

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Analysis and design of e-shop for selected company

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Patrik Ocman

Economics and Management

Thesis title

Analysis and design of e-shop for selected company

Objectives of thesis

The main goal of this thesis is to analyze e-commerce sites in the food and beverage sector in Prague, and design of an online shop for small retail company called "FOKO s.r.o." Furthermore, potential risks and benefits for the new e-shop will be evaluated, key issues and problems will be defined, and also best possible solution for this company will be proposed.

Methodology

This thesis will contain mainly descriptive and comparative methods as well as some well-known analysis (SWOT or competitive analysis). Thesis will also utilize basic statistical methods. The data will be collected from literature review, company sources and online survey.

The proposed extent of the thesis

40 pages

Keywords

e-shop, e-commerce, SWOT, B2C, food, e-business

Recommended information sources

JANOUC, Viktor. Internetový marketing. 2. vyd. V Brně: Computer Press, 2014. ISBN 978-80-251-4311-7
MILUTINOVIĆ, Veljko. a Frédéric PATRICELLI. E-business and e-challenges. Washington, DC: IOS Press,
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XU, Jun a M. A. QUADDUS. E-business in the 21st century: realities, challenges, and outlook. Hackensack,
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Declaration

I declare that I have worked on my bachelor thesis titled "Analysis and design of e-shop for selected company" 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 15.3.2017

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I would like to thank Ing. Petr Procházka, Msc, Ph. D for his valuable advice and comments during my work on this thesis and JUDr. Vendula Kvapilová and Vlastimil Kvapil, owners of the company FOKO s.r.o. (Dejvický koloniál), for their willingness to answer all my questions and providing me a lot of useful information. Furthermore, I would like to thank my family and friends for the support.

Analýza a návrh řešení internetového obchodu pro vybranou obchodní společnost

Abstrakt

Tato bakalářská práce je zaměřena na analýzu jednotlivých dílčích kroků, které jsou nutné k zahájení činnosti internetového obchodu vybrané obchodní společnosti, a rovněž navrhuje jeho optimální řešení na základě zjištěných skutečností. Práce je rozdělena do dvou částí. První část je ryze teoretického charakteru, a zaměřuje se na popsání vývoje vzniku E-commerce i jeho uplatnění v současné době, zejména pak v oblasti potravinářského odvětví. Dále je představen internetový marketing a jeho užití v praxi, který je nezbytnou součástí dnešního E-commerce. V poslední kapitole teoretické části je popsána struktura finančního plánu, který je vyžadován před realizací klíčového projektu. Druhá část této práce se věnuje uplatněním teoretických zjištění při samotném projektování internetového obchodu a jeho fungování. Obsahuje různé druhy analýz, jako například SWOT analýzu nebo analýzu konkurenčních e-shopů včetně finančního vyhodnocení budoucího projektu, které mají za úkol zhodnotit konkrétní současnou nebo předpokládanou situaci firmy, respektive jejího projektu. Cílem této práce je tedy firmě poskytnout relevantní informace a podklady související s jejich připravovaným podnikatelským záměrem.

Klíčová slova: internetový obchod, e-marketing, e-komerce, analýza konkurence, SWOT analýza, finanční plán, B2C, peněžní toky, investice, marketingová strategie

Analysis and design of e-shop for selected company

Summary

This bachelor thesis is mainly focused on analysis of individual steps that are necessary to start an online shop for selected company and provides optimal solutions based on the findings. The thesis is divided into two parts. The first part of bachelor thesis is an introduction to E-commerce history and its application in today's world as well as to Internet marketing, that creates a significant part of E-commerce. Additionally, the structure of the financial plan, that is crucial for financial valuation of the future project, is described in the last section of the theoretical part. The second part of the thesis contains different types of analysis such as SWOT analysis or analysis of competitor's websites, including the financial evaluation of the future project that are based on theoretical findings and company's data. Their purpose is to evaluate current or future situation of the company and suggest appropriate solutions or recommendations that are needed for project implementation.

Keywords: online shop, e-marketing, e-business, e-commerce, competitive analysis, SWOT analysis, financial plan, B2C, cash flows, investments, marketing strategies

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1 Introduction

In today's world of modern technologies, the Internet plays a key role in our lives as not only as the source of information, but also as a powerful business and communication tool. Most of the companies using the Internet for their internal activities as well as for external activities such as propagation or business transactions. Selling online has become as the same popular as online shopping. Customers get quickly accustomed to the lower prices of products as a result of lower operating costs of the firms. But low prices are not only condition for successful e-commerce site. It has been observed that company selling the same product for higher price than the other for lower price, can reach even higher revenues if applying a strong marketing tools.

The advantages of running online shop also attract the company FOKO s.r.o. which sells healthy and high quality food products that comes from local farmers. The company would like to start own e-shop as their additional source of income, and offer their products to the customer through the Internet.

The purpose of this thesis is to summarize the knowledge about e-commerce, online marketing and financial plan, and attempt to apply them in practise. The company needs to obtain relevant information about their current position of the firm such as their strengths and weaknesses, competitors overview, investment costs, available solutions for creating their online shop as well as its financial evaluation. Based on the final results of this research, the company will have opportunity to make final decision if create the online shop or not.

2 Objectives and Methodology

The aim of the theoretical part is to introduce the E-commerce and Internet Marketing in order to describe their historical progress and application in the today's world as well as in the context of creating an online shop. As the source of informations, the literature review is used.

The goal of the practical part is to investigate if the company is capable of running a new project (online shop) as well its future profitability. Additionally, the basic proposal of the online websites for the company will be designed on the previous observations and identification of competitors will be done. The main three investigating methods are set as:

1. SWOT analysis.
2. Comparative analysis of competitor's websites
3. Financial plan

3 THEORETICAL PART

3.1 E-commerce

3.1.1 Definition of e-commerce

Firstly, it is necessary to mention that there is not any single common definition for E-commerce that can be used for explanation. For many people, electronic commerce means only buying and selling products online, but its meaning content is much larger. The editor-in-chief of International Journal of Electronic Commerce, Vladimir Zwass, defines e-commerce as a process of sharing business information, preserving and creating of business relationships, and running business transaction through the various telecommunications networks.¹ Similar definition provides also Petras Barsauskas from University of Management and Economics in Kaunas, Lithuania as follows:

“Within the aspect of business processes, e-commerce can be defined as the use of electronic networks with the objective to simplify and fasten all phases of business processes – from the production of goods to their sale and delivery.”²

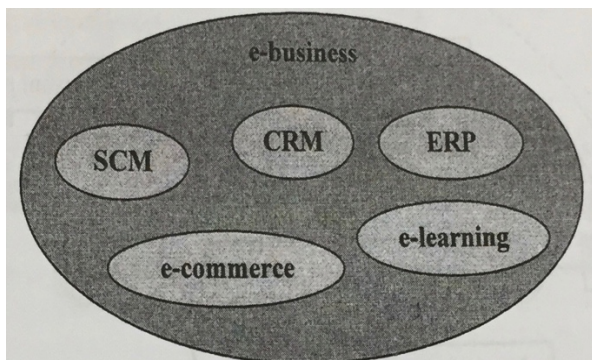
Libor Svadlenka and Radovan Madlenak present detailed description including comparison and illustration how they understand the E-commerce (see Figure 1, p.13). They state that electronic commerce is every transaction completed by computer network which result in transfer of ownership or legal rights for using particular product or service.³ This definition describes a specific sales transaction from the beginning of the order to the delivery to the final customer. Svadlenka also noted that the value of the transaction can be a zero as for example you download software from websites for free of charge.

¹ ZWASS, W.: *Electronic Commerce and Organizational Innovation: Aspects and Opportunities International Journal of Electronic Commerce*. 2003, Vol. 7, No. 3, pp. 7–37

² BARSAUSKAS, P. et al.: *The evaluation of e-commerce impact on business efficiency*. Baltic Journal of Management Vol. 3 No. 1, 2008 pp. 71-91

³ ŠVADLENKA, Libor a Radovan MADLEŇÁK. *Elektronické obchodování*. Pardubice: Institut Jana Pernera, 2007, p.8

Figure 1 - relationship between e-business and e-commerce



Source: ŠVADLENKA, Libor a Radovan MADLEŇÁK. *Elektronické obchodování*. Pardubice: Institut Jana Pernera, 2007, p.9

The difference between e-business and e-commerce can be seen in Figure 1. In simple terms the e-business includes all forms of transaction within commercial activity. These transactions are based on processing and transmission of digital entries including text, voice and picture. E-business does not mean only sale and purchase online, but also all other processes in or out of the company that are connected to e-commerce.⁴ For example, ERP system implemented in the firm which provides control and integration of all data sets in a company; in form of sending and receiving orders, production planning, showing store availability, interdepartmental communication, finance accounting and other functions.

3.1.2 History and evolution of e-commerce

In fact, e-commerce is older than anyone would think it is. It has been existed for over 40 years and its purest form originated from the electronic transimission of messages in the period of Berlin airlift in 1948.⁵ During the second half of the previous century, e-

⁴ ŠVADLENKA, Libor a Radovan MADLEŇÁK. *Elektronické obchodování*. Pardubice: Institut Jana Pernera, 2007, p.8

⁵ TASSABEHJI, Rana. *Applying e-commerce in business*. Thousand Oaks, Calif.: Sage Publications, 2003, p.11

commerce meant to be as electronic data interchange (EDI), a technology that allows firms to interchange data electronically with their service providers or suppliers, and which was supposed to replace human-based processes as a conventional mailing or faxing. It has been estimated that leading manufacturers, retailers, and others have paid tens of million dollars every year in order to set EDI as a standard for communication.⁶ In the primal stage EDI software solutions were only mainframe based but later it spread into all PC's across the business environment so it enabled communication and data exchange between computers of different organizations.⁷ As quick as popularity of EDI reached the maximum (from the late 1970s to the late of 1980s), the fall of this system had been expected. EDI was simply too expensive as well as some of the technical problems, that almost ceased the technical development of EDI, had not been fully solved. Paul Timmers added that less than 1% of companies in the US and Europe had acquired EDI by the late 1990s, so there was a significant decline in use of EDI.⁸

The next generation of electronic commerce is described as the transaction of goods and services through the Internet. This era has started since computers were own by major companies, small portfolio of customers, and when World Wide Web (WWW) has been established. At the beginning, e-commerce was mainly available on B2B level (using EDI), thereafter also on B2C level.

However, the first e-commerce, as it is recognized by general public, started in France in the early 1980s. The videotext online service called Minitel was launched by French telecommunication company (France Telecom) and there was no need for using of the Internet (that has not been existed yet) as all processes were made through the telephone lines. From the outset, this service was based on B2C level, after that was extended also for

⁶ SAWABINI, S., "*EDI and the Internet: Can two generations of E-commerce coexist?*", Journal of Business Strategy, Vol. 22 Iss 1, 2001 pp. 41 - 43

⁷ Linda Robson, (1994), "*EDI – Changing Business Practice*", Logistics Information Management, Vol. 7 Iss 4 pp. 35 - 40

⁸ TIMMERS, Paul. *Electronic commerce: strategies and models for business-to-business trading*. Pbk. ed. Chichester: J. Wiley, 2000

B2B purposes. The customer needed only Minitel terminal (predecessor of classic personal computer) and already mentioned telephone lines that gives them access to services as: phone directory, mail-order retail firms, train or air ticket purchases, information services or message boards.⁹

In the early 1990s, Tim Berners Lee and Robert Cailliau introduced a “Hypertext project” that was actually World Wide Web (WWW). After few months, Lee finished the first sketch of web server, unique at that time, and, he programmed the very first web browser. Since 1991, when restrictions on commercial use of “the Internet” were removed, the Internet has become fully accessible to the public. This technological milestone in our history accelerated the growth of online shopping and the Internet itself. By the year 1995, there were over one hundred thousand of registered domain names and this number increased to two million domains within upcoming three years.

After the several doubts about safety of online shopping, Netscape corporation developed a security protocol (in 1994)– the Secure Socket Layers (SSL) that protects the privacy of customer’s data through an authenticated SSL certificate assigned to a web site, so online shopping has become much safer.¹⁰

In 1995, several crucial domains were registered as for example well-known Amazon.com – the first online bookstore or the first online auction server eBay.com. The both sites were endeared to the public as they were not limited by storage capacity and products were available in the present time. In the following years, Amazon.com turned into the biggest player on e-commerce market as extended its offer to DVDs, CDs, computer softwares, electronics or apparel. In the next century, Amazon.com has been deposed by e-marketplace Alibaba.com and other corporate gigant Walmart.com from the first line as a leader in e-commerce sales. Alibaba.com literally conquered the Asian

⁹ BROUSSEAU, E.: *Globalization and E-commerce: Growth and Impacts in France* [online], 2001
Available from: <<http://www.brousseau.info/pdf/franceGEC.pdf>>

¹⁰ MIVA MERCHANT: “*The History Of Ecommerce: How Did It All Begin?*” [online], 2011
Available from: <<http://www.mivamerchant.com/blog/the-history-of-ecommerce-how-did-it-all- begin>>

market as well as the rest of the world later meanwhile Walmart.com became the biggest online retailer in the United States.¹¹

In 1998, Paypal, formerly Confinity, entered the e-market and started the online payment revolution. The company enables to customer to pay for a product or service by credit or debit card registered at the customer's account. The payment can be done in 26 currencies in more than 200 countries. Additionally, PayPal user can use also money transfer to another account without opening the internet banking or going to the bank in person. According to PayPal research, there is provable evidence that more payments methods provided to customers increase sales of 14%. The main success of this service is probably that all transactions are happening in a real time.¹²

By 2001, Amazon.com revealed its first mobile commerce website. In fact, m-commerce had been not very well known term in the world before. Except for Finland, where has been possible to buy the first Coca Cola from the vending machine, and pay via SMS text message since 1997. The popularity of using mobile phones, or other hand-held devices, was rapidly on the increase. Other countries such as Norway, Austria or Japan allowed to pay train tickets, air tickets or parking fee, by using SMS in 2000.¹³ For better understanding, Mehdi Khosrow-Pour defines m-commerce as follows:

“Mobile Commerce refers to the process of using mobile devices such as mobile phones or wireless PDAs to conduct business transactions. With 1.5 billion mobile users in the world, and 140 million in the United States.”¹⁴

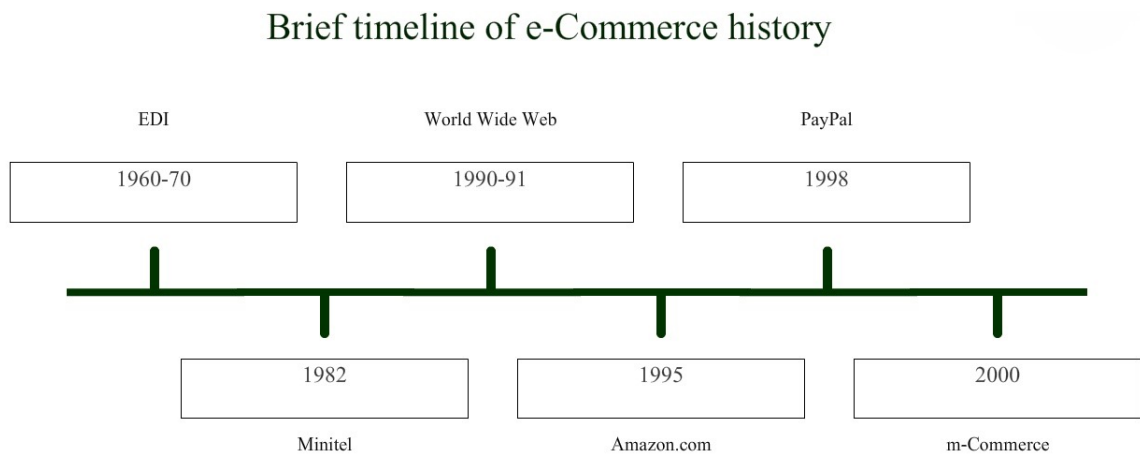
¹¹ MENG, J.: *Alibaba becomes the world's largest retailer* [online]
Available from: <http://www.chinadaily.com.cn/business/tech/2016-04/06/content_24315726.htm>

¹² WILLIAMS, Damon. *Pro PayPal E-Commerce*. Berkeley, CA: Apress, 2007, p.2

¹³ GOLDEN, S. and BULOMINE REGI, S, “*Mobile Commerce in Modern Business Era*“, International Journal of Current Research and Academic Review, Vol.1 Iss 4, 2013, pp. 96-102

¹⁴ KHOSROW-POUR, Mehdi. *Encyclopedia of e-commerce, e-government, and mobile commerce*. Hershey, PA: Idea Group Reference, c2006, p.562

Figure 2 - Timeline of E-commerce history



Source: own illustration

Mobile commerce (m-Commerce) evolved to a massive form of the business from 1990s to present-day. The arrival of the Internet in mobile phones caused “m-Commerce boom”. The world’s first media phone with Internet access (using GSM network with WAP access) was unveiled by Nokia in 1999.¹⁵ Since that time, the GSM network has been continuously improving and the speed of the Internet connection has been growing. As the next step of the fast Internet is considered 3G network, later also the newest 4G (LTE) network. These networks are fast enough to run the mobile applications and comfortable using of web browser that allows to shop online directly from mobile device. For many e-commerce sites, users do not need to even use the web browser, but they can easily download the application and buy online via specific app of the desired online shop.

3.1.3 Types of electronic commerce

E-commerce itself is divided into four basic categories based on the initial or the end business user as follows:

¹⁵ HEDMAN, T.: “Nokia unveils the world’s first media phone for Internet acces“ [online] Available from: <<http://xml.coverpages.org/nokiaWAP9902.html>>

- Business-to-business (B2B) – refers to commercial transaction among business organizations. The both sides of this relationship are represented by companies. The share of all B2B transactions in digital economy is estimated of 85-90%.
- Business-to-consumer (B2C) – refers to commercial transaction between company and the end consumer.
- Consumer-to-consumer (C2C) – refers to commercial transaction among the end consumers/individuals usually running through online auction sites.
- Consumer-to-business (C2B) – refers to type of sale when consumer sells goods/service to company. This relationship is common in agriculture sector where farmers sell their goods to corporations.¹⁶

Out of this fundamental categorization, there exist relatively new forms of e-commerce relationship. Depends on technological development of individual country, the state administration adopted the modern technology in terms of using the Internet and web applications. If public administration (government) is connected to the Internet network and its internal and external processes including communication are digitized, it is called e-government. For this new sector, we distinguish these four relationships:

- Government-to-business (G2B)
- Government-to-citizen (G2C)
- Business-to-government (B2G)
- Citizen-to-government (C2B)
- Government-to-government (G2G)
- Government-to-nonprofit (G2N)
- Nonprofit-to-government (N2G)
- Government-to-employee (G2E)¹⁷

¹⁶ ŠVADLENKA, Libor a Radovan MADLEŇÁK. *Elektronické obchodování*. Pardubice: Institut Jana Pernera, 2007, p.17

¹⁷ ZHIYUAN, Fang: “*E-Government in Digital Era: Concept, Practice, and Development*“ [online] Available from:<<http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan016377.pdf>>

3.1.4 Business models of e-commerce

Nowadays, the influence of the Internet is so huge that most of the companies are forced to transform, reshape strategies, and organization or business models. *“There is no business model suitable for all – online trading can be as an addition for traditional business model or it can represent the separate activity of the business. A business model should determine the product streams, information, and cash flows. Alongside the marketing strategy, a business model should reach a business vitality and answer the questions as: how to create a competitive advantage, what is the positioning or which strategies has been defined. Only a few business models are applied in e-commerce.”*¹⁸

A six business models currently use in e-commerce are listed below:

- E-shop – can be defined as electronic shop window with possibility to choose and pay any time. Usually establishing of online shop is the main objective how to promote the company including its products or services. Likewise, the vision of low operating costs as well as low sales and marketing costs, are the main attraction of online shop. Additionally, it brings benefits to the customer in terms of: lower prices of the goods than would be in brick-and-mortar, wider choice, more detailed information about products, delivery service or 24-hour accessibility.
- E-procurement – is basically electronic tendering when invitations to tenders are published at specific e-commerce site. The main advantage is the access from different place in the world, so there is larger competition. The significantly higher number of competitors pushes down prices that benefited a contract owner. Also, there is reduction of the cost of procurement. The process of approval and correction is much faster if doing electronically.¹⁹

¹⁸ BLAŽKOVÁ, Martina. *Jak využít internet v marketingu: krok za krokem k vyšší konkurenceschopnosti*. Praha: Grada, 2005, p.104.

¹⁹ TIMMERS, Paul: *“Business Models for Electronic Markets”*, 1994 [online] Available from: <<http://peoi.org/Courses/Coursesen/emarket/Resources/Business%20Models%20for%20Electronic%20Markets.pdf>>

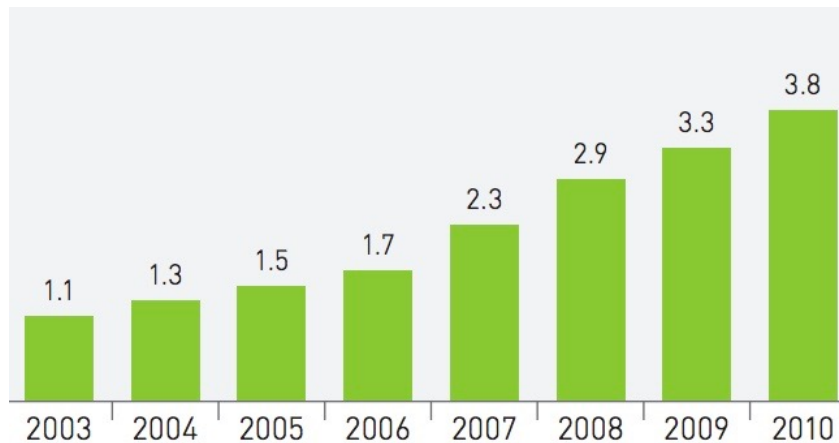
- E-auction – very cost and time saving alternative of traditional auction. The presence of electronic bidding mechanism at the e-auction site ensures a smooth and quick auction. As well as for e-procurement, the primary benefit is an accessibility, so there is no need for physical presence to the auction.
- E-mall – an electronic mall consists of subsets of e-shops that have the common online access under the one brand (e-mall). It offers a wide comparison of products selling by a separate e-shop. Customers have opportunity to get the product for the lowest price possible. E-mall is also a good advertisement for e-shops as there are many customers that would not probably enter their websites directly. E-shops usually pay a member fee to be part of e-mall. But nowadays, the usage of E-malls is not that popular as it used to be.
- Third-party marketplace – the model where a firm changes its Web marketing to a third-party provider. A company is usually part of the online catalogue with other suppliers where they offer their products and create a perfect interface to its users. Buyer usually benefits a full service that is guaranteed from third-party provider such as search facilities, branding, secure payment options, logistics and ordering.
- Virtual communities – refers to a community of people (customers or business partners) sharing common ideas, interests or feelings over the virtual world. The source of the revenues for this platform are mostly membership fees and advertising. A joining the virtual community increases customer loyalty and provides customer feedback to a supplier.²⁰

²⁰ TIMMERS, Paul: “*Business Models for Electronic Markets*“, 1994 [online] Available from: <<http://peoi.org/Courses/Coursesen/emarket/Resources/Business%20Models%20for%20Electronic%20Markets.pdf>>

3.1.5 E-commerce in the context of grocery market

As never in our history, online grocery has become inseparable part of our lives. In 2016, total worldwide sales of grocery increase up to 48 billion dollars that accounts for 4.4% of the market. Kantar Worldpanel, formerly TNS Worldpanel, estimates grow to 9% of the market and sum of 150 billion dollars by 2025.²¹ Due to the research of the Nielsen Corporation, a global marketing research firm, there is one-quarter of customers who buy grocery products online, and more than 55% are willing to do so in the future.²² This key finding represents a huge potential of use of e-commerce for grocery and opens more possibilities for corporations and firms.

Figure 3 - The share of grocery sales in the e-market



Source: KANTAR WORLDPANEL: Shopping for Groceries, 2011 [online]
Available from: <<http://www.kantarworldpanel.com/dwl.php?sn=publications&id=255>>

One of the biggest grocery retailers and leader in the online grocery, Tesco, launched its online shopping service for UK customers in 1997. Since that time, the popularity of online grocery shopping has increased rapidly due to its easy-order process, wide offer, delivery

²¹ KANTAR WORLDPANEL: Global e-commerce grocery market has grown 15% to 48bn, 2016 [online] Available from: <<https://www.kantarworldpanel.com/global/News/Global-e-commerce-grocery-market-has-grown-15-to-48bn>>

²² NIELSEN: The Future of Grocery, 2015 [online]
Available from: <[https://www.nielsen.com/content/dam/niensenglobal/vn/docs/Reports/2015/Nielsen%20Global%20ECommerce%20and%20The%20New%20Retail%20Report%20APRIL%202015%20\(Digital\).pdf](https://www.nielsen.com/content/dam/niensenglobal/vn/docs/Reports/2015/Nielsen%20Global%20ECommerce%20and%20The%20New%20Retail%20Report%20APRIL%202015%20(Digital).pdf)>

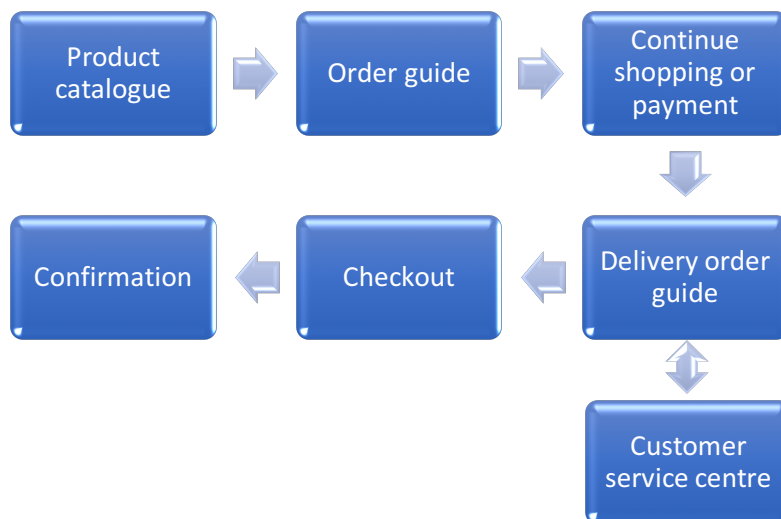
service (customers do not have to carry all the shopping bags home from supermarket) and 24-hour availability. By 2012, Tesco revealed its online shop, known as iTesco.cz, in the Czech Republic. It was the first online grocery shop in the country, but delivery service covers only the area of the capital city. Tesco successfully filled the gap in the Czech market and other companies, such as Rohlik.cz, were followed later in 2014.

3.1.6 Structure of e-commerce site

Every online shop requires a defined structure consists of essential components with possibility to add some extra supplementary elements to customize, and increase of attractiveness of each individual e-shop. These specific “add-ons” are usually of technological, marketing, or advertising origin.²³

The basic structure of the shopping order chain is illustrated below in Figure 4.

Figure 4 - Shopping order chain



Source: SUCHÁNEK, Petr. *Podnikání a obchodování na internetu*. Karviná: Slezská univerzita v Opavě, Obchodně podnikatelská fakulta v Karviné, 2008

²³ SUCHÁNEK, Petr. *Podnikání a obchodování na internetu*. Karviná: Slezská univerzita v Opavě, Obchodně podnikatelská fakulta v Karviné, 2008, p.33

The main elements of the e-shop structure consist of:

- Product catalogue
- Order guide
- Shopping cart
- Delivery order guide
- Customer account
- Product reviews

A product catalogue is the core of online shop. It is basically overview of all items offered by seller. It is sorted into individual categories due to product characteristic. There are generally two possible options how to find a product. Firstly, a customer can unpack each category step-by-step, which is quite time-consuming, or secondly, a customer can use fulltext browser by entering key words.

Order guide is utilized for specification of selected item. For example, if customer choosing a t-shirt, he needs to specify which size he wants. In grocery sector, it can be eventually the weight or the volume of a product.

Shopping cart refers to virtual cart in terms of e-commerce. All selected items of customer are centralized at this place. It gives customer a good overview about the content (especially price and quantity of the goods), and flexibility to remove the product at any time.

Delivery order guide is the most important part of the order process. Customer must complete an order by selecting of delivery method, and providing a contact details (address, name, phone number or email)

Customer reviews – is a form of very helpful tool for other customers who might be hesitating about the purchase. It provides the valuable information about a product such as quality, visual aspect, function or taste.

Customer account provides easy registering of customers and overview of their orders. Additionally, customer is not required to complete his contact details every time when processing an order as these details are already saved. Most companies offer also many benefits for registered customers such as loyalty discounts, or points that can be exchange for other service or product.

3.2 Internet Marketing

Internet marketing, e-marketing, online marketing or digital marketing are all terms for marketing using digital technologies. Dave Chaffey, a digital marketing expert, brings the succinct and apt definition of internet marketing: “*Internet marketing can be simply defined as achieving marketing objectives through applying digital technologies.*”²⁴ Digital technologies are meant to be all Internet media such as web sites or e-mail and other digital media as for example wireless and mobile or media such as cable and satellite using for delivery of digital television. Nowadays, Internet marketing is more common for the use of a firm web site in the context of online promotional procedures such as SEM, SEO, interactive and PPC advertising, e-mail marketing and partnership arrangements with other web sites. These tools are used for obtaining new customers and rendering services to current customers.

3.2.1 Use of the Internet for marketing purpose

The widespread use of the Internet in today’s world is suitable in every branch, especially in marketing one. For marketing purpose, the Internet is not used only for communication with customers or advertising but also for instance:

- Representation of the company and its products. All company information, service and product offers can be transform into electronic version. For example, company

²⁴ DAVE CHAFFEY .. [ET AL.] a EDITED BY DAVE CHAFFEY. *Internet marketing: strategy, implementation and practice*. 4th ed. Harlow: Financial Times Prentice Hall, 2009, p.8

can provide online manuals for products to their customers instead of paper ones, or customers can use free chat rooms to get information/advice from the company.

- The source of information. The Internet can be also defined as the collection of unlimited amount of information/data such as information about suppliers, buyers, customers, competitors or new innovations and products.
- Indentification of customers and their needs through an effective and easy communication between customer and supplier or customer feedback, company acquiring very valuable data for future use.
- Controlling of the internal processes within company. The internet connectivity provides companies digitalization and integration of these processes that leads to reducing expenses (phone bills, printing, distribution).
- The effective and new business channels. Electronic platforms and other applications for e-commerce provide inexpensive, fast and secured realization of business transactions.²⁵

3.2.2 The benefits of e-marketing

Online marketing is now more important than the classic one, particularly in countries where people use modern technologies. However, Viktor Janouch, marketing consultant, warns against prioritizing of online marketing to the detriment of the “old” one. He says that we cannot keep them apart as there are companies selling exclusively online, but still using communication through offline media. He also recommends to manufacturing businesses to not rely on the Internet only as it can stop working one day (government interventions, technological problems). Despite the Internet dark side, e-marketing offers important advantages that classic marketing cannot compete:

²⁵ BLAŽKOVÁ, Martina. *Jak využít internet v marketingu: krok za krokem k vyšší konkurenceschopnosti*. Praha: Grada, 2005, p.104.

- Monitoring and controlling – higher amount of data, higher quality of data.
- 24-hours availability – marketing is running nonstop on the Internet.
- Complexity – to speak to group of customers in several forms.
- Individual attitude – customer is not anonymous person, “digital path”.
- Dynamic content – offer can be change continuously.²⁶

3.2.3 SWOT analysis

SWOT analysis is the sine qua non prior to internet marketing strategy implementation. It is well-known and effective analysis to find strengths, weaknesses, opportunities, and threats of an organization or planned project.

Strengths – areas where company performs well, advantages of an organization.

Weaknesses – areas to be improved, disadvantages of an organization.

Opportunities – external factors that may conduce to an organization and set up the strengths.

Threats – potential risks caused by external factors that organization may face.²⁷

SWOT analysis in the context of the Internet environment shown in Figure 5.

²⁶ JANOUC, Viktor. *Internetový marketing*. 2. vyd. V Brně: Computer Press, 2014, p.19

²⁷ DAVE CHAFFEY .. [ET AL.] a EDITED BY DAVE CHAFFEY. *Internet marketing: strategy, implementation and practice*. 4th ed. Harlow: Financial Times Prentice Hall, 2009, p.162

Figure 5 - Internet-marketing-related SWOT analysis

| | | |
|--|---|--|
| The organisation | Strengths – S 1. Existing brand 2. Existing customer base 3. Existing distribution | Weaknesses – W 1. Brand perception 2. Intermediary use 3. Technology/skills 4. X-channel support |
| Opportunities – O 1. Cross-selling 2. New markets 3. New services 4. Alliances/Co-branding | SO strategies Leverage strengths to maximise opportunities = Attacking strategy | WO strategies Counter weaknesses through exploiting opportunities = Build strengths for attacking strategy |
| Threats – T 1. Customer choice 2. New entrants 3. New competitive products 4. Channel conflicts | ST strategies Leverage strengths to minimise threats = Defensive strategy | WT strategies Counter weaknesses and threats = Build strengths for defensive strategy |

Source: DAVE CHAFFEY .. [ET AL.] a EDITED BY DAVE CHAFFEY. *Internet marketing: strategy, implementation and practice*. 4th ed. Harlow: Financial Times Prentice Hall, 2009, p.162

3.2.4 Internet marketing strategy

An Internet marketing strategy requires to gain consistent direction for an organization’s e-marketing activities so that they implement with its another marketing activities and endorse its objectives.

The Internet marketing strategy aims are mainly consisted of:

- analysis of external environment
- definition of the main objectives
- deployment of resources

If the e-marketing strategy is not clearly planned, it tends to:

- underestimation of customer demand for online services/products
- segmentation of market share into existing and start-up competitors
- insufficient collection of customer’s online data
- insufficient amount of resources
- lack of efficiency through online marketing²⁸

²⁸ DAVE CHAFFEY .. [ET AL.] a EDITED BY DAVE CHAFFEY. *Internet marketing: strategy, implementation and practice*. 4th ed. Harlow: Financial Times Prentice Hall, 2009, p.162

The main principle of the Internet marketing strategy is that may be custom-made to individual company according to its needs and requirements.

Fundamental approach for creating the Internet marketing strategy can be divided into three steps as following:

- ***Web site design and build plan.*** If a company decides to start web site project, the management must formulate the main purpose and goals that will help to create the core of the web site. Also, the idea of structure, design, and functionality is required as they represent the key success factors.
- ***Analysis of visitors/customers.*** A company needs to recognize a target group of customers, and afterwards web site must be made of measure of their preferences. It is very important to study a customer behaviour, understand it and transform the key finding into the web site.
- ***Competitor analysis.*** As the Internet is accessible from any place in the world, there is a high chance of competitors. A competitor analysis is divided into three steps:

a) Competitor identification – there exist several ways how to find a competitor.

Web browsers – key words or phrases are necessary to write into web browser to find a competitor.

Catalogues – hierarchical arrangement of different industries and its categories where links to the other competitors can be found.

Statistical sites – collect information about the number of visitors per web site. Statistical sites are, the same as catalogues, organized into the categories according to the company specialization.

b) Evaluation of equal competitor

Financial analysis – use to evaluate a financial aspect of competitors in terms of financial stability, business partner's relations, revenues, number of employees, etc. In practice, this approach is very difficult due to presence of incomplete data.

An analysis of functionality – evaluation of the competitor's websites – what is the number of visitors, the main target group, the form of propagation, functionality, and usability of the web site?

c) Searching for competitive advantage

In this stage, a company should have a good knowledge of its competitors as well as a specified market segment. A company must think how to positively distinguish itself from competitors and gain competitive advantage that allows them to increase revenue. Here is a brief list of examples of competitive advantage:

- Lower prices
- Unique product (patented)
- Special guarantee (money-back)
- Individual customer approach
- Excellent reviews
- Product offer clarity
- Many visitors²⁹

3.2.5 Digital marketing tools and techniques

Engaging and acquiring people through digital channels is the key method for business success as well as the necessary condition to maintain existing customers. Besides that, some of the form of e-advertisement must be applied to the company. The list of the most common performance-based digital marketing tools and techniques includes:

²⁹ PLOTĚNÝ, Luboš. *Budování úspěšného firemního webu: strategie, tvorba, propagace*. Praha: BEN - technická literatura, 2005, pp.20-34

- 1) **SEO** – Search Engine Optimization, optimization of the content of the web sites for search engines and users. The display of results comes from organic search that is mostly based on the key words or phrases. This technique is very time-consuming, but from the long-term perspective, it usually worth it.
- 2) **PPC** – Pay-per-click, is paid form of advertisement that is displayed above the results from organic search. In fact, a company pays for each single click on advertising that redirects the customers on their web sites. Commonly used as a quick solution for advertising, but it is much costly in comparison with SEO.
- 3) **Affiliate marketing** – utilising partners (affiliates) as inter-mediator for selling and offering a company products for a commission. A payment for this service is usually by results (e.g. 5-10% of sale).
- 4) **E-mail marketing** – is a collective sending of e-mails to existing or potential customers from database systems. It can be powerful technique if done correctly, and relatively inexpensive.³⁰

In the following figure below can be found illustration for relative effectiveness of marketing communication between online and traditional marketing tools and techniques.

Figure 6 - Effectiveness of different forms of marketing communication

| Medium | Budget % | Contribution % | Effectiveness |
|---------------------------------|----------|----------------|---------------|
| Print (off) | 20% | 10% | 0.5 |
| TV (off) | 25% | 10% | 0.25 |
| Radio (off) | 10% | 5% | 0.5 |
| PR (off) | 5% | 15% | 3 |
| Word of mouth (off) | 0% | 25% | Infinite |
| Banners (on) | 20% | 20% | 1 |
| Affiliate (on) | 20% | 10% | 0.5 |
| Links (on) | 0% | 3% | Infinite |
| Search engine registration (on) | 0% | 2% | Infinite |

Source: DAVE CHAFFEY: *Internet marketing: strategy, implementation and practice*, 2009, p.162

³⁰ DAVE CHAFFEY .. [ET AL.] a EDITED BY DAVE CHAFFEY. *Internet marketing: strategy, implementation and practice*. 4th ed. Harlow: Financial Times Prentice Hall, 2009, p.162

3.3 Financial plan

3.3.1 The outline of financial plan

A project financial plan is indisputably the main element of an entire project. A company needs to evaluate the financial side in order to define success rate of the future project. If findings are not satisfactory, a company has to adjust its plan or cancel it and find relevant alternative. The outline of basic financial valuation might be composed of these steps:

- 1) Determine an initial capital
- 2) Estimate a fundings and initial investments
- 3) Estimate an income and expenses during first two years
- 4) Prepare profit and loss statement
- 5) Forecast a cash flow statement

Additionally, these fundamental values and measures can be predicted:

- 6) Net Present Value
- 7) ROI – Return on Investment
- 8) Payback Period ³¹

3.3.2 Formulas

Net Present Value = the difference between the present value of cash inflows and the present value of cash outflows. NPV is used in budgeting to analyse the profitability of a projected investment. The relations are expressed in the following formula³²:

$$NPV = -C_0 + \sum_{i=1}^T \frac{C_i}{(1+r)^i} \quad (1)$$

NPV = Net Present Value

-C₀ = Initial Investment

C = Cash Flow

³¹ Smartcompany.com. *Nine essential financial plan elements*. [online] Available from: <<http://www.smartcompany.com.au/finance/7166-9-essential-financial-plan-elements/>>

³² Financeformulas.net. *Net Present Value* [online] Available from: <http://www.financeformulas.net/Net_Present_Value.html>

r = Discount rate

T = Time

ROI = Return on Investment measures the percentage return on a specific investment. ROI is used to measure profitability for a given amount time.³³

$$ROI = \frac{\text{Earnings} - \text{Initial Investment}}{\text{Initial Investment}} \quad (2)$$

Payback Period = determine the length of time it will take to recoup the initial amount invested on a project. PP is expressed by simple formula³⁴:

$$PP = \frac{\text{Initial Investment}}{\text{Cash Inflow per Period}} \quad (3)$$

³³ Financeformulas.net. *Return on Investment* [online] Available from: <http://www.financeformulas.net/Return_on_Investment.html>

³⁴ Financeformulas.net. *Payback Period* [online] Available from: <http://www.financeformulas.net/Payback_Period.html>

4 Analytical part

4.1 Introduction to FOKO s.r.o. (Dejvický koloniál)

4.1.1 Basic information

Company: FOKO s.r.o.

Business address: Prague 6, Jugoslávských partyzánů 676/10, 160 00

IN: 65414209

Legal form: private limited company

Date of business register: 24/04/1996

The company runs brick-and-mortar store under the different brand called “Dejvický koloniál” for its marketing purposes.

4.1.2 About the company

FOKO s.r.o. has been established as a photo printing company in 1996. The company changed the main business to groceries at the beginning of 2014, because of low demand for photo printing services. Its specialization is solely for high quality products from farmers. The company offers huge variation of products such as meat, smoked meat, milk products, jams, spreads, bakery and much more. At this moment, the company would like to open its first online shop targeting mainly on Prague citizens.

The next chapters describe the each required step before entering the digital market.

4.2 Analysis of use of the Internet and e-marketing tools within company

Utilization of digital marketing is now common for majority of companies including FOKO s.r.o. For running a business, the Internet is a necessary condition to succeed not only in the Czech market, but also worldwide. In this chapter, I will focus on the e-marketing activities of FOKO s.r.o. (Dejvický koloniál)

4.2.1 Web browsers

The owners including employees use a web browsers to find new suppliers, trends, products, and competitors. The most used web browsers in the company are: www.google.cz, www.seznam.cz, and www.centrum.cz.

4.2.2 Web site

FOKO s.r.o. used to run on www.foko.cz, but since the owners have changed the company purpose and created brand Dejvický koloniál, the web site stopped working. At this moment, people can find the company information only in the catalogue web sites mentioned in the next subchapter below (4.2.3).

4.2.3 E-mail

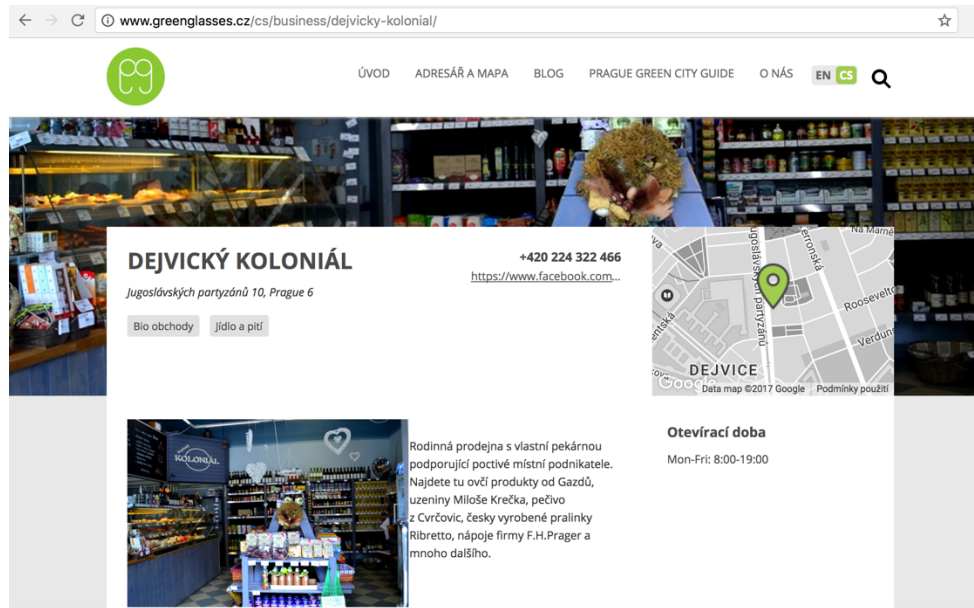
As the main connection with suppliers or public administration, the company uses e-mail communication.

4.2.4 Web directories

As a substitute for absence of the company web site, the company is registered on the web directories such as www.firmy.cz, www.greenglasses.cz and www.2gis.cz, which provide basic information about: contacts details such as mobile phone, e-mail, and address of company, opening hours, and range of products or brands.

Figure 7 – preview of company representation in the e-catalogue

Figure 7 - Preview of the company representation in online website catalogue



Source: <http://www.greenglasses.cz/cs/business/dejvicky-kolonial/>

4.2.5 Social media

Dejvický koloniál stays abreast of the progress of modern technologies, and use a profile on the largest global social media network called Facebook. In free time, employees try to keep their subscribers (followers) updated about the newest products, trends or events. The company profile hit the number of 420 subscribers and 13 excellent reviews from customers.

4.2.6 The company e-marketing evaluation

From e-marketing activities listed above, we can summarize that company is not using enough digital tools to support their online marketing. The main problem lies in the nonexistence of company web site that should be the core of their e-marketing activities and where customers should find at least basic information about their business. Also, the company should increase their activity on social media networks to attract more customers. For example, the company should post more frequently the pictures of their new products, or information about planned events and sales on Facebook website, or even create Instagram account.

4.3 SWOT analysis of FOKO s.r.o.

The owners of the company realize the power of e-commerce in today's digital world as well as its main benefits on the grocery market. As a result, they consider creating an online shop that is supposed to attract new customers, and increase revenues at best.

As I have already mentioned in the theoretical part of my thesis, the first step prior to marketing plan should be SWOT analysis that allows identification of the strengths, weaknesses, opportunities and threats that will play a crucial role for implementing the marketing plan, in our case, creating an online shop.

In collaboration with the owners, I evaluated four elements of SWOT analysis as follows:

Strengths

- *Unique selection of products.* The company offers products that are hard to find anywhere else (e.g. home-made).
- *Product quality.* Products come from local sellers/farmers characterized by high quality.
- *Locality.* The company brick-and-mortar shop is situated in the perspective area, so many customers when ordering online may use in-store pick-up.
- *Individual approach to customer.* The company provides individual services to customers (special orders on-request).
- *Excellent reputation.* Based on customer reviews.
- *Existing customer base.* The company featured already existing, relatively large customer base.
- *Pricing policy.* The company offers balance between quality and price. Other competitors offer overpriced products, sometimes in worse quality.

Weaknesses

- *Lack of experts.* There are no employees with necessary knowledge of technical and logistic support to online shop.
- *Nonexistence of company website.* The company has not running own website yet.
- *Expenses for development of e-shop and its maintenance.* An online shop creation is relatively costly and requires initial investment.
- *Expenses for e-shop promotion.* It will be necessary to pay for advertisement of online shop to acquire new customers.

Opportunities

- *New customers.* The online shop will attract new customers who did not have the possibility to visit the brick-and-mortar store under any circumstances if they come from different area.
- *New trends in technologies.* People are using the Internet not only as a source of information, but also services. Online shopping is still on increase, especially in the grocery sector.
- *New food trends.* People care more about what they eat and require high quality products such as farm or bio products. All these people are potential customers of the online shop.

Threats

- *New entrants.* It is likely that new competitors will enter the market.
- *Online price comparison.* Customers will have chance to compare prices of other shops. Although the company tries to keep low prices, there might be someone else who offer even lower price and the company can lose some customers.
- *Government regulations.* The risk of new regulations that might be disadvantageous for online shops. Operating costs may increase due to these regulations.

Summary:

SWOT analysis shows us that company FOKO s.r.o. has a good prerequisite for starting an online shop as they offer a unique range of products that can be determined as competitive advantage. Also, the company will benefit from having already existing customer base and excellent brand reputation. The future customers of the online shop will definitely appreciate the balance between price and quality that is not easy to set. It can be seen that strengths and opportunities complement one another. If the company minimize the number of weaknesses and threats, it allows to project an attacking marketing strategy.

On the other hand, the analysis of weaknesses shows that company deals with such problems as lack of technical employees that can be very useful for maintaining the online shop, or nonexistence of the company websites. However, these issues are not barriers for creating an e-shop as there exists alternative solutions (e.g. hiring external employee). According to these findings, I think the company has a positive predisposition to succeed in the online market.

4.4 Analysis of competitor's online shops

In this chapter, I will identify and compare online shop of the key competitors having place of business in or around Prague, the Czech Republic. The comparison will be primarily focused on e-shop functionality and service offer to customers.

4.4.1 Competitor identification

For competitor identification, I utilized the method of full-text search using key words and phrases as: “farmářské produkty online”, “e-shop s farmářskými výrobky” or “potravin z farmy online” via web browsers such as www.google.com, and www.seznam.cz. Also, the other factors such as business location or range of products, were considered. As a result, I selected the three most common competitors that pose the biggest threat to FOKO s.r.o., listed below.

- Sklizeno.cz
- Nakupzfarmy.cz
- Freshbedynky.cz

4.4.2 Review of competition e-shops

In this section, I will review each competitor's e-shop step by step in terms of technological facilities and visual aspects of the website as well as its functionality, structure, and comprehensibility. For this research, I used the analysis of functionality (described in chapter 3.2.4. p.29).

1) Sklizeno.cz

This e-shop is run by well-known company Sklizeno s.r.o. that is one of the biggest player in the field of farm and bio food market.

First of all, the website's SEO was tested by entering the key words and phrases into Google web browser such as: "farmářské produkty online", "bio potraviny online", "e-shop farmářské výrobky". The link to Sklizeno.cz e-shop was displayed on the 26th place far behind other competition e-shops. In comparison with their poor SEO techniques, the company invests at least some money to PPC advertising as it can be seen in Figure 8 on following page.

Figure 8 - PPC advertisement of Sklizeno.cz



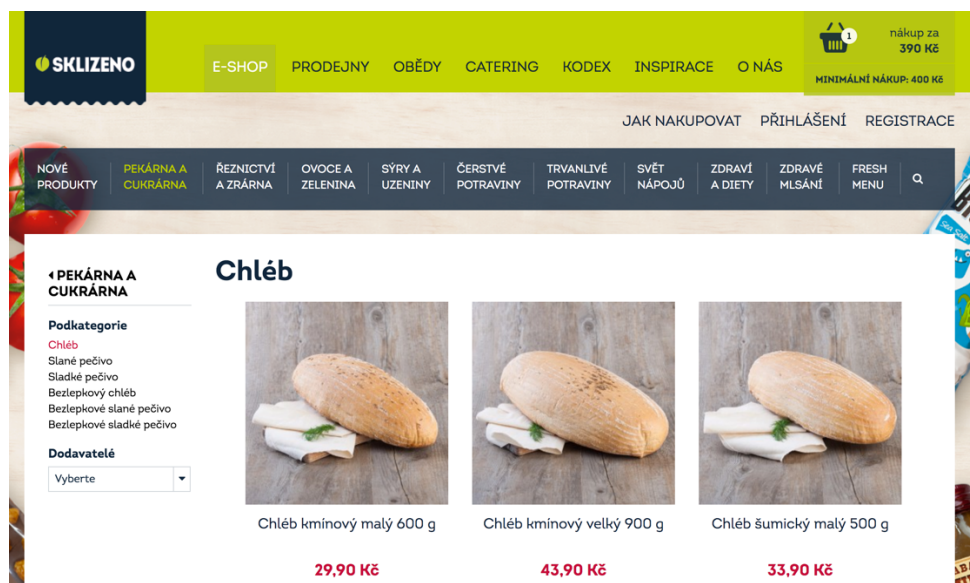
Sklizeno - Milujeme dobré jídlo jako vy.
Reklama www.sklizeno.cz/ ▼ 733 141 277
Jídlo povýšíme na kulinární zážitek. Ve Sklizeno objevujeme nové chutě potravin.
Vynikající limonády · 100 Kč na první nákup · Selské mléko · Farmářský kefir · Veganské potraviny

Source: www.google.cz.

The visual look of Sklizeno.cz is very modern and company products are sorted into the eleven well-arranged categories located at the main panel. Every customer can find desired product by clicking on each subcategory or the name of the supplier as well as by full-text search. The each product page consists of five tabs with product description, ingredients, list of allergens, supplier, and nutrition information. To buy a product is not required to be registered, so customer can quickly and effectively make a purchase. The shopping cart is located in the right upper corner of the website, displaying current amount of money. The internal structure of the shopping cart is one of the main advantage of this e-shop as there are all required

information including customer contact details, address, delivery and payment methods at one single page. In conclusion, Sklizeno.cz offers very innovative form of online shopping with a modern look from which customer either company can profit.

Figure 9 - Sklizeno.cz - e-shop



Source: www.sklizeno.cz

2) Nakupzfarmy.cz

The unique concept of online shop that is run by a group of farmers under the company Němcova selská mlékarna Radonice, spol.s.r.o. The company presents itself as the first e-shop with solely farm products.

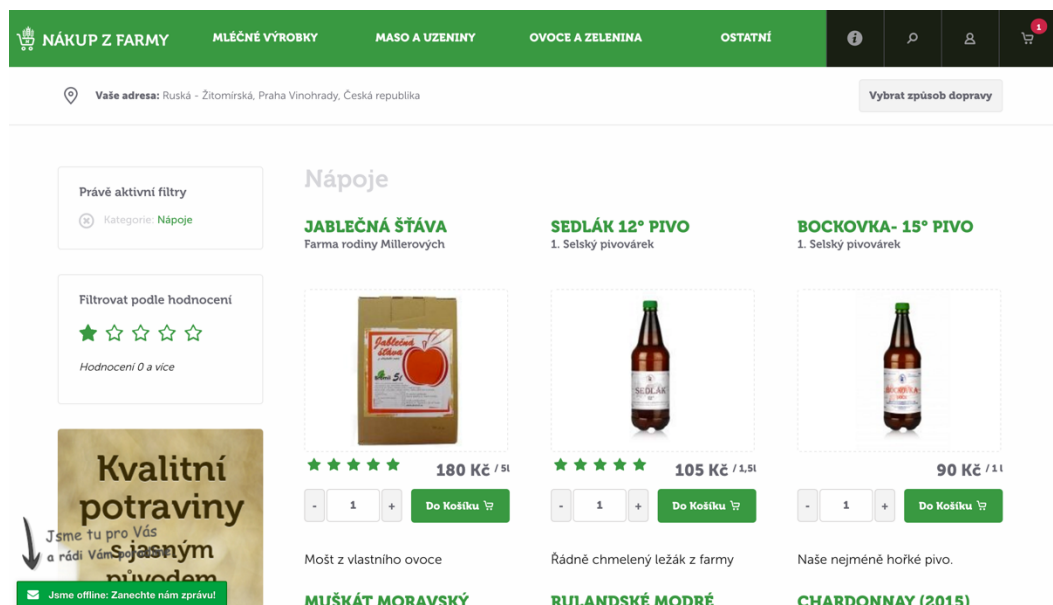
At the first sight, the modern appearance of the website can remind the competitor's website Sklizeno.cz. There are four main categories in the headline that create easy orientation through the e-shop. A customer finds products by subcategories and has option to filter items according to the review of other customers. Supplier selection is missing. The page of each product provides two tabs, one with detailed information, another with customer reviews.

Nakupzfarmy.cz is the only one company from the competitor's list which publishes customer reviews for each product! The only fly in the ointment is a lower resolution of product pictures that could be possibly higher. The shopping

cart is basic, but requires many steps to proceed the payment. In order to make a purchase, it is necessary to register online.

However, this company uses the strongest SEO techniques from all competitors as their website is shown at the first place when entering different key words to web browser.

Figure 10 - Nakupzfarmy.cz - e-shop



Source: www.nakupzfarmy.cz

3) Freshbodynky.cz

The website owns company YesFresh s.r.o. which offers shopping of farm and bio products to the box, as they say. In other words, the customer has to purchase a specific amount of goods that will be delivered in the wooden box.

Taking a closer look at the e-shop, the design of this website is not that modern, but still offers a functionality. The main panel contains over 20 categories that can be a bit confusing. Also, there is an absence of drop-down menu that is normally part of the intuitive and easy-to-use interface. The large disadvantage of this online shop is partial nonexistence of subcategories that would provide a good overview about the range of products to the customer. To even add products to the shopping cart, the customer must create an account that might cause the loss of some

customers. The only competitive advantage of this e-shop is the option to change the language of the website to English (that can attract non-Czech speaking customers).

The company uses a poor SEO techniques as their online shop was placed on the 25th to 32nd position in the search results of key words. Also, there were no links found in the headline of search results for PPC advertisement.

Figure 11 - Freshbedynky.cz – e-shop



Source: www.freshbedynky.cz

During this research, I also compared services provided by individual online shops such as delivery, payment and loyalty/reward programs. The comparison table might be seen in Appendix – Table 1. I concluded that portfolio of offered services significantly differentiates one from another. Companies provide various benefit programs, different forms of delivery methods, delivery times and technical support.

4.4.3 Summary

From reviewed e-shops mentioned in the previous chapter, e-shop Nakupzfarmy.cz is probably the “winner” among competitors as it meets the expectation of strong and

progressive online shop. This e-shop can boast of high-performance SEO of the web site as well as the modern look and intuitive controlling. Due to the very strong SEO, company has no need to utilize PPC advertising. Other e-shops evince some of the forms of weaknesses such as poor search engine optimization or outdated design and disorganized content of products. In other cases, the process of order is a slightly complicated as there are too many unnecessarily steps that lead to the payment (Nakupzfarmy.cz and Freshbedynky.cz). All of e-shops provide satisfactory level of customer support and good piece of information about company and business terms and conditions.

This review is definitely contribution to the designing the e-shop for FOKO s.r.o. company, as there can be seen hidden threats and problems that are better to avoid as well as positive features that can be followed as an example.

4.5 The basic project proposal of the e-shop

As the FOKO s.r.o. of its size belongs to the group of small retailers as well as the company capital for the project is limited, the best possible solution for the e-shop is the form of choosing the e-shop rental provider, where the company will pay monthly rent including services such as basic SEO settings or technical support. Considering a professional (made-to-measure) creation of the online shop, it is probably not worth of its investment for such a small business where the total sales are not expected to be a massive. Also, a maintaince and administration of such online shop would be too complicated and very expensive due to the fact that the company has no IT experts. From this point of view, the-eshop rental is regarded as the most suitable solution.

The main benefits of the e-shop rental:

- Easy-to-set and well-arranged administration of the eshop without knowledge of building WWW websites
- None or minimal initial investment
- Low operating costs
- The own e-shop domain included

- Possible interconnectivity with the accounting system
- Wide range of pre-selected templates and its possible customization
- Technical support

4.5.1 Comparison and selection of the e-Commerce platform providers

Table 1 - Price and services comparison

| Provider | Monthly rate (CZK) | Services | | | | |
|-----------------------|--------------------|-----------|------------------|-----------------|-------------------|------------------|
| | | basic SEO | max no. of items | product reviews | language settings | products filters |
| Shoptet.cz (BUSINESS) | 990 | included | 1000 | included | included | included |
| PROeshop.cz (PROF) | 639 | included | 10000 | no | included | no |

Source: own computation

As can be seen from Table 1 above, the cheapest solution is offered by PROeshop.cz (Professional version) that costs 639 CZK per month. It allows up to 10,000 products which is ten times more than platform (business version) from Shoptet.cz which costs 990 CZK per month. The main weakness of PROeshop offer is that product reviews and product filters are not included in the final price, and after the calculation of fees, the price will be the same as for Shoptet.cz solution. Also Shoptet.cz offers more benefits such as a pairing of the products (when customer is selecting an item, there will be similar products displayed below the content) or interconnection with warehouse management. For these reasons, I would recommend to choose the platform from Shoptet.cz

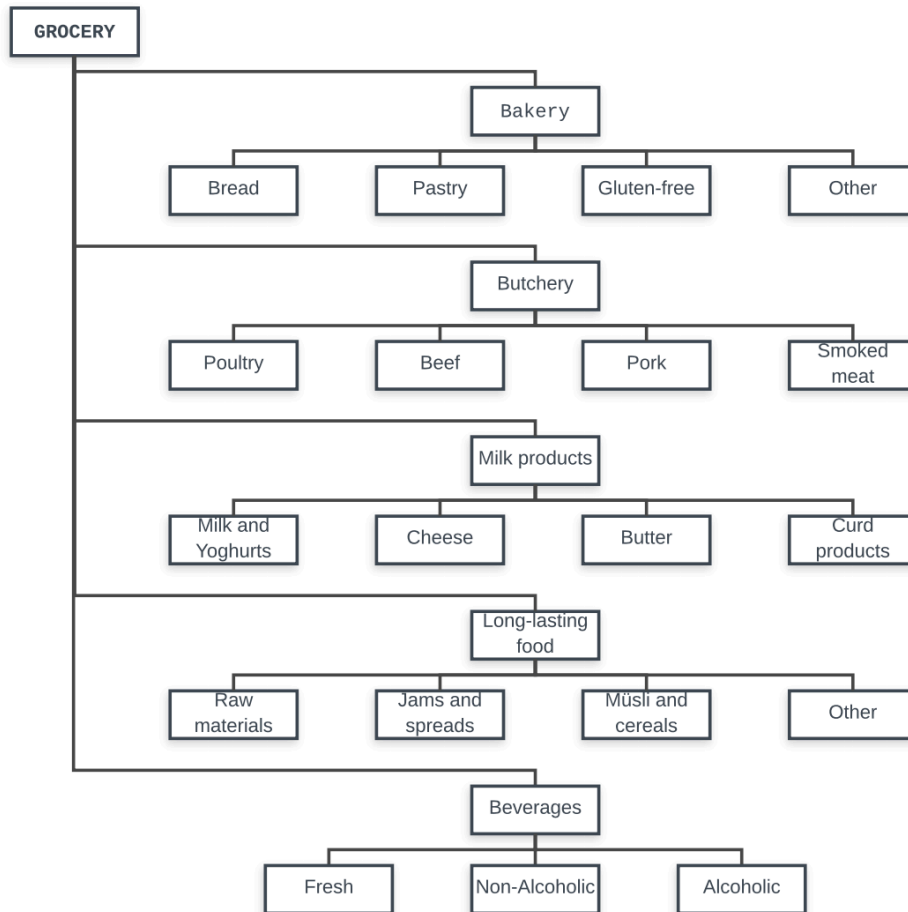
4.5.2 Structure of the e-shop and its visual aspect

The main panel of the website will contain primary categories such as Bakery, Butchery, Milk products, Long-lasting food and Beverages as well as Terms and Conditions and Contacts to the company. Each of these category is consisted of subcategories that provide

logical order and easy orientation through the online shop. The diagram illustration of the structure might be seen in Figure 12.

After the clicking on subcategory, a customer will be allowed to filter the products according to the supplier, alphabetic order, price and customer reviews.

Figure 12 - The e-shop structure



Source: own computation

The icon of the shopping cart takes place in the right upper corner that will provide easy manipulation with selected products by using functions such as add/remove or increase/decrease a number of products. These functions will be available after zooming the icon. Once customers open their shopping cart, the editing will be still possible, but also the option to proceed to order immediately after the completion of personal details and selecting the payment option, will be accessible. The registration of customers will not be required as it may discourage them from online shopping. In the end of the order, there

will be offered several payment methods (by credit card, PayPal, bank transfer or in cash if picked up in person in the brick-and-mortar store). The e-shop visual proposal can be seen in Appendix – Picture 1.

4.5.3 The e-shop propagation

SEO – the basic search optimization is already included in the rental cost, but considering poor SEO of the other online shops from the previous analysis of the competition's eshops, the company needs powerful solution for SEO. The extended configuration for SEO is offered by Shoptet.cz for additional charge 200CZK per month, that is still very reasonable price.

PPC – the company will use the effective PPC advertisement for its propagation as it is necessary condition during the first few months in the market. As of the benefit, Shoptet.cz offer free credit for Google AdWords, so the company can try the effectiveness of this marketing tool for free of charge.

4.6 FINANCIAL VALUATION OF THE PROJECT

For the purpose of investigating the actual profitability of the project, it is necessary to determine the initial investments, financial plan, profit and loss statement, cash flow statement as well as net present value, return on investment or payback period. All of these measures will be included in this chapter.

I would like to mention that my calculations include all the costs to the company that arises from implementation of this particular project. In fact of that the company has already run a brick-and-mortar store, the expenses on a rental property/warehouse, accounting or legal issues are not considered.

4.6.1 Initial Investment

Initial investment costs have been determined in collaboration with the owners. It includes the direct costs as well as the indirect costs for operating the future online shop. The cost of the online shop rental is assessed by the comparison of e-shop service providers and only the first month of rental is included in Initial Investment (following rental months will be included in operating costs).

Table 2 - Initial Investments

| Initial Investment Costs for running the online shop | |
|--|-------------------|
| Direct costs | |
| Online shop rental incl. marketing costs (1 month) | 1 590 |
| E-shop adjustments (10 hours) | 1 420 |
| Registration to the comparison shopping webs | 1 990 |
| Indirect costs | |
| Physical warehouse adjustment | 40 000 |
| Car stickers | 5 000 |
| TOTAL | CZK 50 000 |

Source: own computation

4.6.2 Financial plan

The financial plan of the online shop project for year 2017-2018 is represented in Table 3 below. The expenses consist of inventory costs (amount of money for purchased products from suppliers), wages, fuel costs (spent on product delivery to customers) and operating costs that are composed of e-shop rental (the rental including marketing services provided by company) as well as additional expenses on electricity (estimated 500 CZK per month). Corporate tax has been assessed at 19%.

It can be observed that the e-shop financial activities are expected to steadily grow in term of turnover in both years. In the first four months, the e-shop is supposed to generate loss as result of low income. However, net profit of 737 CZK will be achieved by August 2017.

Table 3 - The project's financial plan

| Year | Month | Initial investment | Inventory costs | Wages | Fuel costs | Operating costs | Total costs | Total Revenues | Gross profit | Corporate tax (19%) | Net profit | Balance as of the end of the period |
|------|-------|--------------------|-----------------|-------|------------|-----------------|-------------|----------------|--------------|---------------------|------------|-------------------------------------|
| 2017 | Jan | | | | | | | | | | | |
| | Feb | | | | | | | | | | | |
| | Mar | 50000 | | | | | | | | | | -50000 |
| | Apr | | 70000 | 10000 | 6000 | 2090 | 88090 | 80000 | -8090 | 0 | -8090 | -58090 |
| | May | | 70000 | 10000 | 6000 | 2090 | 88090 | 83000 | -5090 | 0 | -5090 | -63180 |
| | Jun | | 75000 | 10000 | 6000 | 2090 | 93090 | 88000 | -5090 | 0 | -5090 | -68270 |
| | Jul | | 75000 | 10000 | 6000 | 2090 | 93090 | 93000 | -90 | 0 | -90 | -68360 |
| | Aug | | 78000 | 10000 | 6000 | 2090 | 96090 | 97000 | 910 | 172,9 | 737,1 | -67623 |
| | Sep | | 78000 | 10000 | 6000 | 2090 | 96090 | 100000 | 3910 | 742,9 | 3167,1 | -64456 |
| | Oct | | 80000 | 10000 | 6000 | 2090 | 98090 | 103000 | 4910 | 932,9 | 3977,1 | -60479 |
| | Nov | | 82000 | 10000 | 6000 | 2090 | 100090 | 106000 | 5910 | 1122,9 | 4787,1 | -55692 |
| | Dec | | 84000 | 10000 | 6000 | 2090 | 102090 | 109000 | 6910 | 1312,9 | 5597,1 | -50095 |
| 2018 | Jan | | 86000 | 12000 | 6000 | 2090 | 106090 | 113000 | 6910 | 1312,9 | 5597,1 | -44497 |
| | Feb | | 88000 | 12000 | 6000 | 2090 | 108090 | 117000 | 8910 | 1692,9 | 7217,1 | -37280 |
| | Mar | | 90000 | 12000 | 6000 | 2090 | 110090 | 120000 | 9910 | 1882,9 | 8027,1 | -29253 |
| | Apr | | 92000 | 12000 | 6000 | 2090 | 112090 | 123000 | 10910 | 2072,9 | 8837,1 | -20416 |
| | May | | 94000 | 12000 | 6000 | 2090 | 114090 | 125000 | 10910 | 2072,9 | 8837,1 | -11579 |
| | Jun | | 96000 | 12000 | 6000 | 2090 | 116090 | 128000 | 11910 | 2262,9 | 9647,1 | -1931,9 |
| | Jul | | 98000 | 12000 | 6000 | 2090 | 118090 | 130000 | 11910 | 2262,9 | 9647,1 | 7715,2 |
| | Aug | | 101000 | 12000 | 6000 | 2090 | 121090 | 133000 | 11910 | 2262,9 | 9647,1 | 17362,3 |
| | Sep | | 104000 | 12000 | 6000 | 2090 | 124090 | 136000 | 11910 | 2262,9 | 9647,1 | 27009,4 |
| | Oct | | 107000 | 12000 | 6000 | 2090 | 127090 | 139000 | 11910 | 2262,9 | 9647,1 | 36656,5 |
| | Nov | | 109000 | 12000 | 6000 | 2090 | 129090 | 142000 | 12910 | 2452,9 | 10457 | 47113,6 |
| | Dec | | 111000 | 12000 | 6000 | 2090 | 131090 | 145000 | 13910 | 2642,9 | 11267 | 58380,7 |

Source: own computation

From the financial plan in Table 3 (p.44) is also evident that the highest values of net profit will be probably reached by the end of 2018. The total balance as of at the end of this year is expected to be 58,380.70 CZK.

Additionally, the expected break-even point can be seen between June and July in 2018, when the e-shop is supposed to return its initial investments and start acquiring net cash from its business activities. Based on this finding, the estimated payback period is 16 months, the period when initial investments will be covered and the online shop.

Return on Investment (ROI) can be obtained from financial plan to date Decemeber 2018, according to the formula (2) as follows:

$$ROI = \frac{58381 - 50000}{50000}$$

$$ROI = 0.16762 * 100 = 16.762\%$$

Return on Investment for this project dated to Dec 2018 is expected to be 16.762% that can be considered as acceptable amount unless it would be a negative value.

4.6.3 Profit and Loss Statement

Table 4 - Profit and Loss Statement

| Profit And Loss Statement | | |
|-----------------------------------|--------------------|----------------------|
| INCOME | 2017 | 2018 |
| Operating Income | | |
| General Operating Income | 859 000 | 1 551 000 |
| Other | | |
| Total Operating Income | CZK 859 000 | CZK 1 551 000 |
| Non-Operating Income | - | - |
| Interest Income | - | - |
| Rental Income | - | - |
| Gifts Received | - | - |
| Other | - | - |
| Total Non-Operating Income | - | - |
| TOTAL INCOME | CZK 859 000 | CZK 1 551 000 |
| EXPENSES | | |
| Operating Expenses | 18 810 | 25 080 |
| Accounting and Legal | - | - |
| Depreciation | - | - |
| Dues and Subscriptions | - | - |
| Insurance | - | - |
| Inventory Expense | 692 000 | 1 176 000 |
| Salaries and Wages | 90 000 | 144 000 |
| Travel | - | - |
| Other | 54 000 | 72 000 |

| | | |
|-------------------------------------|--------------------|----------------------|
| Total Operating Expenses | CZK 854 810 | CZK 1 417 080 |
| Non-Recurring Expenses | - | - |
| Furniture and Equipment | - | - |
| Other | - | - |
| Total Non-Recurring Expenses | - | - |
| TOTAL EXPENSES | CZK 854 810 | CZK 1 417 080 |
| Net Income Before Taxes | 4 190 | 133 920 |
| Income Tax Expense | [796] | [25 445] |
| NET INCOME | CZK 3 394 | CZK 108 475 |

Source: own computation

Table 4 above demonstrates the e-shop's expected profits and losses in 2017 and 2018. The estimated net income in 2017 is supposed to be 3,394 CZK, whereas net income in 2018 is expected to amount to 108,475 CZK. The increase in total income almost doubled in 2018 in comparison with previous year, which demonstrates a significantly high financial performance.

4.6.4 Cash Flow Statement

Table 5 - Cash Flow Statements for 2017/2018

| Cash Flow Statement | | | |
|--|---------------------|-------|------------------|
| | For the Year Ending | | |
| | 31.12.17 | | 31.12.18 |
| Cash at Beginning of Year | 20 000 | | -95 |
| Cash Flow from Operating Activities | | | |
| Cash receipts from customers | 859 000 | | 1 551 000 |
| Less cash paid for: | | | |
| Merchandise Inventory | 692 000 | | 1 176 000 |
| Wages | 90 000 | | 144 000 |
| Other operating activities | 72 810 | | 97 080 |
| Income taxes | 4 285 | (-95) | 25 445 (108 475) |
| Net Cash Flow from Operating Activities | | -95 | 108 475 |
| Cash Flow from Investing Activities | | | |

| | | | |
|--|------------|---------------|--------------------|
| Cash receipts from | | | |
| Sale of property and equipment | | - | - |
| Collection of principal on loans | | - | - |
| Cash paid for | | | |
| Purchase of property and equipment | - | | - |
| Making loans to other entities | - | | - |
| Net Cash from Investing Activities | | - | - |
| Cash Flow from Financing Activities | | | |
| Cash receipts from | | | |
| Issuance of stock | | - | - |
| Borrowing | | - | - |
| Cash paid for | | | |
| Repayment of loans | - | | - |
| Dividends | - | | - |
| Net Cash Flow from Financing Activities | | - | - |
| Net Increase in Cash | | -95 | 108 475 |
| Cash at End of Year | CZK | 19 905 | CZK 128 380 |

Source: own computation

Table 5 above refers to the online shop's Cash Flow Statement for the year 2017 and 2018. As of at the end of 2017, the company's net increase in cash will be more likely negative, whereas the company's net increase of 108,475 CZK is expected in 2018. As can be seen from table, the company's cash flow will go through operating activities. From the cash flow statement, the net present value can be evaluated according to the formula (1) as follows considering discount rate 5%:

$$NPV = -50000 + \frac{-95}{(1 + 0,05)^1} + \frac{108475}{(1 + 0,05)^2}$$

$$NPV = 48299$$

The expected current net profit from this project as for at the end of 2018 is 48,299 CZK.

5 Conclusion

In the practical part of this thesis, I described the company and its business purpose as well as their plan for creating an online shop. As the next step, I selected to investigate the current company's utilization of e-marketing tools. It has been observed that the company is not using enough efficient e-marketing tools that could lead to the failure of the projected e-shop in term of the lack of the future customers. In order to avoid this situation, the company has to change their e-marketing strategy and increase the participation on social media networks.

Secondly, I made a SWOT analysis that showed the high number of strengths such as an unique selection of the goods, an individual approach to customer as well its location in the capital city. As the weak part of the company was identified the nonexistence of the websites, as it belongs to standard modern technology equipment of each successful firm in today's world, and lack of technical employees for maintainance of the e-shop. However, this weaknesses can be eliminated by choosing appropriate variant of the planned online shop and company has high potential to succeed in the e-market.

In the next part, I indentified the competitors that represents the biggest threat to the company and compared their online shop websites. It was discovered that all of e-shops offer the basic functionality but some of them have disorganized product categories. Some of the e-shops also used very poor SEO techniques. These findings were used for following proposal of the projected e-shop. I tried to aware of the competitors mistakes and designed the well-arranged product structure and visual aspect of the online shop as well as I recommended the e-marketing tools that should increase the number of online shop visitors.

As a last task of my thesis, I investigated the initial investments and created the financial plan as well as cash flow statement, and profit and loss statement for following two years. According to the results, it is expected that the online shop will receive back its investments after 16 months, and will be prospering mainly in the second part of the year, as the difference between net increase in cash in 2017 and 2018 is more than 108,000 CZK. Also I calculated the Return on Investment that is expected to be around 16% as well as the net

present value that is supposed to be 48,299 CZK. As a result of these findings, I can claim that online shop is not expected to generate loss after the first year.

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Appendix

List of attachments

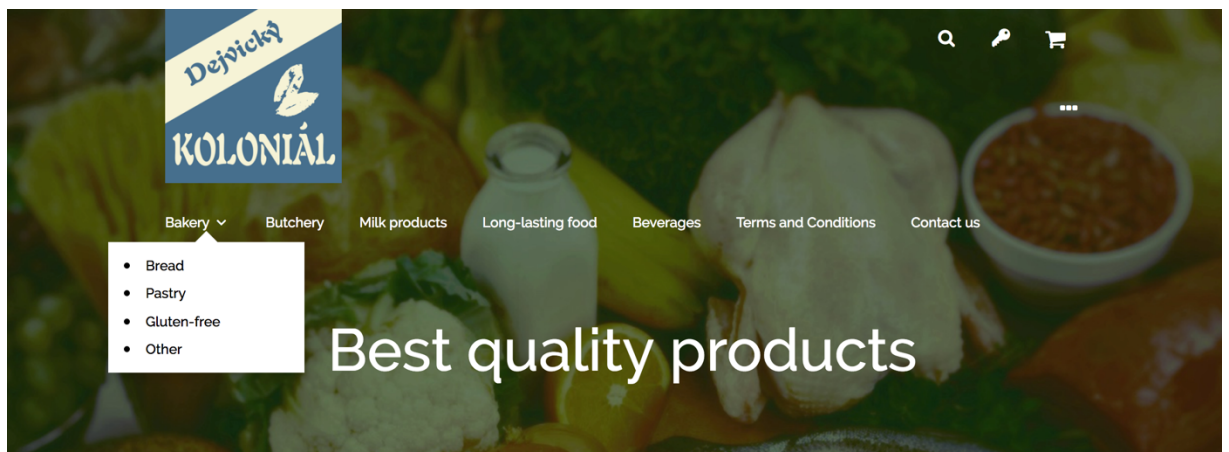
Table 1 - The overview of services provided to customers

Picture 1 – Design of the online shop website

Table 1 – The overview of services provided to customers

| <i>THE OVERVIEW OF SERVICES PROVIDED TO CUSTOMERS</i> | | | | | | |
|--|--|--|--|--|--|----------------------------|
| Name | Benefits/loyalty program | Delivery options and price | Delivery times | Payment methods | min.price of purchase | Moneyback Guarantee |
| Sklizeno.cz | 100 CZK credit per first purchase | own delivery by truck if available in your location, otherwise external courier services - free for orders over 1000 CZK, otherwise 49 CZK. Pick up at store for free of charge | 1-2 days | credit card online or in cash or credit card at store | 400 CZK | yes |
| Nakupzfarmy.cz | Bonus point for each order (1 point = 1 CZK) | own delivery by truck to the pre-selected location for free. For order over 499 CZK is also available home adress delivery for free. Pick up at store for free | next day (orders before 14:00) otherwise 1-2 days | credit card online or in cash when pick up | no limit, 499 CZK for home adress delivery | not mentioned |
| Freshbedynky.cz | none | own delivery by truck if available in your location - free for orders over 1000 CZK, otherwise 100 CZK. If own delivery is not applicable - external courier for 159 CZK . Pick up at store for free | preselected location delivery 1-3 days, home adress delivery till the next (orders before 12:00) | credit card online, top-up account, in cash when pick up | no limit | yes |

Picture 1 – Design of the online shop website



Categories

- ▾ Bakery
 - Bread
 - Pastry
 - Gluten-free

Welcome to Dejavicky kolonial!