

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Management



Bachelor Thesis

**The Application of a Marketing Mix for Two Different
Cafés and its Comparison**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Lucie Gajdošová

Business Administration

Thesis title

The Application of Marketing Mix for Two Differently Focused Cafes and its Comparison

Objectives of thesis

The aim of this bachelor thesis is to find out, analyze and finally apply specific and mainly accurate marketing mix in order to be able to open a successful Cafe in two different locations with two different target groups. For this work, the Cafes are only imaginary.

In order to achieve the results, many variations of gaining information are needed – such the analysis of market's location and its competitors, financial analysis (expenses and expected income) and so on. As a conclusion the two marketing mix strategies are being compared and finally they come up with a result if it is worthwhile to start up the Cafes or at least one of them.

Methodology

The methodology of this bachelor thesis starts with descriptive methodology to simply describe the two optional coffee stores.

The main part of the bachelor thesis is based on a field study in order to propose the best marketing mix strategy for a successfully running Cafe. Secondly, the 7P will be used to describe and evaluate each Cafe's focus and lastly, the comparative method is used to tell which Cafe is the better option to run.

Recommended content:

- 1 Introduction,
- 2 Objectives of thesis and methodology,
- 3 Literature overview,
- 4 Practical part,
- 5 Evaluation of the results and recommendations,
- 6 Conclusion,
- 7 Bibliography,
- 8 Supplements.

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Declaration

I declare that I have worked on my bachelor thesis titled "The Application of a Marketing Mix for Two Different Cafés and its Comparison" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 14.3.2018

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The Application of a Marketing Mix for Two Different Cafés and its Comparison

Abstract

This bachelor's thesis, entitled "The Application of a Marketing Mix for Two Different Cafés and its Comparison" is focused on the analysis of marketing strategies and mainly on the application of marketing mix for a successfully running business in the field of gastronomy. For these purposes, two specific but fictional Cafés are selected, each of which is differently oriented and the thesis is therefore focused on the evaluation and application of a correctly assembled marketing mix.

The thesis is divided into two parts - theoretical and practical. In the theoretical part, all the terms necessary for understanding the subject are explained. It is supported by credible sources, such as vocational literature and verified websites. The knowledge gained in the first part is applied in the practical part. Firstly, the analyzed Cafés are presented and second comes the application of the marketing mix with a usage of 6P formation, and their subsequent comparison.

The result of this bachelor thesis is the evaluation of obtained data and based on the calculations of price setting, description of the recommended procedure for managing a successful Café. The conclusion of this thesis is to find out whether these Cafés are worthy of realization.

Keywords: Marketing, Marketing mix, Marketing communication, 6P, Customers, Target group, Product, Price strategy, Café, Situation analysis.

Aplikace marketingového mixu pro dvě rozdílné kavárny a jejich porovnání

Abstrakt

Tato bakalářská práce s názvem „Aplikace marketingového mixu pro dvě rozdílné kavárny a jejich porovnání“ je zaměřena na marketingovou strategii a následnou aplikaci marketingového mixu pro úspěšné vedení podniku v oboru gastronomie. Pro tyto účely byly vybrány dvě fiktivní kavárny, přičemž každá z nich je odlišně orientována a práce je tedy zaměřena na vyhodnocení a aplikaci správného marketingového mixu.

Práce je rozdělena na dvě základní části, a to teoretickou a praktickou. V teoretické části jsou vysvětleny veškeré pojmy potřebné k porozumění probírané problematiky. Je podložena věrohodnými zdroji, jako je odborná literatura a ověřené internetové stránky. Takto získané znalosti v první části jsou aplikovány v části druhé – praktické. Jsou v ní zprvu představeny kavárny, které byly podrobeny rozboru. Stěžejní byla aplikace marketingového mixu, s použitím formace 6P, a jejich následného porovnání.

Výsledkem této bakalářské práce je vyhodnocení získaných zkušeností a na základě propočtů stanovení ceny, popis návrhů vedoucích k úspěšnému vedení kavárny. Závěrem této práce je zjištění, zda jsou tyto kavárny hodné realizace.

Klíčová slova: Marketing, Marketingový mix, Marketingová komunikace, 6P, Zákazníci, Cílová skupina, Produkt, Cenová strategie, Café, Situační analýza.

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1 Introduction

Based on the database enclosed in the annexes and mediated by the Czech Statistical Office, it is evident that only a few gastronomically oriented retailers established since 2015 have survived their first year of existence.

Nowadays, it is very hard for coffee shops to succeed among its competitors. Especially in larger cities such as Prague which contain dozens or hundreds of little cafés, and a large number of even more coffee shops owned by multinational coffee companies.

For that reason, it is more than important for café start-ups to come up with a very well prepared Strategic marketing plan. In order to earn, satisfy and keep loyal customers, the company has to be innovative, creative, original, well organized and well educated in the field of application. Someone who has no managerial and administrative skills can run a business, but unless he is extremely fortunate, he has only a slim chance of success of establishing and maintaining a successful venture.

This bachelor thesis concentrates on two specific kinds of coffee stores. The first one is supposed to be customer-oriented and located in a little village, and the second one is product-oriented based in the big city center. The reason for choosing specifically these two completely different types of coffee shops is simple. Big city life is hectic and full of various kinds of persons with different needs and preferences which are not easily satisfiable. People living in busy cities are usually keen on their business hours, social status and their look and with that on a nowadays so popular healthy life-style and dietary choices and restrictions. Due to the demanding time schedule, there is a very limited room for a healthy meal and an after-lunch coffee during the day. Consequently, people get angry because they either eat in a hurry, or, in a worse case scenario, do not eat at all and substitute quality diet with only another cup of bad coffee. This problem is only further exacerbated due to rising frequency of the digestive problems in last years, such as gluten or lactose intolerance. Yet, there are not many places in the city like Prague to go and get a healthy lunch or "soy-milk" coffee and feel comfortable. In other states it is common to order a gluten-free cake with lactose-free latte or make similar non-standard orders. In the Czech Republic, the customers have to pay for these "Extras", if they are even at all available. The "availability" is important, because they are often not even on the daily offer.

The coffee place owner has to take into consideration the initial investment and costs for implementing the "Extras", and also the additional operational costs to run a business

offering wider sortiment of specialties. In practice, despite the additional costs of the owner, the extra price paid by the customers is set very high.

On the other hand, people who live in villages usually live there to have a calm surroundings and are in no need to hurry. They want to keep their weekends free of work, enjoy the family life or their retirement years. In other words, they greatly value precious time over a warm cup of coffee in a friendly environment. Although the need for specific kinds of sortiment remains, the other preferences are usually not as important. People in villages order bio-food and gluten-free baked goods as well, but it is more important for them to feel comfortable and be able to visit cafés with their children. But the most important part of maintaining a business in a countryside is the limited number of potential customers, and the importance of positive client relationships. For that reason, it is fundamental to keep people satisfied with the local café, otherwise the Word-of-Mouth awareness will work both sides and consequently may cause a lack of customers due to their bad experience and of their relatives.

For both of these cafés, it is definitely challenging to start with their concept. That being said, it is almost impossible for newly started café in a large city to make its way up among all the other already famous cafés and fierce competition. However, it is not easier in a village by any means, because the people living in a village usually do not like changes and are rather conservative. Furthermore, starting a new coffee shop is a big investment and a coffee place owner has to expect that the pricing of goods in a village will be probably set quite low and under these circumstances. The return of investment is not something to count on in a short period of time.

The aim of this bachelor thesis is to compile a perfect marketing mix for each of the two fictional cafés and to find out which investment would be more efficient. Situational analysis, 6P formation as well as calculation of costs and return of investment will form an integral part of this work.

Objectives and Methodology

1.1 Objectives

The aim of this bachelor thesis is to find out, analyze and finally apply specific and mainly accurate marketing mix in order to be able to open a successful Café in two different locations with two different target groups. For this work, the Cafés are only fictitious.

In order to achieve the results, many considerations are needed - such as the analysis of market's location and its competitors, financial analysis (expenses and expected income) and so on.

As a conclusion, the two marketing mix strategies are being compared and the thesis comes up with an answer if it is worthwhile to start-up either of the Cafés, or at least one of them.

1.2 Methodology

The methodology of this bachelor thesis starts with descriptive methodology to simply describe the two optional coffee stores.

The main part of the bachelor thesis is based on a field study in order to propose the best marketing mix strategy for a successfully running Café. Secondly, the 7P will be used to describe and evaluate each Café's focus and lastly, the comparative method is used to tell which Café is the better option to run.

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2 Literature Review

2.1 Strategic Management

Strategic management represents methods and techniques for a successful application of knowledge, experience and skills for an effective fulfillment of managerial functions.

The most important part is the decision-making process, the choice of options and ways of dealing with inconvenient circumstances. One of its tasks is correct making of important strategic decisions in order to run a successful business.

First of all, company should have a vision of what direction the company wants to take, for example, what to produce and where to sell.

Secondly, what is the aim of the company or what profit does the company expect to earn. And finally, what strategies and tactics to use to meet its business goals and after that, not to stagnate and aim higher.

2.1.1 Strategic thinking

Strategic decision-making needs strategic thinking, that means seeing the possibilities as they are, analyzing all the external and internal factors, knowledge of possible changes and influencers, knowledge of various sources and creativity to outcome all problems that might occur. (Košťan & Šuleř, 2002)

The vision of a firm should be memorable, after read, up to 5 minutes. The vision should be simple but clear, realistic and should be within the company's possibilities. It always needs to aim higher but to start with what is possible.

The goals should be summarized under the SMART rule, which means Specific, Measurable, Agreed, Realistic, Trackable. There is also modified rule SMARTER, which means: Specific, Measurable, Achievable/Attainable, but challenging, Result oriented/Relevant, Time framed, Ethical and Resourced. (Fotr, Vacík, Souček, Špaček, & Hájek, 2012)

2.2 Strategic plan of a new product

1) Objective of innovation activity

1. Targeted market – product routing can be defined by the type of product, its function, end-user, technology, or segment

2. Product situation – the position wanted to be achieved with the new product (price / quality relationship, marketing strategy, market share ...)
 3. Special targets – image
- 2) Program how to achieve firm's goals
1. Strengths to be used
 2. Weaknesses that should be omitted
 3. Sources of innovation – internal (proprietary research and development), external (purchase), combination (joint venture)
 4. Stage of innovation – brand new product, new uses, modifications, etc.
 5. Special restrictions and limitation – acceptable risk and quality level, patentability

2.2.1 The process of the new product production:

An offer of a competitive product is the basis for market success, and the companies are therefore forced to perform demand-driven analysis and have to think of both partial innovations and the development of new products. The process of developing new products begins with the gathering of new ideas and ends with the product market entrance (or product cancellation, as the case may be).

New Ideas:

- a) the needs of external customers
- b) the needs of some target or interest groups
- c) the needs of internal customers (operations)
- d) the needs of the company as a manufacturer
- e) research and development

Brainstorming is often used to generate new ideas. Likewise, the method of design thinking is based on a detailed examination of the client's environment and his problems, and with knowledge it tries to develop something that would make it easier or more comfortable. (Košturiak, 2012)

- Sorting and ranking ideas:
 - the consistency of ideas with the mission of the company and its marketing and overall goals is being explored. Furthermore, the feasibility of these ideas

from the point of view of the resources and capabilities of the company. It is necessary to analyze the future potential market and the competition therein. At the end of this phase, the initial marketing concept of the product is formulated.

- Business analysis:
 - summarizing expected costs and evaluating product based on the relationship to meet the needs and wishes of potential customers. It also examines the purchasing ability of the target groups, the attractiveness of the product and the possibility of obtaining a product patent.
- Product development:
 - specification of the product marketing concept, production of one or more prototypes and subsequent technical and customer testing.
- Market testing:
 - compiling a marketing mix of the product and then introducing a smaller quantity of product onto the market, primarily to monitor customer responsiveness.
- Commercialization:
 - compiling a final marketing strategy for the product to fully enter the market and finally creating a market plan.

From the business' and market's point of view the products may be considered new if they fall under one of the following categories:

- New technologies – absolute innovation
 - the highest degree of innovation change, as they most influence the behavior of the customer and often fix the replacement of existing products or lead to the emergence of a completely new market. They require high investment and deeper knowledge of the market.
- Follow-up innovation
 - allow products placed on the market to better adapt to the market and its requirements.
- New for the market
 - require a new marketing mix tailored to the new market.

- New for a specific country
 - require a change in the marketing mix.
- New product category for the company
 - products added as innovations to the existing, existing, product within the diversification.
- New brand
 - differentiation from competition.
- New package
 - a suitable new ad or other distribution and product placement in the store may lead to a rise in sales.

2.2.2 Situation analysis

The setting of business objective and the appropriate selection of strategies to achieve the given purport, must be supported by the developed situational analysis. Situational analysis is then a real first step of market-based strategic management, more specifically its planning process. Its purpose is to collect and count with all the possibly relevant factors that could theoretically influence the final choice and the fulfillment of the company's goals, visions and used strategies.

The Situation analysis is a general method for exploring the individual components and attributes of outward surrounding (macro and microenvironment) in which the company runs a business and exploring of the company's inner environment and its ability to create, innovate, sell, and finance the whole process.

In this case, the overall market needs to be examined, including the market development and growth, flexibility and stability of change and market segments of the commodity (needs structure, product position, substitution rate). Correspondingly, other factors to analyze are the various market players, specifically the manufacturers (market position, innovation potential), intermediaries (competitiveness, market position, assortment range), competitors (SWOT rating by skill, competitive orientation), influencers, the public (publicity, competitive orientation) and customers (needs, demand).

Marketing mix tools take place in another part of the Situation analysis. The management has to suit a product mix (weak and strong, profiling by market segments), price and contract mix (pricing), communication mix (advertising, public relations, direct marketing, personal sales) and any less important distribution mix (logistics).

And lastly, the situation analysis also covers the Company environment which is consisted of a regard to nature and ecology, economy (economic policy, parameters of economic development), society (demographic characteristics, migration, social structure, culture) and law and politics (legal norms, political situation).

2.2.3 SWOT analysis

SWOT analysis is one of the most used and the most known environmental analysis. The aim of this analysis is to identify the current strategies of a firm and its strengths and weaknesses and if they are able to cope with environmental changes or not.

The analysis has two parts. First, the OT letters are covered and then then the SW letters take their place. (Jakubíková, 2013)

1. OT: a) Opportunities

(occasions, things that can increase demand or better satisfy the customers and bring success to the business)

b) Threats

(occasions, facts, trends, incidents and things that can decrease demand or the unhappiness and dissatisfaction of customers)

The "OT" part is recommended to start with, because both of its factors come from the outside, and so the macro-environment and even the micro-environment is covered. Secondly, the "SW" analysis step covers the company's inner-environment. As a base, the "4P" (Product, Price, Place, Promotion) from Marketing mix might be used.

2. SW: c) Strengths

(occasions, facts and things that bring benefits to both, customers and the company)

d) Weaknesses

(things, that the firm is not good at, or the competitors are better at)

2.3 Marketing

Defining the concept of marketing has been attempted by many well-educated authors. As far back as 1776, Adam Smith considered marketing to be the goal of all business ventures. Any economic activity linked to the profit principle must be directed towards satisfying needs. The manufacturer should not produce if his efforts do not have a

corresponding consumption support factor. Smith perceived marketing as the key entity of any business that wants to succeed in competitive market conditions. (Smith, 2003)

For the purposes of this bachelor thesis, the most appropriate definition of the term "Marketing" was provided by the American Marketing Association in 2013:

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." (American Marketing Association: Definition of Marketing, 2013) .

Today's marketing philosophy is not only focused on creating new customer's needs and wants regardless of the society itself. The critics of the marketing gave a rise to the new concept of social marketing, which has as a center of its attention the current issues of our society, such as social, ethic and environmental questions. (Jakubíková, 2013) The aim of marketing is to come up with something that nobody else has, or with something others have but "we" have it better, or more special. Third option is discovering people's wants and needs in fields, where regular people are not aware of what they might need, want or get. As Akio Morita, Sony's leader puts it: *"Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do."* (Kotler & Armstrong, 2004)

2.3.1 Holistic marketing

Kotler and Keller also perceive the social marketing concept as a part of Holistic marketing concept.

They argue unanimously that the concept is based on the development, design and implementation of marketing programs, processes and activities, while recognizing their breadth and interdependence. Holistic marketing recognizes that marketing depends on everything – and a broad and integrated view is often necessary. (Kotler & Keller, 2013)

Holistic marketing concept is consisted of:

1) Relationship marketing

- the aim is to build mutually beneficial relationships between the company and customers, distributors, suppliers and other important components of the possible transaction

- 2) Integrated marketing
 - builds comprehensive marketing plan to provide seamless experience for customers to interact with the brand/company
- 3) Internal marketing
 - guarantees the spread of a company's good name by the employees
- 4) Performance marketing
 - the predecessor of the Performance marketing was Socially responsible marketing which dealt with ethical, social, juristic and ecological issues, activities and programs. (Kotler & Keller, 2013) Another form of social marketing might be Cause-related marketing, which is supporting solutions to current issues of a specific target group. For example, Avon company is focusing on the breast cancer treatment. (Jakubíková, 2013)
 - now the Performance marketing has concluded also the impact of marketing not only on the sales but also on gain or losses of customers, service or product quality, as well as it still covers the Socially responsible marketing

2.3.2 Marketing plan

Marketing plan is one of the most important parts of the whole process of project managing. It is usually the first step to the other operating plans. The marketing plan works on two levels: strategic and tactic.

- 1) Strategic marketing plan – presents the target markets and value propositions of the company selected on the basis of an analysis of the best market opportunities. The elaboration of a strategic marketing plan is the culmination of the market of the inno-logical planning process.

The strategic plan differs from the long-term plan. Often, however, it is incorrectly labeled. (Kotler & Keller, 2013)

Well done strategic plan has to be easily understood, realistic and precise, but still adaptable to changes. Moreover, the plan should include all important market factors and should clearly identify its tasks.

- 2) Tactic marketing plan – specifies marketing tactics including product features, support, merchandising, pricing, distribution routes, and services. (Kotler & Keller, 2013)

Each product, goods or service should have a marketing plan as a supporting document. This marketing plan has a logical structure that proves the return of the time and money invested. A perfect marketing plan contains situation analysis, SWOT analysis, aims, strategies, tactics, budgets and control mechanisms.

1. Overall summary of main goals and strategies for the season in which the marketing planned is prepared.
2. Situational analysis analyses of the current state of the company and basic data about the market, the product, the internal environment of the company and about the competitors, customers, suppliers and other
3. SWOT analysis and context analysis – identifies main opportunities as well as threats to the company, the strengths and weaknesses and its influence on the product's making, selling and promoting as well as the company's ability to finance it.
4. Marketing goals that the company wants to achieve in the field of sale, market share and profit
5. Marketing strategy – the choice of marketing approach leading to the target marketing goals. The choice is made among many various possible strategies but for small and middle-sized companies, the market-oriented marketing strategy is the most suitable. Plus, there should be a certain focus on being different from the competition.
 - Products and Services – list of products which the company is going to be offering to the customers, including the benefits that the customers gains by buying or/using the product
 - Distribution – description of the form the product is delivered to the customer
 - Pricing and contract policy – pricing, payment and contract policies
 - Communication mix – selection of a structure of the company's promotion
 - (Public Relations, Advertising, Publicity, Direct marketing)
6. Action programs – conjunction of marketing mix and strategy into direct and specific tasks (The activity → the goal of the activity → leader → time schedule → budget)
7. Budget – presumed profits, marketing expenses according to individual marketing activities
8. Control – evaluation and controlling process of the results and goal achievements of each marketing plan

(Jakubíková, 2013)

2.3.3 Strategic marketing

This field gains the attribute "strategic" as soon as the marketing is, while predicting future activities, focused on potential customers and on specifying their needs. Basically, the managers are not solving present issues as a priority number one. The strategic marketing is capable to drive the managers to get to know earthly opportunities and perils, prepares them for market and community changes and react to them better and faster than the competitors. (Horáková H. , 2003)

"A good marketing is not the result of coincidence, but the result of careful implementation and planning. Marketing practices are being constantly upgraded and transformed in basically all sectors to increase the chances of success." (Kotler & Keller, 2007)

2.3.3.1 Strategic marketing management

Managers coordinate individual marketing operations in order to achieve given marketing aims while respecting environmental impact.

The essential purposes of SMM contain building relationships between the business and the target market, respecting changes in the environment to create super values for the target customer and choosing the right marketing strategy for the target market. It is important to apply a marketing concept to all business activities. (Jakubíková, 2013)

2.3.3.2 Strategic marketing planning

As it has been already said, the world is changing day by day and so, the marketing management's aim is not only to coordinate mutually beneficial relationships between the company and community (either individuals and organizations), but also strategic thinking of what is possibly going to be next level of the social requirements. Marketing managers cannot be focused only on present daily issues. They have to see through them and try to predict the future – and if they do not do this, they will be left out within years, possibly months. It is a constant line heading up-wards hand in hand with technological progress and society's reasoning and thinking processes. Once the company stagnates for a bit, the others do not. And once they move forward, it is almost impossible to get back from behind a curve right on track.

In view of this fact, the strategic management might be set into three types:

- a) Predicting – always envisioning and coming up with new trends first
- b) Tracking – not liking risks, monitoring the markets progress and new trends' outcomes
- c) Petrified – running a business on the exact same bases, cannot see the reason to change

(Moi, 2003)

Strategic marketing planning covers several steps:

- 1) situational analysis supplemented by predictions of future environmental development
- 2) setting marketing goals
- 3) formulating marketing strategies to achieve the given marketing goals
- 4) compilation of marketing programs
- 5) budgeting reviewing results, reviewing objectives, strategies and programs

(Jakubíková, 2013)

Strategic marketing planning's attention is focused on real problems, showing the need for change and the need to differentiate alternatives, and finds standpoint based on facts.

2.3.4 Marketing concept

The starting point of marketing exchange process is to get to know the needs, wants and demands of customers while the need means a feeling of shortage or a complete lack of something.

According to Kotler and Armstrong, we can sort out five types of needs:

1. Declared customer needs (the customer wants financially suitable cell phone)
2. Real needs (the customer wants that kind of phone which is financially suitable to run or get fixed, not a phone which is cheap but costs a lot when destroyed)
3. Unspoken needs (the customer expects the operator of the brand to be reliable)
4. Need for pleasure (the customer expects something for granted – e.g. supply of free headphones)
5. Secret needs (the customer wants to feel the same way as everybody else does while going to buy either a cheap or very expensive phone, even though he is either very poor or very rich) (Kotler & Armstrong, 2001)

The above point five is not only about the feelings of equivalence. The secret needs also cover the needs customers do not know they have or will have in a future. The society's life and its standards are changing every single day, and so the modern marketing concept tries to get as close as possible to the customers while trying not only to effectively cover their current needs but also stimulate their future demand. Modern marketing concept refuses to be based solely on identification of the needs and wants but goes much further and creates new markets and brand-new products, considering a possible future and adapting to the market.

2.3.4.1 Customer value

A value has many forms but also many resources - from the benefits that the product brings, its quality, the image that is associated with it, its physical accessibility to the services that accompany the product. (Margretta & Stone, 2004) A customer's value means the difference between all the things hidden behind getting the product (money, time, effort) and the what it brings (pleasure, good investment, experience or social status). (Jakubíková, 2013)

2.3.5 Marketing goals

The first step is the formulation of a long-term sett goal or a system of goals is in finding the wants and needs of potential and/or present customers and through-out well-chosen marketing mix. (Foret, Doležal, Doležalová, & Škapa, 2004)

Overall, the marketing goals might be divided into two groups: Normative and Specific. The Normative goals are common for all the market subjects. Firstly, the firm needs to go through the optimization which consist of profit and revenues. For the profit it is important to be counting on a cost strategy and also on an innovation strategy. For sales, it is the strategy of competitive advantage. Subsequently, after optimization, the company moves its concern onto the market share where the main focus is on: to snap, to raise, to maintain, to reap, to leave the market, and all these are handled by the strategy of differentiation. Secondly, the Specific goals have an interest in the surrounding (customers, suppliers, competitors), time (long-term, mid-term, short-term), operation (production, technic, finance, marketing) and occurred problems. (Jakubíková, 2013)

At the same time, the marketing goals might also be further divided into two groups of interest. These groups are: Psychographic marketing goals and Economic goals, and they are

linked very closely. Psychographic goals are mental invisible processes of the purchasers according to their purchasing behavior and the Economic goals may be measured according to market transactions. Based on observation, psychographic goals shall be for example, increased awareness of brand and business, increased customers' satisfaction and customer bonding. (Jakubíková, 2013)

2.3.6 **Marketing mix**

Marketing mix is a set of controlled variables which are made to help the production process of a firm to be as close as possible to the wants and needs of the target market. The creation of a marketing mix is very important because of the effective distribution of financial and human capital. It helps to define responsibilities, enables flexibility analysis and facilitates communication. However, the mix elements of the mix are interconnected and must be seen as an inseparable combination. (Kotler, 2005)

2.3.7 **6P**

The concept of Marketing mix has been firstly used by Neil H. Borden in 1949 and its present form by E. Jerome McCarthy in the book "Marketing" is called 4P (Product, Price, Place, Promotion). This 4P is the well-known basic form, but in the field of services, Morrison has introduced a 4P consisted of People, Packaging, Passion and Partnership. With that being said, the McCarthy's and Morrison's positions may be combined into a "6P" form:

1. Passion is what draws purpose towards future success and with that brings up people's attention.
2. People is what matters the most. It is the driving power to the company's well-being. The better the firm knows its own products, services and customers, the better relationships and partnerships it may create. (6P Marketing)

In other words, McCarthy's concept is still the most used tool of the marketing mix. In practice, it may not be that important which four or more Ps the firm uses, but which Ps are the most convenient for the specific marketing strategy of a firm. For example, Neil H. Borden came in with the format of the 14P marketing mix published in 1964, published in "The Concept of the Marketing Mix". (Němec, 2013)

However, the noteworthy point is that 4P looks at the market only from the seller's point of view. For that reason, Robert Lauterborn has created the 4C (Customer value, Cost, Convenience, Communication) which is described as a Customer's marketing mix. Currently, the customer's opinion is very important. Not only is it the customer who buys the product and shares the customer experience. Also, thanks to the internet, people are more aware of what is on the market, what is possible to have on the market and what value may be expected.

The goal of strategic marketing management should be to design a marketing strategy that aligns the view of the marketing mix of the customer's view (4C) with the view of the company (4P). (Robins, 1994)

2.3.7.1 Strategic marketing formulation

According to Thaddeus Mallya, the strategy might be defined as a trajectory or a line focused on the predetermined goals. (Mallya, 2007)

The so-called 5C Marketing strategy offers a quick overview of what is important:

1. Customer needs (which needs of which customers will be the company's focus)
2. Company's skills and competencies (which specific skills does the firm need to satisfy the needs of target customers)
3. Competition (who else is trying to satisfy these certain customers)
4. Collaborators (who to call out for help)
5. Context (which cultural, economic, technological, legal factors limit the firm's operation)

(5 C's of Marketing Strategy)

As far as it is known, there are two approaches to marketing strategy formulation. First, more direct is the Partial marketing strategy which covers only a certain part of strategic decision-making. The second, which is an outcome of the Partial approach, is called Integral approach which covers the whole decision-making process of strategic marketing planning.

2.3.8 Marketing communication

Marketing communication can be defined as: "Connection and utilization of the communication process with marketing, which means a transmission of a message from the sender to the recipient. This process takes place between the seller and the buyer, the

company and its potential and current customers, but also between the company and its stakeholders." (Přikrylová & Jahodová, 2010)

Another definition explains that is a means by which companies seek to inform, persuade and alert customers about products and their brands. By that, the firm establishes a relationship with customers and increases the frequency and volume of their purchase. (Kotler & Keller, 2013) To achieve these goals, it is vital for businesses today to exploit all possibilities that the marketing mix brings and to consider the future world of information technologies, which will be continuously developing, improving and consolidating their place in people's lives.

Communication accompanies every company from the beginning to the end. It's not just what the company does, but also what it does not do. The task of communication is meant to convince, to sell and to create a new value. (Horáková, Stejskalová, & Škapková, 2000) According to (Kotler & Keller, 2013), the marketing communication mix has eight basic elements: advertising, sales promotion, events and experiences, public relations and publicity, direct marketing, interactive marketing, oral distribution (word-of-mouth awareness) and personal sales.

2.3.8.1 Promotion

Promotion is made up of a number of factors that aim to bring customer to a particular product, but the basic pillar is the so-called 5M: mission, message, media, money and measurement.

It can also be broken down in different ways. For example, it is possible to differentiate thematic (image branding) and image-based communication (to reinforce relationships with target audience and brand awareness) or below-the-line (BTL) communication (focusing on customer-driven activities) and above-the-line (ATL) communication (advertising in the media). (Jakubíková, 2013)

2.3.8.2 Communication through media

For Media Relations, it is important to remember that the information provided to the public by a journalist is thought to have a credibility and objectivity. Many tools can be used to communicate with the media.

Decisions on how to communicate with individual target and interest groups are decisions of strategic importance.

The communication strategy has seven approaches that can be mixed together. (Broderick & Pickton, 2005)

1. Generic strategy – emphasis is placed on product promotion and not branding
2. Pre-emptive strategy – emphasis on brand exclusivity
3. Unique selling proposition strategy – USP – uniqueness of sold product
4. Brand image strategy – branding against competitors
5. Resonance strategy – raises past experiences, thoughts, etc.
6. Affective strategy – brings up emotions
7. Information strategy – tries to provide as much information as possible

2.3.8.3 Advertisement

Advertising is the most famous, useful and effective part of marketing communication with a high amount of media. It is possible to define it as a paid form of impersonal communication from a broad point of view:

- The process of raising people's attention to products, services, or institutions.
- The persuasive ways that are used in the advertising campaigns themselves.
- Production and distribution of ads for mass media.
- Single ad unit.

(Kotler & Keller, 2007)

Advertisement covers the usage of a paid media in order to introduce a new product which has just entered the market, convince to buy and share information of an already existing product or simply remind its existence. Which type of advertisement is used depends mainly on the product's life-cycle. (Kincl, 2004)

In order to come up with a well-done advertisement, one needs to analyze the problem, identify target groups, define advertising strategy, create message, decide for advertising media, set budget, and then evaluate the effect of advertising.

2.3.8.4 Sales promotion

Under the category of advertising also belongs sales promotion, which is in close touch with the product, price and also distribution policy and is oriented on the customer, intermediates and its own sales staff.

This tool aims to increase sales volume over a short period of time. Sales promotion seeks to attract the attention of both end-users and intermediaries in the distribution chain. The methodology applies especially when a rapid and intense reaction is required.

Kotler identifies three properties of sales support:

- Communication – attracting attention and providing information that can lead the customers to choose a particular product.
- Motivation – reliefs, incentives or contributions that can serve as a value for customers.
- Invitation – to call for the exchange at the moment of the offer, the call outlines the essence of an immediate negotiation that is inseparable from sales promotion.

(Kotler & Keller, 2007)

The sales promotion affects customers immediately on contrary to the basic advertisement and strives to increase turnover. Sales promotion may include tastings, temporary price reductions, coupons, and more.

2.3.8.5 Public Relations

The goal of Public Relations is to create a favorable atmosphere to attract the public not only to the role of a product or service. The scientific approach to Public Relations is not developed, which is due to the lack of surveys and the interest of relevant institutions. In PR, it is possible to separate two types of systems: Closed model describes the model of the press agent and public information, where attention is focused on transmitting information outwards and with no detected impact. However, Open models (bidirectional asymmetric and bidirectional symmetric) are already working with the detection and evaluation of the impact on the meaning of feedback from the communication model. (Grunig & Hunt, 1984)

The usage of PR as a common communication mix instrument results from its specific properties:

- High trustworthiness – it is possible to approach a respondent who deliberately avoids advertising.
- No need to be alert – the respondent evaluates the message as a simple information, which does not interfere with the targeted advertising action. This extends the circle of many potential customers to whom another way of addressing would not work.
- Dramatization – building relationships with the public provides the opportunity to dramatize a company or product as well as an advertising action. (Pelsmacker, Geunes, & Bergh, 2003)

Public Relations tools are summarized under the PENCIL (Kotler, 2000): Publications, Events, New, Community involvement activities, Identity media, Lobbying activity and Social responsibility activities. The activity should show signs of long-term focus on creating a relationship. While buying transactions do not affect the direct route, it is even more effective for those segments that would reject another form of communication. For smaller companies, these tools form only a supplementary role in the context of other forms of communication. The reason can be found in its high cost, difficulty of leadership and the difficult building of a relationship with the public. (Pelsmacker, Geunes, & Bergh, 2003)

The most widely used forms of communication with the public are Event Marketing and Embedded Marketing.

The goal of Event Marketing is to surprise and achieve a better perception, to develop a better recollection of the company and its products and to induce deeper emotional ties. It is used particularly by larger firms.

Embedded marketing is most often used wherever it is not expected, especially in the entertainment industry. The Embedded marketing also includes product placement.

Another branch of PR is sponsoring – provision of cash or a gift by the company in exchange for a consideration that helps achieving company's marketing goals.

2.4 Segmentation

A market is understood as an array of buyers and sellers, who demand or supply certain products or services to satisfy their wants and needs. The market may be a physical entity (country, region, city), or it may be virtual.

The market is also very unstable since it is influenced by many outside influences, such as politics, cyclical trends, new technologies, changing weather, and so on.

One thing needs to be considered in particular, and it is the impact of new technologies brought to life. That being said, the most important technological innovation is arguably the internet – not only does it give companies much more information regarding the world's and society's functioning, needs and wants, but it also gives the general public the power of knowing what they can possibly want and get, what other cultures have to offer and what they could want as well. People might communicate and share their experiences and ideas among others, as well as be able to communicate with the companies themselves, or to compare them or their products to other companies. People create groups with the same interests and preferences, and slowly they become big enough to create a reasonable demand for something and provide an incentive to companies to come up with a solution to their demand.

It is very practical and great to be able to solve society's problems, but it is even better to avoid it and come up with a prognosis of what is going to be the future demand and be well prepared for it already. (Jakubíková, 2013)

There are many well-known potential ways how to define the market distribution.

Broadly speaking, there are three types of market:

- 1) Current market – the wants, needs and demand are indulged by already existing suppliers
 - a. Real market (the real place of purchase) and Virtual market (e-shops)
 - b. Consumer markets and Markets of organizations – industrial, commercial, national
 - c. Types of markets by (Kotler & Keller, 2007):
 - i. Potential Market
 - ii. A competitive market
 - iii. Competent market available
 - iv. Target Market
 - v. Penetrating Market
- 2) Hidden market – potential customers are known of but nobody has the capacity to take care of them. They are not significant.

- 3) Emerging market – currently not yet fully developed, but in view of the specific market evolution, is supposed to further develop.

Another division of markets, more significant for strategic marketing planning, is presented by (Veber, 2014):

- 1) Fragmented markets – many existing variations how to distinguish from others but they are still very bordered
- 2) Specialized markets – offer numbers of opportunities, from which every single one might be gainful
- 3) Volume markets – allows to reach only limited count of specific amenities but they might be big and important
- 4) A "dead end" market – only a few potential amenities and all are rather insignificant. Markets are saturated. The interest of customers stagnates or even decreases.

In fact, for this bachelor thesis, the main focus is the Consumer market which includes all individuals and households, which directly purchase goods and services, but who also vary in age, incomes, preferences, education and many other factors which affect their purchases as much as social, cultural or psychological characteristics. For companies it is very important do analyze the consumers' purchase processes and the influencing factors that go with it.

In addition to the above, the differentiation of customers' purchases is also important. In case of:

- a) First purchase, the customer considers everything. Seeks all kinds of information of the given goods, but also of its competitor's goods, and then evaluates its pros and cons and decides which goods to get.
- b) Direct repetitious purchase or habitude, the process of searching for information is skipped and the customers simply goes and gets the goods without really thinking it through one more time again.
- c) Modified purchase, when the customer's claims or supplier's conditions are modified, the customer has two options. Either go and buy as always or search elsewhere.

- d) Impulsive purchase, when there is no real need of searching for information, such as in situations of being very hungry or wanting a simple white tank top right at the moment. (Chování zákazníka)

2.4.1 Positioning

After the selection of the relevant market segments and marketing objectives, the position of the product on the market can be identified in comparison with the competition.

Positioning is the way of:

- 1) how the company wants to be perceived in the mind of the customer
- 2) how it defines itself as a competitor
- 3) how it defines itself to other groups (suppliers, buyers, cooperating companies, etc.)

Positioning consists of selected elements by which the product is recognizable. (Pelsmacker, Geunes, & Bergh, 2003) Positioning is basically only a matter of psychology. It is a manipulation with the customer's conscious and unconscious perception of the product, for example, by price or quality.

2.4.2 Market targeting

Very important part for a business is to set the marketing goals and a way of achieving them. The marketing goal in fact determines the firm's required future status to ensure its growth and prosperity.

The most decisive is to identify its market opportunities, the next step is their evaluation and the decision about which segments are going to be the target. (Kotler & Armstrong, Marketing Management, 2001) The process of evaluation is focused on a size, growth rate, profitability, return of investment, and degree of risk. Which basically means that the company has to consider and analyze if the investment in that given segment will help to reach the wanted economical goal and not to overcome the disposable sources.

2.4.3 Targeting

In practice, segments are selected based on their potential, which can be determined by market size, growth potential, competition, availability, segment compatibility, and message consistency within the segment. Targeting can be undifferentiated, differentiated, and concentrated. For small and medium-sized businesses, it is advisable to focus on those

segments that cannot be considered massive and take advantage of market edge. (Kotler & Armstrong, 2004)

2.5 Product

The basis of each business is the product or offer. The goal of the business is to differentiate this product from others and to improve the way of gaining the target market's preference and willingness to accept a higher price for this product. (Kotler, 2000)

Product means anything that can be offered on the market to attract attention, buy or consume and what can satisfy desires, wishes or needs. (Kotler, Wong, Saunders, & Armstrong, 2007)

The product is one of the elements of the marketing mix, and with that it is one of the influential marketing variables by which the company regulates its efforts for turnover and profits. The whole business is reflected in the product if the company is production oriented, the product reflects its resources and if the company is marketing-oriented, the company will meet its goals through the customers' satisfaction. (Jakubíková, 2013)

The task of marketing managers is to create a relevant product differentiation plan. The product is purchased to meet the needs and wishes of the customer. These needs can be emotional, practical or basic. The best way how to achieve perceived value is therefore to cooperate with customers. The company must take note of their comments, possible ideas, opinions, and dealing with their involvement in the early stages of development.

It is just the product and the profile of its offer on which the firm needs to put the attention in strategic marketing. The customer looks at the product differently than the supplier. The ideal situation occurs when the customer looks at the product with the same eyes as the provider. In other words, the supplier understands how the customer perceives the product. However, the product can be perceived differently by different people. For example, an expensive purse might to some people prestige, but other people might view this differently, and for example value higher better quality healthy food.

2.5.1 Marketing structure of the product

In analytical aspect, (Kotler & Armstrong, 1992) differentiate three levels of a product:

1. Product core
 - represents a solution to the wishes and problems of the customer, the fulfillment of his desires and expectations. Typically, it moves only along the area of feelings
2. Actual and real product – Tangible product
 - a set of characteristics required by the customer. It is the subject of a competitive effort (quality, brand, design, availability, production)
3. Enhanced product – Enriched product
 - contains all the other services and advantages of the product which represent the supplemental benefit for the customer

Upgrading to a higher level increases the product's value. Due to the first level, the customer buys the product and the other levels occur primarily in the competitive fight of companies.

2.5.2 Product policy

The company makes decisions about its Product policy based on an analysis of the environmental development and recognition of its own abilities. Most of the corporations enter the market with more than just one product. A group of products developed by one firm, with the same or similar characteristic, usage and with a meaning to appear on the same or similar markets is called a Product line. The product line is followed by four basic decisions:

1. Product line length
 - the amount of items in that product line
2. Product line stretching
 - Downward stretching – products are added as to address the less profitable markets
 - Upward stretching – products are added in order to gain more of the profitable markets
 - Two-way stretching – products are added either to address the less profitable markets or more of the profitable markets

3. Product line filling

- filling the product line gaps and consequently gaining more markets and with that even more profit

4. Product line featuring

- certain products of the product line are reinforced through the marketing communication in order to support the sales of other elements of the product line

A firm with a few product lines disposes with so called Product mix which is a set of all the products and items, which the concrete supplier offers for sale to customers. (Kotler & Armstrong, 2001) The product mix may have different length (overall count of the items in the product mix), width (count of the product lines), depth (count of variance of products in each product line) and consistency (expresses the tightness of the linkages between the individual product lines, their final use, the production requirements, distribution channels and other aspects).

2.5.3 Product strategy

The product strategy is a way of achieving a product goal, and it requires decisions that are based on an understanding of the customers' needs and wants, competitors' strategies, company goals, and public opinion.

Product strategy is affected by:

1) Investment objectives

- short-term = instant returns, mid-term = stabilized returns, long-term = future revenue growth

2) Overall enterprise strategy:

- focus on revenue in a relatively short time, cost reduction, stabilizing of revenues and future growth

The product series strategy determines which products or their variants the company should add, modify or cancel the production. The product attribute strategy, then determines which product attributes (image, packaging, quality, quality) to use or modify. The product strategy

development is supported by: Factor analysis, SWOT analysis, Marketing mix and Effective Implementation Factors (7S). (Jakubíková, 2013)

2.5.3.1 Product improvement strategy

Product Improvement Strategy aims to add new features (new size, material, ingredients) that will increase the versatility, safety and suitability of the product. New features help the company build image and gain new customers.

As well, as these criteria may be improved, not less important and significant might be improvement of the product's style. Style is a set of certain features of artistic expression. Style improvement strategies aim to increase the aesthetic attraction of the product. For some products, introducing new styles to the market is more competitive than the product itself or its utility properties. Style refinement can give the product a unique market identity. (Jakubíková, 2013)

2.5.3.2 Brand strategy

The brand has three basic roles in the company: financial (generates revenue), legal (registers and guarantees quality) and marketing (creates an emotional bond). Brand strategy begins with a decision whether products will be branded or not. Marketers cannot work with undifferentiated products and will always look for something which adds a market value to the products and for that reason, a good brand strategy which meets the target is needed.

The company's trademark does not, in principle, give any indication of the quality of the products but instead defines the values. It is to promote a certain sense of life and to clarify the connection between general cultural characteristics and a specific enterprise. Business brands strive to connect closely to a person's way of living or to a particular target group.

If a branding strategy can systematically promote certain values, it uses two common trends. One is people's desire for orientation, stability and values, the second tendency is the growing demands on corporate social responsibility. (Jakubíková, 2013)

No brand has its place assured, so it needs to be cultivated with considering a real market situation so as to enhance its long-term life and uniqueness. (Jakubíková, 2013)

(Kotler, 2003) said that great brands also affect customer's emotions, and not only due to rational benefits.

The brand evokes certain expectations in the minds of customers. It creates a certain agreement with them, which is the expected value. The higher the degree of satisfaction of customer expectations, the higher the brand value. (Kotler & Trias de Bes, 2005) The brand value is a critical factor influencing many purchasing decisions.

2.5.3.3 The strategy of quality

The production of a product can be successful only if the product is well-made, has the required quality that the customer expects, corresponding price, and the environment is taken into account during the production, use and disposal of the product. (Rachman & Mescon, 1985) The supplier should not only sell the products but also take responsibility for defects, maintenance, offer service and so on.

Quality is the ability of a product to fulfill its function. It is defined by certain features such as durability, reliability, accuracy, and so on. The quality of the product is then communicated to customers by its price, packaging, all means of marketing communications and distribution channels.

The term "quality" can be interpreted differently by both the bidder and the buyer. Products may be viewed from a business perspective as of very high quality, and yet the customers may not agree. In the time of growing competition between companies and their survival efforts, it is more than needed to be interested in how customers evaluate the quality of their products.

2.5.3.4 Design strategy

Design is an extensive concept including product design and a related services design, graphic design and design of the environment. (Kotler, 2003)

The design fulfills aesthetic function while making the product more productive and usable. Properly chosen design is an important weapon during competitive efforts, particularly in consumer goods and services and is considered as a good marketing tool for brand building. It helps the customer to distinguish it among often similar products. (Jakubíková, 2013)

2.5.3.5 Image strategy

Image is the overall "personality of the product", which consists not only of the technical parameters, but also of the ideas, opinions and emotional qualities that the consumer combines with the product.

Depending on the scope, the image is usually divided into a universal (global) and a specific image (area or a specific group). And depending on how the image affects the market, the three types are most often distinguished: (Vysekalová, 2011)

- Image of a certain kind (helps maintain the position of a product of a certain kind on the market)
- Product image (a product known under a particular brand under which it is searched for)
- Corporate image (determined by the quality of the corporation and the way of mediation of this quality into public acceptance)

2.5.3.6 Service and warranty strategy

The provision of services in connection with the sale and use of products is increasingly important, particularly in the area of durable goods, luxury goods and goods on the industrial market. Companies must decide what services they will provide to their customers before their purchase, during the process of purchase and after they have purchased.

The critical criteria for service quality are: accessibility, communicativeness, reliability, security, credibility, competence, politeness, realism and more. (Jakubíková, 2013)

2.6 Distribution

Distribution means that companies deliver value to customers in their products. (Storbacka & Lehtinen, 2002) The aim is to deliver the product at a place, which is the most convenient for the customer, at the time they want the products to be available, in the quantity they need and in the quality they require. We have to realize that the customer is the one who pays for the product, who is the source of the company's cash-flow. Therefore, emphasis should be placed on creating a cooperative relationship between the firm and the customer.

2.7 Price policy and strategies

Setting the right price for goods and services has a big impact on the prosperity of the company. The price acts as a factor of marketing ability of the product. The price affects the demand, the position of the company vis-à-vis its competitors and its overall position on the market.

2.7.1 Strategic role in pricing

For the creation of a marketing strategy, one of the uppermost processes is the decision about price. It is important to estimate the newly created product price well, however, it is also important to take into account the production and distribution costs, the cost of marketing communications, as well as the various constraints or prices of competition.

In marketing, price is seen as an element of a marketing mix that complements the resulting product character. In consumer decision-making, it plays an important, if not the key, role. For sellers, the price is the marketing tool which is the source of their income while for the buyers, the price represents the funds they must spend to make the purchase. By spending these finances, it reduces its purchasing power to competing products. (Jakubíková, 2013)

2.7.2 Pricing policy

Price policy directly affects the company's turnover and profits. The goal of price policies is reaching a certain market share, gaining new customers and maintaining existing ones, return on investment and more.

2.7.3 Factors in pricing

From the price point of view it is important to know if the firm is placed at the open or close market. Prices at the close market might be somehow regulated by the state or some other organizations. Prices at the open market though, are affected by many factors from all over the world. For example, cheap manpower in Asia and Africa, the current price of petroleum and so on.

Pricing is influenced by both external and internal factors.

1. External factors

- Market
 - a) Net competition – marketing activities are unnecessary, as the market is made up of many buyers and sellers who trade the same products, so neither party can significantly affect the current market price.
 - b) Monopolistic competition – the market is made up of many buyers and sellers selling on a price-based range to differentiate the offer. For example, products have a style, quality or ancillary services and buyers register these differences and are therefore willing to pay different prices. Consequently, it is very important to pay attention to marketing activities.
 - c) Oligopolistic competition – entry to this market is very difficult for new entrants, since it is made up of only a few powerful vendors who react strongly on each other (marketing strategy, pricing).
 - d) A pure monopoly – the market is just the only one seller. It can either be a state monopoly or a privately regulated monopoly.
 - e) An unregulated monopoly – can freely generate prices up to a level that the market will still accept.
- The nature of demand – the height of demand is determined by many factors, both economic and non-economic. It is necessary to explore all possible factors that can influence the customer's decision to buy the product.
- Price elasticity of demand = sensitivity of demand to price change
 - for consumer goods applies, the higher the price, the smaller the sales.
- Competitors
 - General resolution:
 - Direct competitors – Produce the same or very similar, interchangeable products
 - Indirect competitors – they produce products as similar that they can be replaced under certain conditions
 - Total competition – both supply and demand are unpredictable and modified by the development of the environment
 - Competitors can also be divided into:

- price competition – the more unique the product is, the higher the price can be set and the customer will still buy it
 - non-price competition – the seller minimizes the price and distinguishes itself by stimulus factors such as expanded services
- Customers – the strategy of high prices and hence high profits can attract subjects to the market, as well as a low price strategy, which means low profits, can discourage entities. For this reason, it is important to know the sensitivity of customers to the price and the importance of price and non-price factors and factors from the outside (WTO, EU, suppliers) environment of the company.

2. Internal factors

- Marketing objectives of the company – the price is based on setting the strategic and marketing goals of the company. The clearer they are, the easier it is to set the corresponding price. In connection with this fact, five basic types of objectives can be defined:
1. The goal of survival – the goal is to keep the company on the market with an emergency solution in the form of a drastic reduction in price
 2. Maximize profit – marginal revenue equals marginal costs
 3. Maximizing market share – the goal is to secure the company's place in the market by discouraging competition, while trying to maximize profit. Low starting price is important.
 4. Quality leadership – Companies choose a high price to cover all the costs of constant innovation and product quality, which will then ensure the uniqueness of the product.
 5. other goals – increasing the attractiveness of the company, preventing competition entry, stabilizing the market and others
- Pricing policy organization – in the majority of cases, the price setting is a mission of the top management
- Marketing mix – Pricing is also associated with making decisions about other marketing mix tools
- Product differentiation – Pricing is usually influenced by the cost level. The goal is to set the price to cover the costs (production, distribution, marketing, effort,

time) and to secure some extra profit. Costs therefore ensure a minimum price.
(Jakubíková, 2013)

3 Practical Part

In the following paragraphs, the two model situations need to be examined and analyzed based on the expected turnout, expenditures and profits.

The main question is, if at least one of these two models is a suitable investment.

3.1 Cafés introduction

In this bachelor thesis, there are two specific model cafés and their aim is to be worth the running, to have a long-lasting future, to have its familiar and satisfied customers, to have everything they need and might want, and to offer the best possible goods with most reliable and memorable service.

Undoubtedly, since the first café named Bookworm is customer oriented, and the second café named Gee's is mainly product oriented, and they are situated in two different locations, two different ways of how to achieve their goals are going to be needed.

For this reason, the coffee places are further introduced in the subchapters below.

3.1.1 Customer oriented café in a small village

The Bookworm café is located in a village near Prague named Vestec. In Vestec, there is only one confectioner's a few pubs and one restaurant. Besides the confectioner's, there is no place to go and have a good and calm time over a cup of coffee. According to research, there is not even a café within a walking distance and for that reason, the future of a well-ran café is more than bright.

Of course, a village café needs to be thought through differently than the city located café. In smaller villages with people living there for more than half of their life are more likely to give companies just one chance to impress and last for as long as possible. People in a countryside have different preferences and are more likely to stick with the standards they are used to.

3.1.2 Product oriented café in a city center

The Gee's is a café located in the center of Prague where all goods are made with love and passion, but also with a mind-set of "prepare as fast and as well as possible". Gee's offers nicely promoted coffee and snacks to stay, as well as to go. Basically, Gee's runs not only on baked goods and well-prepared coffee based on the customer's preference, but also on the vision of healthy and affordable food according to various types of sport's dietary

plans, specific ingredient intolerances and allergies and also according to a right consistence of nutrients in a meal.

This kind of café or a bistro has definitely bright future for a market development as a result of growing rate of food intolerances among today's population and popular healthy and "fit" life style. Nowadays, there are so many options of how to prepare the goods with substituents to regular ingredients, but not all the people are aware of them or not all of them are able to make use of them, or active enough to even try. For most, it is actually much more convenient to go and buy rather than try their best and spend a little bit more time to prepare it themselves.

For the purposes of Gee's it is very fortunate that there is not many other competitors specialized in this field of business, hence this bistro has good chances to influence and entertain and make its own position as profitable as possible. Yet, it sure does not mean that there would be no restrictions, responsibilities and commitments.

Many coffee shops prepare dairy-free drinks or gluten-free baked goods, but in the Czech Republic, this service is almost never free of additional charge. Usually, only the soy milk is fee-less, but frequently, people have intolerances even to soya products. Soya is something not everybody handles well and its taste is also something that bothers many customers. For that reason, other types of milk, such as coconut, almond and lactose free milk should be offered in a good café and on top of that, not for 10 to 25 Czech crowns higher price. The same it is with the gluten and dairy-free supplements among foods. As mentioned, dairy-free milk is set to be more expensive, and even more expensive is gluten-free food. Not many customers may afford this on daily basis and in case of intolerance only, there is no financial support coming out of the Czech government.

Of course, the financial calculations need to be done and with that, the price setting is very important, but the aim of Gee's is to be realistic and profit from the great offer and popularity on the market, not from the bad luck in health of its customers.

3.2 Marketing goals

In the first place, marketing is the perfect tool to obtain new customers. The café may sell the best cakes and prepare the world's best coffee but if nobody knows of that place, nobody will ever buy these marvelous goods and the café bankrupts.

The main marketing goal of both cafés is to find the gap on a market and fill it with everything the potential customers were missing (or did not even know they were missing).

The ultimate aim is to run a successful and popular coffee place which is wildly visited and spoken of only in the best way possible, and also to cover the overall expenses and make some profit out of it.

Not less importantly, the aim is to profit as much as to cover all the costs and work behind the successfully driven business and save up something in case of unexpected costs. And on top of that, to be able in a horizon of shortest period of time possible to repay all the initial investment.

Gee's intends to be an expert in the healthy-goods offer and strives to remain the number one in the market, never stagnate, never settle for less and most importantly – never disappoint the customers. Gee's wants to keep providing high quality ingredients, quick preparation, marvelous taste and willingness to learn, adapt, listen and improve. With that, what this business expects back, is the loyalty and long-lasting relationship and cooperation with hopefully almost familiar customers.

According to Porter's Five Forces Scheme, significant is also the craft of substitution, technological level and uniqueness, and that is what Gee's sees as its potential.

The Bookworm is little more peculiar in the way that it is not seeing such potential in the offer, but in the atmosphere it breaths. Also leaning on Porter's Five Forces Scheme, the buyer power and its sensitivity to prices is the essential factor to look out for and care for. Besides that, what is essential to this kind of coffee place is to persuade the customers to return, fall in love with the place, and with a little exaggeration to become Bookworm's friends and then spread the word-of-mouth awareness of why to spend their precious time there.

3.2.1 Marketing approach

As a foundation of how to think strategically and effectively, the entrepreneurs of these two coffee stores calculate with what have been said and what is known about the Strategic Marketing but what is more, the Holistic Marketing boosts their strategic thinking and improves their future steps. In addition, the well-written ideas of Vladimír Kuchař in his book "Bee marketing" help to sort their ideas and to create unambiguously beneficial investments. Today's World is oversaturated with advertisement in which money get lost easily. Bee marketing helps businesses gain relatively quickly and cheaply new customers and more market share.

To start with the Holistic marketing, unless the business is a huge worldwide chain, there is no real need for the Integrated marketing but other than that, all the other parts are critical. What it basically says is, that the key factors for businesses are a perfect product, perfect customer service and perfect customer care.

- Integrated Marketing in the mean of Products and Service and Communication
- Performance Marketing covers Sales Revenue, Brand and Customer Equity, Ethics, Environment, Legal part and Community
- Relationship Marketing to capture and maintain the Customers, potentially Partners

Luckily, all of them are further examined in the intrinsic 6P formation below.

Basic, but the most important part of marketing is to attract potentially interested people and get them to visit the café. But how to attract them is another thing. Generally, the more unique a business is, the more it entertains. To be unique is sometimes swapped for being strange and odd and in a field of gastronomy, it is not a very smart way to go. Once a person is interested, he/she definitely needs the reason to really visit this certain café, even though it is maybe not very closely situated. What finally persuades potential customers is the feeling of expertise, willingness to help and a seeming credibility and trustworthiness. A person at a right place must be prepared for the questions in the field of his business and must know the appropriate answers. Furthermore, never underestimate the power of repeated communication with clients and other interested parties. One-way advertisement and promotion is one thing, another is the personified communication which builds a relationship with a new customer and strengthens the relationship with a long-term customer.

3.3 Situational analysis

In Situational analysis the entrepreneur needs to analyze and define at least two main things, and that is the target group and location.

To determine the target group means to find which type of clients are the most frequent, their age, gender, what they have in common, where do they come from, what are their needs and wants and which promotion tools do they pay attention to and others. As an example serves the overview table below:

	Gee's	Bookworm
Personal Characteristics	<ul style="list-style-type: none"> - Man - Married - Lawyer - 45 years old - Does Cross-fit - Tries to stay informed and forever young → goes with what is trendy 	<ul style="list-style-type: none"> - Woman - Married - Teacher - 34 years old - 2 children - Loves walking her dog with other moms
Wants and Needs	<ul style="list-style-type: none"> - Seeks healthy lunches - Needs them to be nutritiously balanced - Needs some good coffee near the office 	<ul style="list-style-type: none"> - Needs some place outside of her house to turn her head off for awhile - Wants that place to be children-friendly
Motivational tools	<ul style="list-style-type: none"> - Special and Daily offers, Advantages, Customer Card, Benefits, Trust, Fulfilled expectation 	<ul style="list-style-type: none"> - Meetings, Events, Tastings, Special Offers
Way of communication and searching for products	<ul style="list-style-type: none"> - E-mails, direct text messages, Internet, Facebook, Recommendation, Word-of-mouth, Magazines, Newspapers, Instagram, Fairs and Exhibitions 	<ul style="list-style-type: none"> - E-mails, direct text messages, Internet, Facebook, Official board, the Vestec village magazine, Recommendation, Word-of-mouth

Table 1: Projection of situational analysis of one example, Source: Own creation

The determination and detailed examination of the location in which the café is meant to be situated covers the analysis of its direct and indirect competitors, purchasing power of customers, availability, travelers' entertainment in close surrounding, rent expenses and many others aspects.

In case of Bookworm, it has been said that there is no direct nor indirect competitor at all which makes things much more easier, and in relation to the other analyzed factors, everything else is comparatively worse than for Gee's. Since it is a small village, the public transportation is less frequent, could be called expensive and inconvenient. There is nothing to be seen anywhere around and the purchasing power of the potential customers is lower due to lower living standards and lower salaries. However, this is slowly changing.

For Gee's on the other hand, there is lots of direct and indirect competitors. As said before, many bistros and cafés are now changing to better prepare for the trendy healthy way of living and to try to be more of that, but unfortunately, or maybe fortunately, unless they truly

know a lot about these problems, they cannot call themselves experts in such field, and that is exactly what Gee's aims to be. An expert to go to. Moving on to the other aspects of the location analysis, the public transportation in Prague is very sophisticated and hence, every sightseeing-worthy thing is kind of close. But Gee's plans to be located in the city center but yet somewhere closer to the offices and sport-related areas rather than the real old beautiful Prague.

3.4 Marketing Mix

3.4.1 6P

For Gee's, the first P – **Product** – is mainly about the goods. It is basically about what quality, design etc. is offered. Four coffee origins are possible to order as well as five types of its preparation, with no need to mention the decaffeinato version of them all and not mentioning available kinds of coffee itself (Latte, Cortado, Viennese coffee and others). Moving on to the food offered, it has been said, that Gee's is interested in listening to the customer's specific orders and tries to be prepared for almost anything. Although, the main focus lies on the dairy-free, gluten-free and healthy way of preparation, the chefs do not see a problem to count the nutritional values in order to prepare a meal according to the amount of kcals (counting the proteins, proteins, carbohydrates and fats separately, if needed) as well as contributing to other specific requirements, allergies and intolerances.

Moving on to the second P, it is needed to mention the **Place** itself. Of course, people prefer different styles of what makes them feel good, relaxed, welcome and what stimulates their taste buds. By and large, the Gee's is determined to welcome its customers in the clean and clear Scandinavian style of interior. This means, all white wooden interior and simple with majestic windows, underlined with furry furniture and industrial equipment which goes hand in hand with the simple and quickly prepared food made not to impress by how posh it is in design on the plate, but to impress by its taste, simplicity, colors and mainly effectiveness and nutritional balance according to the customer's preferences and requirements.

Speaking of the Bookworm, to a certain extent, what is the most important as the means of **Product**, is the service. The kind behavior towards others and familiar surrounding and the feeling the place gives its customers. But it does not mean that the coffee and food is being overshadowed. The Bookworm offers two kinds of coffee plus decaffeinated version of both, baked goods are freshly baked every morning or every other, and the daily dinner offer

speaks for itself. Plus, most importantly, for those staying the whole day, the brewed coffee is available to refill for a certain amount of money for the regular mug. All these ideas are very tightly connected to the second P (Place). **Place** is meant to be cozy and warm and to give the people coming in the feeling of being welcome with no time for worries and the need to enjoy the little free time they have. Its interior is supposed to breath-out its warmth and touch the customer's hearts right from the first step in. The walls are in dark colors such as brown, beige and brick detail decoration. On one side, there is a distinctive fireplace, and on the other, a huge wall-wide bookshelf. The magic is that anybody who visits and orders, may stay for as long as he or she wants and borrow a book and read all day long. A person may even take the book for as long as needed but the key is to bring another one a replace or sign a guest book and once finished, bring the book back. This space for that reason needs coaches and sofas with lots of pillows and blankets. There are even clean woolen "TV" socks in a basket offered for usage. With a mind set to this idea of comfort reading and atmosphere itself, another room is invented. This room is separated by the food preparation and order room where the entrance door is located. In this other room there is more space, fluffy carpet and lots of pillows with a TV screen and many toys for such mothers who need their time over a cup of coffee with other moms but have nobody to take care of their little ones. The room separation is not meant to offend anyone. The Bookworm only wants to satisfy both, the quiet readers and their alone time as well as the families coming in.

Third P stands for **People**. For the most part, people mean customers and strangers likewise, because once, even the most frequent customer was a stranger. In other words, customers are divided into four groups. Firstly, there are only strangers and they will be targeted by the widest part of marketing forces and activities. These are the people that need to initially notice you in order to become the other group – interested persons. That is the group of people for which an advertisement, sales promotion, webpages and other tools are needed. Second group are the interested people who are considering the café's offer – namely, do have for example a gluten-free lifestyle but do not know where to order a lunch like that or seek some quiet time with a book outside of their houses – and this certain coffee place may fulfill these needs. These people probably went around the coffee place, read an article or noticed the websites. Third group are potential customers are people who already have enough information of the café's offers, possibilities and offerings and came to the café. Now, here starts the real personal marketing time to persuade the potential

customer to become a paying customer. If satisfied, he or she will probably come again, and that is the goal because the initial costs for being noticed by strangers are the highest. Clearly, this P part is tightly connected to Promotion and under these circumstances, a further explanation of useful promotion ways is mentioned below in the Promotion part. Another possibility which can be summed under P as People are the employees and owners. Customers need to know that the staff working there know what they do, that they are right people at a right place and that they are experts in what they do. People usually trust experts such as doctors and professors and correspondingly, it is important to be an expert also in that specific field of gastronomical – coffee/dietary-industry. If the café is perceived as specialized one, the competitors may reduce their prices or come up with special offers but loyal customers stay loyal no matter what. But to be an expert is not everything. Both coffee store employees need to continue seeking out new possibilities, trends, kinds and methods in coffee making, baking, and for Gee's, the dietary substitutes for certain ingredients and so on.

Obviously, gaining and seeking new information and learning new processes takes time and usually costs money, hence, all employees of Gee's are prescribed to attend at least two chosen seminars each year and also attend compulsory barista and food-styling training at the beginning of their employment. At Bookworms, where cooking and baking are directly in hands of professionals (chef and confectioner), the employees need to attend the barista training as well but rather than learning about new trends and ingredients, these waitresses should be able to handle all typical small village elder-lady-gossip-talks and screaming babies at the same time.

To start the with **Promotion**, many companies choose expensive advertisements in a way of television spots, billboards and so on. For the kinds of one-place cafés such as Gee's and Bookworm, it is unnecessary and what is more, useless and too expensive. People, especially people in big cities, are overloaded with advertisement. They are exposed to so many ads throughout the day that they are basically not even aware of it. For this reason, companies often get into the so-called advertising loop, when they are spending a lot of money on ads that do not attract anybody and which hence, leads to a further spending of the money for another equally unnecessary advertisement that does not attract anyone. Therefore, this bachelor thesis covers more efficient and cheaper ways of promotion. These two coffee places are willing to more frequently spend smaller amounts of money on more

targeted promotional occasions and actions, rather than put huge amount of money on something big that either works or is a complete waste of money and time.

Despite the fact that each of these coffee shops is differently focused, they have in common some of the promotion tools. For example, it seems to be more than beneficial to put a blackboard in front of the café with a large inscription of the daily and special offers. Businessman is thinking of discounted prices of specific products. The businessman intends to combine, for example, coffee plus dessert at a discounted price, because to be honest, there is not many people who would dismiss something which is offered for free. This is something that may address the passers-by and bring them in. At the same time, they may not be prepared to purchase yet. Something that can help them to decide is once again the offer of something for free in exchange of their contact information. For example, they will get one gluten-free chocoball if they share their name and e-mail, and that is it. That is all that is important at that time. Nobody wants to feel pressured into buying something they are not sure they want or need. It is important to rush, but at least get as much as it is possible at that exact moment. For now, it is sufficient to gain the e-mail to which the newsletters, information and special offers might be sent occasionally. This might not seem as such a big deal for the potential customer because there is nothing as easy as block these e-mails as a spam and leave them behind. Surely, the person may block these e-mails or get to read them and be interested, but between these two options, there is the tiny little fact that the café gave something with almost no reward and that may somehow build the cornerstone of the café-customer relationship. One fundamental thing to remember is, first comes relationship-building and second comes the purchase-talk. Another way of sales promotion is the BOGOF strategy, which technically means: By-One-Get-One-Free. But it necessarily does not have to be one and one. This promotional step may be actually the second step of a customer card which brings many advantages, out of which one may be that if the customer comes frequently and in a certain period of time buys 9 coffees, the tenth is for free. On top of that, every customer with a customer card, gets free piece of a cake of personal choice on his/her birthday and a cup of coffee for free. And many more.

What could be useful specifically for Gee's is to be different not only in the way of quality and everything else mentioned above, but also in the way of service promotion. Since this café is dietary, healthy and nowadays favorably marked as "fit", it could be interesting if every single employee wore for example gourmet apron with a slim and muscular painted

body on it or with some funny motto which is based on the fact that Gee's is gluten and dairy-free. On the contrary, not many of such options may be employed by Bookworm. On the other hand, the Bookworm has its advantage in the friendly location of a small village, and so it may be efficient and fun to organize social events in the form of quizzes, bazaars, Christmas events, carnivals, Easter feasts and so on.

Sales promotion is definitely very complicated strategic step which needs to be thought through to know if it is worth it. Not every location may effectively support every idea of how to address people. In Vestec, for Bookworm it is definitely worth to give it a try and participate on the frequent village celebrations and festivals where many people gather, and offer hot chocolate, warm coffee and freshly prepared baked goods which smell like Christmas during winter time, and equally during summer, offer ice-coffee, homemade ice-cream and light desserts. Although, this may work for Gee's as well, more important should be an appearance on bigger fairs, festivals and markets where people usually try a piece or a small portion for free and subsequently, buy the whole product, get some promotional leaflet and maybe, hopefully, one day come directly to Gee's. For the Product-based café there is also another frequently used option in the form of ambassadors and a testimonial formation which is, by all means gratuitous for a small customer-oriented café located on almost in a countryside. Yet another nice thing both cafés might do well is to sometimes remind of themselves in form of sending little package with something sweet or a nice letter wishing good day or Merry Christmas to their best customers.

Another P to examine is the **Price**. Financial planning is the most difficult and important part of the marketing planning. Part of it is the opening balance sheet so as to know what the start-up costs are and what is the expected income. In the beginning, the opening balance sheet needs to be made and is usually consisted of the property of the entrepreneur.

Price setting occurs to be a bit complicated considering the village location. Not only is it important for the prices to stay as low as possible for the people to be able to come and spend such money, but also not to underestimate the time, effort, distribution, rent, service, employee and ingredient costs and yet make some profit. The café may be very appealing and inviting, but if the prices are too high, no-one will ever come and spend the money. On the contrary, if the prices are too low, there is no change to run the café without bankrupting. The Bookworm has one huge advantage and that is, that near to it, there is no place similar. On the other hand, in the middle of a big city, higher prices are hardly surprising. Yet, there

sure are some limits to continuously increasing the price. The Gee's has to set its prices higher than Bookworm because of higher rent bill and more expensive ingredients. The advantage is better customer purchasing power thanks to higher salaries. However, the entrepreneur has to consider the prices of its competitors.

Lastly, one thing that the Bookworm and Gee's have in common is the last P-factor spoken of, which is particularly important, and that is **Passion**. Passion makes the place what it is. If there was no passion coming out of the owner and the Bookworm's staff, there would be no regular and returning customers. Passion is what brings love and concentration even on the smallest details. But these details are very important in comparison to the other competitors. Passion brings up the best of the café, passion is what makes them visible and irresistible, it is what drives the café to continue and develop and day by day be greater and more innovative than the day before. As once, very smartly said: "*Success comes to those who dedicate everything to their passion in life. To be successful, it is also very important to be humble and never let fame or money travel to your head.*" (Rahman)

3.4.1.1 Communication mix

Communication as it sounds is not only the way of a spoken eye-to-eye interaction, but consists also of the unspoken tools such as mass media. For cafés like these, it is pointless to push huge amounts of money into advertisement itself. By advertisement, in this case, are meant billboards, TV spots, radio spots, newspapers insertions and so on. It is rather worth it to invest into something specifically designed for given target group. For Gee's, the most effective way of traditional advertisement is to be occasionally mentioned on teenage, health and sports tabloids, to have some kinds of newsletters and leaflets at surgeries, sport clubs, dietary consultancy offices and so on. Another way of achieving more orders and come into people's awareness is to prepare leaflets with daily favorable menus and bring them weekly to surrounding companies' offices.

As opposed to Gee's, Bookworm does not need advertisement like these at all. More importantly, it relies on the sales promotion actions mentioned above, references and recommendations. Since, Bookworm is the only coffee place in the village, and even among the other nearby villages, the main goal is to get people know that it exists and earn their sympathies and continue building the café-customer relationship, keep improving and never disappoint.

Part of communication should be also a website or a social network profile. In today's world that is where people search for information and places where to go eat or meet with their friends. To start with the websites, it is more than recommended to spend rather more and have them perfectly done, nice and interesting than make it as cheap as possible and make it look like they have been made in late 90's. However, the appearance is not everything. What is needed is the personal touch – this is directly connected to Passion. It is always interesting and heart-touching to know how it all started, where the idea comes from, what is the owner's and employee's relation to the area of the business and why they love what they do. Moving further to the social websites world, it is also recommended to have a webpage on Facebook and profile itself on Instagram. Using the Instagram effectively mainly consists of frequent adding pictures of the goods being offered, which represent the business. Moreover, some description of what is shown should be written, and since Instagram is such a strong influencing factor these days, there is always some space for making personal connections with customers (followers) through comments, direct messages or addressing them with a help of hashtags. On Facebook on the other hand, the coffee shop may seek and get useful information in a form of polled surveys and feedbacks and also promote itself through well-written posts, uploaded pictures and organized events. Not that Bookworm could not be a part of larger cooperation, but Gee's has also the option to potentially join some other firms and entrepreneurs and make some bigger impact events, special and beneficial for all of the participating firms. Another strategically well-done step for Gee's in a way of promotion, but mainly Communication, would be to get to know their customers personally and share with them the expert-knowledge. In other words, to organize seminars for free or for a symbolic fee, or to organize workshops and lectures. There will always be something to offer. It is always important first to start with something more complex and original to attract and move on to the more entertaining and easier things people can try themselves and possibly take home.

3.4.2 Internal environment

Internal environment is not any less important for the customers. There is nothing worse than coming in to relax over a cup of coffee and a good snack and having to listen to the staff arguing among themselves, or being rude to each other. Indirectly, it affects all

people and customers around and due to this reason, the customers may turn their back to such business.

To make people feel welcome at a place, they need to feel the warmth and happy thoughts. See smiles all over around, hear kind words and do pep-talks, and not the opposite.

For both the cafés, the key-characteristic of the employees is to be a good person who loves to work with people, is able to solve problems with other people calmly, is able to compromise, is a team-player. For Gee's, another significant factor is to know a lot of how the intolerances work and how to count the ingredients. Sure, it is something a person can learn, but unless it is not the employee's hobby or an important concern, he/she will never pay such attention to it as the customers who struggle with the respective problem on a daily basis. On the opposite side, the Bookworm waitresses do not necessarily know how to cook the goods and drinks sold right from the beginning. How to prepare coffee is something a person can learn. What is important though, is the love and passion for it. The willingness to learn. However, it is more than possible that a person does not drink coffee a still loves to work at a café.

These factors move a good café to the category of an excellent coffee place, and that is the goal. Being number one for not only the style, interior and offered good and drinks, but also because of the service and mainly, the atmosphere and behavior which comes along.

4 Results and Discussion Conclusion

In this part, the following economic considerations of price, cashflow, payback period, and internal rate of return method are indicated. These mentioned methods are part of management accounting methods that are mainly used for internal purpose. Methods evaluate a given project in a chosen period of time, and give the manager information if it is worth to invest in it or not. The methods are also useful for comparison of different projects.

Opening Balance sheet			
Fixed Assets	30 000 CZK	Equity	500 000 CZK
Equipment	30 000 CZK	Capital	420 000 CZK
Current Assets	470 000 CZK	Gift received	80 000 CZK
Inventories	50 000 CZK	Liabilities	0 CZK
Cash	5 000 CZK		
Back Account	415 000 CZK		
Total Amount	500 000 CZK	Total Amount	500 000 CZK

Table 2: Opening Balance Sheet, Source: Own creation

The entrepreneur put in the notebook with a value of CZK 30.000 and a cash deposit of CZK 420.000, part deposited on a bank account and the other part in the cashier. Another investment falls down to initial inventories.

Calculation of Expenses:

The rented premises are fully equipped and fully suitable for the entrepreneur, so there is no need to spend money on the equipment of the Café. The table below shows an overview of the equipment of the rented premises.

Overview of the equipment of the rented premises			
Owner's already purchased equipment and equipment of the rented place			
Gee's		Bookworm	
Bartender place	1	Bartender place	1
Sink	2	Sink	2
Fridge	1	Fridge	1
Freezer	1	Freezer	1
Coffee Machine	1	Coffee Machine	1
Showcase	1	Showcase	1
Grinder	2	Grinder	2
Oven	2	Oven	2
Wash machine	1	Wash machine	1
Ice maker	1	Ice maker	1
Cash system	1	Cash system	1
WiFi Router	1	WiFi Router	1
Tables	10	Tables	10
Chair	30	Chair	10
		Fireplace	1
		Sofa	2
		Coach	8

Table 3: Overview of the equipment of the rented premises, Source: Own creation

One-off start-up costs:

Funds need to be spent on the bar equipment for the purposes of purchase of coffee sets, cutlery, dishes, more types of coffee makers and other small bar equipment, as well as expenses for office supplies, cleaning products, decorations, TV, food and commodities. The room must be painted, and also the initial promotion needs to be accounted for. Another expense is the creation of simple but effective websites.

Overview of start-up costs	
Item	Cost
Bar Equipment	25 000 CZK
Office supplies	5 000 CZK
Television	15 000 CZK
Speakers	8 000 CZK
Supplements	50 000 CZK
Painting	20 000 CZK
Website	10 000 CZK
Decoration	15 000 CZK
Detergents	1 000 CZK
Promotion	2 500 CZK
Total	151 500 CZK

Table 4: Overview of start-up costs, Source: Own creation

Operating expenses are such expenses that will have to be paid each month in order to ensure the operation of the Café and to ensure normal business activity. Amounts are approximately estimated.

Operational costs				
Gee's			Bookworm	
Item	Exp/Month	Exp/Year	Exp/Month	Exp/Year
Rent	14 500 CZK	174 000 CZK	12 000 CZK	144 000 CZK
Energy	7 000 CZK	84 000 CZK	5 000 CZK	60 000 CZK
Internet	800 CZK	9 600 CZK	800 CZK	9 600 CZK
Cell phone	1 500 CZK	18 000 CZK	1 500 CZK	18 000 CZK
Total	23 800,00 CZK	285 600,00 CZK	19 300,00 CZK	231 600,00 CZK

Table 5: Operational costs, Source: Own creation

Wage and compulsory insurance costs:

- Gee's
 - The businessman employs 2 full-time chefs, 2 waitresses who will switch to shifts, one confectioner and one cleaner. The gross wage of a waitress is 20 000,- CZK plus the customer's tip. The employment agreement will not exceed 40 hours / week. The owner will alternate according to the agreement, especially for the weekends. In addition to the wage bill, the employer has to add the mandatory health and social insurance costs that he has to pay for his employees. Social insurance must be paid in the amount of 25% of the total wage, and the health insurance is in the amount of 9% of the total wage of the employee.

Gee's: Wages expenditures and compulsory insurance in CZK					
Item	Monthly wages	SI 25%	HI 9%	MW + SHI	Expenditures/Year
Chef (2)	27 300,00 CZK	6 825,00 CZK	2 457,00 CZK	36 582,00 CZK	438 984,00 CZK
Waitress (2)	20 000,00 CZK	5 000,00 CZK	1 800,00 CZK	26 800,00 CZK	321 600,00 CZK
Char (1)	4 800,00 CZK	1 200,00 CZK	432,00 CZK	6 432,00 CZK	77 184,00 CZK
Confectioner (1)	25 000,00 CZK	6 250,00 CZK	2 250,00 CZK	33 500,00 CZK	402 000,00 CZK
Total	124 400,00 CZK	31 100,00 CZK	11 196,00 CZK	166 696,00 CZK	2 000 352,00 CZK

Table 6: Gee's - Wages expenditures and compulsory insurance, Source: Own creation

- Bookworm

- The businessman employs 1 full-time chef, 2 waitresses who will switch to shifts, one confectioner and one cleaner. The gross wage of a waitress is 18 600,- CZK plus the customer's tip. The employment agreement will not exceed 40 hours / week. The owner will alternate according to the agreement, especially for the weekends. In addition to the wage bill, the employer has to add the mandatory health and social insurance costs that he has to pay for his employees. Social insurance must be paid in the amount of 25% of the total wage, and the health insurance is in the amount of 9% of the total wage of the employee.

Bookworm: Wages expenditures and compulsory insurance in CZK					
Item	Monthly wages	SI 25%	HI 9%	MW + SHI	Expenditures/Year
Chef (1)	25 000,00 CZK	6 250,00 CZK	2 250,00 CZK	33 500,00 CZK	402 000,00 CZK
Waitress (2)	18 600,00 CZK	4 650,00 CZK	1 674,00 CZK	24 924,00 CZK	299 088,00 CZK
Char (1)	4 800,00 CZK	1 200,00 CZK	432,00 CZK	6 432,00 CZK	77 184,00 CZK
Confectioner (1)	24 500,00 CZK	6 125,00 CZK	2 205,00 CZK	32 830,00 CZK	393 960,00 CZK
Total	91 500,00 CZK	22 875,00 CZK	8 235,00 CZK	122 610,00 CZK	1 471 320,00 CZK

Table 7: Bookworm's - Wages expenditures and compulsory insurance, Source: Own creation

Goods and ingredients expenditures:

All ingredients and other goods needed are purchased usually at wholesales (Makro.cz).

Expenditures for the goods and ingredients purchase		
Item	Expenses/month in CZK	Expenses/year in CZK
Purchased ingredients and goods	50 000,00 CZK	600 000,00 CZK

Table 8: Expenditures for the goods and ingredients purchase, Source: Own creation

Total Expenditures:

The following table provides an overview of the total expenses per one month and one business year. One-off start-up costs are not included in the table since they will not be repeated every month.

Total Expenditures				
		Gee's		Bookworm
Item	Expenses/months	Expenses/ year	Expenses/months	Expenses/ year
Operating costs	23 800,00 CZK	285 600,00 CZK	19 300,00 CZK	231 600,00 CZK
Wages and SHI expenses	166 696,00 CZK	2 000 352,00 CZK	122 610,00 CZK	1 471 320,00 CZK
Ingredients expenditures	50 000,00 CZK	600 000,00 CZK	50 000,00 CZK	600 000,00 CZK
Total	240 496,00 CZK	2 885 952,00 CZK	191 910,00 CZK	2 302 920,00 CZK

Table 9: Total Expenditures, Source: Own creation

Revenue Calculation:

The main revenue of the Cafés are sales. Since large number of products are provided and sold, the entrepreneur has determined the following calculation of expected sales with an optimistic, real and pessimistic estimation.

Optimistic estimate:

First, the businessman determined the average expected number of customers who visit the café within one day. The estimated number of customers of Gee's is therefore, on average, based on an optimistic estimate of 63 customers per day. (for Bookworm = 52) Then the entrepreneur has determined how much one customer spends on average per visit, the expected income: 240,- CZK (Bookworm = 210,- CZK).

The values that the entrepreneur determined subsequently multiplied as 63×240 , multiplying the average number of customers per day by the average income per customer per one visit. Subsequently, the entrepreneurs have an average of one day's sales amounting to CZK 15 120 (Bookworm = 10 920).

- The average revenue per month: $15\ 120 \times 30 = 453\ 600,-$ CZK (Bookworm = $327\ 600,-$ CZK)

- The average annual sales is: $5\ 443\ 200,-$ CZK (Bookworm = $3\ 931\ 200,-$ CZK)

Realistic estimate:

- Average expected number of customers per day: 47 (Bookworm = 34).

- Average cost per customer per visit: 240,- CZK (Bookworm = 210,- CZK).

- The average revenue per day: $47 \times 240 = 11.280,-$ CZK per day (Bookworm = $7\ 140,-$ CZK).

- Average monthly revenue: $11.280 \times 30 = 338.400,-$ CZK (Bookworm = $214\ 200,-$ CZK).

- Average revenue per year: $338.400 \times 12 = 4.060.800,-$ CZK (Bookworm = $2\ 570\ 400,-$ CZK).

Pessimistic estimate:

- Average expected number of customers per day: 26 (Bookworm = 22).
- Average cost per customer per visit: 240,- CZK (Bookworm = 210,- CZK).
- Average revenue per day: $26 \times 240 = 6.240,-$ CZK (Bookworm = 4 620,- CZK).
- Average monthly revenue: $6.240 \times 30 = 187.200,-$ CZK (Bookworm = 138 600,- CZK).
- Average revenue per year: $187,200 \times 12 = 2,246,400,-$ CZK (Bookworm = 1 663 200,- CZK).

Solution of optimistic estimation				
Gee's			Bookworm	
Item	Month	Year	Month	Year
Income	453 600,00 CZK	5 443 200,00 CZK	327 600,00 CZK	3 931 200,00 CZK
Expenses	240 496,00 CZK	2 885 952,00 CZK	191 910,00 CZK	2 302 920,00 CZK
Profit/Loss	213 104,00 CZK	2 557 248,00 CZK	135 690,00 CZK	1 628 280,00 CZK

Table 9: Solution of optimistic estimation, Source: Own creation

Solution of realistic estimation				
Gee's			Bookworm	
Item	Month	Year	Month	Year
Income	338 400,00 CZK	4 060 800,00 CZK	214 200,00 CZK	2 570 400,00 CZK
Expenses	240 496,00 CZK	2 885 952,00 CZK	191 910,00 CZK	2 302 920,00 CZK
Profit/Loss	97 904,00 CZK	1 174 848,00 CZK	22 290,00 CZK	267 480,00 CZK

Table 10: Solution of realistic estimation, Source: Own creation

Solution of pessimistic estimation				
Gee's			Bookworm	
Item	Month	Year	Month	Year
Income	187 200,00 CZK	2 246 400,00 CZK	138 600,00 CZK	1 663 200,00 CZK
Expenses	240 496,00 CZK	2 885 952,00 CZK	191 910,00 CZK	2 302 920,00 CZK
Profit/Loss	- 53 296,00 CZK	- 639 552,00 CZK	- 53 310,00 CZK	- 639 720,00 CZK

Table 11: Solution of pessimistic estimation, Source: Own creation

According to the entrepreneur's calculations it is seen that the café can actually run and show a profit, which is, however, conditional on the number of customers per day. The minimum required number of customers for Gee's per day is 36 (Bookworm = 31), which means that the entrepreneur receives $36 \times 240 = 8640,-$ (6 510,-) per day, 259 200,- (195 300,-) per month and 3 116 400,- (2 343 600,-) per year. An entrepreneur of Gee's is turning a slight profit, on contrary to the owner of Bookworm who moves around zero profit, but he is not at a loss. In a month, the entrepreneur earns 16 704,- CZK (3 390,-) and in a year 200 448,- CZK (40 680,-).

Based on these approximate calculations, the price of products may be set.

The cost of the product reflects all costs and expenses incurred for its production and distribution. In essence, the direct material + direct wages + other direct costs + operating (production) mode = Own costs of the product production.

Own product costs + administrative costs = Own product costs.

Product Own Cost + Business Management + Cost of Ownership = Full Own costs.

Full Cost + Margin = Product Cost

Price = All the expenses and operating costs + margin

For the calculations above, the average amount of money spent per person was for Gee's 240,- CZK and for Bookworm 210,- CZK. The amount reflects the price of one brunch portion of Pancakes with fruit and chocolate, one espresso and 2dcl of juice.

Since one espresso means approximately 7 – 10 grams of ground coffee, the costs of the prepared drink is around 14,- CZK based on the quality and price of the certain coffee ground brand. The amount of the margin and the subsequent price of coffee is negligible at this moment. It is much more important to calculate the price of the pancakes.

Gee's has to remember that everything they use has to be gluten-free and for now, also dairy-free which means, the ingredients are slightly more expensive.

After weighing the necessary ingredients and dividing the prices, the net price has been set. The pancakes with fruit and Nutella in a gluten and dairy free version have net price of 95,- and now the margin gets to be calculated. The margin is usually left to the entrepreneur's judgment, but generally it should not exceed 20 percent of the net price of the product. For that reason, the basic calculation is $(95 \times 0,2) + 95 = 114,-$ CZK. Based on the calculations above, the operations costs need to be considered and added to the price. With usage of the optimistic estimation, the monthly profit of Gee's is 213 104,- CZK. $213\ 104 / 30 = 7\ 103,-$ CZK per day. $7\ 103 / 114 = 62,3 + 114 = 176,-$ CZK. The price of pancake for this purpose could be set to 176,- CZK which is acceptable and accurate in comparison with competitors' prices.

For Bookworm the estimated net price of pancakes is 80,- CZK. $(80 \times 0,2) + 80 = 96,-$ CZK. The optimistic estimation's profit is $135\ 690 / 30 = 4\ 523,-$ per day. $4\ 523 / 96 = 47,2 + 96 = 144$. The price of pancake for this purpose could be set to 144,- CZK.

The optimistically, pessimistically and realistically calculated cash flow is estimated, as well as the initial investment, single operating costs and costs. In order to know how this all may

affect the future of given coffee stores, the payback period shall be counted. This method takes into account the time value of money and basically tells the business owner that the earlier received money are of higher value than the money received later in time. It is so, because the previously collected cash can be invested and may earn some interest.

This table shows the result as the simple payback period by (Jill, Holt, & Hussey, 2012) and the calculations take place in the next 4 to 5 years. Since cafés are not seasonal, it is expected that during the year the number of customers will be approximately the same, and so the expenditures and profits can be set all year round on the basis of an optimistic estimate.

Year	0	1	2	3	4	5
Development	-151 500					
Total expenditures		2 885 952	2 885 952	2 885 952	2 885 952	2 885 952
Extra Promotion exp		8 000	5 000	5 000	5 000	5 000
Revenues		5 443 200	5 443 200	5 443 200	5 443 200	5 443 200
Cash flow	-151 500	2 549 248	2 552 248	2 552 248	2 552 248	2 552 248
Cumulative cash flow	-151 500	2 397 748	4 949 996	7 502 244	10 054 492	12 606 740

Table 12: Gee's - Payback period, Source: Own creation

Year	0	1	2	3	4	5
Development	-151 500					
Total expenditures		2 302 920	2 302 920	2 302 920	2 302 920	2 302 920
Extra Promotion exp		6 500	4 500	4 500	4 500	4 500
Revenues		3 931 200	3 931 200	3 931 200	3 931 200	3 931 200
Cash flow		1 621 780	1 623 780	1 623 780	1 623 780	1 623 780
Cumulative cash flow	-151 500	1 470 280	3 094 060	4 717 840	6 341 620	7 965 400

Table 13: Bookworm - Payback period, Source: Own creation

Year	0	1	2	3	4	5
Cash Flow	-151 500	2 549 248	2 552 248	2 552 248	2 552 248	2 552 248
Discount factor at 0,05	1	0,9995	0,999	0,9985	0,998	0,9975
Present value	-151 500	2 547 973	2549695,752	2548419,628	2547143,504	2545867,38
Cumulative cash flow	-151 500	2 396 473	4 946 169	7 494 589	10 041 732	12 587 600

Table 14: Gee's - Discounted payback period, Source: Own creation

Year	0	1	2	3	4	5
Cash Flow	-151 500	1 621 780	1 623 780	1 623 780	1 623 780	1 623 780
Discount factor at 0,05	1	0,9995	0,999	0,9985	0,998	0,9975
Present value	-151 500	1 620 969	1 622 156	1 621 344	1 620 532	1 619 721
Cumulative cash flow	-151 500	1 469 469	3 091 625	4 712 970	6 333 502	7 953 223

Table 15: Bookworm - Discounted payback period, Source: Own creation

5 Conclusion

The main objective of this thesis was to answer which tools of marketing mix may be used and how to apply them in order to run a successful coffee place and which, if any, of the two given coffee shops is worth the initial investment. The following chapter will present the conclusion.

In the first place, the most important thing for entrepreneurs is to become the experts in their profession. Moreover, being an expert in the field of application means to truly understand the potential and existing customers. In the consumer decision making process, most people will search for information, and based on the given answer, the decision of purchase, non-purchase or subsequent return is made. Hence, the situation analysis takes very important role in collecting the important data in order to sort the customers into target groups, to understand these certain groups and being able to answer all their questions, cope with their requirements and adjust the marketing mix tools directly to them.

The essential part of marketing mix is the 6P formation, which is in this thesis represented by Product, People, Place, Price, Promotion, Passion where only the Passion is, with no doubt, common for both model situations as opposed to the rest of these tools, which must be specific and suitable right for the specific situation. There are some general guidelines in which direction to proceed but every target group, every market place and every person is different and likewise deserves different treatment and adaptation. Other important considerations also need to be made, including the number of customers, café's popularity, subsequent profit and the marketing communication, which once again, has to be adapted to the situation and to the target group.

From the financial point of view, it is worth to make an investment into both of the cafés. Both of them are worth the market-entrance costs, but objectively said, according to the discounted payback period results, the Gee's has much brighter future for its existence. On the other hand, right now, as said many times, the healthy lifestyle and life with dietary restrictions is getting much more popular and in demand day by day. As a matter of fact, right now, there may be other cafés, just like Gee's, in the process of a start-up business plan. For that reason, at the time of Gee's being opened, there already may be another one or ten similarly oriented coffee places and all the calculations and marketing strategies turn out to be wrong. Such is the nature of an entrepreneurial risk.

The Bookworm has slightly worse expected profit and longer payback period, yet due to the circumstances, it is probably more convenient business to run. Since Vestec does not look like the best place for a business investment, the Bookworm might almost surely be the only start-up project considered at the time and subsequently, a well-prepared strategic marketing plan with accurate usage and implementation of marketing mix tools can ensure the Bookworm's prosperity. Overall, Bookworm seems to be probably a better option to start a café. A difficulty in gaining profit is seen particularly in the projection of a small number of customers per day. Unfortunately, it is not something that can be easily and accurately predicted and affected other than by correctly choosing and applying strategic marketing tools.

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7 Appendix



Figure 1: Porter's Five Forces Scheme, Source: https://www.mindtools.com/pages/article/newTMC_08.htm



Figure 2: Holistic Marketing Scheme, Source: <http://kitkatmarketing.blogspot.co.at/>