buying cheaper products and lower their unnecessary expenses. These indicators are unfavourable for a potential entrant. The unemployment rate in the Czech Republic for period 2010-2016 is presented in Table 3. (ČSÚ, 2016)

Tab. 3 Development of unemployment rate, 2010-2016

Year	2010	2011	2012	2013	2014	2015	2016
Unemployment rate (%)	7,3	6,7	7,0	7,0	6,1	6,2	6,4

Source: Own elaboration based on the Czech Statistical Office data, ČSÚ 2016

4.1.2.3. Gross domestic product

For having a good development perspective, it is necessary to operate in a stable economic environment, which is indicated by the value of gross domestic product and its development. GDP and its value is greatly influencing company´s activities on market, because in times of bad economic situation people start to save their money. Gross domestic product in the Czech Republic has rising tendency, so at present economic situation in the country is satisfying. According to data published by the Czech Statistical Office, year-on-year rise of GDP in the second quarter of 2015 was 4, 4 %. For comparison, fourth quarter growth in 2014 was 1, 3%, so it indicates significant increase and renewal of the Czech economy. (Novinky.cz, 2015) As for 2016, it can be predicted that suitable economic situation will continue with preliminary estimate in by rise by 2, 7%. (ČSÚ, 2016)

4.1.2.4. Inflation rate

Since the economic crisis, people are trying to save their money, which leads to increase of purchase power of money. This increase happens because there are many products and services, but the demand for them is low. In result of that, sellers are keeping low prices and it causes deflation. Since 2012, we can see the decrease in price level from 3, 3 % to 0, 3 %. Decrease in price level is very inconvenient for firms as they have to lower their prices. It results in decreases in profits, postponing investments and decline in the performance of the economy. The exact development of the inflation rate can be seen in Table 4.

Tab. 4 Development of inflation rate, 2010-2015

	2010	2011	2012	2013	2014	2015
Inflation rate (%)	1,5	1,9	3,3	1,4	0,4	0,3

Source: Own elaboration based on Czech Statistical Office data, ČSÚ, 2016

4.1.3. Social factors

4.1.3.1. Regional distribution

Regional distribution for the textile production industry can be considered as high, for example in comparsion with the mining industry, which is largely concentrated only in Moravian-Silesian region. For the textile industry more than 10% of overall employment is concentrated in Hradec Králové region, about 10 % of employed

people work in South- Moravian region, nearly 9% in South- Bohemian region and little more than 9 % in Vysočina and Pardubice region. For the other regions the value is between 5-8 %. Complete data can be seen in the Figure 6.

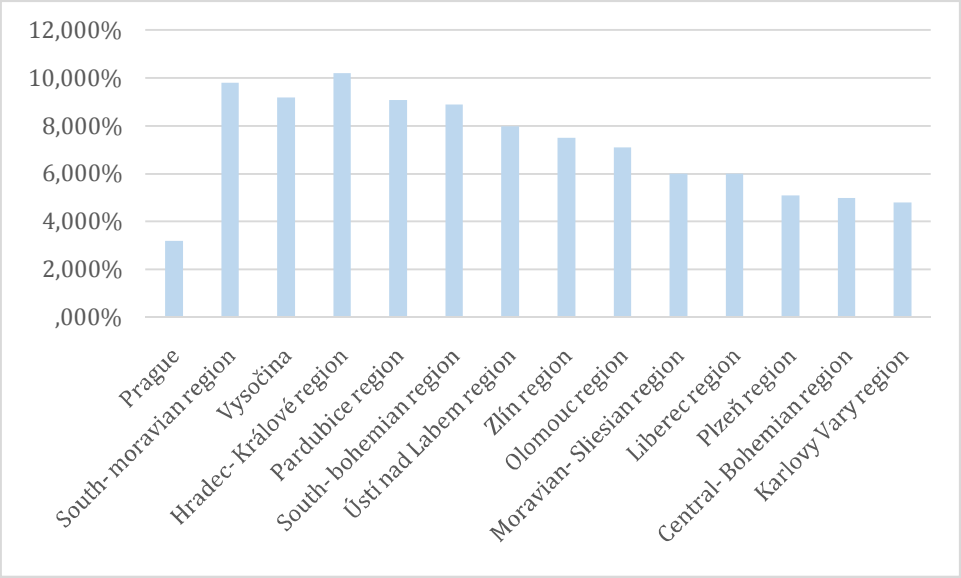

Fig. 6 Regional distribution of textile, clothing and tannin industry, 2014

Source: Own elaboration based on the ATOK Statistical Yearbook data, ATOK, 2015

4.1.3.2. Educational structure

Another important indicator is educational structure. It can be stated that qualification requirements are significantly lower than in the rest of other sectors. Most of the people working in the textile production industry are secondary school graduates without school- leaving exam. In 2014 about 56% of employees working in this sector reached this level of education. Employees with secondary school education with school leaving exam form nearly a third of workers in the industry. About 6% of workers have higher education and 6, 5% of them reached just primary education. As textile industry does not belong to the most prosperous industry, interest of young people to be educated in this sector decreases. (Odvětvová studie, Textilní, Oděvní, Kožedělný průmysl, 2015)

4.1.4. Technological factors

When analyzing technological factors, it is necessary to look back to the history- especially socialism period, which had a significant impact on the textile industry. In socialistic countries heavy industry was preferred over the light industry, so there was not such an emphasis on textile as on the metallurgy for example. Equipment of textile factories was not sufficient, allocation of investment funds for modernization was really weak, as well as the level of wages for workers. Consequently, many qualified employees went to other industries. In 1987 the level of depreciation of machines was more than 62 %, simultaneously more than one fifth of machines were completely ruined. (Pravý prostor, 2015)

Not only for these reasons, the entrance of the textile industry into the new democratic era after 1989, was not easy. However, the situation from the technological point of view is still improving nowadays, as the development of technologies plays crucial role for the running and functioning of companies in the 21st century.

In June 2008 the Czech Technological Platform for Textile was established with the main aim to support development of research activities in the textile industry in the Czech Republic. Goal of this organization is to support innovative options concerning development of new fibers and textile products, strengthen cooperation with experts from various industry enterprises with the main emphasis on supporting development and research and improving conditions for innovations in textile and clothing industry. (ČTPT, 2009)

Visions and plans of Czech Technological platform followed European Technological Platform for Textile (ETP), which is an organization established to ensure long term competitiveness of the European textile and clothing industry and to strengthen European position from the point of view of development and manufacturing of fibers, textile- based products and apparel.

Main aims and goals of ETP include innovation in materials and processes, creativity in design, product development and flexibility in production. (European Technological Platform, 2011)

Finally, the crucial role for the development of textile industry, have clusters. Cluster of technical textiles was established in 2006 to support textile industry. The project is called CLUTEX and its main aim is to ensure better communication in the fields of

marketing and other education in the textile industry sector. Cluster represents textile and clothing producers from the majority of textile and clothing industry, important representatives of suppliers and subscribers and scientific organizations. (Evropské strukturální a Investiční fondy)

To summarize, Czech Republic has overcome the crisis and decline of technologies after the Velvet Revolution and thanks to the newly established organizations, European projects and research it is still developing now.

4.2. Porter´s Five Forces analysis

Porter´s Five Forces model in applied for the analysis of competitive forces. According to Porter, the level of competition is dependent on five main forces- rivalry among existing competitors, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and threat of new entrants. Overall effect of all these forces determines the potential of the profit in the industry.

4.2.1. Rivalry among existing competitors

4.2.1.1. Number of competitors on the market

For better estimation of the competition, it is essential to analyze the number of current firms operating on the market. The total number of all registered firms with more than 20 employees operating in the textile industry for 2014 is 192. (ATOK, 2015).

Table 5 indicates that number of firms is still declining from 2010 and similar situation is notable in the clothing and tanning industry, where the number of firms from 2012 is declining as well. The less competitors on the market, the less firms tend to compete and so the intensity of competition for the textile industry has decreasing tendency as well.

Based on the above mentioned factors, there is low probability of new strategic moves. Also because of the fact that among existing firms there are not significant differences between qualities and capabilities of individual enterprises, there is small probability than one enterprise would corner the market and has become a monopol. This

industry can be characterized as fragmented industry, there are a lot of SMEs, so none of them has significant market share.

Tab. 5 Number of firms within textile, clothing and tanning industry, 2010-2014

Year	2010	2011	2012	2013	2014
Clothing Industry	215	214	216	206	191
Tanning Industry	79	79	80	71	69
Textile Industry	220	208	201	193	192

Source: Own elaboration based on ATOK Statistical Yearbook data, ATOK, 2015

4.2.1.2. Firms operating on the market

According to the Statistical Yearbook of the Czech textile, clothing and tanning industry the top five biggest textile and clothing companies according to the revenues in 2014 were JUTA a. s., Nová Mosilana, a. s., KORDÁRNA Plus a. s. and VEBA, textilní závody a. s. (ATOK, 2015)

- **JUTA a. s. company**

Basic information: JUTA a. s. company is famous Czech producer of wide varieties of products for agriculture, building industry and materials for technical usage. In 2014 JUTA a. s. was the leader among the companies operating on the Czech market both according to the number of workers and revenues from sales. It is well- known mainly because of its long history which began in the 2nd half of 19th century. JUTA has a significant impact on the export- about 82% of the total sales volume comes from this company.

Seat: Dukelská 417, 544 15 Dvůr Králové nad Labem

Main products and services: waterproof foils, non-woven geotextiles, woven geotextiles, membrane and foils to the roof systems, agro-textiles, artificial grasses for sport usage, non-woven textiles for automobile industry etc. (JUTA, 2016)

- **PEGAS NONWOVENS s. r. o.**

Basic information: PEGAS NONWOVENS is one of the world´s leading producer of non-woven textiles which are used mainly on the market with hygiene products. This company was established in 1990. Nowadays, the total annual production capacity reaches nearly 110 000 tons of nonwoven textiles.

Seat: Přímětická 86, 669 04 Znojmo

Main products and services: Non-woven textiles based on polypropylene and polyethylene mainly for usage of disposable hygienic products such as nappies for children or other hygienic products. To a lesser extent it also provides products for building industry or agriculture. (Pegas, 2016)

- **Nová Mosilana a. s.**

Basic information: The owner of the company is Italian MARZOTTO GROUP. Its whole production is concentrated in one area in Brno. Thanks to the modernization of its machinery equipment and new technologies, the production is more than four times higher now. The company is well known for the wide range of innovative products which are always based on the requests of customers.

Seat: Charbulova 1145/150 , 618 00 Brno

Main products and services: fabric for men and woman costumes from the woven hank (Nova Mosilana, 2016)

- **KORDÁRNA Plus a. s.**

Basic information: At present, Kordárna Plus. a. s. is the 4th biggest company operating in textile industry according to the revenues. Their products are used in automobile, mining, engineering industry on the markets not only in Europe, but also in South America or Africa.

Seat: Velká nad Veličkou 890, 696 74 Velká nad Veličkou

Main products and services: Nowadays this company is the only supplier which covers the whole production process of technical fabric- from the production of fiber to the finished fabric. (KordGroup, 2016)

- **VEBA textilní závody, a. s.**

Basic information: VEBA company is the traditional Czech producer of woven cotton fabric and in this segment, it belongs to the most important producer in the world. It has the most modern textile technologies and it export focuses from 90% on African countries, but also Europe.

Seat: Broumov – Velká Ves, Broumov - Olivětín, Police nad Metují

Main products and services: clothing fabric- African brocade, special fabrics, home textiles- sheeting, cloths etc. (Veba, 2016)

As stated above, the leader according to the revenues is company JUTA a. s. followed by Pegas NONWOVENS and Nová Mosilana. The total revenues and number of employees for 2014 are described in the following tables.

Tab. 6 Firms according to the revenues, 2014

	JUTA a.s.	Pegas Nonwovens s.r.o.	Nová Mosilana a.s.	Kordárna Plus a.s.	Veba textilní závody a. s.
Revenues (mil. CZK)	7031	6300	3319	2323	2160

Source: Own elaboration based on ATOK Statistical Yearbook data, ATOK, 2015

Tab. 7 Firms according to the number of employees, 2014

	JUTA a.s.	Veba textilní závody a.s.	Nová Mosilana a.s.	Kordárna Plus a.s.	Pegas Nonwovens
Number of employees	2031	1250	989	576	566

Source: Own elaboration based on ATOK Statistical Yearbook data, ATOK, 2015

4.2.1.3. Market size and its growth

Market size is indicated by various factors such as total revenues from sales, production volume, profitability or total number of firms on the market.

Annual revenues from sales of own products for the textile production industry in 2014 were exactly 44 604 million of CZK, which represents 27% growth in comparison to 2010. The revenues for the clothing industry in the same year were 6 404 million of CZK, which is exactly 38 200 million less. For the textile production industry, annual revenues from sales are rising, although number of firms on the market is declining. The following Table 8 shows development of revenues for both textile and clothing industry in period 2010 -2014, so a potential entrant may better estimate future development.

Tab. 8 Annual revenues from sales, 2010-2014[1]

	2010	2011	2012	2013	2014
Textile Industry	35 000 029	39 000 109	39 000 660	40 000 766	44 000 604
Clothing Industry	6 00 308	6 000 186	6 000 284	6 000 282	6 000 404

Source: Own elaboration based on ATOK Statistical Yearbook data, ATOK, 2015

According to the public database published by the Czech Statistical Office, industrial production index for the textile production has increasing tendency from 2012. (ČSÚ, 2015). As it is seen in the Figure 7, until 2012 the curve had stagnating or even decreasing tendency.

[1] All values are in the CZK

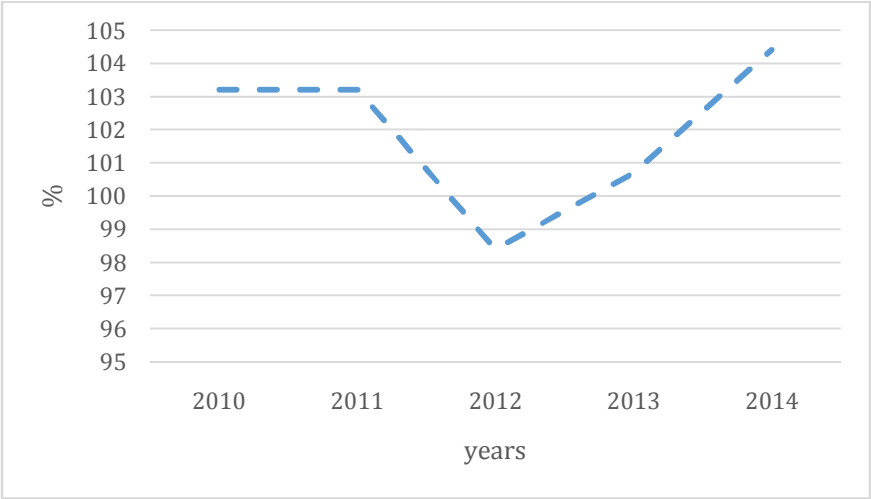

Fig.7 Industrial production index, 2010-2014

Source: Own work based on the Czech Statistical Office data, ČSÚ, 2016

To sum it up, annual revenues from sales are rising and so is the industrial production index. However, as it is stated in the chapter 4.2.1.1., number of firms is decreasing. According to Sedláčková, on the fast growing markets, there is expected less rivalry, because companies achieve growth thanks to the rise in demand. (Sedláčková, 2000, p. 36-37).

4.2.1.4. Product differentiation

Product differentiation is described in the chapter number 4.2.5.2.

4.2.1.5. Customers

Recently, as textile production industry is endangered by foreign exports, customers may change their suppliers and start to buy cheaper variants of products from abroad.

For these reasons, firms must emphasize quality of materials and build their marketing strategy in order to maintain and attract new customers. At first, firm must realize who are the target customers and based on this build its strategy. For example Czech textile KORDÁRNA PLUS a. s. produces technical fabrics for industrial purposes so the target customers are tire manufactures. (Kordárna, 2013).

A good opportunity for a firm to attract new customers can be trade fairs. In the Czech Republic there are held many trade fairs, one of the most famous one is Style and Kabo which takes place in Brno. Better service for customers may also influence intensity of competition between competitors, so the potential firm needs to take this into account and try to improve their services as well. Final important point is identification of

customers from the different point of view- age, sex, occupatioation, education, demographic or income charactertics.

4.2.1.6. Barriers of entry/exit

Barriers of entry are described in the following chapter 4.2.5. Exit barriers which may possibly cause problems for a firm include fixed costs, fulfilling of contractual obligations to the suppliers or some specialized capital intensive technologies used in the textile production process.

Tab. 9 Evaluation of factors and its importance

Factor	Importance
Market size and its growth	*high*
Product differentiation	*middle*
Customers	*middle*
Barriers of Entry/ Exit	*low*

Source: Own Work

4.2.2. Threat of substitutes

Typical demonstration of substitution of products, where one product is used instead of the other one is for example substitution of traditional textile towels and handkerchief by paper in restaurants, bars or other services used in hospitality industry. Simultaneously, such type of substitution can be seen in the replacement of textile seat covers by the plastic ones in buses, trams or metro. The reasons are for both cases the same- it is more effective and it saves costs connected with maintenance.

Therefore, production of plastic products can be considered as a significant threat for textile products, especially in the means of transport. CZ-NACE 22 Production of

plastic products belongs to the top prosperous industries. Price trend for this industry from 2011 has rising tendency and in 2014 it reached its maximum. (Panorama Českého zpracovatelkého průmyslu, 2014). In spring 2014 started substitution of textile seats by the plastic ones in all means of transport in the capital city Prague. It is expected that in the horizon of six years, all the seats will be replaced. (Idnes.cz, 2014)

Recently it is also trend to substitute traditional textile materials by natural ones. As an example can be introduced brand "BioCulture", which produces their clothing from materials such as vegetable waste or mildew. (Bio-Info, 2015). However, because of the high costs connected with production and small public awareness about these products, bio materials are not potential threat of substitute for the textile.

The above mentioned substitutions may have significant influence in the textile production industry. However, traditional textile and its unique characteristics and features in most cases cannot be adequately replaced. The biggest threat of substitutes for textile is still cheaper, but on the other hand poor quality products from abroad, which gradually dominate the market with textiles.

4.2.3. Bargaining power of buyers

Buyer bargaining power is the pressure that consumers can exert in order to force businesses to provide higher quality products, improved services or lower prices. The cost of switching from one seller´s product to another seller´s product is low. Customer can freely choose between the firms according to the convenient price, or they can decide according to the quality of products. In reference to the information in the chapter 3.5.3, the bargaining power of buyers in the textile industry is high. It is easy for customers to find a different supplier with similar products and also there is a sufficient amount of different types of textile products, so customer can freely choose according to the preferences.

4.2.4. Bargaining power of suppliers

Supply of inputs for the textile production industry is ensured by the suppliers of cotton, fabric, silk, wave etc. Nowadays, there exist 82 firms ensuring fabrics for the textile production industry in the Czech Republic. The major suppliers in the South Moravia region include firms such as BPP spol. s.r. o. which supplies upholstery fabrics, Alpha group s. r. o. which provides materials necessary for the indoor design

or Pegan Nonwovens which covers all textiles of disposable hygienic product. (Europages, 2016)

However, nowadays because of cheaper prices, traditional materials such as cotton and wool are substitute by synthetic. Even though suppliers can influence price, they are facing the strong impact of cheaper substitutes of synthetic materials. It can be stated that power of suppliers is not high.

Tab. 10 Evaluation of Porter´s five forces factors and its importance

Factor	Importance
Rivalry among existing competitors	*middle*
Threat of substitutes	*high*
Bargaining power of buyers	*high*
Bargaining power of suppliers	*low*

Source: Own work

4.2.5. Threat of new entrants

Textile industry is now facing strong competition from abroad, where are supposed more new entrants on the market, mainly because of lower costs. Also due to the fact, that number of firms is still decreasing, it is probable that in the Czech Republic there would be no significant rise of new entrants in the following years. Threat of new entrants can also influence intensity of competition. If there were more firms operating on the market, it would lead to increased competition. The amount of new entrants is besides others dependent on the existing barriers of entry, which are presicely described in the following chapter.

4.2.5.1. Economies of scale

Economies of scale leads to decrease in unit price of a product in accordance with rise in production, so they are more probable in large scale production. In some industries for sufficient effectiveness it is neccesarry to reach relatively large production volumes, but it is not a case of textile industry. Economies of scale are not significant barrier of entry for a potential entrant, as the current textile mass production is on the decline. Economies of scale have significant impact for example within brewing industry, because of existing capacity restrictions and high costs connected with technologies. Also this factor may be influenced by government regulations, which may be the source of negative economies of scale. For example in the brewing industry there exists taxation for smaller brew- houses, on the other hand in the textile industry there are no such distractions.

4.2.5.2. Product differentiation

The structure of textile production has changed in the recent years, from the classical mass production, to the more customer-oriented ones, so the products are more differentiated. Rate of differentiation between brands in the textile industry is quite high. For example firm JUTA a. s. is specializing in production of wide varieties of products for agriculture, building industry and materials for technical usage. Another firm VEBA focuses its production on a very special clothing fabric- African brocade, special fabrics, home textiles sheeting, clothes etc. Firm Kordárna Plus a. s. is the only European integrated supplier, which covers whole production process of technical fabric.

For a potential entrant, it is crucial to invest in quality products and materials, lower the price and select appropriate marketing strategy, in order to find its place on the market. Because of the fact, that probability of differentiation through some special technological inventions would be really expensive and time demanding, it is better for a potential firm to focus on a good marketing strategy and specialized products. To sum it up, product differentiation can be considered as barrier of entry, but it is not that significant, so that it cannot be overcome.

4.2.5.3. Capital intensity

The need of large investment plays crucial barrier of entry in every sector. Especially, for the textile industry it is significant barrier of entry, because this industry does not belong to the top prosperous one, so the investment may be risky. Capital intensity is also connected with high investment into technologies, hard construction of buildings and marketing campaign. On the other hand, a potential entrant can choose which products for which price it will produce. Demand for technologies differ from type of production, for example some more specific products require more expensive and modern technologies than the ones.

4.2.5.4. Switching costs

Switching costs are not significant barrier of entry as customers do not have any costs connected witch changing a brand. Switching costs can significantly influence the entry of potential firm for example in the information technologies sector.

4.2.5.5. Government regulations

Government regulations can represent very important barrier of entry in some industries, typically for the sale of alcohol or banking. These industries are directly controlled by the state. For the textile industry, it does not have such influence as in the above mentioned industries, but still there are some regulations which must be followed. For example, textile products for health services are subject to special certification. Certification of textile products ensures that products are in accordance with specified requests. All the products are tested with main focus on the hygienic and qualitative attributes. There exists non-compulsory certification, where producer publicly presents quality of the products, but even these products must be in accordance with Act 102/2001 About general safety of products. Rights and duties of persons who distribute its products on the market which can endanger consumer are followed by the Act 22/1997 About Technical requirements for products. (Ipodnikatel, 2011)

4.2.5.6. Access to distribution channels

Access to distribution channels belongs to one of the most significant factors for every company in every industry. In case of textile production, the distribution channel may be wholesalers or retail sale. Access to distribution channel may be a barrier for a

potential entrant entering the textile industry, as the current firms operating on the market already have their own distribution channels, and so the new companies must force these channels to accept their products and also access to the retail sales is very costly.

4.2.5.7. Cost advantages independent of scale

- Technologies and special know-how

In this field, there are no additional costs for a new entrant, as the technologies are not protected by any patents. However, capital requires for the technology ownership of textile are quite high. The barrier of entry may also be lack of qualified workers, which would be able to work with certain technology. As it is stated in the chapter 4.3.2., textile industry is nowadays facing shortage of well-educated people and decline interest of young people to be educated in this sector.

- Assess to materials

It is especially important to have a right distributor, which offers quality materials, a potential entrant must find the right one, already established firms have advantage in this as they already know the distributors.

Tab. 11 Evaluation of barriers of entry and its importance

Factor	Importance
Economies of Scale	*low*
Product differentiation	*middle*
Capital intensity	*high*
Switching costs	*low*
Government regulations	*low*
Assess to distribution channels	*middle*
Cost advantage independent on scale	*middle*

Source: Own work

4.2.6. Other characteristics of an industry

4.2.6.1. Foreign trade

Nowadays, thanks to the open borders and related rising number of new possible entrants, textile production industry must overcome high risk of new competition from abroad, which may be more attractive for customers. Czech textile production companies are more endangered by the foreign competition and imports than by the domestic competition itself.

Among the three biggest importers of textile for 2014 belonged Germany with total value of imported products in amount of 18 057 853 CZK, Italy with total value 6 137 081 CZK of imported goods and China with the total value 5 341 411 CZK of imported goods. These countries were followed by Belgium, Turkey, Austria, Australia, Poland, UK and India. The leader in export was Germany as well, with the total value of exported goods of 17 613 982 CZK, Italy with total value of exported goods of 7 492 420 CZK and Poland with value of goods 5 438 049 CZK. These countries were

followed by Slovakia, France, Austria, UK, Netherland, Romania and Belgium. (ČSÚ, 2012)

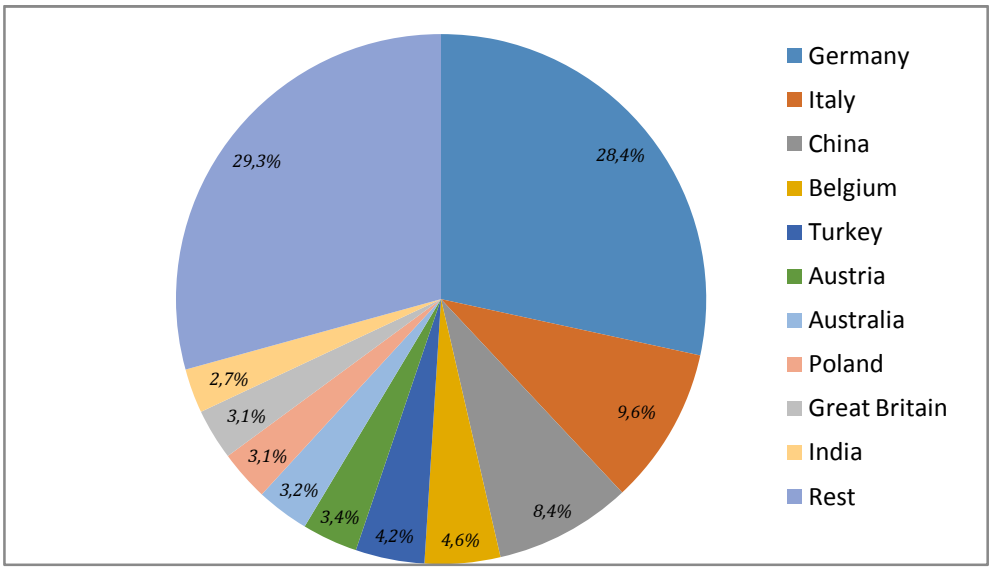

Fig. 8 Import of textile products, 2014

Source: Own elaboration based on the ATOK data

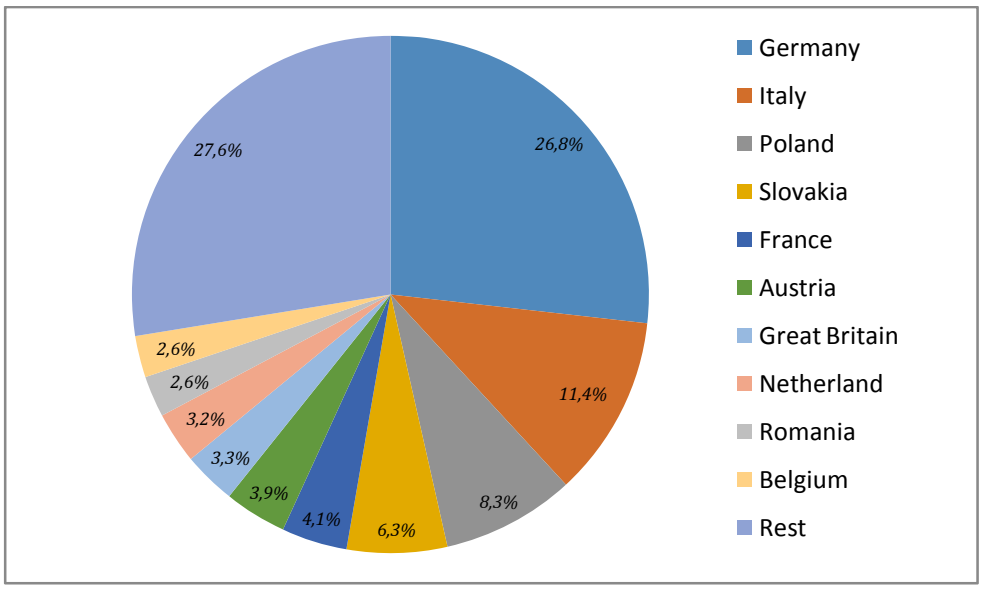

Fig. 9 Export of textile products, 2014

Source: Own elaboration based on the ATOK data

In the long term export prevails over import. In the period from 2009 to 2014 the value of total imports and exports was continuously rising. In 2014 total turnover from foreign trade was 106, 8 billions CZK, which is for 11, 3% more than in 2013. (Panorama Českého zpracovatelského průmyslu 2014)

4.2.6.2. Changes in technologies

Frequent changes in technologies increase investments demands. Production of textile does not differ among firms, there exist specialized machines with workers in every firm. There are small differences based on type of the product which company produces, but the process itself does not significantly differ, so the changes in technologies does not have significant impact on the industry at all. It may be a significant factor, if a concrete firm would have some patent on the production, or come with some specific and new techniques of production, but if do not take this unlikely situation into account, the competition itself is not affected by this factor.

4.2.6.3. Vertical integration

Firm is vertically integrated, when its activities interfere to more than one stage of supply chain. Firms in the textile production industry are integrated forward, as they have their own distribution channels and mostly they do not produce their materials by themselves. Basically it means that firms operating in textile production industry entry to the following phase of production process. When the firm is integrated forward, it is connected with its subscribers. Firms are motivated for vertical integration, as it reduces the need of operating costs.

4.3. Key Driving Forces of Change

Factors, which may also influence the entry of the company into an industry, are so called key driving forces of change. Their identification is crucial for strategy formulation for a potential firm. Detailed description of these forces is in the following chapters.

4.3.1. Changes in long term growth of an industry

As described in the chapter number 4.3.1.3., market size and its growth are among other aspects identified by the Industrial production index. This index was firstly identified for the time period 2010-2014, however for better estimation and expected

time trends it is necessary to analyze it in a longer time period, which is described in the Figure 10.

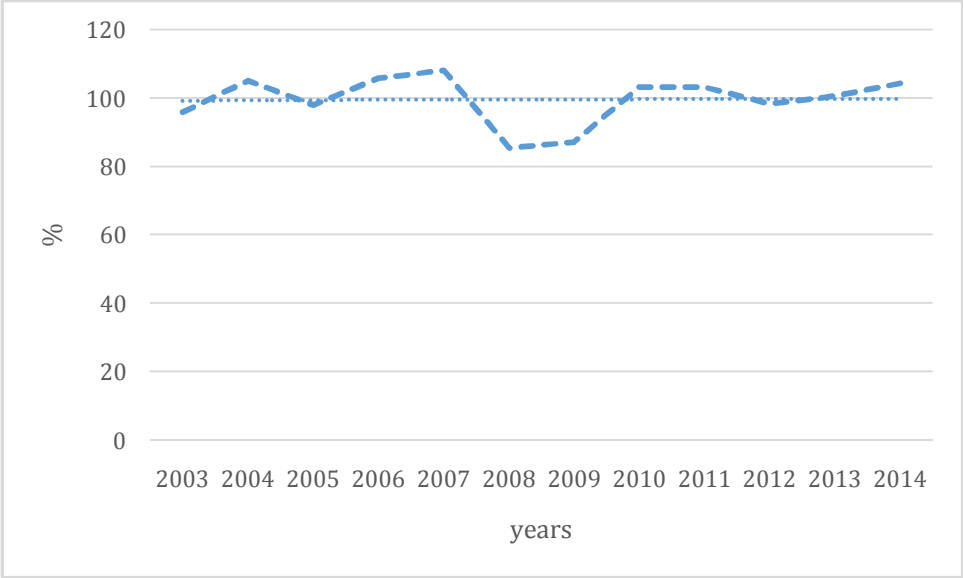

Fig. 10 Industrial production index, 2003-2014

Source: Own elaboration based on the Czech Statistical Office data

As it is notable from the graph, this index was changing for the last eleven years. The lowest value is indicated in 2008 and opposite, the highest value is notable the year before, in 2007.To conclude, it can stated that the expected trend in time is uncertain, as it differs from year to year. The good news for a potential entrant is that recently the industrial production index has recently rising tendency.

4.3.2. Globalization

Nowadays, nearly every enterprise if affected by globalization in some way, so it belongs to the other crucial key driving force of change for the textile production industry as well.

It has significant impact besides others on the international trade with products of Czech textile and clothing industry. According to the Czech association of Textile and Clothing Industry, globalization had significant impact on this industry from the 1970´s, however main globalization changes happened between 1995 until 2005. (Glogarová, Kraftová, 2015).

As a result it leads to rise in imports of textile products, mainly from Germany, Italy and China. The rise in imports causes among others decline of the number of firms operating in the textile production industry. In 2006 import exceeded export for the value of 3, 3 billion CZK, eight years later this value almost five times increased- in 2014 import exceeded export for 15, 5 billion CZK. (Eurozprávy.cz, 2015)

4.3.3. New forms of marketing

New forms of product marketing can significantly affect and broaden demand. As the textile industry does not belong to the top prosperous industries in the Czech Republic, the emphasis on marketing should be taken into account as it may help to attract new customers. A good example of effective marketing strategy is JUTA company, which tries to attract their customers via increase public awareness about the brand. The company organizes various events, such as tennis JUTA cup which is held every summer, the company´s representatives participate in various trade fairs, where they introduce their products to various public.

The good marketing strategy may be also influenced by the company´s activity on social media and web, as it plays crucial role in the 21st century. The Czech company VEBA a. s. invested in quality and clearly designed web pages, where the potential customer may find all necessary information and also news about upcoming events. To sum it up, marketing strategy has nowadays significant impact on the company´s success and if the company wants to be successful on the market this component needs to be taken into account.

4.3.4. New customers and usage of the product

The textiles in general are necessary part of everyday life of people. The most common usage of textiles is in the form of clothing, but it has also its utilization in the furniture making, horticulture, engineering, health services and many other industries. Consumers are not limited by any restrictions and the necessity of textile is expected in the future as well. Potential changes in the structure of consumers are very improbable, so new customers and usage of products can be considered as negligible factors for the textile industry.

4.3.5. Entry or exit of large enterprise

The entry of large enterprise is not very probable. In 2014 there existed only eighteen large enterprises (firms with more than 250 employees) from the total number of 192 enterprises. However, number of firms no matter if large or small is declining anyway. Exit of a large enterprise is also not expected as the annual revenues from sales are rising. Therefore this factor does not belong to the key driving force of changes for the textile industry.

4.3.6. Product innovations

Product innovations can be considered as the substantial key driving force of change, although textile production industry does not belong to the sector, where these innovations have such a significant influence as for example in the pharmaceutical industry. However, potential entrant has to take them into account as well, as the quality and innovative products are the main force when the company wants to be successful on the market. If some already established firm comes with some new product innovation unique and specific for the market, it may cause structural changes in the textile industry- it may expand market and support industry growth and so as consequences to increase intensity of competition.

Recently, the most significant innovation for the textile industry is definitely development of nanofibre membrans, which was discovered in Technical University of Liberec. The products which are made by this method have improved properties such as better conduction of wetness or they do not release water at all. For these reasons, products made by this method may be perfect for runners, climbers and sportsman in general. (IDnes, 2015).

Tab. 12 Evaluation of key driving forces and its importance

Factor	Importance
Changes in L-T growth	*middle*
Globalisation	*middle*
New forms of marketing	*high*
New customers and new usage of a product	*low*
Entry/ Exit of a large enterprise	*low*
Product innovations	*middle*

Source: Own work

4.4. Evaluation of Attractiveness

Tab. 13 Evaluation of attractiveness

Attractiveness of Textile Production Industry			
Criteria	**Weight**	**Grade**	**Weighted Score**
Industry growth rate	0,12	4,33	0,50
Legislation	0,04	1,33	0,05
Changes in technologies	0,13	2,00	0,22
Foreign competition	0,20	5,00	1,00
Threat of substitutes	0,05	0,67	0,03
Barriers of entry	0,17	3,67	0,65
Market size	0,15	3,00	0,45
Number of competitors on the market	0,15	3,67	0,53
Total	**1,0**		***3,42***

Source: Own work

Evaluation of attractiveness was done by the method of pair comparison and subsequently, as the attractiveness was evaluated by three persons, the final results introduced in the Table 13 are the average of all the single results. The first evaluation was done by Alice Turková- the author of the thesis, next by sales representative of textile firm Amann Group Ing. Jiří Pech and the third evaluation was done by the board member and CFO (Chief Financial Officer) Jaroslav Štěpař from the textile firm LANEX. a. s. As seen from the table, the total number of evaluation of attractiveness is 3, 42 which indicates attractiveness slightly above the average.

By projection of this result into GE matrix, it can be stated that the position of the firm can be described as average advanteous, so that potential firm should be selectively looking forward opportunities for increasing its profitability. Firm should protect existing program and concentrate investments in segments where profitability is good and risks are relatively low.

4.5. Evaluation of Possibility of Entry

Final evaluation of possibility of entry should asses all factors which may influence company´s future operations. Based on this firm should decide whether it is worth entering the market and as a next step choose the form of entry.

Very important analysis for appraisal are PEST factors, competitive environment of the firm, key driving forces of change for better estimation of future development and most relevant barriers of entry- the more significant the barriers are, the more difficult it is for a firm to enter the industry. The entry of new companies into the market is therefore largely dependent on this factor.

Concerning textile production industry, the power of barriers is not that significant. Government regulations and legislative do not have determining impact on the industry. There exist only some basic norms and duties which need to be taken into account-some special certifications for example. The more relevant barrier is capital intensity, as it may be risky to invest money into the new company operating in the not so prosperous industry. Economies of scale are not relevant barrier, as the current mass production is on the decline and there are no restrictions from the legislation point of view. According to the results of analysis of attractiveness, industry´s attractiveness is evaluated as slightly above average one.

It is obvious that Czech producers cannot reach prices and quantity as foreign producers, primarily Asian ones, although their products are not good quality. Therefore it is recommended for a potential entrant to enter the market as a firm specialized in one certain range of customer oriented and innovative products. Firm should posses the ability of quick response to a market demands. A good example of this can be production of specialized technical fibers, “clever” fibers with special properties, which may be used in medicine, special outdoor products or some luxury products with excellence quality.

5 Discussion

Industry analysis is a very important tool not only for potential firm, but also for every existing company operating on the market, because understanding of influential factors may better predict future development. Practical application of this thesis is therefore applicable for both already established firms and potential new entrants. Results of the analysis may be helpful to identify current situation by application of PEST analysis, where are precisely described political, economic, social and technological factors. These elements may affect industry both in positive and negative way. Nowadays, political and legal factors do not have direct influence on the textile production industry, so it is quit negligible factor. However, it had substantial effect in the past, concretely in 2004, when were canceled quantitative restrictions on import of textiles from third countries. Economic situation in the Czech Republic is favourable, especially GDP has rising tendency recently. So the situation from the technological point of view is getting better, mainly by supporting EU projects and establishment of organization supporting textile industry. However, from the social factors point of view, we can see substantial decrease in interest of young people to be educated in this sector, so textile production industry is now struggling with the lack of high qualified workers.

For the analysis of competitive forces was applied Porter´s five forces model. It follows therefore that number of firms has decreasing tendency for the last five years, similar situation is notable in the clothing industry, on the other hand annual revenues from sales and industrial production index has rising tendency. In terms of threat of substitutes, for certain products there exists high risk of substitution of one product instead of other one, especially in the replacement of textile products in the means of transport, however the greatest challenge and threat for the industry is definitely substitution of Czech quality products by the cheaper exported ones from abroad. Bargaining power of buyers is high and on the other hand bargaining power of suppliers is low.

The most considerable barriers of entry for the textile industry are capital intensity, on the other hand the most negligible one are switching costs. For the future development firm should be aware of the effect of globalization and new marketing trends, which plays significant role in 21st century.

To conclude, it is necessary to add that even though all analyses and results are based on the scientificly proved methods and facts, the real implementation may differ a little bit as there might exist some constraints for implementing the suggested strategy of entry. Also this thesis is written subjectively and so is the evaluation of attractiveness, although with the help of experienced persons working in this sector. Therefore results of this thesis may be a little bit distorted by this factor.

6 Conclusion

The aim of this thesis was to analyze the industry and based on the results suggestion of possible entry. This was done firstly in terms of the theoretical knowledge and subsequently its application into practice. At present, textile industry does not belong to the top prosperous industries and it lost its significant position as it has in the past. Traditional Czech textile is facing the lack of interest of young people to be educated in this sector and decreasing number of firms, caused by the import of cheaper products from abroad, which is the most endangering factor for textile industry.

Despite this fact, it can be concluded that it is worth for a firm to enter the market. The reasons are favourable economic situation in the Czech Republic, rising production index, low barriers of entry and increasing rising annual revenues from sales. This confirms also final evaluation of attractiveness, which is assessed as slightly above average.

Mass production is on the decline and Czech producers cannot reach the amount and prices of Asian producers. Therefore, it is recommended to enter as a more specialized firm with certain range of quality and unique products. Thanks to the recent technology development and organizations supporting Czech textile industry, it is possible for a firm to build its compatitive advantage based on the innovative and top class products.

Elaboration of the thesis enabled the author to get an experience with a practical application of the knowledge from particular courses. It also provided a chance to get to know the situation of the selected industry and its development.

The aim of this thesis was therefore accomplished. Contribution of this work can be helpful for both, new potential entrants and already established firms, showing the current situation within the industry.

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